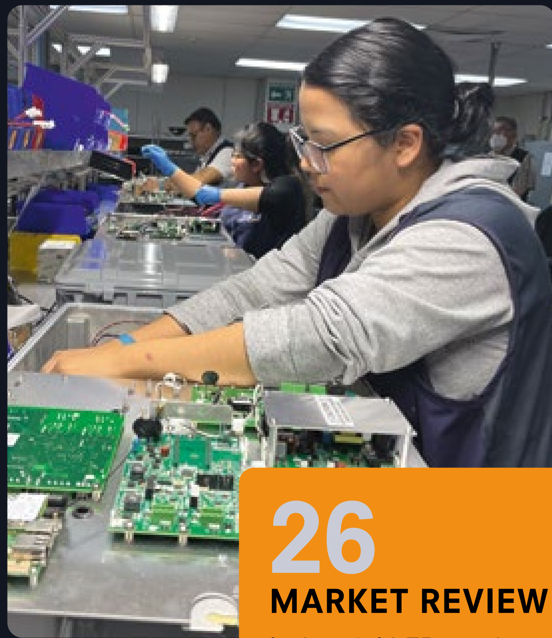
DIALIGHT PLC
ANNUAL REPORT AND ACCOUNTS 2022

What's inside



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PERFORMANCE AT A GLANCE

FINANCIAL

Group revenue
£169.7m

Strong growth in Lighting segment

2022	169.7
2021	131.6
2020	119.0

Net debt*
£20.9m

Short-term investment in inventory

2022	20.9
2021	15.7
2020	11.4

Growth in order take
11%

Strong Lighting order take with cyclical downturn in Signals & Components

2022	11%
2021	24%
2020	-14%

Inventory
£53.6m

Increase in finished goods inventory

2022	53.6
2021	42.4
2020	32.5

Working hours lost
0.003%

Safety continues to be a major focus

2022	0.003%
2021	0.000%
2020	0.001%

Gross margin
32%

Global commodity shortages and material cost increases

2022	32%
2021	36%
2020	29%

On-time delivery
77%

Strong focus on meeting customer delivery dates

2022	77%
2021	71%
2020	81%

Underlying EBIT*
£5.0m

Strong revenue improvement offset by increased material costs

2022	5.0
2021	4.5
2020	(6.4)

Profit/(loss)
£0.4m

Higher financing and non-underlying costs

2022	0.4
2021	0.3
2020	(7.8)

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

NON-FINANCIAL

Reduction in Scope 1&2 emissions per £m of revenue

9%

Reduction in water intensity per £m of revenue

21%

ESG HIGHLIGHTS AND INITIATIVES

Supply chain rating agency

We completed the EcoVadis questionnaire in September which saw us retain our Silver rating.

Our rating can be summarised as follows:

CDP	Climate change B Water security B- Supplier Engagement B-
ISS ESG	Corporate Rating C
EcoVadis	Retained Silver rating and now at 79th centile (prior year 73rd)

We also engage with other organisations in the ESG arena:

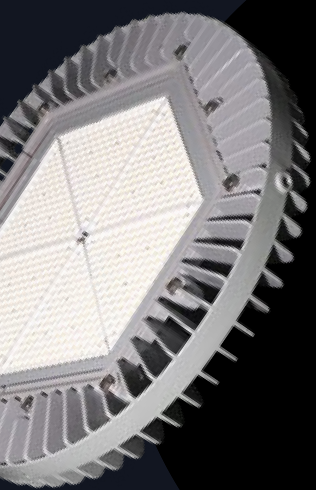
- We have committed to achieving Net Zero with SBTi by 2050. Our internal target is to achieve this by 2040 P61
- We have prepared Environmental Product Declarations (EPDs) within 7 product families, and these have been verified by BRE Group P46
- We are a member of the Clean Lighting Coalition, which is a global coalition to eliminate mercury usage in Lighting P46
- We continued our sponsorship of the Women's Earth Alliance, who are empowering women's leadership to solve climate-related issues P55

OUR BUSINESS AT A GLANCE

Making a positive impact that lasts

WHO WE ARE

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



WHAT WE DO

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

70%

reduction in energy cost

OUR PURPOSE

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

OUR VISION

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

ESG

Committed to being net zero by 2040

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

Social
We are committed to a safe, inclusive and diverse culture across the Group

Governance
Our structure prioritises ethical behaviour, transparency and accountability

OUR VALUES

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

LIVE THE PROCESS
Be passionate about making the world safer, cleaner and healthier. See real problems and create innovative solutions.

EMBRACE THE ADVENTURE
Continually grow and change, as individuals and collectively. Challenge assumptions and see opportunities. Seek insight from all directions and leverage diverse points of view.

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

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

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

Our two divisions

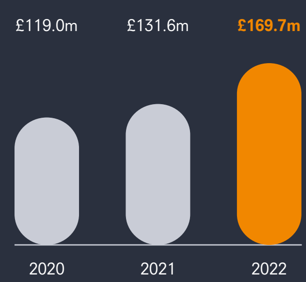
LED Industrial Lighting
Our range of LED Industrial Lighting is aimed at a market that is still dominated by older, more inefficient technologies. With low levels of conversion to LED, the catalyst for mass conversion is increased energy savings, lower maintenance costs and increased regulation to phase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

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

Group revenue

£169.7m

2021: £131.6m
Robust MRO demand in Lighting

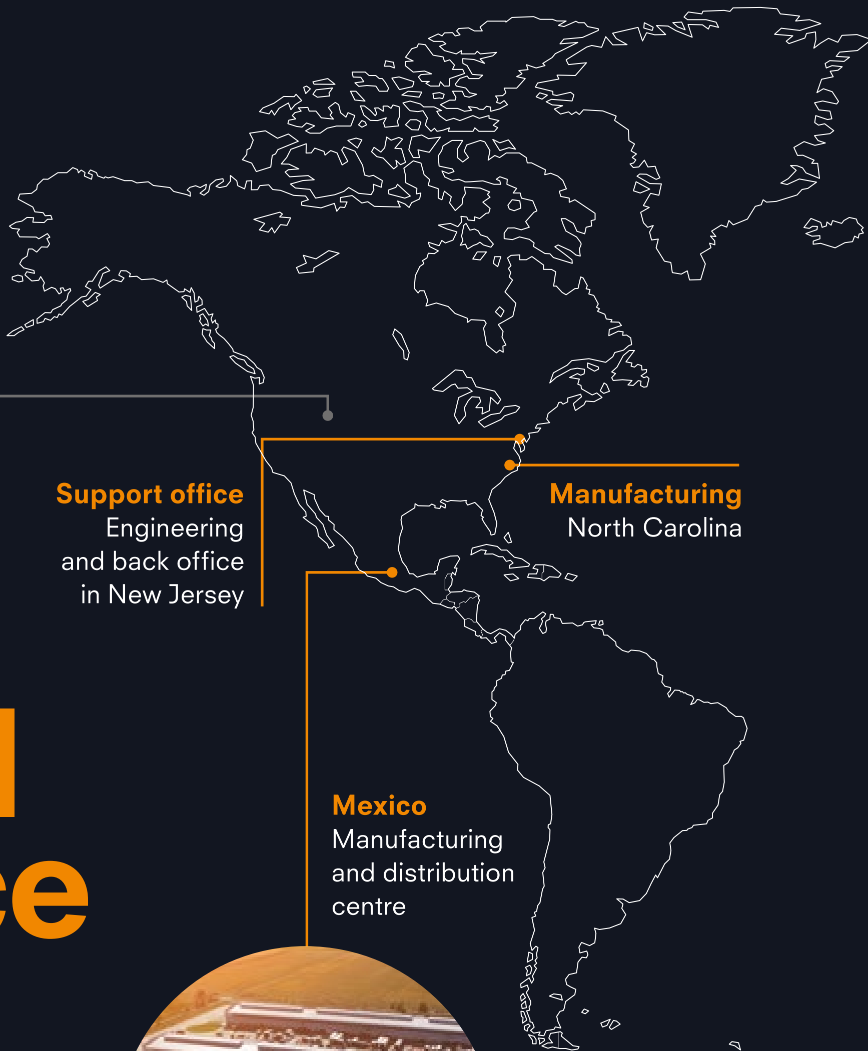


OUR BUSINESS AT A GLANCE CONTINUED

AMERICAS

£132.7m

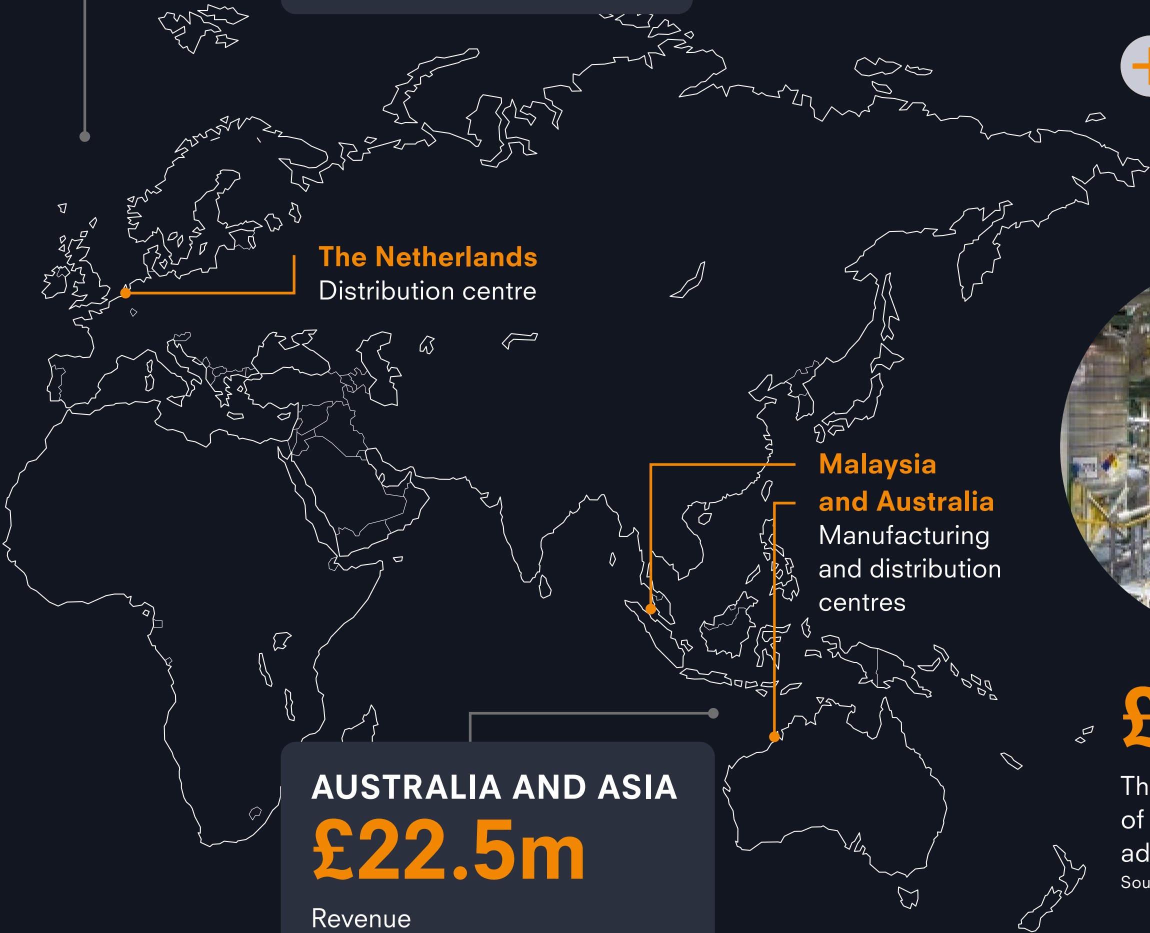
Revenue



A global presence

We are a pure play LED lighting company with a global footprint of over 2.8 million fixtures

EUROPE
£14.5m
Revenue



The Netherlands
Distribution centre

Malaysia and Australia
Manufacturing and distribution centres

AUSTRALIA AND ASIA
£22.5m
Revenue

30%

Dialight has the largest share of the hazardous market in the US

Source: Internal estimates

P27

P26

£2.0bn

The estimated value of Dialight's currently addressable market

Source: Internal estimates

WE SERVE A WIDE RANGE OF MARKETS

HEAVY INDUSTRY

PULP AND PAPER

POWER GENERATION

OIL AND GAS

INVESTMENT CASE

Why invest?

Dialight provides a sustainability solution to reduce carbon emissions in the industrial sector. Our ultra-efficient LED products generate up to 70% less emissions than legacy lighting and are trusted globally in the most demanding environments.

1

POSITIONED FOR CONTINUED GROWTH

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

2

DIFFERENTIATED

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

3

INTELLIGENT

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

PROSITE FLOODLIGHT
Highly efficient and rugged product with chip scale LEDs and unique moulded optics available in 12,000-65,000 lumen models.

4

EXPERIENCED

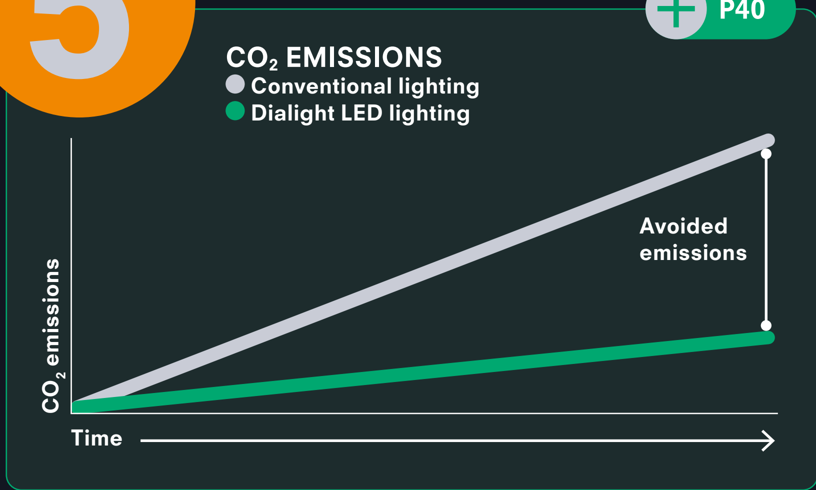
Significant expertise exclusively in LED and over 50 years of experience as a lighting partner to many of the world's leading organisations have helped us achieve the largest installed base with over 2.8 million industrial LED fixtures around the world.

5

SUSTAINABLE

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

P40



Over 50 years

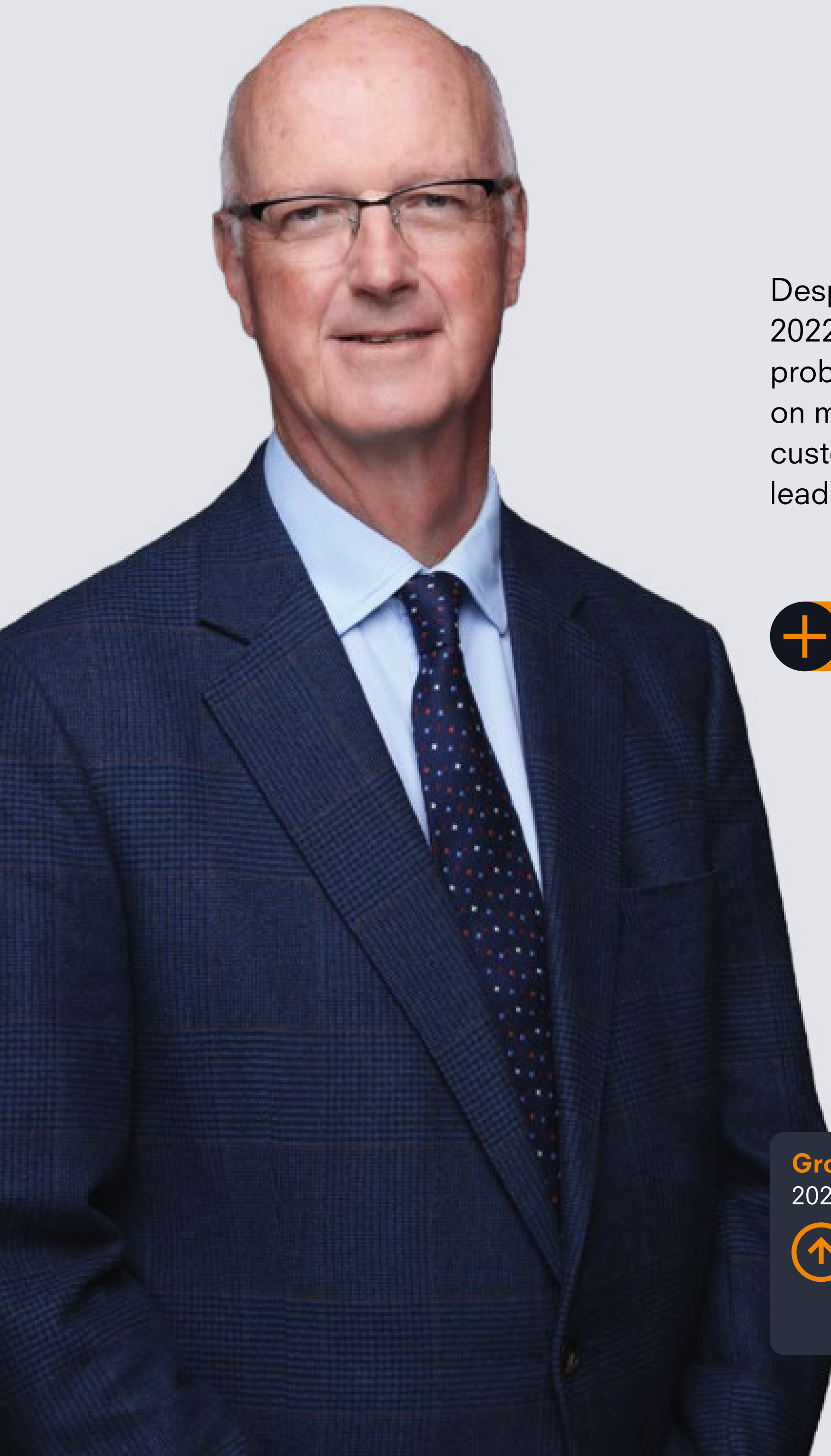
as a dedicated LED lighting provider

6

SCALABLE

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

CHAIR'S STATEMENT



Despite the many challenges in 2022 caused by global supply chain problems, the Group remained focused on meeting the delivery requirements of customers and building on our market-leading position.

David Thomas
Interim Chair

Group revenue
2021: 11%
29%

Our strong revenue growth demonstrates Dialight's very relevant and sustainable offering of low-carbon and high energy efficiency products. As a technology company with over 50 years of experience in the LED market, we continue to be a pioneer of innovation, through continued development of technologies to help our customers achieve their sustainability targets.

Our people are key to our success and drive everything we do. I am proud and inspired by what has been achieved this year through the incredible determination our team has shown globally. Dialight's historic operational issues have eased and we are well positioned to secure good growth over the coming years, with an exciting future ahead of us.

2022 performance

2022 was another year of strong revenue growth. The first half reflected strong demand for Lighting and Opto-Electronic products and a resilient operating performance. The second half saw tougher trading conditions, with lower levels of revenue growth and a combination of input cost pressures and global component shortages.

We have continued to invest into developing new and improved products, improving factory efficiency, and expanding the capabilities of our newly created strategic sales team. These investments will support Dialight's continuing profitable growth.

December is a key trading period for Dialight and traditionally generates a significant proportion of operating profit. Revenue was significantly below our expectations in December, reflecting seasonal demand being below historic levels as well as several strategic customers deferring anticipated orders. This led to H2 underlying operating profit being below Board and market expectations.

This shortfall also adversely impacted inventory levels and going into the new financial year, reductions in inventory continue to be a major focus.

While the full year outturn is disappointing, underlying EBIT still grew by 11% and the Group retains a leading position and product offering in markets which are underpinned by long term sustainability, safety and regulatory drivers. As a result, there is significant opportunity for growth, underpinned by product innovation, and this continues to provide confidence in the Group's longer-term prospects.

We continue to assess financial performance across the Group using a framework of profitability, return and cash flow measures. This framework underpins our key performance indicators (pages 32 to 35) and is central to our remuneration criteria.

Karen Oliver stepped down for personal reasons as Chair and Non-Executive Director in December and I would like to thank her for her contribution to Dialight over nearly three years.

The Board was delighted to welcome Nigel Lingwood as Non-Executive Director in November 2022. He brings considerable financial and international public company experience to Dialight and took over as Audit Committee Chair in January.

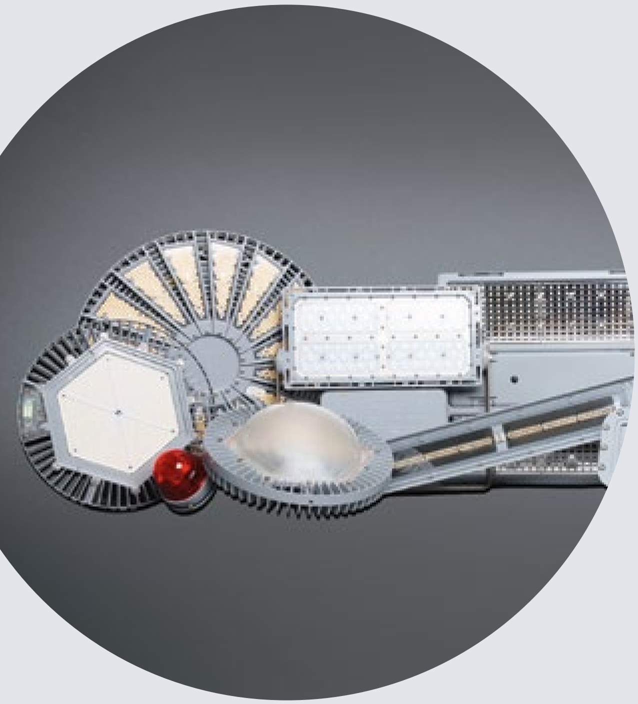
On 20 March 2023 we were pleased to announce that Neil Johnson will join the Group and the Board as Chair with effect from the 17 May 2023.

CHAIR'S STATEMENT CONTINUED

On 30 March 2023, we announced that David Blood will be stepping down as a non-independent Non-Executive Director after nearly eight years. His decision ensures we will maintain a balance of independent directors, following the announcement that Neil Johnson will become Chair on 17 May 2023. David joined the Board in 2015, served as Chair in 2019-2021 and has made an invaluable contribution to the success of the business. Everyone at Dialight extends him our best wishes for the future.

Commitment to ESG and net zero

We believe in creating a safer, cleaner, healthier future for everyone. Our products play a positive role in society by addressing key environmental challenges relating to the level of emissions generation which is linked to climate change. The societal benefit from avoided emissions through the use of our Lighting products are long term in nature due to our 10-year warranty. In addition to assisting with emission reductions, our customers get the financial benefit of lower costs and increased safety in industrial environments.



In December we published our second sustainability report, which highlights the progress we have made over the past year. These achievements include FTSE Russell confirming our revenues are 100% Green, completing internal analysis ahead of agreeing our carbon reduction targets with the Science Based Targets initiative in H1 2023, increasing our CDP rating to B and maintaining our Silver sustainability rating with EcoVadis. We recognise that we still have lots to do and 2023 will see us publish our detailed plan, targets, and milestones to achieve net zero.

The transition to net zero carbon is both an opportunity and obligation for Dialight as we are a sustainability solution that helps our customers to achieve net zero. Our ambition is to be a net zero business by 2040 and we continue to drive our Environmental, Social and Governance (ESG) initiatives across all aspects of our business.

Outlook

Dialight enters 2023 in a good position following two years of strong revenue growth and continuing demand for our market-leading products. The short-term macroeconomic outlook remains challenging, with global supply chain disruptions that are not expected to start alleviating until H2 2023.

The initiatives we are taking to improve operational performance through broadening our strategic relationships with key customers and distributors, strengthening our supply chain, and improving operational efficiency will support our robust revenue and profit growth in the mid-term.

Longer term the Group is well positioned to capitalise on the significant opportunity for growth, underpinned by product innovation, that provides confidence in the Group's prospects.

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

David Thomas
Interim Chair
2 April 2023

BRIGHTER, SAFER, GREENER
Case Study

Avoided emissions

The industrial lighting sector where Dialight operates has low conversion to LED (see page 27). Most of the lighting used in this sector is older sodium and metal halide fixtures which are highly inefficient and consume up to 70% more electricity than LED lighting.

As customers switch from these older technologies to more efficient LED-based lighting, they can not only reduce their power costs but they can also significantly reduce their emissions impact.

The emission savings by customers are classified as avoided emissions generated through the use of Dialight's products. The emissions from customers using Dialight lights sold in 2022, over their expected 10-year life, is 1.1m tonnes and is included within our Scope 3 emissions (see page 43). The emissions that are avoided by customers (Scope 4 emissions) are 2.1m tonnes but, using the GHG protocol, these are not eligible to be included within our net zero calculations.

Sustainability
Avoided emissions (tonnes of CO_2)
2021: 1.6m

2.1m

P43

GROUP CHIEF EXECUTIVE'S REVIEW

Fariyal Khanbabi
Group Chief Executive

Growth in order take
2021: 24%
11%

Underlying EBIT*
2021: £4.5m
£5.0m

Reduction in Scope 1&2 emissions
2021: 3%
9%

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

Overview

We made important strategic and operational progress during the year, achieving revenue growth of 29% against exceptionally challenging market conditions, increasing our penetration of Tier 1 customer accounts and making over £3.0m of operating cost savings. Total revenue growth at constant currency was 17%, achieved through a combination of volume (11%) and price (6%) increases. The volume growth reflecting both an increase in market share, as well as expanding our market reach. The Maintenance, Repair and Operations (MRO) market remains generally robust, but we experienced a slowing of larger capex projects, particularly in the fourth quarter, owing to labour and material shortages. Combined with the distribution channel reducing their inventory levels, this had a significant impact on the final month of trading.

Positively, the structural demand for our products continued to increase as energy efficiency became a higher priority agenda item for businesses, accelerated by the energy crisis which commenced during 2022. This strengthened our competitive position as we executed on our strategic priorities. We developed innovative and sustainable new lighting solutions for our customers and continued to make progress towards driving a more positive impact on the environment and society.

Results

Overall Group revenues in 2022 were 29% higher than the prior year (17% constant currency). Underlying operating profit was £5.0m, compared to £4.5m in 2021, which was lower than initially expected, due to weaker orders and deliveries in the very important December trading period.

Gross margin reduced to 32.2% (from 35.7%) reflecting a number of headwinds during the year. Our supply chain was severely impacted by significant inflation, component shortages and continued challenges in shipping times and cost. Microchip availability was particularly problematic as suppliers struggled to deliver either on time or in the required volumes. We focused considerable resources to sourcing and testing alternative components and suppliers, which enabled us to successfully overcome shortages, albeit this impacted gross margin. The impact of increased material costs and expedited freight costs accounted for 4.3% of the reduction in gross margins.

Our gross margins were further impacted by increases in the minimum wage in Mexico of 23%. There were also inefficiencies in our labour utilisation due to the component shortages. This impacted gross margin by 0.9%.

Our operational performance during 2022 made key improvements despite supply chain headwinds. We were able to partially offset the increased material and labour costs by generating 1.8% of production efficiencies. These were generated by reduction in consumables, standardisation in our packaging and investments in automation. Our on-time delivery was 77%, above the current industry standard, and we achieved customer lead times of three weeks, supporting our revenue growth.

Lighting order growth in 2022 was 23% (constant currency 11%) with all regions reporting growth over the prior year. The majority of Lighting order growth was generated in our core US market which increased by 30% (constant currency 17%), with EMEA increasing by 53% (constant currency 38%). APAC increased by 7% (constant currency -3%).

GROUP CHIEF EXECUTIVE'S REVIEW CONTINUED

Obstruction orders fell by 28% (constant currency -35%) as higher steel prices led to lower levels of tower construction.

Signals & Components is a high-volume business operating within highly competitive markets. This business segment had exceptional growth during COVID-19 but has since normalised. Within this division, opto-electronic component orders fell by 13% as the market reduced the level of inventory in the channel. After two years of growth, a market correction was expected, but the level of cancellations in Q4 were higher than forecast.

As a result of the supply chain shortages, we increased our inventory to mitigate the challenges we faced. We have taken a number of actions in the second half of the year to reduce the levels of raw materials held, which has resulted in raw material inventory levels being broadly flat year on year and 9% down on a constant currency basis.

Market conditions

We operate within the industrial LED lighting market and our future will be determined by the trends within this space. The advances we have seen over the last ten years in terms of efficiencies and controls are all building a path to a more sustainable fixture. Older technologies have become more expensive to maintain while LED fixtures use 75% less energy and last 25 times longer, compared with HPS/fluorescent lighting. In the US alone there are more than 144 million industrial lighting fixtures in 455,000 facilities. With existing industrial carbon emissions in the US estimated at c. 2 billion metric tonnes per annum, high-efficiency LED lighting provides an immediate and sustainable reduction in emissions. That is a compelling proposition when companies and global economies are mapping their pathway to achieve their net zero targets.

The macro-economic backdrop presents considerable uncertainty, and we continue to take an active approach to targeting market niches with more resilient demand dynamics and where growth is driven by structural, safety, regulatory and sustainability factors.

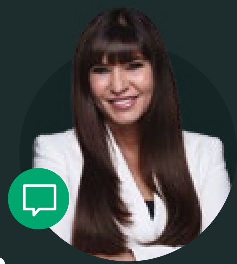
The Group's natural resource markets in oil & gas and mining are expected to show solid demand in the short to medium term. Global energy market shortages have seen an expansion in oil extraction activity, with US onshore drilling up 60% year over year, and with three times the number of rigs in service from two years ago. Mining customers are benefitting from the demand for Lithium and Nickel in battery production, which should benefit our customers in Australia.

The Group is also seeing increasing success, led by the strategic sales team, in expanding its customer base into a wider range of process industries including aerospace, electric vehicle and food & beverage. Facilities in these markets can be very significant and often have demanding operational requirements which lend themselves to Dialight's highly engineered lighting product range.

Number of active components

64,000

The climactic benefit of adopting LED lighting in the near term



Time Value of Carbon (TVC)

Whilst the Time Value of Money is a business concept that has been widely understood for centuries, the TVC is a much newer concept and not broadly understood. The TVC is the concept that greenhouse gas emissions cut today are worth more than cuts promised in the future.

The compounding impact of emission reductions means that a company that reduces its emissions today creates a benefit for the climate system each year into the future. Companies that start to cut in 2030 will have spent another eight years drawing from the global carbon budget, and by then the 1.5 degree goal could be out of reach. This is why long-dated climate goals with no short-term action are not viewed as acceptable by SBTi and why near-term action creates considerable ecological value.

Against this backdrop, if we look at the benefits of customers switching to LED lighting and reducing their electricity requirement by 70%, they can create an immediate and lasting impact in reducing emissions. The following graph shows our estimation of the cumulative benefit of avoided emissions (Scope 4) by customers switching to our highly efficient LED lights over the past 12 years.

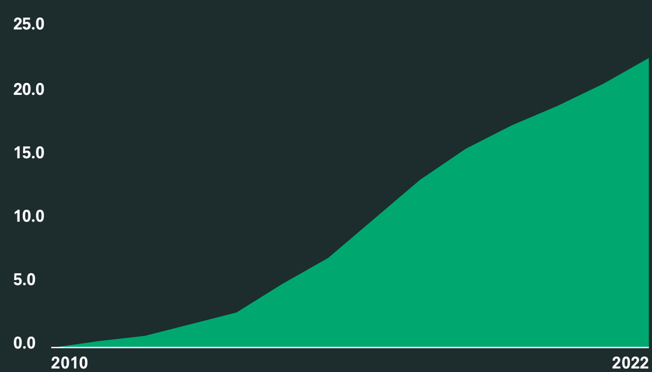
The upward curve shows that emissions continue to be avoided for a period of at least 10 years which is the warranted life of most of our products. It is likely that many will last significantly longer, thereby bringing additional benefit.

"Cutting emissions today is more valuable to society than doing so in the future and LED lighting provides an immediate and lasting benefit."

Fariyal Khanbabi
Group Chief Executive

Many potential customers seeking to reduce their emissions do not consider the TVC in their calculations and therefore may defer the investment in LED lighting and this is reflected in the conversion rates discussed on page 27. One potential for changing the pace of adoption is the introduction of carbon pricing on a widespread basis which would act as a penalty for higher emissions and force companies to lower emissions faster. This is likely to become more prevalent in the coming years. The potential impact on the business is discussed on page 68 but it forms one of the enablers to achieving the opportunity discussed in the TCFD section on page 68.

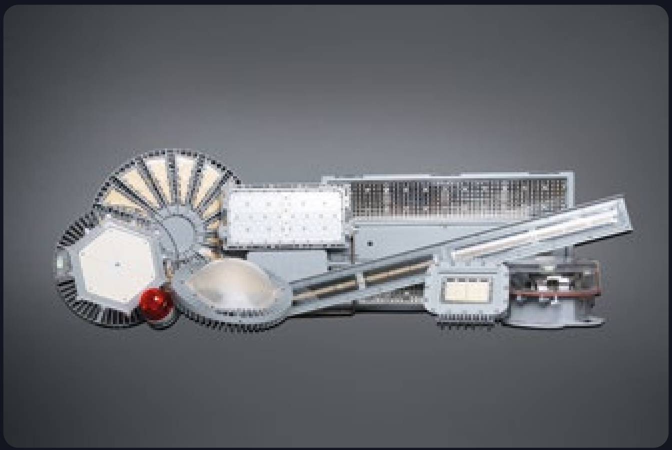
Tons of CO_2 avoided (m's)



GROUP CHIEF EXECUTIVE'S REVIEW CONTINUED

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 their corporate objectives of being carbon net zero. 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 products have the ability to withstand extreme environmental conditions such as very high or low temperatures, humidity, high vibration, and corrosive environments.

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

— **Convert our core heavy and harsh industrial markets** – by expanding our routes to market, emphasising our product innovations and sustainability credentials. We believe that sustainability will be a major driver in the conversion to LED and this has accelerated post COVID-19 with a return to corporate discretionary spend. Dialight will continue to grow its leading position through market share gains in MRO together with capex projects as the market recovers.

  We continue to identify and successfully engage with new key accounts through our strategic sales team. In particular, increased targeting of EPC/engineering firms and electrical contractors. We are continuing to work on strengthening our branding and focusing on vertical market applications, with good progress made during the year.

— **Improve margins** – through continued cost improvements and manufacturing efficiency programmes supported by supply chain development. By reducing the cost, weight, and size of our products we can improve our competitiveness and improve our overall margins. Over the past two years, we have successfully reduced the cost of our High Bay, 60K High Bay and Area Lights. Besides design-based cost reductions, we believe there are further cost reductions through strategic supply chain sourcing and value-added engineering to improve our manufacturing processes.

We are also focused on simplification of our products in order to reduce costs and improve lead times. At the start of 2022, Dialight had 8,800 active finished good SKUs, and approximately 64,000 active components. Our initiatives over the past year have been to remove legacy finished SKUs from the database to simplify operational planning. We have standardised components within our product lines to reduce the complexity of sub-assembly management. At the end of 2022 we had reduced the active finished goods SKUs by 24%. Following on from standardising our mainstream Vigilant High Bay in 2021 we continued with the hazardous version resulting in 99% of our highest running product family being upgraded to the third-generation power supply. During the year we have also upgraded 92% of our Area Light family to our third-generation power supply.

We are dual sourcing components to mitigate the risk of component shortfalls which significantly impact on operational efficiency. Out of our total active components, 588 are deemed to be critical in nature. To date we have dual sourced 248 parts with 340 remaining. We will continue to develop alternate sources and vendors for critical components and regionalise supply of components where possible, using VMI and consignment stocks. In conjunction with our dual sourcing plan, we will develop and implement a regionalisation strategy to reduce the business risk directly related to sourcing from the Far East. While these challenges are expected to continue for some time, we will continue to mitigate their impact.

These actions will support the achievement of our targeted £5m reduction in inventory in 2023, with further inventory reductions expected in later years.

Our focus will continue to be on further improvements in efficiency and mitigation of increasing labour costs. We plan to automate our sub-assembly operations which will improve our efficiency and cost base over time.

— **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 address the 20% of the customer lighting schedule that is not highly specified. This initiative protects our market leading position with key strategic accounts and increases our relevancy to the large accounts we are targeting.

Strategy execution in 2022

Organic growth remains a key focus, both in terms of penetrating the MRO market, but more importantly delivering significant capex projects as end customers increase their expenditure on lighting over the longer term. This encompasses three strands:

GROUP CHIEF EXECUTIVE'S REVIEW CONTINUED

Strategic sales focus

The new strategic sales team are focused on building relationships with key large corporates, primarily in the US. This is a longer-term activity particularly focused on new customers, so prospects will take time to develop into initial orders and then gain preferred supplier status. The team has already won several multi-million-dollar orders for major US corporates. There is a sizeable pipeline of opportunities, however predicting when these orders will come is challenging in the current economic climate. To date we have secured 11 strategic accounts with whom we are the preferred supplier.

Expanding routes to market

Expanding our market reach is key to wider penetration and growth of our market share. We continue to make strong inroads, developing new distribution partners along with a focus on the contractor market. We signed over 37 new distribution partners along with engaging with an additional 80 distributor locations in the US alone. We have developed over 30 new contractor relationships, expanding our routes to market. Another key milestone has been re-joining Affiliate Distributors which is a members owned group that brings growth orientated distributors and best in class suppliers together, with a view to outperforming the market and staying ahead of the competition.

Enhanced product range through innovation

Our new product platforms launched in the past two years are expected to further strengthen our position within our heavy industrial verticals. These product platforms are the Ultra-Efficiency High Bay, the GRP Linear, the new Bulkhead, and new Flood lights. In addition, we have launched two source and sell product lines (Wall-Packs and emergency lighting).

We have received £22.4m in orders from products launched in the past two years. These products have been critical in advancing our technological lead and provide the best cost of ownership within the markets we operate within.

Sanmina litigation

As previously disclosed, Dialight is involved in ongoing litigation with Sanmina Corporation, following the termination in September 2018 of the manufacturing services agreement (MSA). The Board is pleased to note the Federal court ruling on 14th March 2023 that the strength of evidence on our claim of fraudulent inducement, together with various claims and counter-claims relating to accounts receivable and accounts payable, is sufficient that the dispute should be resolved by jury trial, pending any appeal process. This ruling confirms that Dialight can challenge the contractual liability cap in the MSA on the basis of Sanmina's fraudulent inducement and Dialight intends to rigorously pursue this claim, and the various other contract-based claims, to trial.

Purpose and sustainability

Sustainability is at the heart of everything we do, from product design to material sourcing and the way we operate the business.

Our products provide an easily achievable opportunity to reduce carbon emissions in the near-term by utilising our ultraefficient LED technology that generates up to 75% less emissions than legacy lighting. The time value of carbon reductions[1] is magnified by the pace at which the industrial world embraces a significant adoption of LED lighting. The lights sold in 2022 will generate

1 The Time Value of Carbon is the concept that greenhouse gas emissions cut today are worth more than cuts promised in the future, due to the escalating risks associated with the pace and extent of climate action.

avoided emissions of 2.1m tonnes over their lifetime and help our customers achieve their emission reduction goals. Our sustainable solutions have been recognised by the Lighting Council of Australia in their inaugural awards in 2022.

Over the past two years we have invested significant time in understanding our existing carbon impact and how to use R&D to reduce that impact in the design of our products and the choice of materials. We continue to recycle packaging from upstream and as much by-product of production as possible. We also target downstream end-of life recycling through the use of partnerships on a geographic basis.

In 2020, we carried out our first full Green House Gas (GHG) inventory and this will form the base year for our SBTi Net Zero targets which will be submitted during H1-2023. Dialight's internal processes are low intensity with most of the more intense processing happening upstream. Nonetheless, in the interim, we established Scope 1 & 2 reduction targets and water consumption targets, both on an intensity basis. The targeted reduction for Scope 1 & 2 was 3% and we achieved 9%; the target for water consumption reduction of 5% was also surpassed at 21%.

Dialight engages with the Carbon Disclosure Project where we achieved a B rating for climate change and B- for water security, plus an EcoVadis rating of silver. We are members of the Clean Lighting coalition which seeks to ban the use of mercury in lighting and because our products are mercury free, we have been assessed by FTSE Russell as having 100% green revenue.

The Dialight Foundation continues to enhance the communities where we operate by supporting local initiatives with funding and donated time. The specific focus areas are women's rights and educational support for children. To this end, we have continued our support of the Women's Earth Alliance and a local orphanage in Ensenada, Mexico. In addition, the Foundation also has a hardship fund which can be accessed by staff facing unforeseen expenses.

Targeted reduction for Scope 1 & 2

9%

Target: 3%

Water consumption reduction

21%

Target: 5%

Increase in avoided emissions

29%

GROUP CHIEF EXECUTIVE'S REVIEW CONTINUED

DF
DIALIGHT FOUNDATION

As a business at the leading edge of industrial LED technology, people are at the heart of our business. We support all our people by creating a safe, inclusive environment, where every individual is able to work and contribute to the development of the business. Having engaged, motivated, empowered and appropriately skilled employees is integral to our success. Developing a high performing and inclusive culture is a key enabler in our ability to deliver strategic growth. Our position as a long-term presence in our operating locations is reflected in the range of long service awards around the globe, ranging from 10 years in Malaysia to 50 years in the USA.

Our target of zero accidents at all our sites is a morally responsible business objective. As a producer of lighting that is used in heavy industrial and hazardous locations, our safety focus extends beyond our own staff to those of our customers. In our own operation in 2021 there were no recordable incidents but regrettably in 2022 there were five. Dialight production is mainly light engineering and assembly, so these incidents are typically strains and sprains, sustained where operating procedures were not correctly followed, or PPE not used. We take these incidents very seriously and have provided re-training where necessary to prevent recurrences. Despite the increase in recordable incidents, two of our plants have not recorded any incidents in the past two years.

Dialight is committed to always conducting its business in an ethical and responsible manner, and in full compliance with all applicable laws and regulations. All employees and all third parties who act on the Group's behalf are required to comply with our standards of behaviour and business conduct, as set out within the Code, and applicable laws and regulations in all of the countries in which we operate. In 2022 we undertook a survey of our top 30 suppliers (c. 70% of supply chain value) to establish whether they had sustainability ratings and to understand their sustainability processes and due diligence processes in more detail.

"As a business at the leading edge of industrial LED technology, people are at the heart of our business."

As a sustainability solution provider to our customers, our business is primarily focussed on the opportunity that arises from the transition of the industrial market away from traditional lighting and towards LED as an alternative. Hence, the requirements of TCFD dovetail with the existing business framework. The largest opportunity lies in the scale and speed of increases in market adoption of LED. There are some smaller efficiency and logistic opportunities that could also be realised in the process.

The business strategy of growth will result in increasing the avoided emissions for our customers which outweigh the emissions from using our fixtures by a factor of 1.6x. Since we started the Lighting segment, we have helped our customers avoid c. 20m tonnes of carbon emissions, significantly reduce their operating costs and increase the safety of their facilities. Our values are designed to ensure that our sustainability solution is underpinned by a sustainable business model.

Outlook

The macroeconomic outlook remains challenging, and we expect global supply chain disruptions to continue in the short term. We expect to see some alleviation in H2 2023.

We expect to continue to grow our Lighting business demonstrating the increasing relevance of our products as energy efficiency becomes more urgent. This is underpinned by a clear organic growth strategy, solid order book, and a strong pipeline of projects. Longer term, we see significant opportunity as the established leader in the heavier industrial lighting market.

Fariyal Khanbabi
Group Chief Executive

BUSINESS MODEL

OUR PURPOSE

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

OUR INPUTS

Sustainability
Developing recyclable products to reduce carbon emission and provide a safer working environment.

Product innovation
Developing market leading LED products for industrial markets.

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

Human capital
Creating high performing innovative teams that develop and market our industry-leading products.

Relationships
Building strong relationships with our end customers, distribution channels and suppliers.

Financial
Ensuring a strong balance sheet to support growth and product development.

WHAT WE DO

PRODUCT INNOVATION

Our engineering teams develop industry leading sustainable LED lighting, sourcing innovative materials and ensuring high efficiency.

MANUFACTURING AND SUPPLY CHAIN

Our factories operate lean processes supported by our robust supply chain and relationships with key suppliers.

MULTI-CHANNEL DISTRIBUTION

We build strong relationships with our global distributor network and end customers by providing market leading lead times.

UNDERPINNED BY SUSTAINABILITY

Reduction in energy costs for customers

70%

We certify our products using EN 15804 with independently verified Environmental Product Declarations

REVENUE
Our revenue mainly derives from the sale of lighting fixtures via distribution channels and direct to the end customer using our highly technical sales force.

CASH FLOW
Revenue is turned into cash and used to fund operating costs and working capital requirements. Surplus cash is re-invested to support future growth.

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

THE VALUE WE SHARE

Shareholders
We deliver long-term value for our shareholders by developing market-leading sustainable products in a market with very low penetration. We carefully balance the need for investment, working capital and shareholder returns.

Employees
We provide a creative working environment with scope for individual responsibility and personal achievement, develop our employees and provide competitive rewards linked to performance.

Customers
We work closely with our customers to understand and meet their objectives, including reducing their carbon footprint by lowering their energy and maintenance costs.

Communities
We create jobs for local communities around the world, support local supplier development and deliver economic benefits for local communities.

Government
We support local economies by creating employment, paying local taxes and stimulating local economic prosperity. Through the Dialight Foundation we look to support the disadvantaged in our local communities.

We are developing the first fully recyclable industrial lighting fixture

P30

MARKET REVIEW

A large LED market

Market analysis of the global LED market is fragmented and there are differing estimates of the quantum. We have used a variety of sources in order to understand the market and where we sit within it. Our previous internal calculations put the global LED market in the region of £50bn per annum. A study we commissioned in 2016, confirmed this as a reasonable estimate.

More recently we have performed a more in-depth analysis of the industrial market using the US Department of Energy (DOE) data as the basis of our calculations. They value the total LED market at £40bn per annum, split as follows:

LED MARKET

THE GLOBAL LED LIGHTING MARKET

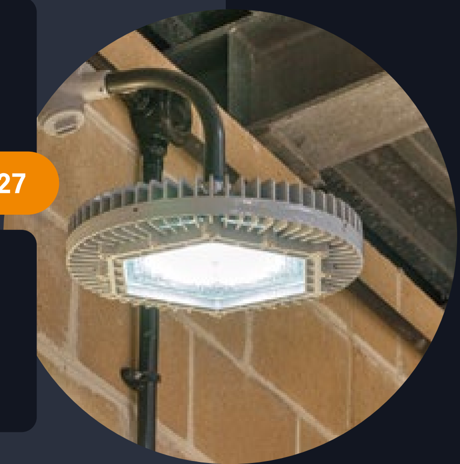
Value of the global LED market per annum
£40bn
Source: US Department of Energy

The industrial LED market
£8.0bn

P27

Dialight's current SAM*
£2.0bn

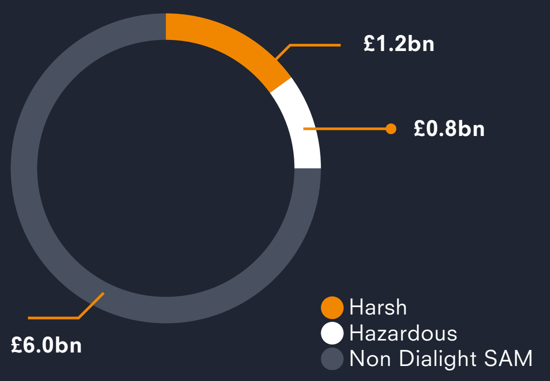
* Dialight serviceable addressable market (SAM)



This non-industrial market includes luminaires for residential, retail, office and commercial market where Dialight does not participate.

The size of the industrial market has been estimated by the DOE at £8.0bn per annum and our best estimates are that Dialight's current serviceable addressable market (SAM) is £2.0bn which comprises of the harsh and hazardous segments, as follows:

INDUSTRIAL LED MARKET PER ANNUM



Within this, the harsh and hazardous segments can be subdivided by three main characteristics:

- Geography
- Verticals
- Product

We have used data from the National Electrical Manufacturers Association (NEMA) in the US and a 2022 study of the hazardous market by Verified Market Research to provide more granularity.

Some of the key outcomes were as follows:

- We have a 30% share of the hazardous market in North America
- Of the verticals that are not currently addressable by our product portfolio, the most attractive target vertical is Food & Beverage where our products can serve a market valued at £0.4bn per annum
- We can see product line penetration in harsh and hazardous applications

We have taken this data and are using it to make more informed choices on R&D for new products and also prioritising upgrades to current products, P46.

By targeting the Food & Beverage market, Dialight's total SAM increases to £2.4bn

LED CONVERSION RATES

The LED conversion rates vary significantly depending on which area of the market we look at.

In the commercial arena adoption levels are economically driven. A large portion of a site's energy use is related to lighting fixtures, with lighting in accessible areas, lower labour costs, attractive rebates and a choice between fixture replacement and lamp upgrade. It is estimated that 95% of current lighting sales to this sector is LED.

The labour cost to update fixtures within industrial sites is higher, requiring lifts, safety officers, and electricians as lamp upgrades are not feasible. For heavy industrial sites with fixtures in hazardous locations, the return from energy savings takes longer to offset installation costs.

The cumulative conversion rate to LED is subjective. Based on data derived from NEMA, it is estimated that overall industrial conversion is c. 30%. Within this, the hazardous market is slower to convert and we estimate that only 20% is converted to LED. The hazardous segment is still buying 80% non-LED lighting which at a point in the future will have to be replaced by LED.

The overall business growth is linked to the adoption curve and whilst we can try to stimulate that adoption through R&D, we are dealing with a market segment that does not embrace change very quickly. Forecasting the steepness of the adoption curve is extremely difficult in the absence of tough legislative changes to stop sales of non-LED lighting.

STRATEGY AT A GLANCE

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

OUR STRATEGIC PILLARS / 2022 ACHIEVEMENTS

INVEST IN OUR CORE MARKETS

We will deliver organic growth through increasing conversion of legacy lighting to LED in global industrial markets

- Lighting only order growth of 28%
- Strategic Sales secured 11 preferred supplier accounts and several multi-million dollar orders from major US corporates
- Reduced active finished good SKUs by 24%
- Dual sourcing in place for 42% of critical components
- Increased online sales through Signals & Components website covering 70% of products

EXPAND OUR MARKET REACH

We will expand our market reach by developing new routes to market and expanding into new verticals

- Re-joined Affiliated Distributors buying group
- Added 37 new distributors and 80 additional locations in the US
- Developed 30 new contractor relationships
- New orders from aerospace, electric vehicle and food & beverage verticals
- EMEA Lighting sales growth of 53%

CONTINUED INNOVATION

We maintain our market-leading position and fill portfolio gaps by continuously investing in improving the materials, form factor and technology in our products

- Delivered £22.4m in orders for products launched in last two years
- Launched two Source and Sell products – wallpack and exit/emergency signage
- Power supply now standardised across highest running product families
- Launched hazardous ProSite floodlight

Key performance indicators
Our growing revenue, EBIT and lighting orders demonstrates our strategic progress

KPIs P32 TO 35

TARGETS FOR 2023

— Target 5 preferred supplier accounts through Strategic Sales
— Product cost reduction programmes to improve Lighting margin
— Implement regionalisation strategy for Far East sourcing
— Invest in sub-assembly automation

— Further expansion into new industries such as aerospace, electric vehicle and F&B, using Strategic Sales
— Increased targeting of EPC/engineering firms and electrical contractors
— Increase share of distributor spend by increasing location coverage
— Deepen relationships with Affiliated Distributors

— Launch ProSite High Output/High Mast Floodlight range
— Launch existing products with shielding against reactive gases/volatile organic compounds
— Continue development of first fully recyclable fixture
— Continue standardisation of components within product families

STRATEGY IN ACTION

Solving lighting problems for our customers

The problem

Lighting fixtures designed to operate in Industrial and hazardous lighting environments have tended to focus on drive current and LED temperatures as the key factors affecting performance of the LEDs and fixture. This misses other factors that can directly affect the performance of LEDs over time, with the presence of volatile organic compounds (VOCs) and reactive gases being problematic in many industrial verticals. Both VOCs and reactive gases are harmful to LED lighting but cannot be prevented or eliminated, and both are difficult and expensive to detect.

VOCs are organic compounds that easily vaporise at room temperature and atmospheric pressure. They are emitted by a wide range of industrial products such as rubbers, silicones, lacquers etc and can easily permeate through silicone-based LED encapsulations. This leads to discolouration, loss of light from the luminaire and the light output appearing blue or purple. The LED device will revert to normal performance if the VOC escapes a vented luminaire.

Reactive gases, such as hydrogen sulphide, contribute to premature LED failure as they also permeate through the LED encapsulation. However, their effect is corrosive and irreversible as they damage the LED or electronics within the luminaire. They occur in a wide array of industrial processes, including power generation, rubber manufacturing, pulp and paper processing, waste water treatment, etc. These are all verticals where Dialight's harsh and hazardous products are installed.

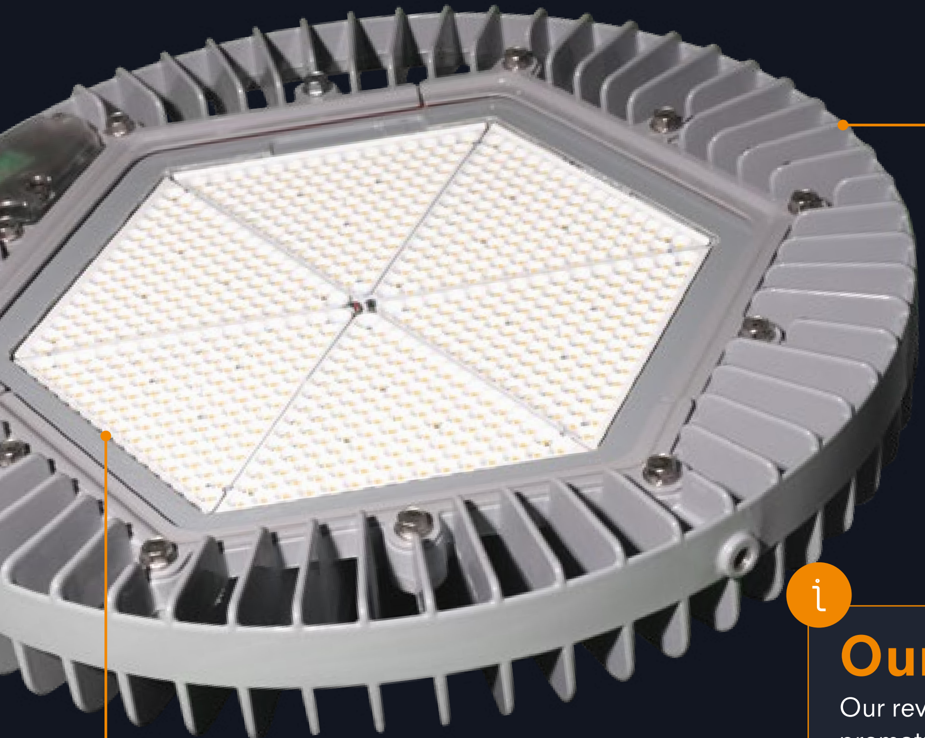
The quality and reliability of lighting in industrial sites is critical to ensure safe operations, so Dialight wanted to be able to provide our current and prospective customers with a solution to these potential problems.

ISSUES WITH VOLATILE ORGANIC COMPOUNDS (VOCS)

— Leads to discoloration (see picture on right)

— Loss of light from the luminaire

— Light output appearing blue or purple.



ULTRA EFFICIENT VIGILANT® HIGH BAY

30% more efficient than previous model, with optional microwave occupancy sensor offering superior sensing for industrial facilities

30%

more efficient than previous model

VOC SHIELD

- LEDs coated with shielding chemistry to prevent reactive gases and VOCs from permeating through
- The Dialight protective coating chemistry does not allow the release of VOCs that contribute to reduced LED performance
- Internal power contacts made of suitably noble metals to protect from corrosion caused by reactive gases.
- Protective chemistry fully covers all exposed conductive joints

Our solution

Our review highlighted that the conditions causing premature failure within fixtures occurs at levels below human health and safety thresholds, so human perception is that the environment is benign. Additionally, component manufacturers have not implemented protection against these conditions. Intensive research by our material science group proved that the only temperature-independent solution was to create a shield that isolated the VOC or reactive gas from sensitive electronics, such as the LEDs. After extensive testing looking at performance and tradeoffs, the best-performing chemistry for the shield was identified. This protective chemistry is then applied to all exposed conductive joints and coats the LEDs, such that the reactive gas or VOC cannot permeate through and ensures light quality and colour is unaffected.

Dialight's patented shielding technology can now protect the LED chemistry from severe environmental contamination that shortens useful fixture life and light output. It is already available on our Vigilant High Bay, Linear and 60k, with the first shipment to customers in December.

KEY PERFORMANCE INDICATORS

LINK TO STRATEGY

INVEST IN OUR CORE MARKETS

EXPAND OUR MARKET REACH

CONTINUED INNOVATION

Group Revenue

£169.7m

2022	169.7
2021	131.6
2020	119.0

Description
Revenue from sales.

Definition
Revenue from continuing operations and organic growth.

Remuneration linkage
Revenue growth is a key element in achieving short-term and long-term incentive targets. This strong growth has not translated into the expected increase in EBIT, so no management bonus has been earned.

Target
Year on year revenue growth. We met this target with revenue growth of 29% to £169.7m (17% at constant currency) driven by strong customer demand across both business segments.

LINK TO STRATEGY
Profitable revenue growth is essential to long-term success.

Underlying EBIT (£m)

£5.0m

2022	5.0
2021	4.5
2020	(6.4)

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

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

Remuneration linkage
Underlying EBIT is one of the main measures used in short-term and long-term incentive targets. Despite strong revenue growth, the target for 2022 was not achieved as margins were depressed by higher material costs and freight costs following global supply disruption. Consequently, no management bonus has been earned.

Target
For 2022 the target was consensus underlying EBIT at the start of the year, which was £8.0m.

LINK TO STRATEGY
The key measure of the success of our near-term strategic goals is growth in underlying EBIT.

Cash generated by operations (£m)

£6.6m

2022	6.6
2021	6.0
2020	10.5

Description
The ability to turn profits into cash.

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

Remuneration linkage
Cash generation does not directly link to remuneration but impacts net debt which is directly linked. In 2022 it was a vital measure of the ability to ensure liquidity in the business.

Target
Year on year growth. This was achieved with increased profit in the year being offset by the increase in finished goods following lower-than-expected sales in the key December trading period.

LINK TO STRATEGY

Cash generation is critical to support our growth ambitions.

Net debt (£m)

£(20.9)m

2022	(20.9)
2021	(15.7)
2020	(11.4)

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

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

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

Target
For 2022 the target was consensus net debt at the start of the year, which was £10.5m. This target was not achieved due to lower EBIT, the decision to maintain raw material inventory due to continued supply chain disruption and the increase in finished goods inventory at December.

LINK TO STRATEGY

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

ESG

ENVIRONMENTAL

SOCIAL

GOVERNANCE

Description and definition
Over the past 2 years the Group has improved its ESG profile through better ESG ratings and invested time in understanding our existing carbon impact and how we can use R&D to minimise that impact. These will be considered as part of setting targets for 2023.

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

Target
These will be based on the short-term science-based targets to meet net zero that will be prepared during 2023. These targets will be based on the reductions that are controllable by management (see page 44).

LINK TO STRATEGY

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

KEY PERFORMANCE INDICATORS CONTINUED

LINK TO STRATEGY

INVEST IN OUR CORE MARKETS

EXPAND OUR MARKET REACH

CONTINUED INNOVATION

Health and safety (number)

5

Year	Number
2022	5
2021	0
2020	2

Description
A measure of how many recordable incidents have occurred within the Group.

Definition
A recordable incident is a work-related incident that results in a member of staff not being at work for more than three days.

Remuneration linkage
Health and safety does not directly link to remuneration but is an enabler to achieving revenue and underlying EBIT targets.

Target
We have missed the target of zero recordable incidents. Our focus remains on achieving zero harm for all staff and two plants have had no incidents in the last two years. For more information on these incidents, see page 51.

LINK TO STRATEGY

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

Retention (%)

84%

Year	%
2022	84
2021	83
2020	76

Description
A measure of how well the Group can retain its staff.

Definition
The number of staff at the end of the year divided by the total of the number of staff at the start of the year and joiners. This calculation excludes direct manufacturing staff.

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

Target
We are targeting 90% employee retention and continue to see an improvement in our performance.

LINK TO STRATEGY

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

Lighting orders (£m)

£124m

2022	124
2021	100
2020	87

Description
Orders received for Lighting products.

Definition
Total orders received for Lighting products in the year.

Remuneration linkage
Order growth drives revenue which in turn drives EBIT, which forms part of the remuneration targets.

Target
We target year on year order growth and achieved 23% at constant currency, which reflects benefits from the strategic accounts team, recovery in our end markets and reclaiming of market share.

LINK TO STRATEGY

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

Lighting on-time delivery (%)

70%

2022	70
2021	67
2020	80

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

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

Remuneration linkage
A low level of on-time delivery will impact revenue and hence EBIT. Our on-time delivery improved in 2022 but remained impacted by the continued severe supply chain disruption brought about by global commodity shortages.

Target
Our target was to maintain or exceed our prior year on-time delivery. This target was met despite the supply chain disruptions.

LINK TO STRATEGY

On-time delivery is a lead indicator of the quality of service to our customers.

Lighting gross profit (£m)

£40.6m

2022	40.6
2021	33.7
2020	23.7

Description
The gross profit related to the performance of the underlying Lighting business.

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

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

Target
We target year-on-year expansion of Lighting gross profit. In 2022 we achieved this through strong revenue growth, including pricing actions, that offset cost pressures in the supply chain.

LINK TO STRATEGY

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

SUSTAINABILITY AT DIALIGHT

A Sustainability Solution

We provide a sustainability solution to reduce carbon emissions in the industrial sector, which generates 32% of global emissions

FARIYAL KHANBABI

SUSTAINABILITY REPORT

Our 2022 Sustainability Report is available on our website at https://www.dialight.com/wp-content/uploads/2023/01/Sustainability-Report-2022.pdf

The past two years has been a time when companies have had to lead with courage and take greater responsibility to benefit all stakeholders. I believe the future belongs to those who can drive growth that is both sustainable and inclusive.

We believe that growth is necessary to secure prosperity and wellbeing for everyone. Along with driving growth, building resilience for our customers, society and ourselves is a priority.

Our products provide a pivotal opportunity to reduce carbon emissions in the near term by utilising our ultra-efficient LED technology that generates up to 60% less emissions than legacy lighting. The time value of carbon reductions (see page 17) is magnified by the pace at which the industrial world embraces a significant adoption of LED.

With the guidance from the Science Based Targets initiative that we need to halve emissions from electricity by 2030, the timeliness of action becomes more crucial. In addition, the inevitable transition to a decarbonised grid will in turn be easier to achieve if the overall power requirements are significantly reduced.

Through our cutting-edge technology we will be bringing the first fully recyclable product to the market. We are pursuing science-based targets to decarbonise our own operations and achieve net-zero impact by 2040.

"Sustainability is at the heart of everything we do, from product design to material sourcing and the way we operate the business."

We aim to create economic opportunity to reduce inequalities and enable inclusive growth. By investing in human capital in the same way we invest in physical capital, we can foster workforce diversity and reskill or upskill people so they can thrive.

In 2020, we created the Dialight Foundation, a non-profit arm of our Company dedicated to helping the communities we operate within. The overwhelming support from our employees around the world has made a meaningful difference in the lives of so many and we look forward to building on this initiative.

On behalf of all our colleagues, I am proud of the significant steps we have taken on our sustainability journey this past year. We have a new framework that builds on our sustainable, inclusive growth ambition, established a Sustainability Committee to maintain a sharp focus, and we continue to evolve our external reporting – including aligning with the Task Force for Climate-related Financial Disclosures (TCFD).

I am proud of what we have accomplished and I am even more excited for what is still to come.

Fariyal Khanbabi
Group Chief Executive

SUSTAINABILITY AT DIALIGHT CONTINUED

Our framework

ACCELERATING SUSTAINABLE & INCLUSIVE GROWTH

ENVIRONMENTAL

Be the catalyst for decarbonisation with our customers

- Helping our customers deliver their sustainability goals faster to benefit with the TVC, see page 17
- Achieve net zero by 2040 and reduce our emissions in line with validated near-term science-based targets
- Help the world stay on 1.5 degree Celcius pathway

SOCIAL

Build inclusive communities and a workforce that reflects society

- Enhance organisational performance through a more diverse, equitable and inclusive culture
- Attract, develop and retain a diverse workforce while creating an inclusive environment
- Empower our employees to give their talent and time to local communities whilst providing financial and organisational support

GOVERNANCE

Set standards for accountability and compliance

- Continue to evolve and live our values
- Meet the highest professional, legal and ethical standards while enhancing accountability
- Continue to drive transparency to our stakeholders and ensure integrity in everything we do

INFLUENCING CHANGE

Dialight promotes sustainability through contributions to industry forums and leveraging thought leadership through published articles, to educate industrial stakeholders about solutions to help them achieve their carbon goals.

Examples over the past year include:

Dialight's CEO addressed the National Association of Electrical Distributors ("NAED") women in industry forum earlier this year.

This forum provides an environment where female professionals within the male-dominated electrical distribution industry can connect with senior female leaders in industry-leading companies. This provides a springboard for career development and increasing the industry diversity at a senior level.

SUSTAINABILITY MAGAZINE
How Dialight's LED Lighting Addresses Workplace Safety

POWER SYSTEMS DESIGN
5 Ways Better Lighting Improves Steel Plant Safety & Sustainability

SUSTAINABILITY HIGHLIGHTS AND CREDENTIALS

Our external ESG ratings have improved over the past two years and with 100% green revenue and facilitating significant avoided emissions, our products are sustainable in their production and operation.

We have committed to achieving Net Zero with SBTi by 2050. Our internal target is to achieve this by 2040. P61

Our CDP ratings for 2022 are B for Climate Change and B- for Water Security. P45

Our lights sold in 2022 resulted in avoided emissions of 2.1m tonnes by our customers. P44

Our approach

OUR KEY AREAS

Environmental

Key objectives

- Replace environmentally unfriendly non-LED lighting
- Enable our customers to reduce costs and their carbon footprint
- Improve industrial safety

Focus areas

- Educate on the benefits of LED lighting and stimulate demand to improve adoption
- Continued innovation to produce the most efficient industrial lighting products
- Design products with lowest emissions footprint

Measurement

- Dialight emissions plus those from customers using our products are on page 43

P40

ALIGNMENT WITH SDGs:

Social

Key objectives

- Ethical treatment of our people and those in the supply chain
- Support local communities

Focus areas

- A culture that promotes all aspects of health & safety
- Using the Dialight Foundation to support local communities
- Localisation of supply chain to reduce carbon footprint and increase the proportion of local purchases

Measurement

- Accident rates, diversity and community spend are on pages 51

P50

ALIGNMENT WITH SDGs:

Governance

Key objectives

- Promote ethical business practices internally and in our supply chain
- Measure and report on performance to promote transparency

Focus areas

- Ensuring suppliers agree to Code of Conduct
- Carbon footprint verification
- ISO 45001, 9001, 14001 and 14064 compliance

Measurement

- KPIs in place and reported on page 33 and under SASB in our 2022 Sustainability Report.

P56

ALIGNMENT WITH SDGs:

We only sell LED products and our revenue has been certified 100% green. P21

Our EcoVadis rating for 2022 is Silver. P12

We have aligned our policies on business ethics and sustainability with our SDG objectives. P56

Environmental

RESPONSIBILITY

We are a sustainability business not just in our own operations but by providing the products that enable our customers to make their businesses sustainable and achieve net zero. Today, the emissions avoided by customers switching to our highly efficient LED lighting (compared to inefficient legacy lighting) more than outweigh the emissions from production and use of our lighting SEE P43. The more lights that we sell, the greater is the overall benefit to society through avoided emissions.

MEASURING OUR ENVIRONMENTAL IMPACT

In order to manage our environmental impact, we measure various aspects of it, as follows:

— The emissions from the sourcing of materials

— The internal impacts from production and internal operations

— The impact of distribution to the end customer

— The impact of electricity usage by the customer

— The emissions avoided by our customers switching to LED

— The end-of-life impact

These form part of our environmental reporting on P42. This allows us to focus our efforts on the aspects that have the potential to generate the largest emissions reductions.

The largest environmental impact comes from the emissions avoided by our customers, so the more efficient we can make our lights; the greater will be the benefit to society. This is reflected in the continued R&D and innovation of the product portfolio discussed on P46 and the measurement assumptions are discussed on P43.

The next largest element relates to the size of the lighting fixtures and the types of materials used. The smaller the fixture, the lower the materials emissions. This is discussed in detail on P46.

The impact of logistics inbound and outbound is largely out of our control, until there is a widely available portfolio of decarbonised freight transport. We look to localise the supply chain where possible and review our operating locations, but this also brings the risk of disrupting manufacture and therefore impacting the quantum of avoided emissions.

Our internal operations are not very resource intensive and therefore the benefits from reductions will be quite small. Using an emissions-based ROI approach, there is a significantly greater potential benefit from R&D that increases avoided emissions than from reducing the impact of our own operations. A 1% improvement in product efficiency can generate 20,000 tonnes of avoided emissions on a 10-year basis whereas a 1% reduction in the impact of internal operations will only reduce emissions by 500 tonnes over the same 10-year period. We will continue to seek improvements through the natural cycle of machinery upgrades, but specific emissions reduction-based investment must also meet financial ROI criteria. The investment required for a solar installation in one of our plants failed the financial ROI, so has not been pursued.

BRIGHTER, SAFER, GREENER

Case study

Water stewardship

Access to clean water and sanitation is a basic human right and aligns with the United Nations Sustainable Development Goal (UN SDG) 6 "Clean water and sanitation". As a responsible business, we need to ensure that our water usage is minimised as much as possible, so that there is an equitable distribution of freshwater. We complete the CDP water security questionnaire annually and for 2022 our rating was B-.

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

Our facilities in Mexico, which account for 45% of water usage, are in high water stress areas and we therefore continuously look for ways to reduce usage. We have set a target of reducing water consumption by 5% per annum per £m of revenue. This target was exceeded in 2022 with a reduction of 21% mainly related to targeted water conservation measures in Mexico.

We have set a target of reducing water consumption by 5% per annum per £m of revenue. This target was exceeded in 2021 and 2022.

Reduction in water usage per £m of revenue

2021: 10%

21%

Environmental reporting

Over the past two years we have invested significant time in understanding our existing carbon footprint and looking at reduction plans. We used 2020 as our baseline year and performed our first full Green House Gas (GHG) inventory (excluding the emissions from customer usage). We have carried out a similar exercise for 2021 and both have been externally verified under ISO 14064 to a reasonable assurance level. Our 2022 figures have not yet been externally verified.

The basis of the emission calculations varies depending on the emission type. Scope 1 and 2 emissions relate primarily to electricity and gas usage and the quantities used were mainly extracted from utility bills with a relevant emission factor by geography applied to derive the emissions.

"Over the past two years we have invested significant time in understanding our existing carbon impact and how to use R&D to minimise that impact."

Scope 3 emissions are more difficult to calculate and they fall into two major categories:

Sourcing, operations and distribution

These emissions relate to the upstream materials sourcing, internal operations and distributions of products to the end customer and the EOL impact. The calculations use a combination of 3rd-party data and analysis to derive an impact that has low subjectivity and can be externally verified. The main elements measured are:

— Materials impact: we used the upstream materials analysis derived from our EPD analysis to provide an emissions impact by type of materials used.

— Logistics: wherever possible, we used data from 3rd party logistics carriers to provide the core data on a geographic basis upstream and downstream and this was combined with internal calculations and geographic emission factors.

— Business travel: We used a combination of external travel agent data and analysis of expense claims to stratify travel by method and then applied a geographic-based emission factor.

— Commuting and Work from Home: We used a set of internal calculations based on a combination of worker types and geographic locations to create a matrix of travel distances and method of transport. We also allowed for some continued post-pandemic work patterns where office staff were not in the office five days per week.

Usage by customer

These emissions relate to the impact of the electricity usage at customer sites whilst using the product over its life-cycle. This is a highly subjective calculation as we do not have access to the electricity usage of our customer base and, due to the lack of customer concentration, we would need to get data from thousands of customers. The calculated impact is derived from internal calculations and due to its subjectivity, it is not possible to get assurance over this number.

In order to estimate the impact, we have to make assumptions about key variables:

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

USAGE DISCLOSURES

		CO_2	**2022**	2021*	2020	2022 Vs 2021
Scope 1	Emissions from combustion of fuel	Tonnes	**1,617**	1,188	1,168	(36%)
Scope 2	Emissions from purchased electricity	Tonnes	**4,885**	4,377	4,464	(12%)
Scope 3	Emissions from all other activities except customer usage	Tonnes	**120,147**	100,820	123,218	(19%)
	Total excluding customer-related emissions	**Tonnes**	**126,649**	**106,385**	**128,850**	**(19%)**
Scope 3	Emissions from customer usage**	Tonnes	1,099,000	882,000	800,000	**(25%)**
	Total emissions using GHG Protocol	**Tonnes**	**1,225,649**	**988,385**	**928,850**	**(24%)**
	Emissions if customers did not convert to LED**	Tonnes	3,189,000	2,496,000	2,348,000	**(28%)**
Scope 4	Emissions avoided by customers**	Tonnes	(2,090,000)	(1,614,000)	(1,548,000)	**29%**
	Net emissions impact**	**Tonnes**	**(1,963,351)**	**(1,507,615)**	**(1,419,150)**	**30%**

		Consumption	**2022 m's**	2021 m's	2020 m's	Variance m's
	Electricity*	kWh	12.1	11.0	10.4	(1.1)
	Water	litre	14.8	14.6	12.1	(0.2)

* There were some minor changes to 2021 reported numbers during the verification process later in 2022

** Internal calculations, see assumptions above and overleaf. Net emissions impact is 2,090k (1,099k less 3,189k) of net customer benefit less 127k (all other processes)

SUSTAINABILITY AT DIALIGHT CONTINUED

Environmental continued

- The use of control systems by customers. Control systems reduce the number of hours that lights are in use by up to 26% which in turn reduces electricity usage.
- The use of green energy by customers. As green energy becomes more available, customers will be able to utilise this to reduce their emissions impact and we have no way to track the emissions reduction impact.
- Emission factors vary by country and can vary significantly by state within countries. For example, in the US which is our largest market, factors can vary by a factor of 3x between states, in Australia by a factor of 6x and in Europe by 50x. We would need to monitor sales on a very granular basis to track this usage and apply the correct emissions factor.
- Ten year life-cycle, having made assumptions based on data available today, we then have to estimate the forward curve on these for the next 10 years as this is the expected life-cycle of our lighting products.

EMISSIONS AVOIDED BY CUSTOMERS

One of the major advantages of LED lighting is that it is up to 70% more efficient than traditional lighting and therefore generates significant electricity savings and reductions in emissions. These avoided emissions are known as Scope 4 emissions and using the current GHG Protocol, these cannot be counted in determining net zero status. Nonetheless, for a business like Dialight, these are the very core of our business purpose and growth strategy and therefore we have also calculated these emissions.

The calculation is very subjective and is internally generated, it has not been verified. The basis used is to compare the major product categories sold with the most common non-LED products that they replace. By doing this we can calculate the electricity usage with LED and without LED and the wattage saving by product.

We then apply the same assumptions as Scope 3 usage on hours of usage, control systems, etc. to calculate a total saving. As the assumptions used for both the usage with LED and without LED are the same, some of the subjectivity is mitigated and the emissions avoided is based on the efficiency of LED and quantum of fixtures sold.

In order to provide a better understanding of the environmental impact of the business, we include Scopes 1 to 3 and a calculation of avoided emissions (Scope 4) in our reporting.

TARGETS

Our targets for 2022 were to reduce Scope 1 & 2 (combined) by 3% per annum (per £m of revenue) Our other target was to reduce water consumption by 5% per £m of revenue. Both targets were exceeded in 2022.

We have used a short term Scope 1 & 2 target but this will be superseded by the Net Zero targets that will be agreed with SBTi in H1-2023. We will also add a Scope 3 target but emissions from the customer usage phase remain the biggest challenge due to their comparative size.

INTENSITY RATIOS

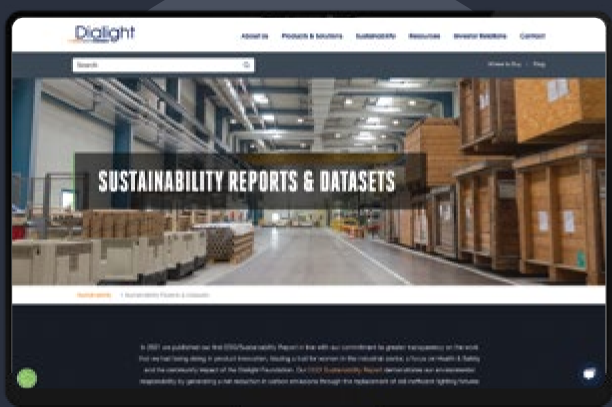
Our actual intensity ratios for 2022 mainly showed improvements over 2021. Gas consumption (Scope 1) increased with production volumes but for electricity (Scope 2), we got the benefit of production not being resource intensive so the 29% increase in revenue could be delivered with an intensity reduction. For water, we put specific actions in place in Mexico to reduce the water usage.

Consumption per £ of turnover		2022	2021	Variance
Revenue		**169.7**	131.6	29%
Scope 1	Tonnes/£m revenue	**9.5**	9.0	(6%)
Scope 2	Tonnes/£m revenue	**28.8**	33.3	13%
Scope 1 and 2 combined	Tonnes/£m revenue	**38.3**	42.3	9%
Scope 3 (excluding customer usage)	Tonnes/£m revenue	**746.3**	808.4	8%
Electricity	MWh/£m revenue	**71.3**	83.6	15%
Water	Kilo litre/£m revenue	**87.4**	110.9	21%

REPORTING THROUGH OTHER ROUTES

We complete the Carbon Disclosure Project (“CDP”) questionnaire annually in which we give details of Scope 1, 2 and 3 emissions, avoided emissions (Scope 4) and water management. Our submission is public and can be viewed via the CDP website. Our climate change rating in 2022 was B and water security was B-.

In addition, we publish three year environmental data and SASB Electronic Manufacturing Services compliance data in our Sustainability Report available on our website via the link on the right.



See our website for our Sustainability Report

SUSTAINABILITY AT DIALIGHT CONTINUED

Environmental continued

Sustainable product design

One major advantage of LED lighting over legacy solutions is they do not contain hazardous substances.

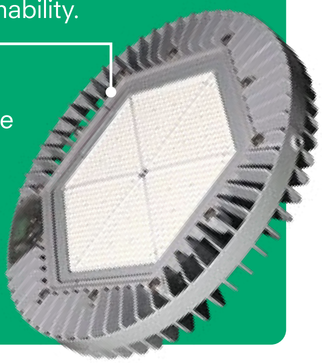
Most fluorescent tubes and High Intensity Discharge (HID) lighting contain mercury which is dangerous at all stages of their life-cycle.

HAZARDOUS WASTE

Whilst there are no hazardous materials in our products, during the production process there is a minor amount of hazardous waste generation which primarily consists of industrial alcohol used to clean fixtures and solder paste from production of electronic circuit boards.

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

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



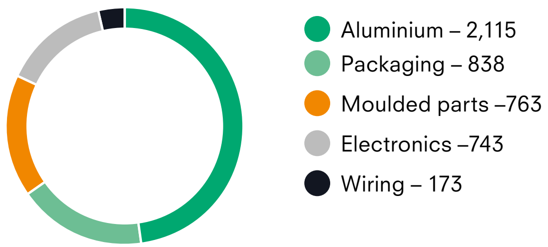
RAW MATERIAL CHOICE

We have prepared EPDs for seven product lines which have provided invaluable data on the impact of three major factors

- Material choice: differing materials have significant variation in emissions from production
- Material source: the same material can have different emissions depending on where it is processed
- Weight of the fixture: reducing fixture sizes tends to reduce the emissions impact from the materials

The primary materials that we have used in the year are as follows:

TONNES OF MATERIALS USED – 2022



Dialight is a member of the Clean Lighting Coalition, a group of clean lighting stakeholders that seeks to ban the use of mercury in Lighting.

We certify selected products using EN 15804 with independently verified Environmental Product Declarations https://bregroup.com/services/testing-certification-verification/en-15804-environmental-product-declarations/

BRIGHTER, SAFER, GREENER
Case study

Sustainability Award

The inaugural 'Sustainability Award' is awarded to individuals or companies who have demonstrated a long-standing commitment to advancing the sustainability and environmental aims of the Lighting Council Australia (LCA).

The LCA is the main body for the lighting industry in Australia. Its goal is to encourage the use of environmentally appropriate, energy efficient, quality lighting systems.

Dialight's sustainable LED lighting encompasses the full sustainability solution that the LCA seeks to promote:

- industry-leading efficiency reducing the carbon footprint of users
- ethically sourced materials with their carbon impact assessed by Environmental Product Declarations
- Ten year life that reduces the use of resources in replacing fixtures and
- improving safety on site by providing high quality light output.

"As a member of the LCA since 2009, it was fitting that Dialight was recognised by their first award as a long-term sustainability solution."

RECYCLING AT END OF LIFE (EOL)

The major components in our products can be recycled at EOL. Aluminium is the most widely recycled but depending on the end market, the other major parts can also recycled (estimated at 96% in the UK). We encourage customers to use our recycling partners but they can also choose alternate vendors to do this. We continue to look at extending the product life by use of replacement parts and field upgrades

RECYCLING DURING MANUFACTURING

Three of our four operational sites use Environmental Management Systems certified to ISO 14001. All sites have well-established recycling programmes that ensure that we minimise the amount of waste going to landfill. The in-house processes are light industrial and do not generate significant waste. The major waste items relate to inbound packaging for materials and some metal off-cuts from machining.

PRODUCT TYPE	2022 Tonnes	2021 Tonnes
Cardboard	**299**	273
Plastic	**71**	70
Metals	**162**	137
Wood	**45**	7
Other	**1**	4
Total	**578**	491

EFFICIENCY AND SAFETY
Case study

Efficiency and safety

Our LED lighting has multiple benefits including increased efficiency and enhanced site safety.

BUSINESS NEED

This 32-acre sewerage and wastewater facility runs 24/7 and had electrical and lighting systems that were not only outdated, but were an amalgam of different lighting types. These were prone to frequent failure and procuring replacement bulbs and other parts was extremely difficult and time-consuming.

▲ **DIALIGHT LED LIGHTS** providing a brighter,safer work environment

The antiquated lighting provided inadequate illumination in many places which increased the accident risk.

Efficiency

The installation of 400 Dialight fixtures to replace the antiquated technology has been a major success. Not only are the new lights guaranteed for 10 years, but they also reduce energy consumption, maintenance costs and carbon emissions significantly.

Due to their robust design, they can cope with the impact of hydrogen sulphide, a corrosive by-product that caused the older halogen fixtures to fail.

Warranty period for lights
10 years

DIALIGHT LED FIXTURES illuminate the exterior tanks in Bridgewater, NJ

DIALIGHT EQUIPMENT USED

ALL NEW PROSITE® FLOODLIGHT

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

Safety

The lighting upgrade has also substantially improved safety at the facility which runs all night. It has a high volume of truck traffic bringing effluent for processing.

THE IMPROVED VISIBILITY

- makes it easier for staff to monitor traffic
- ensures vehicles and pedestrians are more visible
- prevents accidents

"The improvement in lighting is like night and day."

Sherwin Ulep
Manager of Engineering

Social

THERE ARE THREE MAIN GROUPS OF PEOPLE WE CONSIDER IN OUR OPERATIONS:

1. **OUR PEOPLE**
We have a moral obligation to ensure the safety and wellbeing of all our staff

2. **THE COMMUNITIES IN WHICH WE OPERATE**
In order to have a sustainable business, we must protect local communities

3. **PEOPLE IN THE SUPPLY CHAIN**
Our moral obligations to people extend back through the supply chain to ensure sustainable production

1 OUR PEOPLE

As a business at the leading edge of industrial LED technology, people are at the heart of our business. We support all our people by creating a safe, inclusive environment, where every individual is able to work and contribute to the development of the business.

Having engaged, motivated, empowered and appropriately skilled employees is integral to our success. Developing a high-performing and inclusive culture is a key enabler in our ability to deliver strategic growth.

Global presence, local impact

We have had a long-term presence in many of our operating locations, contributing to the prosperity of the regions and communities by generating socio-economic value.

Our long-term presence is reflected in the long service awards P53

Safe working environment

Our target is zero recordable accidents at all our sites as a morally responsible business objective. As a producer of lighting that is used in heavy industrial and hazardous locations, our safety focus extends beyond our own staff to those of our customers, see product safety P60.

All new staff receive safety briefings in local languages before commencing work. Safety is reinforced through the use of bulletin boards and videos in communal areas.

At operational sites PPE equipment is provided free. We have created a culture that has a strong focus on safety.

All near misses are investigated to establish root cause and implement actions to prevent recurrence.

Average number of employees

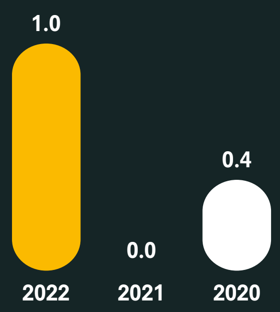
MEXICO	1,493
AMERICAS	228
MALAYSIA	188
APAC	33
EUROPE	28

Accident rates

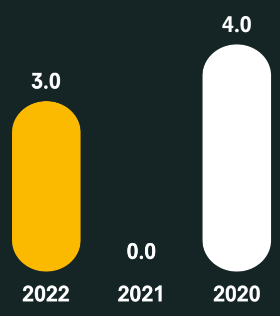
In 2021 there were no recordable incidents but unfortunately in 2022 there were five. Dialight production involves mainly light engineering and assembly, so these incidents were mainly strains and sprains where operating procedures were not followed or PPE not used.

We take these incidents very seriously and have provided re-training where necessary to prevent recurrences.

Accident rate trends



Recordable incident rate per 1,000,000 hours worked



Recordable incident severity rate, average days lost per incident

Despite the increase in recordable incidents, two of our plants have not recorded any incident in the past two years.

Safety footwear is compulsory at all operational sites

Eye protection is mandatory on the production floor

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

2 THE COMMUNITIES IN WHICH WE OPERATE

ENGAGING WITH OUR PEOPLE

As a global business operating across different time zones, we use a range of formal and informal channels to communicate with staff.

These include CEO global video calls with an open Q&A session, all-hands meetings, smaller team briefings, employee forums, and direct email addresses. In addition, the factory sites also use notice boards and TV screens in communal areas that play corporate updates in local languages.

During the year, Gaëlle Hotellier (Workforce Engagement NED) conducted a series of meetings with staff at various sites (without management present) to understand any concerns that staff had.

DEVELOPMENT AND TRAINING

As a business that relies heavily on R&D, we understand that development is the cornerstone of the drive to continuously improve the quality of our business.

Our colleagues are involved in performing a huge number of often complex processes and procedures and work continues to ensure high levels of operator competence throughout the organisation. Individuals across the organisation are encouraged to undertake continuing professional development to ensure that their expertise and knowledge remains up to date.

Outside of technical competence, our focus is on the development of management and leadership skills.

DIVERSITY

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

At operational sites, the labour pools vary depending on the characteristics of the region. Our operations in Mexico are staffed 100% by local staff. Our operations in Malaysia predominantly comprise local labour but also use some migrant workers that supplement the local labour pool. These employees are directly contracted by Dialight on a full-term contract and we ensure they are treated equally with the local workers.

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

The Lighting industry has traditionally been heavily male dominated and recruitment of women in certain roles is difficult due to the gender balance in the labour pool. We are attempting to break the mould where possible, and our overall male:female ratio is very balanced, see page 105. In addition, we have a female CEO which is very uncommon in this industry.

LONG SERVICE AWARDS
Case Study

Long service awards

We feel it is important to recognise the achievements of our people and long service awards are part of that process. These awards reflect the length of time that Dialight has been established in the local areas.

In 2022, the longest was a 50-year award in Farmingdale, New Jersey for an employee who started when LED was invented. Our oldest plant in Roxboro, US celebrated two long-term employees, with 35 and 40 years service. Our presence in the Ensenada region of Mexico gave rise to several people collecting awards to recognise 15 and 20 years' service. Our Penang factory (opened in 2012) recognised staff with 5 and 10 years' service.

"We have a long-term presence in all our operating locations."

SUSTAINABILITY AT DIALIGHT CONTINUED

Social continued

3 PEOPLE IN THE SUPPLY CHAIN

SUPPLY CHAIN AND HUMAN RIGHTS

Dialight is committed to conducting its business in an ethical and responsible manner at all times, and in full compliance with all applicable laws and regulations.

All employees and all third parties who act on the Group's behalf are required to comply with our standards of behaviour and business conduct, as set out within the Code, and applicable laws and regulations in all of the countries in which we operate.

WE EXPECT OUR EMPLOYEES AND SUPPLIERS

- to behave with honesty and integrity at all times and to comply with our zero tolerance policy on bribery and corruption
- to ensure they do not engage with suppliers in countries that are subject to sanctions or embargoes
- to ensure that they only engage with suppliers that adhere to Anti-Slavery and Human Trafficking legislation
- to ensure that all staff have a safe and secure working environment that is free from discrimination
- to ensure all staff are paid a fair wage and do not have to work beyond the legal requirements

COMMUNITY INVOLVEMENT

We recognise that each of the Group's operations has an important role to play in its local community. COVID-19 has resulted in unprecedented hardship especially in some areas where we have facilities. In these challenging times, it is not just about Dialight supporting its own staff by being a good employer but also about giving back to the communities in which we operate.

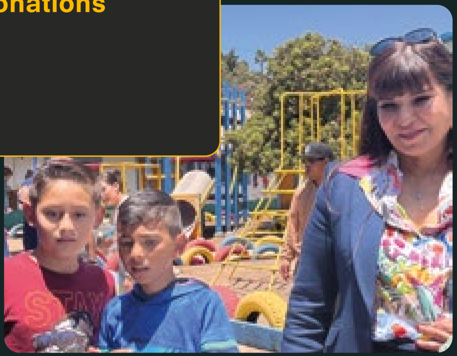
This was the background to forming the Dialight Foundation. The aims of the Foundation are to promote, operate and manage charitable grants in respect of the following classes of beneficiaries:

- direct charitable projects in local communities
- direct donations to local communities
- indirect assistance by facilitating 3rd-party charitable work or donations to the local communities

FOUNDATION FUNDING

The Dialight Foundation is funded by a combination of employee and company donations, reflecting a shared ethos of community responsibility.

Foundation donations
2021: £28k
£25k



Dialight Foundation

The Foundation is governed by the Dialight Foundation Board, comprised of employees from around the globe and chaired by the CEO. This diverse group was carefully selected to bring diverse perspectives based on a variety of job functions, cultural backgrounds and charitable expertise.

DIALIGHT FOUNDATION

PROJECT CRITERIA

Any donation approved by the Foundation Board must meet one or more of the following purposes:

— protection and relief of poverty;

— advancement of education;

— advancement of health and saving lives;

— non-political community development and cohesion;

— advancement of amateur sport;

— advancement of human rights, conflict resolution, promotion of religious or racial harmony, and/or equality and diversity

FOCUS AREAS

Some specific focus areas that have evolved since the inception of the Foundation are women's rights and educational support for children

FEATURED FOUNDATION PROJECTS:

CASA HOGAR EL REINO

— We provided continued support to this orphanage in Ensenada, Mexico
— We are starting a tutoring support program for children that are unable to read/write

OTHER PROJECTS

— We provided donations to food banks in all areas where we operate during 2022
— Funding for the Women's Earth Alliance accelerator programme
— Using the hardship fund to help employees facing unforeseen expenses

FOCUSED ON EXPANDING ITS IMPACT IN THESE KEY AREAS:

Expanding geographic impact

Our initial projects were in North America and Mexico, but we have been working with local operational teams to expand this to all operational sites.

We have identified one Australian charity that provides education-based services to vulnerable and disadvantaged people and will be providing sponsorship in 2023.

Women's Earth Alliance

The WEA's Accelerator programme develops and empowers women leaders to help establish critical environmental and climate initiatives, including upcycling plastic pollution, developing clean energy solutions, removing toxins from our environment, planting trees, growing sustainable food and providing education about women's health, and more.

Governance

INTRODUCTION

This section deals with Governance in relation to ESG and the main Corporate Governance section is located on pages 92 to 177.

We adhere to strict governance practices and our structure puts a priority on ethical behaviour, transparency, and accountability. The Board is committed to developing and monitoring progress against Dialight's ESG strategy and performance, with primary oversight in Board meetings where ESG is a standing agenda item. Our policies on Sustainability and Ethical business have been updated on the website to include a full suite covering environmental reporting, targets and alignment with UN SDGs.

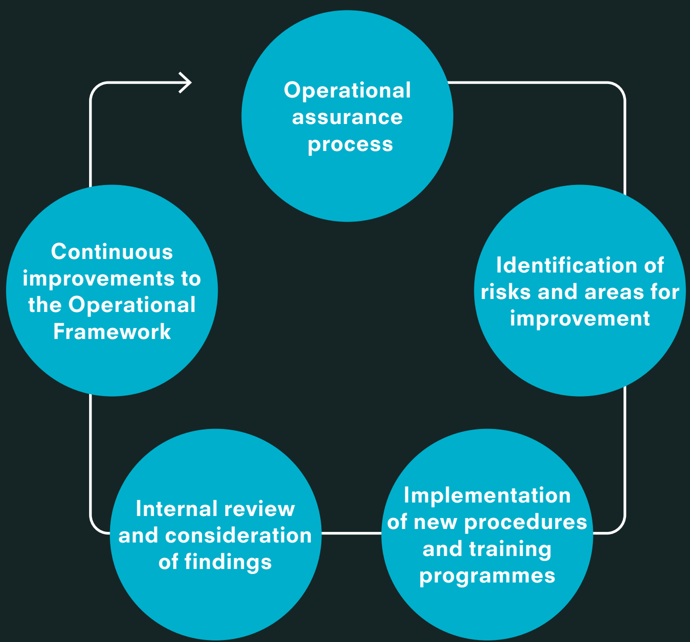
OUR APPROACH

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

OPERATIONAL FRAMEWORK

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

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



ETHICS AND BUSINESS CONDUCT

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

TERMS AND CONDITIONS

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

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

See our website for more policies

Top 30 supplier ESG survey

In 2022 we undertook a survey of our top 30 suppliers (c. 70% of supply chain value) to understand:

- If they had sustainability ratings
- Their sustainability processes and due diligence processes in more detail

We categorised the suppliers between manufacturers and distributors, and between publicly listed and private companies to better understand their answers. The survey showed that the top 30 vary from having an EcoVadis Platinum rating down to having no rating at all.

Publicly quoted companies scored better and we intend to engage with those at the lower end of the scale in order to set expectations of sustainability requirements and any improvements needed.

SUSTAINABILITY AT DIALIGHT CONTINUED

Governance continued

SUPPLY CHAIN

GAN INTEGRITY
Ongoing surveillance of suppliers and customers for negative ESG publicity

ASSENT
Materials compliance surveillance for Conflict Minerals, Human Trafficking, REACH/RoHS

HUMAN RIGHTS

The Group is committed to respecting human rights in the countries in which we do business. Our Code of Conduct and other applicable policies under the Operational Framework support our commitment to ensuring, as far as we are able, that there is no slavery or human trafficking in any part of our business or in our supply chain.

We see compliance with local legislation as a minimum requirement and generally strive to operate at a higher level.

ANTI-BRIBERY AND CORRUPTION

Dialight has a zero-tolerance policy in respect of bribery and corruption. This extends to all business dealings and transactions and includes a prohibition on offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings. Compliance with the policy is checked as part of the half-year and year-end process. All employees have been trained on antibribery and corruption policies.

At a corporate level, the Group

- does not make political donations
- does not make payments to lobbyists

INFORMATION SECURITY

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

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

GOVERNANCE STRUCTURE FOR ESG

BOARD OF DIRECTORS

AUDIT COMMITTEE

TCFD and risk updates

Strategic direction

Operational updates

GOVERNANCE BY ESG COMMITTEE

CEO	General counsel	CFO	VP of ESG
Operational execution of strategic direction	External compliance and risk management	Operational execution of strategic direction	External reporting

WHISTLEBLOWING

We have a whistleblowing policy and procedures in place which enable all employees to raise concerns, in confidence, about possible improprieties or wrongdoing within the business.

Third-party agency

We use a third-party agency who provide a 24-hour ethics reporting service, which can be accessed by telephone, email or by an external website. Whistleblowers can remain anonymous and all reported issues are investigated and reported to the Audit Committee.

Due to our workforce diversity, posters are displayed at operational sites in local languages and the third party uses multi-lingual staff.

TAX STRATEGY

As part of supporting local communities, we are committed to paying the taxes due by law in the countries where we operate and to comply with local legislation. This applies to direct and indirect taxes.

The Group manufactures finished goods in Mexico and Malaysia and some of these are sold to Group companies in other jurisdictions. For corporation tax, the key safeguards that we put in place related to the inter-company trading are:

- Transfer pricing is set in compliance with OECD principles
- Global transfer pricing policy is in place
- Based on the arm's-length principle

SUSTAINABILITY AT DIALIGHT CONTINUED

Governance continued

PRODUCT SAFETY

All lighting products must meet local safety standards before they can be sold. The standards vary by region and are as follows:

GEOGRAPHIC APPLICABILITY

THE MAJOR SAFETY STANDARDS ARE:

SAFETY STANDARD	NORTH AMERICA	SOUTH AMERICA	EUROPE	MIDDLE EAST	SOUTH EAST ASIA	AUSTRALIA/NEW ZEALAND
CB		✓	✓	✓	✓	✓
ENEC			✓			
RCM						✓
UL	✓			✓		
ATEX/IECEX		✓	✓	✓	✓	✓
ABS	✓					
DNV-GL			✓			
INMETRO		✓				

PRODUCT SAFETY LITERATURE

All our fixtures are shipped with installation and safety instructions, and these are also available on our website.

National Lighting Bureau (NLB) Trusted Warranty Programme

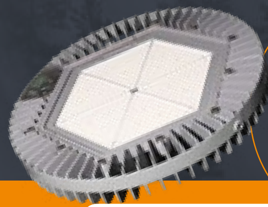
In 2021, Dialight's 10-year warranty was approved by the NLB in the US. This recognises lighting companies that meet objective quality standards and practices regarding their warranty and validates that they stand behind their warranty commitments.

TEN-YEAR WARRANTY

We provide a 10-year warranty on most Lighting products which guarantees the workmanship of the product, provided that it has been installed correctly and is used in an environment for which it was designed.

All fixtures come with installation instructions that advise that only suitably qualified personnel are used for installation. Due to the weight of the fixtures and the height at which they are mounted, we recommend the use of secondary retention lanyards in certain installations to prevent danger of injury.

Our Net Zero Ambition 2040



RECOMMENDATIONS FROM THE SBTI NET ZERO STANDARD

1. Reduce emissions by 50% within a 5 to 10-year period
2. Set longer-term targets that reduce emissions to zero by 2040

SBTI TARGETS
We will be submitting our SBTi net zero plans in Q2-23 for approval.

Our approach

Our plan has not yet been finalised but is likely to contain the elements set out below. On page 43 we show the relative size of our emissions sources.

Dialight's internal processes are not very resource intensive with the more energy-intensive processing of materials such as aluminium happening upstream. Our internal processes only account for c. 5% of emissions (excluding customer emissions). In turn, customer emissions need to be balanced with the significantly larger benefit from avoided emissions by customers switching to LED, see page 9.

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

- ● **Actions that we can take and directly control**
- ○ Dependencies on 3rd parties in order to achieve reductions

	SHORT TERM TO 2030	LONGER TERM 2031 TO 2040
UPSTREAM ACTIVITIES	● **Review of material choice and source** ● **Reduction in fixture size** ● **Localisation of supply chain** ○ Availability of decarbonised freight transport	● **Review of material choice and source** ● **Reduction in fixture size** ● **Localisation of supply chain** ○ Availability of decarbonised freight transport
INTERNAL OPERATIONS	● **Reduce energy usage** ● **Upgrade machinery** ● **Reduce business travel** ○ Availability of renewable energy at all sites ○ Availability of low-carbon business transport	● **Reduce energy usage** ● **Upgrade machinery** ● **Reduce business travel** ○ Availability of renewable energy at all sites ○ Availability of low-carbon business transport
DOWNSTREAM ACTIVITIES	● **Proximity of manufacturing sites to end markets** ○ Availability of decarbonised freight transport	● **Reassess location of manufacturing sites** ○ Availability of decarbonised freight transport
CUSTOMER EMISSIONS	● **Increased energy efficiency from design improvements and sale of more control systems** ○ Availability of renewable energy	● **Further energy efficiency and sale of more control systems** ○ Availability of renewable energy to all customers
AVOIDED EMISSIONS	● **Satisfying the lighting demands from increased LED adoption, see page 44** ○ Speed of adoption of LED by industrial market	● **Satisfying the lighting demands from increased LED adoption, see page 44** ○ Speed of adoption of LED by industrial market

TCFD Report

As a sustainability solution provider to our customers, our business is primarily focused on the opportunity that arises from the transition of the industrial market away from traditional lighting and towards LED as an alternative. Hence, the requirements of TCFD dovetail with our existing business framework.

We have complied with FCA listing rule 9.8.6R(8) and have considered relevant and material elements of the recommended TCFD disclosures. This report uses the four thematic areas and 11 recommended disclosures, and we continue to consider the "Guidance for All Sectors" set out in the October 2021 Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures. We expect to continue to finalise our net zero plan during 2023 (see page 61 for potential elements of the plan) and, in future Annual Reports, will enhance our reporting and further integrate climate disclosures.

Governance

The Board of Directors is responsible for the oversight of climate-related risks and opportunities as part of the strategy and risk management of the Group and we confirm that we comply with the requirements of Listing Rule 9.8.6R(8). The Board monitors and oversees the Group's GHG emissions (actual and avoided) and any targets related to them, see page 43 for further details. The Board is responsible for approving the content of the Group's TCFD disclosures.

The executive management level oversight of climate-related issues at Dialight is performed by the CEO, with the support of the ESG Committee/Executive Committee, which consists of VPs from all the major departments. The ESG Committee is in turn supported by other functions and project teams who have responsibility for implementing the underlying sustainability framework actions, including the day-to-day management of climate-related issues, and reporting any relevant data, progress or issues to the ESG Committee.

Strategy

The business strategy is growth and therefore this relates primarily to the ability to maximise the opportunity from climate change. Whilst we outline both risks and opportunities in the same detail, the Group believes that, because of our business model, strategy and exposure, our climate-related opportunities are more significant and the majority of the risks relate to the ability to cope with accelerated product demand.

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

- With the opportunity being significantly greater than the risks, the greatest assumption relates to the pace of the adoption curve for LED by industrial customers, see page 44.
- Impacts are assumed to occur without the company or governments responding with any mitigation actions, which would reduce the impact of risks. As seen with the supply chain shortages in 2022, we have been able to mitigate upstream component shortages which were not caused by climate-related issues but had the same impact.

Our analysis of the climate-change impact

1. Our fundamental business purpose is to be in a position to maximise the benefit from the climate-related opportunity.
2. Customers wanting to achieve net zero can quickly reduce their emissions by converting to LED
3. The pace of LED adoption is uncertain but is likely to accelerate as customers work to achieve their SBTi and other climate targets
4. The ability to meet the increased demand is our main risk

— The analysis considered each risk and scenario in isolation, when in practice they may occur in parallel as part of a wider set of potential global impacts.

These scenarios were supplemented with additional sources specific to each risk to inform any assumptions included in projections.

Risk management

Dialight considers climate-related risks and opportunities in all physical and transition risk categories, current and emerging, whether they occur within our own operations, upstream and downstream of the Group and whether they occur within the short (1 to 3 year), medium (3 to10 years) or long-term (10+ years) time horizons.

Risks and opportunities relevant to Dialight were identified and refined through consultation with the Risk Committee and senior management. The Risk Committee evaluates climate-related risks and opportunities on the Company's five-point risk management scale for likelihood (Remote to Likely) and impact (Minor to Critical).

A substantial financial risk is one that would have an underlying EBIT impact of more than 25% in any one year. A strategic risk is one that would have a similar impact per annum over at least three years and could severely impact the ongoing business.

The risks identified relating to TCFD are subsets of the Group risks (see pages 74 to 79) relating to:

— Environmental and Geological

— Geo-political/Macro-Economic

— Production Capacity and Supply Chain

Metrics and targets

With TCFD being synonymous with the underlying business, our metrics of operational performance on pages 32-35 relate to the opportunities. Our specific emissions reporting is on page 43 and our targets are on page 33.

TCFD REPORT CONTINUED

£2.0bn

The value of the market that Dialight can currently serve is £2.0bn per annum P26.

TRANSITIONAL OPPORTUNITIES

Market

The largest opportunity lies in the scale and speed of increases in market adoption of LED. There are some smaller efficiency and logistic opportunities that could also be realised in the process.

The opportunities outweigh the risks

Estimation of opportunity value

The value of the opportunity on a 20-year basis is heavily influenced by the adoption rate, P27. Whilst in some segments of the industrial market the LED adoption rate for new sales is as high as 65%, in the hazardous market penetration it is still as low as 20% and our products are tailored to this market.

There are opportunities to expand the current addressable market, P27, which could increase the target market.

TRANSITIONAL RISK

1 **Technological**
Product re-design to meet more stringent emission requirements

2 **Change of customer type**
Transition to zero-carbon economy resulting in change in customer base and requirements

3 **Supply chain**
Disruption in materials supply leading to shortages

4 **Operational capacity**
Capacity constraints to deal with large-scale demand increases

PHYSICAL RISK

5 **Changing weather patterns**
Disruption of upstream and downstream logistics

6 **Extreme weather event**
Impact of one-off risk occurring at a manufacturing site

7 **Drought**
Impact of water shortages, see p68

WEATHER PATTERNS

Changing weather patterns are likely to cause more instances of drought and flooding as existing climate patterns are reversed

TCFD REPORT CONTINUED

CLIMATE-RELATED OPPORTUNITIES

REGULATORY PRESSURE TO REDUCE EMISSIONS AND BAN OLDER LIGHTING TECHNOLOGIES	REDUCTION OF ALUMINIUM CONTENT/UNIT
TYPE: MARKETS **OPERATIONAL AREA:** DOWNSTREAM VERY HIGH	**TYPE:** RESOURCE EFFICIENCY **OPERATIONAL AREA:** OWN OPERATIONS MEDIUM
LINK TO STRATEGY	
The business strategy is growth from replacing older inefficient lighting technology with high-performance LED lighting so changes in the regulatory environment are consistent with the business strategy.	One of the growth enablers is to reduce the cost per fixture and therefore encourage conversion to LED. This is consistent with that aim.
DESCRIPTION	
There is increasing regulatory pressure at a national and international level to ban older lighting technology. These often use hazardous materials in their manufacture and generate up to 60% more carbon emissions than LED lighting. In addition, customers who have set their own Net Zero targets need to find carbon reduction initiatives and conversion to LED is one of the quickest ways to have a substantial impact on a company's carbon footprint.	The majority of lighting fixtures have an aluminium housing in order to ensure the longevity of the product. This represents c. 60% of the weight of the fixture and c. 5% of the emissions (using the GHG protocol). We have been using data gathered whilst preparing EPDs to assist with research into the use of alternate materials as part of our aim to produce the first Net Zero industrial lighting fixture. Replacement materials will be cheaper and have a lower carbon footprint which will enable us to reduce the materials cost, generate higher gross margin and reduce the overall product costs.
FINANCIAL IMPACT	
The value of the market that Dialight can currently serve is £2.0bn per annum (see page 26). Assuming a market share of 10% over a 20-year basis, the value is c. £4.0bn.	The cost of aluminium per fixture is c. £30 and it is likely that a replacement material could be c. 33% cheaper. The impact would depend on the volume of units sold but it could be in the region of c. £1.0m per 100,000 units.

TIME HORIZON
- SHORT TERM
- MEDIUM-LONG TERM
- MEDIUM TERM
- LONG-V. LONG TERM

LIKELIHOOD
- LESS LIKELY
- LIKELY
- VERY LIKELY

CHANGE IN YEAR
- INCREASED
- DECREASED
- NO CHANGE

MAGNITUDE OF IMPACT
- LOW

GREENER ALUMINIUM & TRANSPORT

TYPE: RESOURCE EFFICIENCY
OPERATIONAL AREA: UPSTREAM

MEDIUM-LOW

One of the growth enablers is to reduce the cost per fixture and therefore encourage conversion to LED. This is consistent with that aim.

Whilst we continue using aluminium, there may be opportunities to reduce the upstream carbon impact by sourcing it from smelters that use renewable energy. In addition, the use of recycled aluminium would be much cheaper as primary production is approximately 10 times more energy intensive than secondary production. Localisation of supply chain and the use of electric vehicles for upstream and downstream transportation would reduce costs and emissions (logistics are c. 2% of emissions using the GHG Protocol).

The cost of aluminium per fixture is c. £30 so it is likely that using recycled aluminium could be up to 50% cheaper. The impact would depend on availability and the volume of units sold but it could be in the region of c. £1.5m per 100,000 units.

SOLAR SELF-GENERATION

TYPE: ENERGY SOURCE
OPERATIONAL AREA: OWN OPERATIONS

LOW

One of the growth enablers is to reduce the cost per fixture and therefore encourage conversion to LED. This is consistent with that aim.

During 2022 we have been investigating the use of solar installations to reduce our reliance on local grid and reduce our emissions. Unfortunately, local legislation in Mexico does not permit installation of solar panels at our two facilities. We also investigated installing solar at our Roxboro, North Carolina site but the ROI does not currently support the investment needed, see page 40. A full solar installation would only generate 25% of the facility's current electricity requirements. We consider that investment in R&D to generate further lighting efficiency for customers and encourage conversion to LED will give a larger carbon reduction.

The benefit from solar at our facilities is low and we estimate it at only £0.2m per annum.

TCFD REPORT CONTINUED

CLIMATE RELATED RISKS

WILDFIRE/EXTREME WEATHER

TYPE: PHYSICAL
OPERATIONAL AREA: OWN OPERATIONS
PRINCIPAL AND EMERGING RISK: ENVIRONMENTAL AND GEOLOGICAL

VERY HIGH

CARBON PRICES

TYPE: TRANSITION (EMERGING REGULATION)
OPERATIONAL AREA: UPSTREAM/OWN OPERATIONS
PRINCIPAL AND EMERGING RISK: GEOPOLITICAL/MACRO-ECONOMIC

MEDIUM

DESCRIPTION

The wildfire risk near our Tijuana and Ensenada factories in Mexico is classified as high, meaning that there is a greater than 50% chance of encountering weather that could support a significant wildfire, leading to loss of life, damage to property and impact on local services and employees. Studies indicate climate change will increase the prevalence of wildfires, their intensity and the length of the wildfire season. For instance, climate change projections using Representative Concentration Pathway 8.5 suggest an increase in days conducive to extreme wildfire events of between 20% and 50%, but it should be noted that in all three scenarios studied, global temperatures rise until 2050.

Carbon pricing (applied directly or indirectly) is expected to expand in scope and the price of carbon is expected to rise.

The International Energy Agency forecasts that carbon prices ($/tCO$_2$e) relevant to Dialight under SDS and STEPS are projected to increase as below:

CARBON PRICE ESTIMATES (US$/T)

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

MITIGATION

The opportunities for mitigating actions are low and any internal fire prevention process is unlikely to assist with an external fire. In addition, being in a water stress area makes access to water-based mitigation systems more difficult.

The cost implications to Dialight of the introduction of carbon pricing on Scope 3 emissions would depend upon where responsibility for the cost lies, and we have assumed in our modelling that this cost can be passed on to the end customer.

FINANCIAL IMPACT

The financial impact to Dialight (estimated at a maximum of £80m for complete loss of production over 12 months) would be dependent on the scale of any damage, the timescale of any fire-related disruption and the offset by any insurance monies recouped under the business interruption policy.

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

TIME HORIZON
SHORT TERM
MEDIUM-LONG TERM
MEDIUM TERM
LONG-V LONG TERM

LIKELIHOOD
LESS LIKELY
LIKELY
VERY LIKELY

CHANGE IN YEAR
INCREASED
DECREASED
NO CHANGE

MAGNITUDE OF IMPACT
LOW

SUPPLY CHAIN DISRUPTION

TYPE: PHYSICAL
OPERATIONAL AREA: UPSTREAM
PRINCIPAL AND EMERGING RISK:
PRODUCTION CAPACITY AND SUPPLY CHAIN

MEDIUM-LOW

Issues such as COVID-19 and Brexit have exposed general supply chain risks over the last two years. Whilst these are derived from non-climate related drivers, similar impacts could occur if the supply chain is subject to physical risks resulting from climate change. This would result in an inability to source inputs or higher cost to Dialight. Climate impacts are largest in the STEPS and RCP 8.5 scenarios, where there are higher chances of high magnitude extreme heat events, ecological droughts, extreme rainfall, wildfires and flooding.

Dialight is reviewing its supply chain resilience, including critical component supplier locations, potential for localisation of supply and the impact on these from any changes in the major product materials used in the next generation of products, see page 19.

The costs are difficult to quantify but the supply chain disruptions in 2022 provide an estimate of what they might be, albeit caused by a different issue. As discussed on page 80, the impact of component availability as well as logistics and freight disruption accounted for the majority of the £6.0m gross margin impact in 2022.

RISK MANAGEMENT

Strategic risk approach and risk culture

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

Risk management principles

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

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

A rapidly changing world

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

Risk governance and controls

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

Risk summary

1. FUNCTIONAL AND FRONT LINE CONTROLS
2. ASSURANCE ACTIVITIES
3. MONITORING AND OVERSIGHT CONTROLS
4. ETHICAL AND CULTURAL ENVIRONMENT

Further details on the governance structure in the Group are provided on pages 110 to 111. This governance structure provides the framework for the Group's approach to, and management of, risk, and provides the structure for changes in current and emerging risks to be highlighted and addressed.

Risk management framework

Our complementary approach is based on utilising a top-down plus a bottom-up process:

TOP DOWN

- Group risk policy and strategy
- Group risk appetite
- Principal risk oversight
- Group compliance oversight

BOTTOM UP

- Business risk appetite policy
- Assessment and mitigation of specific risks
- Upward reporting of key residual risks

Group risk control & visibility cascade

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

- The key component in any risk management system is people. Dialight invests heavily in its people, recruiting capable and adaptable individuals and focusing on the retention of our skilled workforce. It is our employees that maintain our high standards of risk control and create a culture in which risk can be managed to the advantage of the Group.
- Functional reviews (eg finance, operational, legal and compliance reviews) are hard-coded into our approvals systems. All cash payments from the Group are reviewed and approved at a supplier level by the CFO. Cash forecasting has been enhanced to be at a more granular level and rolling 13-week forecasts are updated regularly. Manufacturing operations, including relevant supply chain, inventory and production metrics are reviewed daily. Sales and orders reports are reviewed daily in order to assess any changing risk profile on sales activity by geographic location. The Board approves the annual budget, strategic plan and in-year forecasts and tracks their achievement.
- A comprehensive financial reporting package is received from all operating units on a monthly basis, with comparisons against budget, forecast and prior-year performance. Each operating unit is required to submit a quarterly self-certification on compliance and controls.

  Each month the CEO and CFO report to the Board. The CEO report outlines the Group's operations and provides analysis of significant risks and opportunities. The paper covers progress against strategic objectives and shareholder-related issues. The CFO report sets out progress against internal targets and external expectations – including routine reporting on liquidity risk and covenant compliance.
- The CEO and CFO report to the Audit Committee periodically on all aspects of internal control. This includes the results of internal audit activity by Group Finance or external providers. The Board receives regular reports from the Audit Committee, and the papers and minutes of the Audit Committee are used as a basis for the Board's annual review of internal controls.
- The Board reports annually to shareholders on its risk management framework, providing shareholders with an opportunity to challenge Group Strategy, including in respect of the Group's risk mitigation

RISK MANAGEMENT CONTINUED

Principal and emerging risks and uncertainties

The Board has conducted a robust assessment of the Company's principal and emerging risks. The risks outlined in this section are the principal risks that we have identified as material to the Group. They represent a 'point-in-time' assessment, as the environment in which the Group operates is constantly changing and new risks may always arise.

Risks are considered in terms of probability and impact and are based on residual risk rating of: high, medium and low. Mapping risks in this way helps not only to prioritise the risks and required actions but also to direct the required resource to maintain the effectiveness of controls already in place and mitigate further where required.

The risks outlined in this section are not set out in any order of priority, and do not include all risks associated with the Group's activities.

Additional risks not presently known to management, or currently deemed less material, may also have an adverse effect on the business.

READ MORE P74

RESIDUAL RISK HEAT MAP

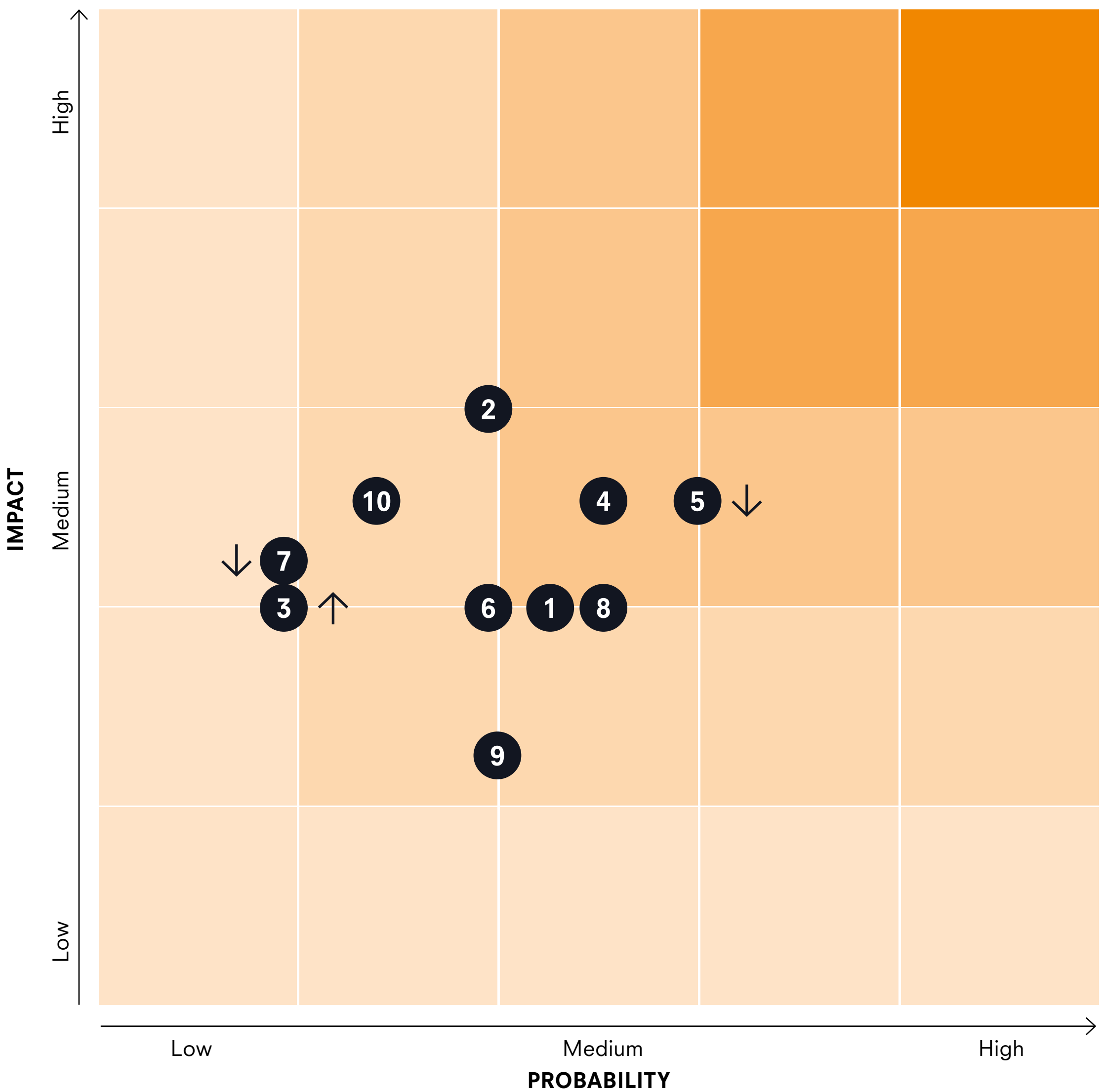
The arrows indicate where a risk has changed from the previous year.

RESIDUAL RISK

1. ORGANIC GROWTH
2. ENVIRONMENTAL AND GEOLOGICAL
3. FUNDING
4. PRODUCTION CAPACITY AND SUPPLY CHAIN
5. CYBER AND DATA SYSTEMS
6. PRODUCT DEVELOPMENT STRATEGY
7. PRODUCT RISK
8. TALENT AND DIVERSITY
9. INTELLECTUAL PROPERTY
10. GEOPOLITICAL/MACRO-ECONOMIC IMPACTS

RISK KEY

- Catastrophic
- Significant
- Moderate
- Low
- Negligible


IMPACT
High
Medium
Low
2
10
4
5
7
3
6
1
8
9
Low
Medium
High
PROBABILITY

PRINCIPAL AND EMERGING RISKS AND UNCERTAINTIES

GROSS RISK	IMPACT ON STRATEGY	DESCRIPTION
1 ORGANIC GROWTH MEDIUM	— Revenue — Underlying operating profit	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 in certain verticals and/or geographical markets.
2 ENVIRONMENTAL AND GEOLOGICAL MEDIUM	— Revenue — Underlying operating profit	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, economic and/or political events may impact the Group's ability to operate and the demand for its products.
3 FUNDING MEDIUM	— Revenue — Underlying operating profit	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, cost base and borrowings are in US Dollars. Fluctuations in exchange rates between Sterling and the US Dollar could cause profit and balance sheet volatility.

LINK TO STRATEGY

INVEST IN OUR CORE MARKETS
EXPAND OUR MARKET REACH
CONTINUED INNOVATION

IMPACT ON VIABILITY, REPUTATION AND HEALTH AND SAFETY	MITIGATION	TIME HORIZON SHORT <2 YRS	MEDIUM <2-5 YRS	LONG >5 YRS
— Loss of reputation — Loss of market value	In 2022 the Group achieved significant revenue growth for the second year in a row,with improved on-time delivery although margin was impacted by commodity pricing/availability and freight costs. Continued improvement in our in-house manufacturing operations has increased our capacity to support further growth. Our diverse product mix mitigates risk in any particular sector and focus on continued and improved product management and new product development mitigates future risk.			
— Reduced financial performance — Loss of market share — Unforeseen liabilities	The Group maintains appropriate structural risk mitigations including comprehensive insurance and contingency planning. With its in-house manufacturing capacity leveraged across several, geographically dispersed, sites and through the maintenance of finished goods inventory the Group is able to reduce risk relating to meeting customer demands.			
— Covenant compliance — Volatile financial performance arising from translation of profit from overseas operations — Most of the Group's profit earned is not in the reporting currency	The Group has significant headroom against its remaining banking covenants and has sufficient borrowing capacity following the bank facility renewal in July 2022. The financial sensitivities run for the Viability Statement show that the Group expects to remain compliant with its financial covenants. Capital allocation policy is used to determine re-investment or distribution of cash. The Group uses natural hedging to cover operational exposure as the majority of revenue and costs are in US Dollars. Additionally the RCF was redenominated from £25m to USD 34m in November 2022.			

PRINCIPAL AND EMERGING RISKS AND UNCERTAINTIES CONTINUED

GROSS RISK	IMPACT ON STRATEGY	DESCRIPTION
4 PRODUCTION CAPACITY AND SUPPLY CHAIN HIGH	— Revenue — Underlying operating profit — On-time delivery — Order growth	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.
5 CYBER AND DATA SYSTEMS MEDIUM	— Revenue — Underlying operating profit — On-time delivery — Order growth	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, increasing automation and increased homeworking following COVID-19 there is greater risk of impact on IT infrastructure/ communications between employees.
6 PRODUCT DEVELOPMENT STRATEGY MEDIUM	— Revenue — Underlying operating profit — Order growth	Inability to translate market requirements into profitable products. Failure to deliver technologically advanced products and to react to disruptive technologies.

LINK TO STRATEGY

INVEST IN OUR CORE MARKETS

EXPAND OUR MARKET REACH

CONTINUED INNOVATION

IMPACT ON VIABILITY, REPUTATION AND HEALTH AND SAFETY	MITIGATION	TIME HORIZON: SHORT <2 YRS	MEDIUM <2-5 YRS	LONG >5 YRS
— Inability to fulfil demand — Loss of market share — Higher costs to expedite materials — Loss of revenue and operating profit	The past year has shown the Group's ability to maintain component and finished goods availability in challenging market conditions. We are working to reduce sole supplier dependency, increase the near-sourcing of components, have increased capacity through capital expenditure and moving some APAC production closer to its end markets. We continue to focus on product and manufacturing process re-engineering, and streamlining production processes.	●	●	
— Inability to supply customers — Loss of revenue and significant business disruption — Loss of commercially sensitive information	The Group continually reviews its IT systems to ensure that they are robust and scalable in line with the expansion of the business. During 2022, EY completed a full cyber security review and its recommendations will be progressed in 2023 and beyond. During 2022, the Group moved the majority of its systems to cloud hosting to simplify backups and improve disaster recovery. Third-party systems must have robust security to host certain applications. Home workers connect via secure VPN functionality using multi-factor authentication.	●	●	
— Loss of revenue — Loss of market share — Lack of order growth	Our product development cycle includes input from customers and distributors as well as our highly-experienced multi-disciplinary in-house engineering team. We look to leverage our technological innovations across multiple product lines, based on customer requirements. The successful roll-out of new products in 2021/22 has demonstrated our ability to successfully enhance existing products, address structural changes in the market and fill portfolio gaps.	●	●	●

PRINCIPAL AND EMERGING RISKS AND UNCERTAINTIES CONTINUED

GROSS RISK	IMPACT ON STRATEGY	DESCRIPTION
7 PRODUCT RISK LOW	— Revenue — Underlying operating profit	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.
8 TALENT AND DIVERSITY MEDIUM	— Revenue — Retention	Group performance is dependent on attracting and retaining high-quality staff across all functions.
9 INTELLECTUAL PROPERTY MEDIUM	— Revenue — Underlying operating profit	Theft or violation of intellectual property ("IPR") by third parties or third parties taking legal action for IPR infringement.
10 GEO-POLITICAL/ MACRO-ECONOMIC IMPACTS HIGH	— Revenue — Underlying operating profit	The Group faces a range of external geopolitical, socio-political and macro-economic risks which, after a period of relative calm in global markets, have recently emerged as significant potential disruptors.

LINK TO STRATEGY

INVEST IN OUR CORE MARKETS | EXPAND OUR MARKET REACH | CONTINUED INNOVATION

IMPACT ON VIABILITY, REPUTATION AND HEALTH AND SAFETY	MITIGATION	TIME HORIZON SHORT <2 YRS	MEDIUM <2-5 YRS	LONG >5 YRS
— Unforeseen liabilities — Covenant compliance	We maintain a reserve against potential claims; product quality is a key focus in the design stage and during the manufacturing process. The Group manages post-sale risk exposure through the distribution of product specification, safety installation and maintenance information and through appropriate insurance protections.			
— Without good-calibre staff,the Group will find it difficult to expand and achieve its strategic goals	A comprehensive recruitment and ongoing evaluation process assists in high-quality hiring and employee development. Our ESG focus assists in the recruitment and retention of good calibre staff. Considerable time is spent assessing middle and senior management in order to identify succession plans.			
— Proprietary technology used by competitors leading to loss of market share and revenue — Unforeseen liabilities	Core Group IPR is protected by patents (where applicable) and potential violations will be pursued through legal action. By ensuring internal technical IPR expertise and the use of third-party patent specialists in the production development process, the risk of infringing third-party IPR is minimised.			
— Reduced financial performance — Lack of growth	The Group operates in end markets focused primarily in Australia, Canada, the EU, USA and UK but sources a significant amount of key components from China. The Group provides products to a wide-range of sectors within these markets, many of which are, or supply, essential services. Diversification of supply chain has reduced, to an extent, risk relating to eastern Asia and the South China Sea area – and the Group has no in-house manufacturing operations in this area.			

CHIEF FINANCIAL OFFICER'S REVIEW

Financial Review

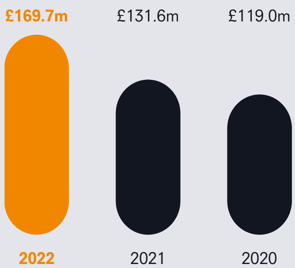
HIGHLIGHTS

DESCRIPTION

Revenue up

29%

Revenue up

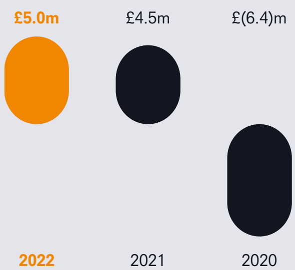


DESCRIPTION

Underlying EBIT up*

11%

Underlying EBIT up*



"Continued strong revenue and underlying EBIT growth"

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

Clive Jennings
Chief Financial Officer

2022 saw strong revenue growth of 29% (17% in constant currency) driven by strong customer demand across both business segments and a robust order book at the start of the year.

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

Underlying EBIT bridge	CCY 2022 £m	Actual 2022 £m
Underlying EBIT 2021	**4.7**	**4.5**
Revenue increase impact	9.0	13.6
Change in gross margin	(6.0)	(6.0)
Change in SG&A costs	(2.7)	(7.1)
Underlying EBIT 2022	**5.0**	**5.0**

This growth was delivered against the backdrop of a challenging supply chain with component shortages and significant cost increases, particularly in H2, that were only partially mitigated by price increases. Availability and supplier reliability impacted production and lead times to customers, but the situation is improving. The result was a decline in the gross profit margin by 350bps to 32.2%, despite strong cost control on all non-revenue linked activity.

The Group delivered a reported profit from operating activities of £2.3m, an improvement of 10% (£0.2m) over the 2021 profit of £2.1m. After increased debt financing costs, the profit for the year was £0.4m, an increase of 33% (£0.1m) over 2021. On an underlying basis the Group delivered EBIT of £5.0m (see note 3 for items regarded as non-underlying), up 11% on 2021.

Strong revenue growth in both segments delivered a £9.0m increase in gross profit. However, 2022 saw significant increases in key raw material costs (particularly in H2), increased freight costs and increased Mexican employment costs linked to minimum wage rate rises. These were only partially offset in the period by price increases, cost reduction programmes in key Lighting products and operational leverage due to increased production volumes and resulted in a lower gross profit margin of 32.2% compared to 35.7% in 2021. Selling, General and Administrative costs increased to support the near and longer-term growth in revenue and include exchange losses on US dollar borrowings. As a percentage of revenue, costs at 29.2% were lower than last year.

Lighting revenue grew by 34% (23% at constant currency), with our core US market seeing increased levels of project and MRO business, although December did not see the traditional end of year uplift in sales and orders. Our closing order book was lower than anticipated but we are starting to see this build again. EMEA and Asia grew revenue with customer demand increasing as COVID-19 restrictions eased and delayed projects re-commenced, but Australia revenue was lower following a strong performance in 2021, with restrictions impacting customer site access for a large part of the year and larger projects being delayed. These restrictions have been lifted and performance is expected to improve in 2023.

Signals & Components performed well with revenue up 18%, (7% at constant currency) driven by strong demand for opto-electronic (OE) product. The cyclical OE market has been strong for two years and is now going into an expected downturn.

Operations had another challenging year. While disruption from COVID-19 and government restrictions reduced, world-wide shortages of key components continued to severely impact our supply chain along with significant increases in shipping times and availability. To mitigate the impact, the Group increased stocks of raw material in H1 but in H2 actions were taken to reduce holdings, leading to raw material inventory levels being broadly flat year-on-year at December (down 9% ccy). The provision for excess or obsolete raw material inventory increased in 2022 by £2.0m, partly due to the decision to move to an aged-based method of calculation.

Net debt increased by £5.2m to £20.9m with a higher level of finished goods inventory and adverse movements in the USD exchange rate. At December, the Group had access to £7.5m in undrawn facilities and £1.7m in cash.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Currency impact

Our major trading currency is the US Dollar (87% 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 strengthened to 1.24 from 1.38, a favourable impact of 10% with the year-end spot rate with the US Dollar rising by 11% to GBP: USD 1.21.

In constant currency, Group revenue grew by 17% with gross profit up 6% (versus 29% and 16% at actual rates). Underlying EBIT grew by £0.5m at actual currency rates and £0.3m at constant rates.

Lighting

	2022 £m	2021 £m	Variance %	2021 at constant currency £m	Constant currency variance %
Revenue	**121.0**	90.5	+34%	98.8	+23%
Gross profit	**40.6**	33.7	+20%	36.9	+10%
Gross profit %	**33.6%**	37.2%	-360bps	37.3%	-370bps
Overheads	**(33.7)**	(28.4)	(19%)	(31.2)	(8%)
Underlying EBIT	**6.9**	5.3	+30%	5.7	+21%

The Lighting segment saw continued strong growth in 2022, with revenue up 34%. Lighting represents 71% of the Group's revenue (2021: 69%), and consists of two main revenue streams, large retrofit projects and on-going MRO spend.

US revenues saw strong growth of 37% with the region benefitting from a high opening backlog of orders supported by price increases implemented in H1. We continued to gain market share in the MRO market, saw an increase in the number of sales to retrofit projects and started to see orders generated from the strategic sales team. However, revenue was significantly below our expectations in December, reflecting seasonal demand being below historic levels as well as several strategic customers deferring anticipated orders. Margins reduced in the year due to the challenges of increased material and freight costs, negated in part by operational efficiencies resulting from the capital investment.

EMEA revenue grew by 36% as COVID-19 restrictions lifted, with orders up 53% driven by new product launches. 2023 will see the benefit from price increases implemented in Q4 that will help offset the impacts from economic headwinds.

Following two years of strong growth, Australia suffered from lockdowns and close contact rules that reduced the ability of contractors and our sales teams to get on site, which reduced both sales (4%) and order intake (5%). With the relaxation of restrictions, we are seeing improved enquiry and MRO rates. Revenue growth rates are expected to increase in 2023, with improved product availability following transfer of more production to Penang and the benefit from recent price rises.

Asia, our smallest region, saw revenue grow by 133% to £3.4m as restrictions lifted with strong order growth at 60%. Activity levels remain excellent, with several larger projects under discussion and a strong backlog going into 2023.

Gross margins came under pressure from significant component price increases and a lack of availability, especially for aluminium, microchips, electrical components, and high freight costs. This particularly impacted H2 and was partially offset by the benefits from better fixed overhead absorption (higher production volumes) and cost saving programmes on key products. Sale prices for new orders were raised on two occasions but there is a lag before their benefits are realised in revenue and the overall impact saw margin falling to 33.6%, a reduction of 360bps on 2021.

Operating costs were £5.3m higher than 2021 with higher sales and marketing (including commissions) to support the strong revenue growth as well as engineering costs to support sourcing and testing of alternative critical components. As a percentage of sales, overheads fell from 31% of revenue to 28% in 2022.

This resulted in an underlying operating profit of £6.9m, compared to a profit of £5.3m in 2021.

Signals & Components

	2022 £m	2021 £m	Variance %	2021 at constant currency £m	Constant currency variance %
Revenue	**48.7**	41.1	+18%	45.7	+7%
Gross profit	**14.0**	13.3	+5%	14.8	(5)%
Gross profit %	**28.7%**	32.4%	-370bps	32.4%	-370bps
Overheads	**(8.3)**	(7.8)	(6%)	(8.4)	+1%
Underlying EBIT	**5.7**	5.5	+4%	6.4	(11)%

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.

The segment performed strongly during 2022 with revenue up 18% (7% at constant currency), helped by the strong order book carried from 2021. Continued high customer demand drove OE revenue up 21%, with increased sales of new products and expansion of our distributor footprint. OE is a cyclical business and the past two years have seen strong volume growth driven by customer concerns over supply chain instability. H2 saw the expected downturn in orders and revenue, which is expected to continue into 2023 as customers work through their raised inventory levels.

Traffic improved by 9% with higher orders placed ahead of price increases and changes to our shipping costs policy. Vehicle grew by 22%, despite the impact from curtailed bus production due to supply chain shortages.

Gross margin fell by 370bps driven by increased input prices for raw material and components, particularly in H2. Pricing has been raised for new orders, but the high level of committed customer orders and contracts resulted in only limited benefit in H2. Overheads increased by £0.5m to £8.3m due to foreign exchange movements but fell as a percentage of revenue.

The benefit from improved revenue was largely offset by the lower gross margin and resulted in an underlying operating profit of £5.7m compared to £5.5 in 2021.

Central overheads

Central overheads comprise costs that are not directly attributable to a segment and are shown separately. In the year, these totaled £7.6m, an increase of £1.3m (£0.2m at constant currency) due to a combination of foreign exchange movements, underlying inflation, annual pay awards and increased travel following the lifting of COVID-19 restrictions.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Non-underlying costs

	2022 £m	2021 £m
Sanmina costs	**1.0**	2.9
Development cost impairment	**1.3**	–
Release of warranty provision post sale	**–**	(0.3)
Other litigation costs	**0.4**	(0.2)
Total	**2.7**	2.4
Cash impact	**1.4**	2.4

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

Costs of £1.0m were incurred in the year in relation to the ongoing litigation with Sanmina Corporation, following the termination in September 2018 of the manufacturing services agreement (MSA). Following unsuccessful mediation at the beginning of the year, Sanmina lodged a motion for summary judgement to dismiss the majority of Dialight's claim. The detailed evidence from both parties was examined by Federal judge and the Court's ruling on Sanmina's dismissal motion was released to the parties under seal on Tuesday 14 March 2023. The court denied Sanmina's motion to dismiss Dialight's fraudulent inducement claim and denied its motion for summary judgment on Sanmina's accounts receivable claim. The court granted Sanmina's motion as to the dismissal of Dialight's willful misconduct claim. The judge ruled that the strength of the evidence on the fraudulent inducement claim, together with various claims and counterclaims relating to accounts receivable and accounts payable, is sufficient that the dispute should be resolved by jury trial, pending any appeal process.

This ruling confirms that Dialight can challenge the contractual liability cap in the MSA on the basis of Sanmina's fraudulent inducement and Dialight intends to rigorously pursue this claim, and the various other contract-based claims, to trial. During the year, the Group has also incurred £0.4m in legal costs relating to a disagreement initiated by Dialight over royalty payments covering a number of years. Further costs will be incurred during 2023.

At the beginning of 2021, the Group paused development of a new range of Obstruction products within the Lighting segment. This was a temporary measure while technical and engineering resources supported the supply chain team in identifying and sourcing alternative components, following world-wide shortages linked to COVID-19. Over the past year management has explored options to complete the development, with the most likely outcome now unlikely to involve use of the Dialight developed technology. Accordingly, the development costs of £1.3m have been impaired.

In the prior year, we incurred £2.4m in legal costs and £0.5m in provisions for slow moving inventory in relation to Sanmina; £0.3m was released following the expiry of the warranty period on a disposed subsidiary and a provision of £0.2m for employment claims was released.

Inventory

Inventory levels grew £11.2m over 2021 (£6.7m at constant currency), driven by increased holdings of sub-assemblies and finished goods.

	2022 £m	2021 £m
Raw materials	**22.7**	22.2
Sub-assemblies	**11.9**	8.7
Finished goods	**18.8**	11.2
Spare parts	**0.2**	0.3
Total	**53.6**	42.4

Dialight, in common with many companies, has continued to be impacted by the well-publicised global commodity shortages as well as increased shipping times for inbound raw materials and outbound finished goods. Supplier lead times and the level of de-commits have been higher than normal in 2022 and, especially for semi-conductors, lack of availability forced us to temporarily purchase via expensive brokers. This continuing uncertainty led to the decision to maintain the level of raw material holdings in order to safeguard production and fulfil customer orders.

Inflation and foreign exchange have also increased the value of inventory held, with significant raw material price rises across many key components and movements in exchange rates since December 2021 increasing inventory by c. £4.5m.

Finished goods and sub-assembly levels increased following lower-than-expected customer demand in December. Inventory of high-running lines is normally built up in anticipation of a strong order take for immediate delivery, but this seasonal demand did not occur to the expected level and the inventory is now expected to be sold during early 2023.

We continue to keep inventory levels and future commitments under close review but will continue to maintain above average raw material and WIP stocks until lead times on both availability and shipping times for raw materials return to more normal levels, which is expected over the course of 2023. This is targeted to deliver a reduction of at least £5m, with further reductions delivered in later years through increased product and sub-assembly standardisation.

Capital expenditure

During 2022, the Group invested £7.3m in capital expenditure (2021: £5.6m).

New product development expenditure of £3.6m included the new Prosite High Mast/High Output Floodlight, next generation Highbay, new battery back-up systems and next generation GaN power supply.

Capital expenditure of £3.4m was focused on increasing automation of sub-assemblies in our Mexico factories, tooling for new or existing products, investment in capacity through production transfer to Malaysia, essential health and safety works in Mexico and completing the replacement of the Roxboro factory roof.

In 2023 the Group is planning to increase the level of investment to circa £10m, with 40% on new product development and 60% on capital expenditure. Product development will focus on new technologies, cost reduction for existing products and next generation Highbay/linear. Capital expenditure will focus on automation to reduce labour, increasing factory capacity to support revenue growth, replacing end of life equipment and digitise the business. This increased spend will help facilitate our multi-year growth.

Purchase of minority interest

In May, the Group acquired a further 12.5% of Dialight ILS Australia Pty Ltd for £1m (satisfied by issuing 266,958 new ordinary shares of 1.89 pence) and a cash payment of £100,000. This increased our shareholding to 87.5%, with the balance owned by a current senior employee.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Cash and borrowings

The Group ended the year with net debt of £20.9m, an increase £5.2m from December 2021 and £0.7m since June 2022. Net debt excludes lease liabilities related to the adoption of IFRS 16 Leases, which is consistent with the basis of covenant testing.

The roll forward of net debt was as follows:

Net debt	£m	£m
Opening balance 1 January 2022		**(15.7)**
Inflows		
Underlying EBITDA	12.3	
Net working capital excluding inventory	0.2	12.5
Outflows		
Increase in inventory	(6.7)	
Investment in new products	(3.6)	
Maintenance capex/other	(3.7)	
Non underlying costs	(1.4)	
Provisions and other movements	(0.1)	
Interest and tax paid	(2.6)	(18.1)
Foreign exchange		0.4
Closing balance at 31 December 2022		**(20.9)**

The main factors behind the increase in net debt were:

- Increase in raw material inventory during H1 to mitigate the impact of world-wide commodity shortages and increased shipping times plus increased finished goods inventory following lower-than-expected December sales
- Improved credit terms with key suppliers
- Continued capital investment into new product development, increasing factory capacity and maintenance (see earlier capital expenditure section)
- Non-underlying costs (see earlier section)
- Higher interest and tax payments

There is a focus on reducing borrowings in the coming year, partly driven by the reduction in inventory discussed above.

The interest expense is analysed in note 8 and taxes paid in note 9. Interest expense will be higher in 2023 following the renegotiation of bank facilities and higher level of borrowing.

Banking

The Group has its banking relationships with HSBC Bank plc. The Group's multicurrency revolving credit facility with HSBC of £25m was re-negotiated and signed in July 2022 and will now run until at least July 2025. The three-year facility has two one-year extension options exercisable between 60 days before and 30 days from the first and second anniversary of the effective date, giving a maximum duration of five years. In November 2022, the facility was re-denominated to USD 34m as the majority of the Group's income and expenditures are denominated in USD. 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 £2m payable in 2023 and the facilities will be fully repaid by June 2023 at the latest. At 31 December the Group had £30m (2021: £31m) in facilities of which £22.6m was drawn and £1.7m of cash on hand.

Covenants

The Group's quarterly banking covenants have reverted to a maximum leverage and minimum interest cover level for all facilities, with the CLBILS facility having an additional test based on the ratio of adjusted cashflow to debt service. The Group was fully compliant with all leverage and interest covenants on its RCF facilities at 31 December 2022 and throughout 2022. The additional covenant test on the CLBILS facility was complied with through June 2022 and has been waived for all periods thereafter, until the end of the facility in June 2023. The trailing 12-month leverage multiple is 1.7x EBITDA and is expected to reduce towards 1x by the end of 2023, with interest cover at over 9x.

Tax

Based on a profit before tax of £0.5m in the year, the Group had an effective tax rate of 20% (2021 57.1%) resulting in a tax charge of £0.1m. This was broadly in line with our normalised rate, with prior year and R&D credits offsetting UK trading losses for which we are not recognising a deferred tax asset.

In the year we made a net cash tax payment of £0.8m, with £2.5m in corporation tax on operations in the USA, Australia and Malaysia offset by a £1.7m carry back refund in the US.

Pension costs

The Group has two defined benefit schemes that are closed to new entrants. The aggregate surplus on both schemes is £4.5m, an increase of £0.6m from 31 December 2021. 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 2022 was £0.4m (2021: £0.4m) as agreed with the trustees following the 2019 valuation. The latest valuations were completed as at April 2022, and future cash contributions have been agreed at the current levels.

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 2022 this equated to £68.7m (2021: £60.2m).

Management's focus in 2022 has been on profitably growing revenue and maintaining availability of component supplies during a period of continuing world-wide commodity shortages and increased pricing, 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. The Board is not proposing a final dividend payment for 2022 (2021: nil). The Group has a clear capital allocation discipline and is committed to returning excess funds to shareholders via future dividend or share repurchases.

GOING CONCERN STATEMENT

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

Going concern

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

In assessing the going concern assumptions, the Directors have prepared downside scenarios that reflect the risk of lower-than-expected revenue growth in our core Lighting markets, higher revenue decline in the opto-electronic market, lower gross margins due to input cost inflation, the associated forecast outturns alongside identified downside risks and mitigating actions. The Group has modelled four main scenarios in its assessment of going concern, being the base case, a lower revenue scenario, a lower margin scenario and a combined downside taking elements of lower revenue and lower margin.

Base case

The base case is derived from the Board approved 2023 budget, which assumes that demand for our new and existing products remains strong, component availability and pricing normalises, and our factories operate as normal. In this scenario, the Directors consider that the Group will continue to operate within its available committed facilities of $34m (£30m) with sufficient headroom and meet its ongoing financial covenant obligations.

The key assumptions in the base case include:

- continued revenue growth in Lighting due to our focus on markets with growing demand and where growth is driven by structural, safety and sustainability factors but at a lower level than seen in 2022;
- a short-term cyclical downturn in the opto-electronic segment;
- gross margins normalise to pre-COVID levels as component price premiums reduce and supply becomes more readily available, freight costs normalise, and the benefits from cost reduction and automation programmes are delivered; and
- operating costs flexed in line with the incremental revenue and increasing operational leverage.

Downside cases

Lower revenue:

In a severe revenue downside scenario, the Directors have assumed:

- no growth in Lighting revenue in 2023 followed by growth in 2024 at less than 50% of that achieved in 2022;
- no growth in Signals and Components revenue versus 2022; and
- no change in segmental gross margins.

Lower margin:

In the margin downside scenario, the Directors have assumed:

- segmental revenues in line with the base case;
- gross margin reduction in 2023 of 1% caused by continued input cost pressures that are not fully mitigated by in-year price increases; and
- gross margin improvement in 2024 to achieve a similar margin to 2021.

Combined downside change:

In the combined downside case, the Directors have assumed:

- flat volume compared with 2022 but with the price increases negotiated in November 2022 applying throughout 2023 and into early 2024;
- gross margin reduction of 2% throughout 2023 and into early 2024.

In all these scenarios, the Group has a series of controllable mitigating actions that can be taken swiftly (a number of which have already been enacted), including various temporary and permanent cost and cash saving measures.

The base case and downside cases have been further modelled to show headroom for any material one-off costs.

Both the base case and downside cases have been further modelled on the assumption that the litigation by the former outsource manufacturing partner is settled at the maximum liability of their claim and the Dialight claim for damages in excess of $220m is unsuccessful. Dialight continues to strongly rebut the Sanmina claim and, following the US Federal judge ruling on 14 March 2023, currently expects that the case will go to trial in 2023. Further details on the case are provided in note 27.

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

VIABILITY STATEMENT

The Directors have assessed the Group's longer-term prospects, primarily with reference to the Board-approved 2023 budget and strategic plan.

This is driven by the Group's business model and strategy as detailed on pages 24 to 25, which are fundamental to understanding the future direction of the business, while factoring in the Group's principal risks detailed on pages 74 to 79.

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

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

In making their assessment, the Board carried out a comprehensive exercise of financial modelling and stress-tested the model with various scenarios based on the principal risks identified in the Group's annual risk assessment process. The scenarios modelled used the same assumptions and mitigations as for the going concern statement. These scenarios included lower-than-expected growth in our core Lighting markets, delayed recovery from the short-term cyclical downturn in the opto-electronic market, input costs not fully recovered through pricing actions and a combination of these scenarios in addition to the impacts from the Group's principal risks such as litigation. In each scenario, the effect on the Group's KPIs and remaining borrowing covenants was considered, along with any mitigating factors.

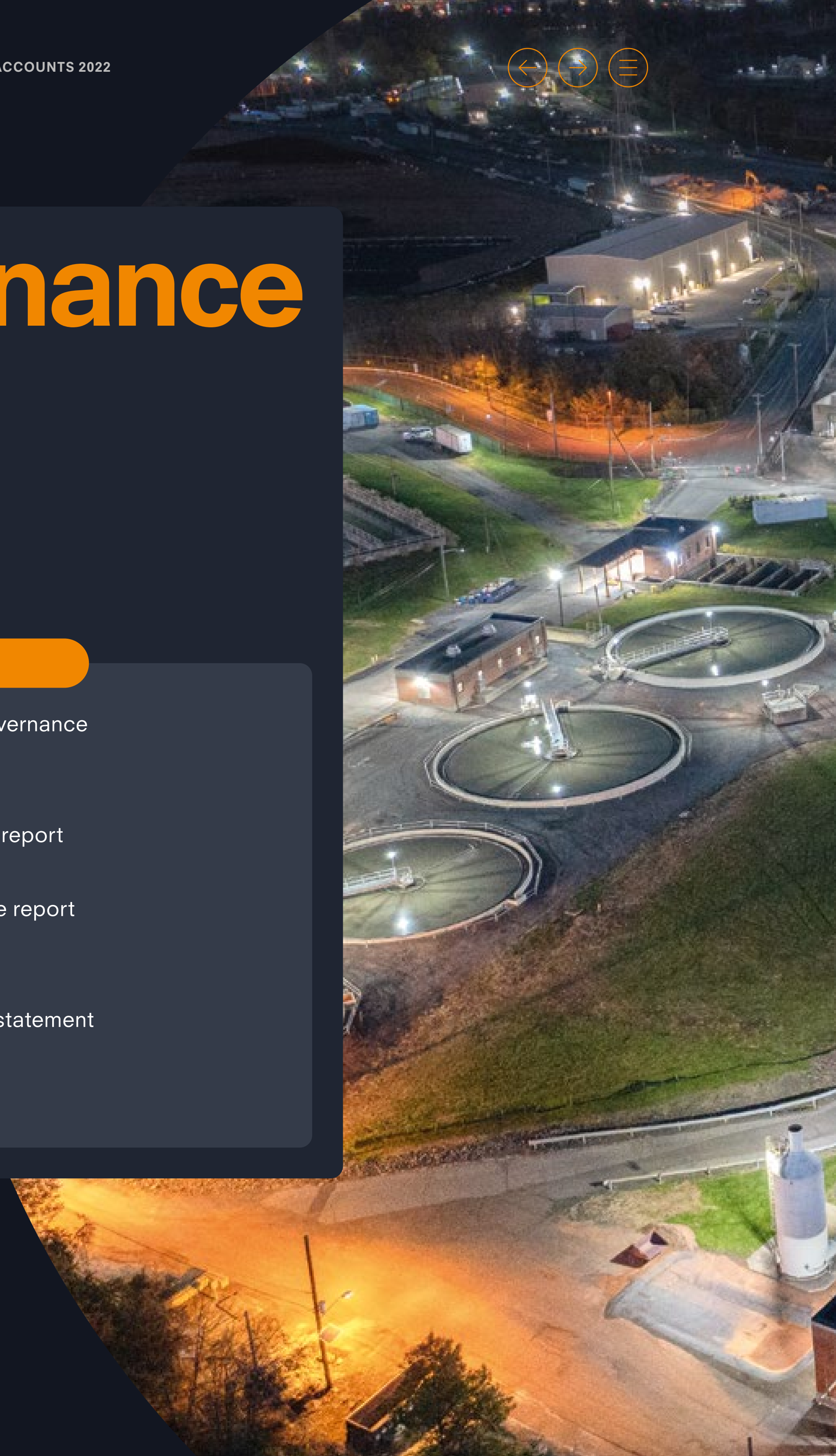
In reviewing the Company's viability, the Board has identified the following factors which they believe support their assessment:

— continued strong market drivers for LED adoption due to the increasing focus on sustainability and high utility costs;
— legislation banning the sale of fluorescent lighting being introduced in a number of countries;
— the Group operates in diverse end markets, with no material individual customer concentration;

— positive customer and distributor feedback and invitations to bid on large projects;
— current order book levels, improved sales performance in 2022 and pipeline expectations;
— new product development to close portfolio gaps and support expansion into new verticals;
— the Group's resilience in addressing the operational, materials and supply chain challenges over the last 24 months;
— operational leverage as volumes increase combined with investment in manufacturing automation and component standardisation;
— continued strengthening of the balance sheet and strong cash generation during the assessment period; and
— the Group's long-term, strong relationship with HSBC and its three-year $34m revolving credit facility with HSBC signed in July 2022, as set out in note 23.

Based on this assessment, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2025.

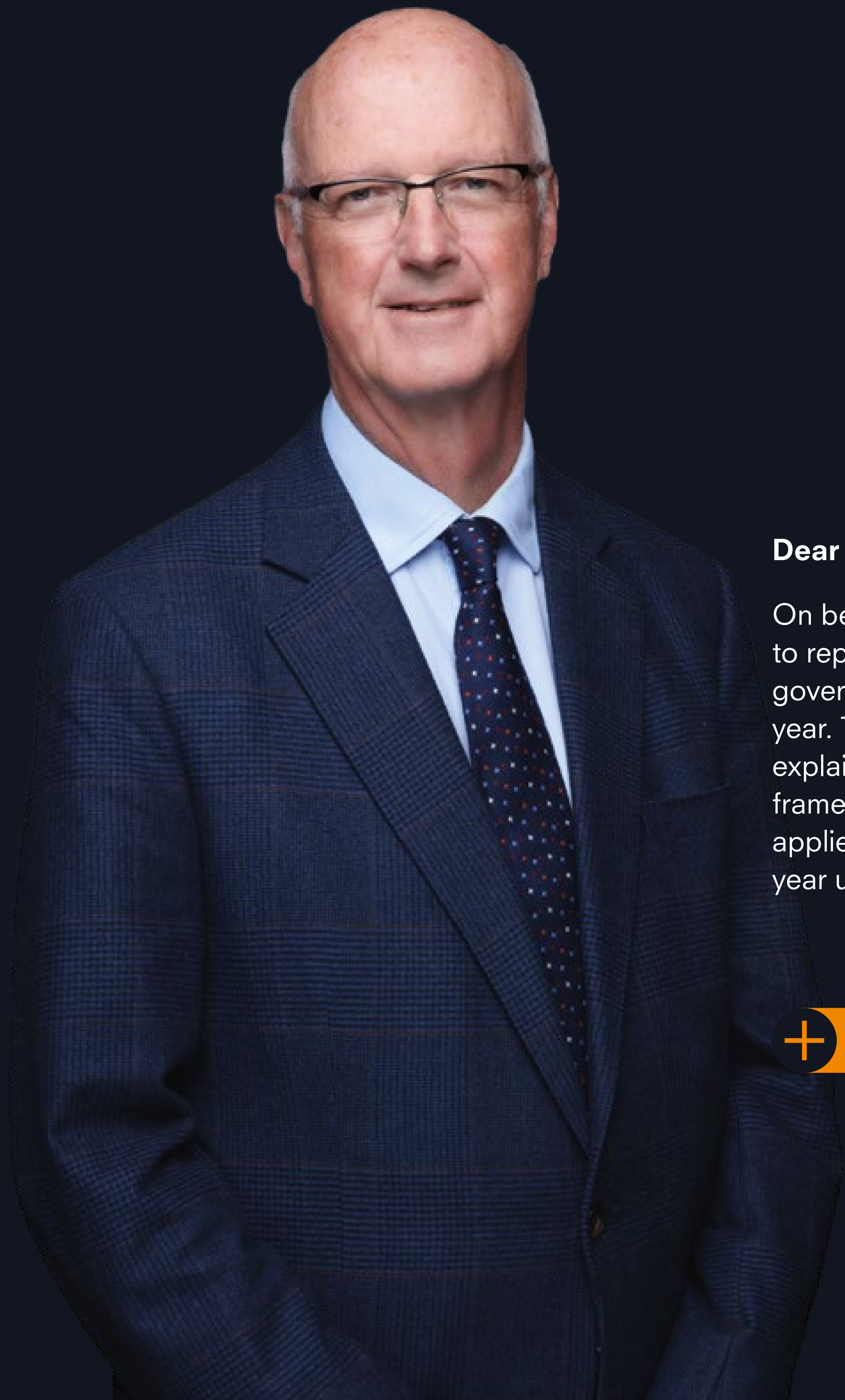
Governance



IN THIS SECTION

Dialight Lighting installation at sewerage and wastewater facility in Bridgewater, New Jersey

CHAIR'S INTRODUCTION TO GOVERNANCE



Dear shareholders

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

David Thomas
Interim Chair

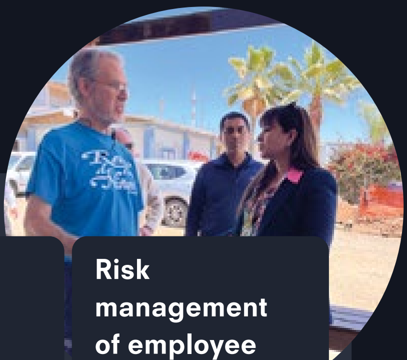
Overview

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

Leadership and Board changes

There have been two changes across the Board over the 12 months to 31 December 2022, but I am confident that succession planning has operated well, and we have maintained a balance of core knowledge of the business with fresh experience, ideas and approaches.

In November 2022 the Board was considerably strengthened by the appointment of Nigel Lingwood, who brought with him 20 years of experience as Group Financial Director of FTSE-listed Diploma plc (LSE: DPLM.L), as well as his current experience as a Non-Executive Director and Chair of the Audit committee of Volution Group (LSE: FAN.L). This extensive and recent financial and accounting experience, together with his international public company experience, has facilitated Nigel's assumption of the Audit Committee Chair role as a result of the Board changes summarised below. Nigel will be standing for election to the Board at the forthcoming AGM.



BOARD FOCUS AREAS IN 2022

Strategic overview of improvements in financial and operational performance.

Continued investment in people, products and delivering our ESG strategy.

Strengthening stakeholder engagement.

Delivery on Board succession planning.

Risk management of employee health and welfare and of supply chain challenges.

CHAIR'S INTRODUCTION TO GOVERNANCE CONTINUED

On 14 December 2022 the Company announced that Karen Oliver would step down, with effect on 31 December 2022, as Chair of the Board for personal reasons. The Board would like to record its thanks to Karen for her time leading the Board and wishes her well for the future. As a result of Karen's departure, the Company announced that I would step in as Interim Chair to assist in leading the search process for a new Chair, as well as leading the Board in the interim period. The Board also initiated a search process for a new Chair and announced on 20 March 2023 that Neil Johnson has been appointed to the role, with effect from the conclusion of the annual general meeting on 16 May 2023. My assumption of the Interim Chair role has necessitated some further changes in Board roles to ensure that the Board as a whole continued to observe the spirit, as well as the express requirements, of the UK Corporate Governance Code 2018 (the "2018 Code") (a copy of which is available on the Financial Reporting Council's website at www.frc.org.uk). Accordingly, on 13 January 2023, the Company announced, with immediate effect: that Gaëlle Hotellier would take over from me as Senior Independent Director ("SID") on an interim basis (to ensure that shareholders have a point of contact other than myself); Nigel Lingwood's assumption of the Audit Committee Chair role; the appointment of Gotthard Haug to the Remuneration Committee; and, that lastly, I would step down from the Audit Committee. Whilst I will no longer be a formal member of the Audit Committee, for the duration of my term as Interim Chair, I will attend Audit Committee meetings and assist Nigel with regards to the end-of-year process for the financial year 2022 and the transition to new auditors.

Further details on Board composition and leadership can be found on P104 TO 123.

Stakeholder engagement

As a Board, we are accountable to all our shareholders and must have regard to other stakeholders such as employees, customers, suppliers and the environment. We maintain an active dialogue with shareholders throughout the year on a number of different levels and believe that ongoing engagement and listening to the views of all our stakeholders is key to the long-term success of Dialight. Fariyal Khanbabi and I lead on shareholder engagement generally, whilst Gaëlle Hotellier leads on remuneration matters, as the Workforce Engagement NED and, on an interim basis, as the SID.

We also welcome the opportunity to answer shareholders' questions at our 2023 AGM. As in 2022, the 2023 AGM will be a hybrid meeting – with facility for shareholders to join the meeting online as well as in person. Further details of stakeholder engagement are on pages 99 to 103, and pages 116 to 119.

Diversity

As a Board we continue to prioritise cognitive and experiential diversity as a key indicator of independence and Board strength, and to enable robust challenge in Board discussions on the range of challenges and opportunities facing the Group. Notwithstanding this, we are pleased that the Board has broadly maintained a natural balance in terms of gender, nationality and ethnic background. Further details of Board composition are on pages 104 to 111.

Board priorities

Our priorities for 2023 are very much focused on providing stable leadership at a Board level and challenge to the Executive Team, to enable a strengthening of operational performance and to ensure that executive management deliver on our growth objectives.

David Thomas
Interim Chair
2 April 2023

COMPLIANCE STATEMENTS

UK Corporate Governance Code 2018

Throughout the year ended 31 December 2022, the Company has complied with the provisions as set out in the 2018 Code. An explanation of the Board's view on this matter is set out on page 120. A summary of compliance against the 2018 Code is included on this page.

Risk management and internal control

The Group's approach to risk management and internal control is set out on pages 70 to 73 and 130.

Section 172 Companies Act 2006 statement

Section 172 ("s172") of the Companies Act 2006 imposes on company directors a duty to act in the interests of a broad range of stakeholders including shareholders, employees, suppliers and local communities. A statement in respect of compliance with s172 is on pages 98 to 103.

Board certification

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

UK Corporate Governance Code 2018: compliance statement:

SECTION 1: BOARD LEADERSHIP AND COMPANY PURPOSE

1. Opportunities and risks/sustainability of business model/governance delivering strategy
2. Board activities/investment in workforce
3. Communication with shareholders
5. Section 172 statement
6. Mechanism for workforce concerns
7. Management of conflicts of interest

SECTION 2: BOARD DIVISION OF RESPONSIBILITIES

9. Chair independence on appointment (current Chair)
10. Statement on Non-Executive independence
11. 50% of Board to be independent
12. Identification of Senior Independent NED
13. Board review process and independence
14. Division of responsibilities

SECTION 3: BOARD COMPOSITION, SUCCESSION AND EVALUATION

18. Annual re-election of Directors
20. Use of external search agency (during 2022)
21. Formal and rigorous annual evaluation
23. Report on work of the Nomination Committee

SECTION 4: AUDIT, RISK AND INTERNAL CONTROLS

26. Report on work of Audit Committee
28. Emerging and principal risks
30. Going concern statement
31. Viability statement

SECTION 5: REMUNERATION

35. External remuneration consultant
36. Post-employment shareholding requirements
37. Use of discretion to override formulaic outcomes
38. Executive Director pension alignment with workforce
41. Description of work of the Remuneration Committee:
    Engagement with shareholders
    Alignment of Executive Director remuneration with wider pay policy
    Application of discretion on outcomes

COMPLIANT	SEE PAGE(S)
Yes	14-79, 104-119
Yes	50-55, 102, 119
Yes	117
Yes	99-103
Yes	59, 119
Yes	121

COMPLIANT	SEE PAGE(S)
Yes	121
Yes	104, 115, 121
Yes	104, 115
Yes	109
Yes	120-121
Yes	110-111

COMPLIANT	SEE PAGE(S)
Yes	122
Yes	125
Yes	120
Yes	124-127

COMPLIANT	SEE PAGE(S)
Yes	128-135
Yes	74-79
Yes	88-89
Yes	90-91

COMPLIANT	SEE PAGE(S)
Yes	137
Yes	153
Yes	138, 153
Yes	141, 145
Yes	136-170
Yes	139, 158
Yes	152, 158
Yes	138, 153

Our approach to Section 172(1)

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

Board decision-making will always encompass:

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

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

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

This s172 statement signposts some of the main ways in which we have engaged with stakeholders across 2022 and built confidence in the sustainability of their relationship with the Group. It should be read in conjunction with:

— Chairman's Statement on pages 10 to 13;
— the Group Chief Executive's Review on pages 14 to 23;
— the ESG reports on pages 36 to 69;
— Risk Management on pages 70 to 79;
— the Group Chief Finance Officer's Review on pages 80 to 87; and
— the Governance and related reports on pages 94 to 177.

By order of the Board.
Richard Allan
Company Secretary
2 April 2023

COMPLIANCE STATEMENTS CONTINUED

Section 172 statement continued

COMMUNITIES

WHY IT IS IMPORTANT TO ENGAGE WITH THIS STAKEHOLDER GROUP	BOARD DECISION-MAKING IMPACT AND HOW WE ENGAGE GENERALLY	BOARD DECISION-MAKING IMPACT AND WHAT WE DID DIFFERENTLY IN 2022
Dialight has a long-standing presence through our manufacturing plants in Mexico; Roxboro, NC USA; and Penang, Malaysia. As a responsible employer, we want to contribute to the economic development and sustainability of these communities as part of our efforts to secure a loyal and motivated workforce with high levels of training, health and welfare and employee satisfaction.	— Sponsorship and volunteering opportunities for employees. — Membership of local trade associations and industry bodies. — Enhanced benefits for employees, such as transport to and from factory locations and food vouchers. — Maintenance of the Dialight Foundation – with a management board staffed by employee representatives from around the world and tasked with fund-raising and dispensing Group-provided funds on charitable projects in the communities adjacent to our manufacturing locations. — Establishment of a hardship fund to which any employee can apply for one-off financial and other assistance in a range of hardship situations.	— Continuing support for the Dialight Foundation and its continued fund-raising within our employee and partner communities. — Dispersal of funds to local community charities by the Dialight Foundation. — Roll-out by management team of dedicated "volunteering day" across the whole Group to encourage employee involvement in local communities. — Continuing focus on raising base pay levels for the lowest-paid workers within the Group.

CUSTOMERS

WHY IT IS IMPORTANT TO ENGAGE WITH THIS STAKEHOLDER GROUP	BOARD DECISION-MAKING IMPACT AND HOW WE ENGAGE GENERALLY	BOARD DECISION-MAKING IMPACT AND WHAT WE DID DIFFERENTLY IN 2022
Dialight operates in highly differentiated but competitive markets. To maintain our best-in-class differentiation we are reliant upon a constant pipeline of new technical innovation and of new products. The clarity and precision with which we listen to the "voice of the customer" and map these needs across to new product design functionality and pricing is a key determinant of the future success of the Group.	— Sales proximity to our end users through direct sales force and indirect distribution partners. — Dedicated product management specialists integrated within our sales and marketing functions. — Detailed product planning and innovation pipeline bringing together product, application and technology specialists from our dedicated in-house product innovation teams. — Detailed new product development management and review process integrated with sales and commercial reviews.	— Incremental improvements in existing best-practice, monitoring new product development management and review process. — Deployment of process engineers in manufacturing operations to ensure realisation of programmed NPD production efficiencies. — Specific focus on maintaining development review gates despite remote working through new collaborative tools. — Extension of post-launch product and commercial review cycle.

ENVIRONMENT

WHY IT IS IMPORTANT TO ENGAGE WITH THIS STAKEHOLDER GROUP	BOARD DECISION-MAKING IMPACT AND HOW WE ENGAGE GENERALLY	BOARD DECISION-MAKING IMPACT AND WHAT WE DID DIFFERENTLY IN 2022
On a wider perspective, we believe that Dialight and its product offering can be at the forefront of efforts to "decarbonise" industrial facilities' construction and building/facilities management, promote the success of sustainable GHG-neutral products and services, and reverse environmental damage historically caused by the sectors we operate in. We see an absolute confluence of interest in promoting GHG-neutral products and the interests of all our key stakeholders (not least our shareholders) – as we believe that knowledge of the low GHG density of our products, the inherent power efficiency of our technology (including LED light generation generally) and our extended product life-cycle will be key drivers of the future success of the Group. We view engagement with all our stakeholders on environmental matters to be a central element of our future strategy.	— Dialight products already benefit from high power efficiency (through design and utilisation of LED technology) and extended life-cycles (typically 10-year warranties on solid state lighting ("SSL") products). This inherently positive impact on the environment is recognised with our FTSE Green Economy Mark certification. — Supply chain codes of conduct and screening in respect of raw material tracing and impacts (e.g. conflict minerals).	— Roll-out of Environmental Product Declarations that comply with ISO 14025 and EN 15804 standards on our key new product types – enabling customers to make informed decisions on the GHG potential of all our products (expressed as kg CO_2 equivalent per unit of product). — Maintenance of ISO 14064 and internal GHG audit control environment as part of the enhanced efforts at decarbonising our products and corporate operations and reporting to investors and other stakeholders on progress against carbon-neutrality objectives. — Ongoing commitment to Net Zero with SBTi and setting outline plans for scientific targets to achieve this.

PARTNERS

WHY IT IS IMPORTANT TO ENGAGE WITH THIS STAKEHOLDER GROUP	BOARD DECISION-MAKING IMPACT AND HOW WE ENGAGE GENERALLY	BOARD DECISION-MAKING IMPACT AND WHAT WE DID DIFFERENTLY IN 2022
Our key commercial partner relationships are spread across the inbound supply chain and our outbound distribution networks. With our high-SKU product range, we are highly reliant upon the integrity and efficiency of our supply chain. We were a first-mover in the introduction of long-warranty products (typically 10 years for SSL), but this in turn requires high levels of assurance over the consistency and reliability of component parts for our manufacturing operations. Our sales model is a hybrid of active direct selling, active indirect selling and indirect product supply. We are therefore highly reliant upon the strength and depth of our relationships with our distributors (across all our product ranges).	— Supplier and distributor onboarding due diligence (financial, quality, business integrity and compliance, component supply, Modern Slavery etc) — Supplier Code of Conduct — Audits and inspections of suppliers — Ongoing management of supplier relationships	— Further rationalisation and localisation (where possible) of our supply chain to mitigate the risk of supply chain disruption and strengthen product quality, production efficiency, inventory management and supplier relationships generally. — Further strengthening of supply chain team and processes.

COMPLIANCE STATEMENTS CONTINUED

EMPLOYEES

WHY IT IS IMPORTANT TO ENGAGE WITH THIS STAKEHOLDER GROUP	BOARD DECISION-MAKING IMPACT AND HOW WE ENGAGE GENERALLY	BOARD DECISION-MAKING IMPACT AND WHAT WE DID DIFFERENTLY IN 2022
Dialight has a diverse mix of employees across four continents ranging from manufacturing production operatives to highly skilled design engineers. We are entirely reliant upon our workforce for our differentiating innovation, efficient and high-quality manufacturing production, and for sales of our product in our end markets. We need to retain our skilled staff as well as attract highly skilled talent to new roles. By understanding the motivations, talents, ambitions, needs and concerns of our employees we can best secure an innovative, adaptable and highly productive workforce that will operate as a team and, in turn, secure the future success of the Group.	— Ongoing focus on communications with, and policies for, employees relating to employee health, safety, and welfare. — Employee surveys. — Training and development. — One-on-one and skip-a-level meetings with the designated Workforce Engagement NED. — Site visits by members of the Board (conducted physically and online). — Update newsletters from the Group Chief Executive. — Whistleblowing hotline.	— Monthly all-employee calls with the CEO and executive team to keep all our employees updated on progress in COVID-19 precautions across the Group and focusing on employee health and welfare. — Workforce Engagement NED meetings at principal manufacturing and office locations – conducted on a "skip-a-level" basis without senior management in the room, to enable the workforce to share any concerns directly with an independent Board NED. — Specific welfare precautions for employees at our manufacturing plants including additional food supplies, paid leave (for high-risk individuals), and in-house medical care. — Maintenance across the Group of additional health and safety COVID-19 precautions including personal protective equipment and protocols. — Enhanced internal audit by senior management (or third parties where travel restrictions require) to ensure COVID-19 precaution compliance and employee health and welfare.

INVESTORS

WHY IT IS IMPORTANT TO ENGAGE WITH THIS STAKEHOLDER GROUP	BOARD DECISION-MAKING IMPACT AND HOW WE ENGAGE GENERALLY	BOARD DECISION-MAKING IMPACT AND WHAT WE DID DIFFERENTLY IN 2022
As a company with a premium listing on the London Stock Exchange's Main Market and a borrower of bank debt, we need to communicate clearly and effectively with our existing and prospective shareholders and lenders to develop their understanding of how the Group's businesses are managed to generate sustainable returns and long-term success.	— Meetings with current and potential shareholders, current and potential lenders, and analysts. — Addressing enquiries from institutional and retail investors. — AGM, Annual Report and Accounts, and preliminary and interim announcements. — Regulatory announcements. — Corporate website.	— Maintained increased depth and frequency of reporting by senior management to the Board to provide assurance to the Board on adequacy of communications with investors during supply chain challenges. — More frequent discussions with existing shareholders and lenders. — High level of shareholder satisfaction with governance standards evidenced by 2022 AGM voting levels.

BOARD: GOVERNANCE AT A GLANCE

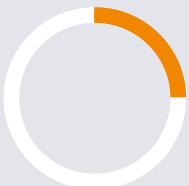
Highly skilled and balanced Board

GOVERNANCE OVERVIEW

This report aims to provide shareholders and other stakeholders with an understanding of how our Group is managed and the governance and control framework within which we operate.

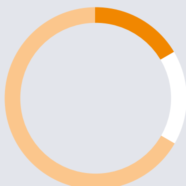
AS AT 31 DECEMBER 2022

EXECUTIVE/ NON-EXECUTIVE



- Executives **2** (25%)
- Non-executives **6** (75%)

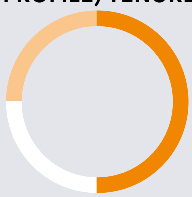
INDEPENDENT NEDs



- Chair (independent on appointment) **1**
- Non-independent NED **1**
- Independent NEDs **4** (57%)*

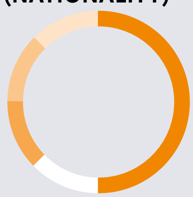
* Calculated excluding Chair

DIRECTORS (TERM PROFILE) TENURE



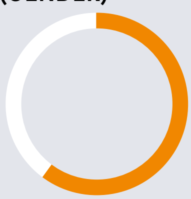
- 0-3 years **4** (50%)
- 4-6 years **2** (25%)
- 7+ years **2** (25%)

DIRECTORS (NATIONALITY)



- British **4** (50%)
- French **1** (12.5%)
- German **1** (12.5%)
- South African **1** (12.5%)
- USA **1** (12.5%)

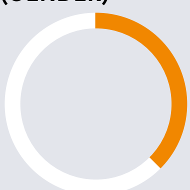
SENIOR ROLES (GENDER)



- Female **3** (60%)
- Male **2** (40%)

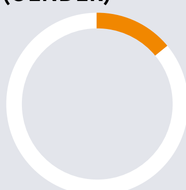
* Calculated by individual not role, (Chair, CEO, CFO, SID & AuditCo/RemCo/chairs

DIRECTORS (GENDER)



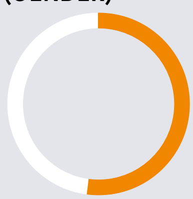
- Female **3** (37.5%)
- Male **5** (62.5%)

EXECUTIVE COMMITTEE (GENDER)



- Female **1** (14%)
- Male **6** (86%)

ALL EMPLOYEES (GENDER)



- Female **1,020** (52%)
- Male **950** (48%)

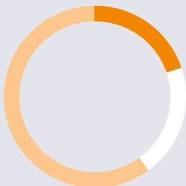
Dialight, as a smaller company with a focused product portfolio, benefits from having a lean and agile management structure. Our governance and controls are integral to the organisation's operating culture and provide good visibility of the performance of the business. The Board is focused on getting the right balance between robustness and pragmatism in its oversight of governance, controls and risk management as the best means of delivering the Group's strategic aims of growth, customer relevance and differentiation.

AS AT 1 JANUARY 2023

EXECUTIVE/ NON-EXECUTIVE

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

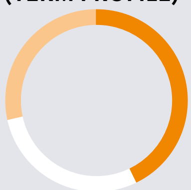
INDEPENDENT NEDs



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

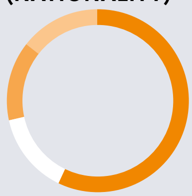
* Calculated excluding Chair

DIRECTORS (TERM PROFILE)



- 0-3 years **3** (42%)
- 4-6 years **2** (29%)
- 7+ years **2** (29%)

DIRECTORS (NATIONALITY)



- British **4** (57%)
- French **1** (14%)
- German **1** (14%)
- USA **1** (14%)

SENIOR ROLES (GENDER)

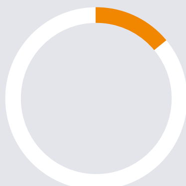
- Female **3** (60%)
- Male **2** (40%)

* Calculated by individual not role, (Chair, CEO, CFO, SID & AuditCo/RemCo/chairs

DIRECTORS (GENDER)

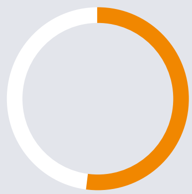
- Female **2** (29%)
- Male **5** (71%)

EXECUTIVE COMMITTEE (GENDER)



- Female **1** (14%)
- Male **6** (86%)

ALL EMPLOYEES (GENDER)



- Female **1,020** (52%)
- Male **950** (48%)

BOARD: GOVERNANCE AT A GLANCE CONTINUED

HOW THE BOARD SUPPORTED STRATEGY

Drive growth in core markets Read more on pages 14-35	Sustainable profit growth is at the heart of Board oversight and forms the basis for both routine monthly reporting and function-specific reporting to the Board. The Board ensures that the right balance is achieved between short-term operational and financial performance and investment in the future products, technology, markets and product types that will drive long-term sustainable growth.	— Supply chain: on-shoring and shortening of supply lines. — Finance: focus on working capital management through improved inventory management. — Markets: strong performance in Signals & Components division and rejuvenation of Obstruction sector. — Operations: manufacturing strategy and process improvement (process and controls). — Cyber security review.
Continued product innovation Read more on pages 14-35	The Board reviews and approves the new product development roadmap and the technology roadmap – elements of the overarching product strategy – annually and through ad hoc reviews. It also periodically reviews the route-to-market strategy. It then monitors the tactical implementation of these strategies throughout the financial year through routine monthly reporting and function-specific briefings.	— Product: maintenance of R&D innovation programmes during year. — Product: momentum on new product development and launches maintained. — Product: strategic focus on product differentiation through performance and extended life-cycle. — Operations: materials innovation to strengthen recyclability and reduce product carbon density.
Expand our market reach Read more on pages 14-35	The Board reviews and approves the long-term elements of the overarching product and sales strategies annually and through ad hoc reviews. It then monitors the tactical implementation of these strategies throughout the financial year through function-specific briefings and ad hoc consideration of markets and commercial structures.	— Sales: considerable progress on developing new routes-to-market and sales configurations. — Sales: sales stability and recapturing MRO market share. — Product: designing in product sustainability. — Product: focus on component and production commonality between product families.
ESG Read more on pages 36-69	The Board reviews and approves the Group ESG strategy (as set out on pages 38 to 39) and reviews and approves the TCFD report (pages 62 to 69).	— People: strongly promoting health, safety and welfare priorities for our workforce (upon whom we rely for future growth). — ESG: Environmental Product Declarations certification for key product lines. — ESG: embedding corporate carbon/ESG systems and controls.

NED SKILLS & EXPERIENCE MATRIX

NED SKILLS & EXPERIENCE MATRIX:

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

BOARD: LEADERSHIP AND COMPANY PURPOSE

David Thomas

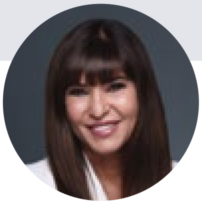
Independent on appointment as interim Chair – Interim Chair, Chair of NomCo, member of RemCo

N R

Appointed
26 April 2016. Interim Chair and NomCo Chair effective 1 January 2023.

Background and career
David was CFO at Invensys plc from 2011 until his retirement in 2014, having held senior roles across the business since 2002. Prior to joining Invensys, he was a Senior Partner in Ernst & Young LLP, specialising in long-term industrial contracting businesses, and is a former member of the Auditing Practices Board.

Current external appointments
Non-Executive Director and Chair of the Audit Committee of Victrex plc.



Fariyal Khanbabi

Group Chief Executive – member of Disclosure Committee

D

Appointed
CFO – 8 September 2014; CEO – 10 August 2019.

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

Fariyal was appointed as Group Finance Director on 8 September 2014, and on 10 August 2019, she was appointed as Dialight's Interim Chief Executive Officer. She was appointed Chief Executive Officer on 5 March 2020.

Current external appointments
None.

Clive Jennings

Chief Financial Officer – member of Disclosure Committee

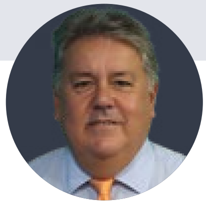
D

Appointed
18 January 2022.

Background and career
Clive has over 25 years of finance experience in large listed multinationals in the gaming, entertainment, hospitality and consumer goods manufacturing sectors, most recently as Chief Financial Officer of The Rank Group PLC and as interim CFO at McBride plc. Over his 19 years in the Rank Group, he held a number of senior global and divisional finance roles, becoming CFO in July 2011.

Prior to the Rank Group, Clive's career has included senior finance roles, working for Lex Service PLC and Forte PLC. Clive has a BSc in Business Economics from Southampton University and is a qualified chartered accountant.

Current external appointments
None.



Nigel Lingwood

Independent NED – Chair of AuditCo, member of NomCo and RemCo

A N R

Appointed
1 November 2022. AuditCo Chair effective 12 January 2023.

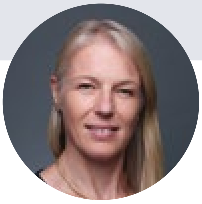
Background and career
Between 2001 and 2021, Nigel was Group Finance Director and Board Director at Diploma PLC, the international group of businesses supplying specialised technical products and services. He brings extensive, relevant and recent financial and accounting expertise together with international public company experience.

Current external appointments
Non-Executive Director and Chair of the Audit Committee of Volution Group plc.

KEY

Appointments & committee membership

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



Gaëlle Hotellier

Independent NED – Interim SID, Chair of RemCo, member of AuditCo and NomCo

R A N

Appointed

3 October 2016. RemCo Chair effective 1 June 2018. WENED effective 1 September 2021. Interim SID effective 12 January 2023.

Background and career

Gaëlle is currently COO of the Krohne Group, which she joined in 2022. Before that, she worked for the Siemens Group from 2002 to 2021, during which time she has held various senior management roles, most recently in charge of Global Operations for the Generation Service unit within Siemens Energy AG. Between 2013 and 2015, Gaëlle was an Executive Board member of the EU's Fuel Cell Hydrogen Joint Undertaking, a public-private partnership with the European Commission. She is also a former Chairwoman of the Supervisory Board of Siemens Industriegetriebe GmbH in Penig and was a Member of the Advisory Board of Berthold Vollers GmbH.

Current external appointments

Chief Operating Officer of the Krohne Group.

David Blood

Non-independent NED – member of NomCo

N

Appointed

1 July 2015, and subsequently as Chair on 5 August 2019. Resigned as Chair effective 10 September 2021.

Background and career

David Blood is a Founding Partner and Senior Partner of Generation Investment Management. He also serves as Chairperson of Just Climate. Previously, David spent 18 years at Goldman Sachs including serving as CEO of Goldman Sachs Asset Management. David received a BA from Hamilton College and an MBA from Harvard Business School.

Current external appointments

Chairperson of Social Finance UK and co-chair of the World Resources Institute, and on the board of On the Edge Conservation. David is also a life trustee of Hamilton College.

Gotthard Haug

Independent NED – member of AuditCo, NomCo and RemCo

A R N

Appointed

1 April 2020.

Background and career

Among his many senior roles in the manufacturing industry, Gotthard was previously CEO and CFO of Teleplan International, a Non-Executive Director of Psion, and he was also the Chairman of Ultratec Ltd. He was the Executive Chairman of Ivy Technology, a leading global electronics repair and service provider to many of the world's largest tech, med-tech and telecommunications companies. Gotthard holds a MBA and a BA from Ludwig-Maximilians Universität München.

Current external appointments

Partner of "taskforce – Management on Demand GmbH", an Advisory Board Member of iGlobe Partners and an Independent Consultant and Interim Executive of Minerva Management Partners.

Board departures in the year

Karen Oliver

GOVERNANCE STRUCTURE AND DIVISION OF RESPONSIBILITIES

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

NON-EXECUTIVE:

CHAIR:

Governance:

- Promoting high standards of corporate governance
- Leading, chairing and managing the Board
- Ensuring all Board Committees are properly structured and operate with appropriate terms of reference
- Regularly considering the composition and succession planning of the Board and its Committees
- Ensuring that the performance of the Board and its Committees is evaluated on a regular basis
- Ensuring adequate time is available for all agenda items and that the Board receives accurate, clear and timely information
- Ensuring that there is effective communication with major shareholders

Strategy:

- Leading the Board in developing the strategy of the business and setting its objectives
- Promoting open and constructive debate in Board meetings
- Ensuring effective implementation of Board decisions with the support of the Chief Executive Officer
- Ensuring that the Board manages risk effectively
- Consulting, where appropriate, with the Senior Independent Director ("SID") on Board matters

People:

- Chairing the Nominations Committee
- Identifying and meeting the induction and development needs of the Board and its Committees
- Developing a strong working relationship with the Chief Executive Officer
- Ensuring a strong working relationship between Executive and Non-Executive Directors
- Setting clear expectations concerning the Company's culture, values and behaviours that will support its long-term sustainable success
- Ensuring effective relationships are maintained with all key stakeholders in the business

SID:

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

INDEPENDENT NEDs:

— Contributing independent thinking and judgement, and providing external experience and knowledge, to the Board agenda
— Scrutinising the performance of management in delivering the Company's strategy and objectives
— Providing constructive challenge to the Executive Directors
— Monitoring the reporting of performance and ensuring that the Company is operating within the governance and risk framework approved by the Board

WORKFORCE ENGAGEMENT NED:

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

EXECUTIVE:

CEO:

— With the Chair, providing coherent leadership and management of the Company
— Developing objectives, strategy and performance standards to be agreed by the Board
— Providing input to the Board's agenda
— Ensuring the health and safety, and general wellness of the Group's workforce
— Providing effective leadership of the Executive Committee to achieve the agreed strategies and objectives
— Securing an Executive Committee of the right calibre, with specific responsibility for its composition, and ensuring that its succession plan is reviewed annually with the Chair and the Non-Executive Directors
— Monitoring, reviewing and managing emerging and principal risks and strategies with the Board
— Ensuring that the assets of the Group are adequately safeguarded and maintained
— Building and maintaining the Company's communications and standing with shareholders, financial institutions and the public, and effectively communicating the Dialight investment proposition to all stakeholders
— Ensuring the Board is aware of the view of employees on issues of relevance to Dialight

EXECUTIVE DIRECTORS:

— Implementing and delivering the strategy and operational decisions agreed by the Board
— Making operational and financial decisions required in the day-to-day management of the Company
— Providing executive leadership to senior management across the business
— Championing the Group's values and reinforcing the governance and control procedures
— Promoting talent management, encouraging diversity and inclusion

COMPANY SECRETARY:

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

GOVERNANCE STRUCTURE AND DIVISION OF RESPONSIBILITIES CONTINUED

THE BOARD

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

BOARD COMMITTEES

AUDIT COMMITTEE

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

P128

NOMINATIONS COMMITTEE

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

P124

REMUNERATION COMMITTEE

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

P136

DISCLOSURE COMMITTEE

- Manages compliance with public reporting and announcement requirements

MANAGEMENT COMMITTEES

RISK COMMITTEE

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

P70

EXECUTIVE COMMITTEE

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

DIALIGHT FOUNDATION

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

P55

ESG COMMITTEE

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

P56

DELEGATED AUTHORITIES

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

The role of the Board and its Committees during the year

The Board retains control over all matters formally reserved to the Board (see P115), but delegates certain decision-making and monitoring activities to formal Board Committees and committees at an executive level. The Chair of each Board Committee reports to the Board on its decision-making. The Board also appoints ad hoc sub-committees from time to time as required.

GOVERNANCE STRUCTURE AND DIVISION OF RESPONSIBILITIES CONTINUED

The Board currently comprises seven Directors, who bring a wide variety of skills and experience to the Boardroom. With two Executive Directors and five Non-Executive Directors (including the Chair) of whom three (excluding the Chair) have been judged by the Board under Provision 10 of the 2018 Code to be independent, there continues to be a strong independent element to Dialight's Board which encourages constructive challenge and ensures that the balance of power rests with the non-executive members of the Board. The Board was seeking a replacement Chair following the departure of Karen Oliver on 31 December 2022 and it is for this reason that the reported metrics on page 105 reflect Board composition as at the date of this report alongside the Board metrics as at 31 December 2022 – as the Board considers that the metrics as at 31 December 2022 better reflect the aspirations of the Board to build a balance of experience and cognitive diversity on the Board. Subject to this ongoing recruitment, the Board considers the Board composition to be appropriate in terms of size, diversity and the balance of skills and experience. Further details of recent Board changes, interim roles and the recruitment process for a new Chair are set out in the Nominations Committee report on pages 124 to 127.

2022 BOARD MEETING ATTENDANCE:

BOARD MEMBER	SCHEDULED MEETING	AD HOC MEETING	TOTAL
Karen Oliver[1]	7/7	1/1	8/8
Clive Jennings	7/7	1/1	8/8
David Blood	7/7	1/1	8/8
David Thomas	7/7	1/1	8/8
Fariyal Khanbabi	7/7	1/1	8/8
Gaëlle Hotellier	7/7	1/1	8/8
Gotthard Haug	7/7	1/1	8/8
Nigel Lingwood[2]	1/1	1/1	2/2

1 As announced on 14 December 2022, Karen Oliver stepped down as Chair of the Board with effect on 31 December 2022.
2 Nigel Lingwood was appointed as Non-Executive Director effective from 1 November 2022.

BOARD RESPONSIBILITIES

STANDING BOARD AGENDA ITEMS

— Review and approval of the previous minutes
— Status update on any matters outstanding from previous meetings
— Updates from each Board Committee on the activities since the last Board meeting
— Health and safety review
— Report from the Group Chief Executive
— Report from the Chief Finance Officer
— Report from the Group General Counsel/Company Secretary
— Investor relations report

MATTERS RESERVED FOR THE BOARD

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

INDEPENDENCE

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

BOARD: LEADERSHIP AND ENGAGEMENT

HOW THE BOARD ENGAGES

- SHAREHOLDER ENGAGEMENT
- COMMERCIAL ENGAGEMENT
- ENGAGEMENT WITH EMPLOYEES AND OUR LOCAL COMMUNITIES

The Board engages with its various stakeholders in a number of different ways and with responsibilities spread across the Executive and Non-Executive teams. The Executive members of the Board have contact with all Executive Committee members and make regular visits to Group sites. All new Non-Executive members of the Board will carry out Company visits as part of their induction and routinely thereafter – with at least one meeting a year normally taking place at a Group location outside the UK. The Board members also engage with our current and future business leaders working within the Group on strategic and other matters. This regular interaction between the Board and the businesses provides a vital channel of communication and a forum for open dialogue, which encourages the sharing of knowledge and experience.

The role of Workforce Engagement Non-Executive Director (WENED) is seen as a critical function enabling the independent NEDs to have direct interaction with, and reporting from, the wider workforce. WENED meetings have been carried out, by Gaëlle Hotellier, at 3 Group sites during 2022 (London, Farmingdale NJ, USA and Roxboro NC, USA). Separate meetings are carried out with management teams and the non-management workforce enabling free and open exchange of information and issues/concerns – including health and safety matters, employee welfare and conditions, workforce morale, and operational improvement. WENED meetings are conducted on the basis of strict confidentiality and non-attribution for employee comments. The WENED reports back to the CEO and the Board on any issues arising from WENED meetings.

What we did in 2022

SHAREHOLDER ENGAGEMENT

Fariyal Khanbabi
CEO

Clive Jennings
CFO

David Thomas
Interim Chair

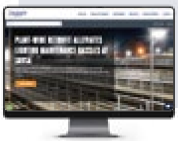
Gaëlle Hotellier
SID

GENERAL ENGAGEMENT WITH INVESTORS

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

COMPANY ANNOUNCEMENTS AND WEBSITE

- The Company releases announcements via the regulatory news service – all of which are publicly available and can be accessed through the Company's website dialight.com
- Copies of formal reports are released on the Company website (and deposited with Companies House and the FCA's National Storage mechanism – both of which are publicly accessible)
- Recordings of annual and interim results can be accessed through the Company's website dialight.com



- Shareholders can register on the website to receive email alerts.

ANNUAL AND INTERIM RESULTS

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

MEETINGS WITH LARGE INVESTORS

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

ANNUAL GENERAL MEETINGS

- The 2022 AGM was the Company's first hybrid general meeting with shareholders having the option to attend in person or online. This format will be repeated at the 2023 AGM. It is hoped that, over time, this will result in a wider range of investors participating.
- Typically, the full Board will attend the AGM, and be available to answer questions, and the CEO will give a presentation.
- Each substantially separate issue is proposed as a separate resolution and voted on by way of a poll.
- Details of the resolutions to be proposed, and shareholders' options for voting, at the forthcoming AGM are to be found in the notice of the AGM (which will be dispatched in April 2023). The 2023 AGM will take place on 16 May 2023.

BOARD: LEADERSHIP AND ENGAGEMENT CONTINUED

WHAT WE DID IN 2022 CONTINUED

COMMERCIAL ENGAGEMENT

Fariyal Khanbabi
CEO

Clive Jennings
CFO

EXECUTIVE DIRECTORS

Commercial engagement is an Executive Director responsibility and led by the CEO. The Executive Directors have in the past prioritised proximity with customers and distributors for themselves and product development teams, facilitated by the direct sales force.

REPORTING TO BOARD

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

COMMERCIAL ENGAGEMENT

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

ENGAGEMENT WITH EMPLOYEES AND OUR LOCAL COMMUNITIES

Fariyal Khanbabi
CEO

Gaëlle Hotellier
Workforce Engagement NED

WORKFORCE ENGAGEMENT NED

– Direct engagement with workforce through site visits, one-on-one discussions with managers and other employees selected by the WENED.

– Larger engagements with volunteer groups of employees from different Company locations without management present.

EXECUTIVE DIRECTORS

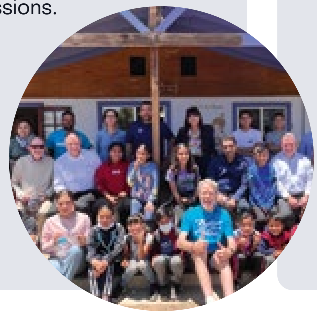
– Engagement with the Dialight workforce is an Executive Director responsibility and led by the CEO – but viewed as a fundamental task of the entire executive team.

– Board-level engagement is facilitated by monthly Group all-employee calls, frequent visits to manufacturing and other Group sites by the Executive Directors (COVID-19 permitting) and through reporting by Executive Committee members and the HR function.

DIALIGHT FOUNDATION

– The Dialight Foundation is the primary conduit for engagement with local communities. Its membership is drawn from all levels and localities of the Group – ensuring a direct voice for all employees in decision-making.

– The Foundation is chaired by the CEO, enabling the CEO to directly represent the voice and needs of our local communities in Board discussions.



WHISTLEBLOWER HELPLINE

– The Group operates a confidential whistleblower helpline, facilitated by an independent third party.

– Reports are reviewed confidentially by the Group General Counsel and reported to the Chair of the Audit Committee (for control/ethics & integrity issues) and to the CEO and Head of HR in respect of personnel issues/HR-related complaints.

REPORTING TO BOARD

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

BOARD COMPOSITION, SUCCESSION AND EVALUATION

2022 BOARD PERFORMANCE EVALUATION

In compliance with the 2018 Code, the Board undertakes a formal evaluation of its performance, and that of each Director, on an annual basis. The principal Committees of the Board also undertake an annual evaluation of their effectiveness, in accordance with their terms of reference. The outcomes of the 2021 review (concluded in March 2022) fed directly into the Board agenda for the reporting year and in the execution of the 2022 succession planning, including the recruitment of Nigel Lingwood to the Board. The outcomes of the 2022 review will similarly inform Board administration, agenda planning, strategy and succession planning. The Board was facilitated by Lintstock, an independent external adviser (i.e. a third-party adviser with no connection to the Company or any Director other than in respect of these Board evaluation services).

Four Stages

1 QUESTIONNAIRE (NOVEMBER)

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

2 BOARD REVIEW (DECEMBER)

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

3 DIRECTOR REVIEWS (JANUARY/FEBRUARY)

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

4 FINAL BOARD REVIEWS (MARCH)

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

DIRECTORS: INDEPENDENCE AND CONFLICTS OF INTERESTS

- Karen Oliver was Chair through to 31 December 2022 and was independent on appointment (10 September 2021). David Thomas then became Chair on 1 January 2023 on an interim basis and was similarly deemed independent upon appointment. The Board has reviewed and agreed that each of Gaëlle Hotellier, Gotthard Haug and Nigel Lingwood remains independent.
- Nigel Lingwood was recruited as an independent Non-Executive Director on 1 November 2022.
- David Blood is not, on a strict interpretation of the examples that could potentially impair independence set out in Provision 10 of the 2018 Code, considered to be independent as a consequence of his connection with Generation Management LLP (currently the Company's second-largest shareholder). However, the Board has always considered, and continues to consider, David to be independent in character and judgement in performing his duties as a Director, and is fully confident that David would absent himself from any Board discussions at which any conflict might arise (and would ensure that he did so).
- The Board remains particularly conscious of its duties under Provision 7 of the 2018 Code to actively manage general potential conflicts of interest arising from significant shareholdings and accordingly, David's letter of appointment contains additional clauses covering confidentiality, insider dealings and conflict of interest and the Board considers potential conflicts arising at each and every meeting.

DIRECTORS: TIME ALLOCATION

- The Board benefits from the wide variety of skills, experience and knowledge that each of the Directors brings to their roles. However, being available and committing sufficient time to the Company is essential. Therefore, the number of external directorships that a Non-Executive Director holds is an important consideration when recruiting and when performing the annual evaluation of Non-Executive Director effectiveness.
- Executive Directors are permitted to accept one external appointment, subject to the prior approval of the Chair. Approval will only be given where the appointment does not create a conflict of interest with the Group's activities and where the role is considered to be beneficial to the development of the individual (which will, in turn, benefit the Company).
- In addition to the scheduled Board meetings, Non-Executive Directors are expected to attend the AGM, the annual strategy meeting and certain other Company events and site visits throughout the year. A time commitment of at least 20 days per annum is the anticipated requirement for each Non-Executive Director and this was exceeded in 2022 (taking into account Committee and other responsibilities). Confirmation is obtained on appointment from each Non-Executive Director that they can allocate sufficient time to the role.
- The Chair and Non-Executive Directors also meet twice a year without Executive Directors present to ensure there is an opportunity to discuss potentially sensitive matters. The Senior Independent Director meets with the Non-Executive Directors, without the Chair present, at least once per year, to evaluate the Chair's performance.

BOARD COMPOSITION, SUCCESSION AND EVALUATION CONTINUED

DIRECTORS: RE-ELECTION

- In compliance with the 2018 Code, all of the Directors in place will stand for election/re-election (as appropriate) at the forthcoming AGM. Following the annual evaluation of the Board and its Committees the Board has determined that all Directors standing for election or re-election at the AGM continue to be effective, hold recent and relevant experience and continue to demonstrate commitment to the role.
- Biographical details of each Director standing for election or re-election are set out in the notice of AGM.

DIRECTORS: SUCCESSION PLANNING AND RECRUITMENT

- In addition to having responsibility for succession planning of senior executive roles below Board level, the Nominations Committee (and the Board generally) are responsible for succession planning of Board Directors and the key Board roles. Board succession plans have been in place across 2022 and resulted in the recruitment of Nigel Lingwood in November 2022 (with a view to him assuming the Chair role of the Audit Committee in 2023).
- As outlined on P120, the Board's recent approach to succession planning and recruitment has achieved a broad balance in terms of cognitive approach, diversity, skills, knowledge and experience, and length of service. This is maintained through a combination of an open-minded approach to recruitment, use of external advisers, a thorough recruitment process for all potential appointees to the Board and active management of succession planning.
- In January 2023, a number of major shareholders approached the Company and proposed that Neil Johnson be appointed as Chair and further requested that the process focus solely on Neil. Having regard to the initial specification for the role, and following interviews with all the Board members, the appointment of Neil was endorsed and it has been agreed that he will join the Board at the conclusion of the Annual General Meeting on 16 May 2023.

DIRECTORS: INDUCTION

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

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

— Nigel Lingwood, an experienced FTSE Executive and Non-Executive Director, has undertaken a targeted induction process to familiarise him with the Company's products, operations and key areas of focus. This has included discussions with senior managers, for example with the sales and legal functions (in respect of the focus on Lighting product sales growth and the Sanmina litigation respectively). He has also visited the Group's manufacturing locations in: Tijuana, Mexico; Ensenada, Mexico; the engineering, product development and finance operations at Farmingdale NJ, USA; and the Group's London headquarters.

DIRECTORS: LIABILITY INSURANCE

— Each Director is covered by appropriate Directors' and officers' liability insurance, at the Company's expense.

— In addition, the Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities.

NOMINATIONS COMMITTEE REPORT

David Thomas
Chair of the Nomination Committee

2022 HIGHLIGHTS

— Implementation of AuditCo succession planning
— Recruitment of a new Chair
— Stabilisation of CFO role
— Enhanced workforce engagement NED role

2023 PRIORITIES

— Strengthen senior executive succession planning
— Review of recruitment of additional NED

ROLE AND RESPONSIBILITIES

— review the size, balance and composition of the Board and its Committees and make recommendations for any changes, and oversee Board and senior executive succession planning;
— periodically review any objectives for the implementation of diversity on the Board and monitor progress towards these objectives;
— lead the process for Board appointments, including the evaluation of skills, knowledge, experience and diversity on the Board and prepare role descriptions for any particular appointment, and ensure all new Directors receive appropriate induction training;
— review the results of the annual Board performance evaluation process that relate to the composition of the Board; and
— review senior executive leadership requirements for the Group.

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

COMPOSITION

Committee member	Member from/until	Attendance
Karen Oliver	Member from 30 July 2020 (Chair from 10 September 2021) – until 31 December 2022	6/7
David Blood	Member from 23 July 2015 - until 30 March 2023	6/7
David Thomas	From 26 April 2016	6/7
Gaëlle Hotellier	From 3 October 2016	7/7
Gotthard Haug	From 30 July 2020	7/7
Nigel Lingwood	From 1 November 2022	1/1

Dear shareholders

Both the Nominations Committee and the Board as a whole recognise their crucial roles in nurturing talent and diversity at management and executive levels at Dialight; and whilst 2022 saw further changes at Board level, this was driven primarily by the previous planning work of the Nominations Committee with regards to Board succession.

Board changes

Clive Jennings joined the Board in January 2022 following a period as interim CFO, assuming the leadership role in the finance and IT teams as well as his commitments as an Executive Director. Clive is an experienced CFO and listed company board director having been CFO at The Rank Group Plc and his extensive experience across several senior financial and operational roles has already brought significant benefits to the business.

Nigel Lingwood joined the Board on 1 November 2022. Nigel joined the Board's Audit Committee with, as part of the Board's succession planning, a view to assuming the Audit Committee Chair role following the 2023 AGM. In light of his extensive listed board experience, he also joined the Nominations and Remuneration Committees. From 2001 to 2021 Nigel was Group Finance Director and Board Director at Diploma PLC (LSE: DPLM.L) and he is currently a Non-Executive Director and Chair of the Audit Committee of Volution Group plc (LSE: FAN.L). In particular Nigel brings extensive and recent financial and accounting expertise together with a track record, as both an Executive and Non-Executive Director, of delivering growth in shareholder value in international public companies.

We were sad to see Karen Oliver step down from the Board on 31 December 2022 for personal reasons. Her unplanned departure led to various interim changes at Board level (as described below) and the search for a new Chair. I have stepped into an interim role as Board Chair and Chair of the Nominations Committee whilst we complete the recruitment process.

In January 2023, a number of major shareholders approached the Company and proposed that Neil Johnson be appointed as Chair and further requested that the process focus solely on Neil. Having regard to the initial specification for the role, and following interviews with all the Board members, the appointment of Neil was endorsed and it has been agreed that he will join the Board at the conclusion of the Annual General Meeting on 16 May 2023.

On 30 March 2023, we announced that David Blood will be stepping down as a non-independent Non-Executive Director. During his eight years on the Board, David has made a significant contribution to the business, including over two years as Chair, and everyone at Dialight extends him our best wishes for the future.

In 2022, the Nominations Committee received advice from the following independent external search firms in respect of various Board roles; Egon Zehnder, Communicate RS and Korn Ferry. None of these search firms had any disclosable connections with any Board Directors or with the Group.

Diversity

The Board recognises the benefits of Board cognitive diversity (and we report elsewhere in this Annual Report on pages 52 and 104 on workforce diversity)

NOMINATIONS COMMITTEE REPORT CONTINUED

so I am pleased to see the level of diversity broadly maintained on the Board (and indeed across the Group) in terms of experience, gender, qualifications and background. The fact that we are one of the few listed companies with two of the most senior Board roles (CEO and Senior Independent Director) filled by women illustrates well that Dialight is a place where any person, regardless of their background, can thrive. The Board is currently comprised of seven Directors, two of whom are women (29%). The spread of nationalities is: four British, one American, one German and one French. The Board remains strongly committed to enhancing cognitive and other forms of diversity in its future appointments.

Activities during 2022

The activities of the Committee are summarised on these pages and have included discussions on the need to develop greater strength in depth in senior management and ongoing succession planning.

Post year-end activities

Following the departure of Karen Oliver, the Company announced, on 13 January 2023, several changes to Board appointments were necessitated by my assumption of the interim Board Chair role. Gaëlle Hotellier has stepped up to replace me as the Senior Independent Director, on an interim basis, and she will carry out this role alongside her appointments as the Chair of the Remuneration Committee and the Workforce Engagement Non-Executive Director. Under the terms of reference of the Remuneration Committee, a Board Chair can be a member of the Remuneration Committee but does not count towards the independent Non-Executive Director quorum of 3 Directors. Accordingly, Gotthard Haug kindly agreed to be a member of the Remuneration Committee, whilst I have remained a member. Lastly, once I assumed the Board Chair role it was no longer appropriate for me to chair, or be a member of, the Audit Committee. The Board had a succession plan in place for the Audit Committee Chair role in the recruitment of Nigel Lingwood, and accordingly it was decided to accelerate that planning and for Nigel to assume the Audit Committee Chair role with immediate effect. As I was Chair of the Audit Committee for the entirety of the 2022 reporting period, I attended the Audit Committee meeting that reviewed the Company's FY2022 preliminary results and these Annual Report and Accounts in order to provide continuity.

Priorities for the coming year

The key priority for the Committee in early 2023 was to complete the recruitment of a new Board Chair. Alongside this, the Committee will consider the recruitment of an additional independent Non-Executive Director to further strengthen the Board's independent outlook, and will also focus on succession planning and talent development at Executive and Board level.

On behalf of the Nominations Committee.

David Thomas
Chair of the Nominations Committee
2 April 2023

COMMITTEE ACTIVITIES IN 2022

January
— Review and approval of appointment of Clive Jennings to CFO and Executive Director role.

March
— Annual review of Chair role and of the Board and its Committees.
— Annual review of Directors and approval of election/re-election of Directors.
— Review and approval of the annual Nominations Committee report.
— Review of Non-Executive Director recruitment process.

June
— Review and approval of search agents for Non-Executive recruitment process, review of role specifications, and discussion of long-list and interview processes.

July
— Update on Non-Executive Director recruitment process and review of CEO secondment to USA.

September
— Update on Non-Executive Director recruitment, short-list process and conduct of final interviews.

October
— Review and approval of appointment of Nigel Lingwood as a Non-Executive Director, subject to final terms.

December
— Annual governance review.
— Board Chair role.
— Terms of reference

AUDIT COMMITTEE REPORT

Nigel Lingwood
Chair of the Audit Committee

2022 HIGHLIGHTS

- Review of the potential quantum, duration, and denomination of the new banking facilities
- Approved the revised inventory provisioning policy
- Completed audit tender process, leading to the proposal to appoint Grant Thornton for 2023 audit
- Group-wide cyber security review completed
- Review of internal audit activity carried out by both outsourced providers and Group Finance staff
- Review of management judgement in key areas including going concern and annual impairment reviews, inventory provisions, development capitalisation and litigation cases.
- Expanded oversight of the Group risk management process to include departmental risk registers and mitigating actions.
- Consideration of business forecasts versus available banking facilities as part of going concern and viability reviews
- Assessment of the significant risks and issues to be disclosed in the financial statements and how these should be addressed
- Updated Committee terms of reference to include TCFD and environmental reporting
- Consideration of the BEIS consultation on 'Restoring Trust in Audit and Corporate Governance' and its potential impact on the Group
- Reviewed correspondence from the Financial Reporting Council following their review of the 2021 Annual Report and Accounts, which suggested limited improvements to disclosures

Terms of reference

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

2023 PRIORITIES

- Onboard Grant Thornton as the new Group auditor
- Continue the focus on working capital management, particularly inventory levels and ageing
- Oversee the implementation of the recommendations from the latest external cyber security review
- Expand the scope of internal audit activity to cover all Group locations
- Continue to consider the impact of BEIS on the Group (including the proposed introduction of an audit and assurance policy)
- Review the governance and disclosures surrounding TCFD and environmental reporting by the Group

RESPONSIBILITIES

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

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

COMPOSITION

Committee member	Member from/until	Attendance
Nigel Lingwood (Chair)	Member from 1 November 2022 – Chair from 12 January 2023	1/1
David Thomas	Member from 26 April 2016 – Chair to 11 January 2023	3/3
Gaëlle Hotellier	3 October 2016	3/3
Gotthard Haug	10 September 2021	3/3

Dear shareholders

I am pleased to present the Audit Committee Report for the year ended 31 December 2022. This report provides an insight into the activities undertaken or overseen by the Audit Committee ('Committee') in what has been another challenging year for the Group.

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

The Committee has an annual work plan linked to the Group's financial reporting cycle, which ensured that it has considered all matters delegated to it by the Board and ensured that the interests of shareholders are properly protected. Additionally, the Committee has considered the impact of global supply chain and logistics challenges on our business, and you will find important detail on this in other sections of the Annual Report (see page 81).

Committee meetings

The Committee met three times during 2022 and has a programme of business that reflects the Committee's terms of reference and issues that could impact the effectiveness of the Group's risk management systems, internal control processes and financial reporting.

COMMITTEE ACTIVITIES IN 2022

March

- Review of 2021 annual accounts and preliminary announcement
- Approval of key 2021 accounting judgements, including going concern and viability reviews
- Receive and discuss KPMG audit report
- Review and re-appoint KPMG as auditor for 2022
- Review heads of terms for revolving credit facility
- Approved the audit tender process and timing
- Annual risk management review
- Receive reports on internal audit activity

July

- Review of interim results and announcement
- Approval of key accounting judgements for interim results, including going concern review
- Approval of KPMG audit plan and fees for 2022
- Receive reports on internal audit activity
- Receive update on audit tender and approved selection of Grant Thornton as group auditor

December

- Completed Committee's annual governance review and evaluation
- Receive reports on internal audit activity, including cyber security review
- Review of key year-end accounting judgements
- Approve new inventory provisioning policy
- Review of internal control framework and effectiveness
- Reviewed correspondence following FRC review of 2021 accounts and addressed the minor disclosure changes recommended
- Approval of non-audit services

AUDIT COMMITTEE REPORT CONTINUED

In addition to Committee members, meetings are also attended by the:

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

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

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

Governance

All members of the Committee are independent Non-Executive Directors whose qualifications are outlined in the Directors' biographies on pages 108 and 109. Each member of the Committee has a detailed understanding of Dialight's strategy, business model and the Group's culture and core values together with significant knowledge and business experience in financial reporting, risk management, internal control, and strategic management. In addition, the present and former Chairman meet the requirement to bring recent and relevant financial experience to the Committee and further information about their experience can be found on page 108. The Board is satisfied that the Committee has the resources and expertise to fulfil its responsibilities and has competence relevant to the sector in which the Company operates.

Internal control and risk management processes

The Board has overall responsibility for the risk management framework, as explained on page 70. It delegates responsibility for reviewing the effectiveness of the Group's systems of internal control to the Committee. This covers all material controls including financial, operational and compliance controls and risk management systems. During the year, the Committee received detailed reports that enabled them to maintain oversight and discuss the risks and challenges to the Group. The structures within the Group that track and report on controls include:

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

The Committee also reviews the Group's internal control systems and their effectiveness prior to reporting any significant matters to the Board. Internal controls are the responsibility of the Chief Financial Officer. Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of the relevant managers and is continually tested by the work of Group Finance. These controls includes monthly management accounts, balance sheet reviews, regular forecasting and investigation of variances against budget/forecast.

The Committee reviews the Group whistleblowing register at each meeting to ensure investigations are properly completed and that any control implications or common themes are identified and addressed.

Internal audit

Dialight outsources the internal audit function and supplements this with reviews by members of Group Finance. Each year, the Committee reviews and approves the internal audit plan. The plan is kept under review, depending on operational or other business requirements, with any proposed changes being discussed and agreed with the Committee. The Chief Financial Officer and/or the external provider submits reports on completed audits to each Committee meeting. The findings are discussed by the Committee, together with any implications arising from such findings on the broader control environment. Recommendations arising from internal audit reviews are communicated to the relevant business area for implementation of appropriate corrective measures and the Committee monitors senior management's responsiveness to the same.

The work undertaken by outsourced providers covered inventory and payroll controls at the primary manufacturing locations in Mexico, cyber security, and business continuity planning. Group Finance reviewed controls in our largest region focusing on purchasing commissions, expenses, and compliance with delegation of authority across the Group.

The internal audit work concluded that appropriate controls were in place and made some recommendations for improvement. The review of cyber security in particular, identified areas for improvement which will be implemented in 2023.

Fair, balanced and understandable

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

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

AUDIT COMMITTEE REPORT CONTINUED

This approach enabled the Committee, and then the Board, to confirm that the Company's 2022 Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Key judgements and financial reporting matters

The Committee assesses and challenges whether during the year suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. Key accounting judgements considered, conclusions reached and their financial impacts during the year under review are set out in the table below. These were also the key judgements challenged by KPMG during their audit. Additionally, the Committee discussed with the external auditor the significant issues addressed during the year and the areas of particular focus, as described in the independent auditor's report on pages 178 to 190.

Key judgements and financial reporting matters 2022	Audit Committee review and conclusions
Going concern and viability statement	
The Directors must determine that the business will continue as a going concern for the 12-month period from the date of signing the accounts. Furthermore, the Directors are required to make a statement in the Annual Report as to the longer-term viability of the Group. This has been analysed in detail, particularly the downside scenarios modelled in the viability statement, in light of the current economic environment and world-wide commodity and logistics challenges.	The Committee conducted an annual assessment pursuant to which the Directors were able to conclude that it is appropriate to prepare the financial statements on a going concern basis, as set out in more detail on pages 88-89. The Committee also evaluated management's work in conducting a robust assessment of the Group's longer-term viability, affirmed the reasonableness of the assumptions, considered whether a viability period of three financial years remained most appropriate, and confirmed that it was as part of a recommendation to the Board. These conclusions were subject to robust challenge from KPMG. Further detail can be found on page 181.
Valuation of inventory	
The Committee reviewed the nature of the costs absorbed into inventory, the level of production over which these costs were absorbed, the variances, including in respect of material usage and purchase price, between standard cost and actual cost and the reasons for movements in inventory value period to period. The basis for and level of provisioning, including for aged, and obsolete product which are judgemental or require a high degree of estimation, were presented to the Committee by management.	The Committee and the Auditors discussed and assessed the information provided by management and concluded, after appropriate challenge, that the valuation of inventory and level of provisioning were reasonable. The Committee approved the implementation of the revised two-year provisioning policy (see note 2(c)).

Key judgements and financial reporting matters 2022	Audit Committee review and conclusions
Capitalised development costs	
Data in relation to historic and current year development cost capitalisation was reviewed and the appropriate application of the development costs capitalisation policy in line with accounting standards was considered. The adequacy of Dialight's disclosures was reviewed with management, including the judgement involved in assessing the carrying amount and degree of estimation involved in assessing the recoverable amount of capitalised development costs.	The Committee and KPMG challenged the assumptions used to determine development department capitalisation and concluded they were appropriate and that the carrying values at 31 December 2022 were supported by forecast cash flows. The Committee reviewed and approved the write-off of Obstruction development costs (see note 6).
Impairment review	
For goodwill and indefinite-life assets, the Group performs an annual impairment review. In addition, the Group reviews assets that are subject to amortisation or depreciation for events or changes in circumstances that indicate that the carrying amount of an asset or cash-generating unit may not be recoverable. If an asset has previously been impaired the Group considers whether there has been a change in circumstances or event that may indicate the impairment is no longer required.	The Committee and KPMG reviewed management's impairment review process including, where applicable, the potential indicators of impairment and/or reversal, cash flow projections, growth margin and discount rates used to derive a value in use as well as the sensitivity to assumptions made and consistency with the prior year. The Committee and KPMG concluded after robust challenge that no impairment charge was required. Further details are disclosed in note 14.
Non-underlying items	
The Group separately discloses certain costs and income that impair the visibility of the underlying performance and trends between periods. The separately disclosed items are material and infrequent in nature and/or do not relate to underlying business performance. Judgement is required in determining whether an item should be classified as non-underlying or included within the underlying results.	The Committee reviewed the presentation treatment of non-underlying items and agreed that the items listed in note 6 are appropriately classified and disclosed.

AUDIT COMMITTEE REPORT CONTINUED

Key judgements and financial reporting matters 2022	Audit Committee review and conclusions
On-going litigation with Sanmina Corporation	
The Committee considered the disclosures of the ongoing legal proceedings with its former manufacturing partner, Sanmina Corporation, and the possible impact it has when assessing the going concern and long-term viability statement of the Group (see further details in note 27).	The Committee concluded that the disclosure in the accounts was appropriate, and that management had considered the downside range of potential outcomes in assessing the Group's going concern and longer-term viability.

External audit effectiveness and independence

KPMG has been the Company's external auditor since 2001 but under the Statutory Auditors and Third Country Auditors Regulations 2016, the Company was required to re-tender its external audit by 31 December 2023. During 2022 the Committee completed the process to identify a new audit firm for the 2023 audit. There are no contractual obligations that restricted the Company's choice of external audit firm, but the restrictions on audit rotation set out in the 2016 Regulations precluded KPMG from being considered in the tender process.

Invitations to tender were sent out to two "Big Four" and three "Challenger" audit firms. Four firms submitted detailed proposals, which were evaluated by a selection panel comprising the former Committee Chair, the Chief Financial Officer, and Group Financial Controller. Two firms were short-listed and presented to the full Committee. Following careful consideration of the proposals, the Committee decided to recommend the appointment of Grant Thornton UK LLP at the forthcoming AGM on 16 May 2023.

The Company confirms that, during the period under review, it has complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

KPMG is engaged to express an opinion on the financial statements. It reviews the disclosures contained in the financial statements to the extent necessary to express its opinion. It discusses with management the reporting of operational results and the financial position of the Group and presents findings to the Committee. The Directors in office at the date of this report are not aware of any relevant information that has not been made available to KPMG and each Director has taken steps to be aware of all such information and to ensure it is available to KPMG. KPMG's audit report is published on pages 178 to 190.

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

— discussing and agreeing at the planning stage the draft list of specific audit risks to audit effectiveness and quality (specific audit quality risks);

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

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

The Committee analysed and discussed the results of the inspection of KPMG's 2021 audit by the FRC's Audit Quality Review team. The discussions gave no cause for concern regarding the FRC's observations.

Non-audit services

The Committee oversees the nature and amount of all non-audit work undertaken by the external auditor to ensure that it remains independent. When seeking external accountancy advice in relation to non-audit matters, the Group's policy is to invite competitive tenders where appropriate. In 2022, EY provided internal audit services at the Group's Mexican operations and are also retained to provide taxation services to the Group. It is also the Group's policy to balance the need to maintain audit independence with the desirability of taking advice from the leading firm in relation to the matter concerned and being efficient. No non-audit fees were paid to KPMG during the period under review.

Audit Committee evaluation

It is incumbent on the Board to ensure that a formal and rigorous review of the effectiveness of the Committee is conducted each year. This was accomplished through a self-assessment process at the December 2022 meeting, which included a review of the Committee terms of reference and was reported to the Board in December. The terms of reference were updated to reflect the Committee's responsibilities relating to TCFD and environmental reporting and are available on the Group website.

In concluding this report, and particularly bearing in mind the disruption caused by global supply chain and logistics difficulties, on behalf of the Committee, I would like to recognise and thank the Dialight management and finance team, and KPMG for their commitment and valuable contributions during what has been a challenging year for the business.

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

Nigel Lingwood
Chair of the Audit Committee
2 April 2023

REMUNERATION COMMITTEE REPORT

Gaëlle Hotellier
Chair of the Remuneration Committee

ROLE AND RESPONSIBILITIES

The primary responsibilities of the Remuneration Committee are to:

— set the Remuneration Policy for all Executive Directors (including interim roles) and the Company's Chair including, where appropriate, bonuses, incentive payments, share-based incentive schemes and post-retirement benefits;
— determine the remuneration packages for the Executive Directors (including interim roles), the Company's Chair and the Company Secretary, within the terms of the policy;
— recommend and monitor the structure of the remuneration of the senior management group as defined by the Board;
— approve the design of, and determine targets for, any performance-related and share-based incentive schemes operated by the Company and approve the total annual payments made under such schemes (in accordance with the Provisions of the UK Corporate Governance Code 2018); and
— review the design of all share incentive plans requiring approval by the Board and shareholders (for any such plans, the Remuneration Committee shall determine each year, taking into account the recommendations of the Chief Executive Officer, whether awards will be made and, if so, the amount of such awards to the Executive Directors, Company Secretary, members of the Executive Committee and other senior Group employees from time to time as nominated by the Chief Executive Officer, and any performance targets to be used).

Terms of reference

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

STATEMENT OF SHAREHOLDER VOTING (2022 AGM)

	% votes for	% votes against	Votes withheld
Directors' Remuneration Report FY2021	99.73	0.27	(238 out of 28,126,421 votes cast)
2021 Remuneration Policy	96.30	3.70	205,478 (out of 18,865,959 votes cast)

COMPOSITION

The names of those who served on the Remuneration Committee during the year and through to the report date can be found in the table below:

Committee member	Member from/until	Attendance
Gaëlle Hotellier (Committee Chair)	From 8 January 2018 (Chair from 1 June 2018)	7/7
David Thomas	From 26 April 2018	7/7
Karen Oliver	From 30 July 2020 until 31 December 2022	6/7
Nigel Lingwood	From 1 November 2022	1/1
Gotthard Haug	From 12 January 2023	

All members of the Remuneration Committee are considered independent within the definition set out in the 2018 Code. None of the Remuneration Committee has any personal financial interest in Dialight (other than as shareholders), conflicts of interests arising from cross directorships, or day-to-day involvement in running the business.

During the year, the Remuneration Committee met seven times. Of these, four meetings were formal scheduled meetings and the other three were meetings held to deal with the review and approval of specific technical remuneration matters. Attendance by individual members of the Remuneration Committee is disclosed in the table above.

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

COMMITTEE ACTIVITIES IN 2022

January

— Review of benchmarking advice on CFO role and finalising CFO remuneration package.

March

— Review of annual pay increment policy and application (for Chair, Executive Director roles and general policy across Group); review and approval of outcomes for 2021 bonus plan and 2019 PSP/RSP plan; review and approval of 2022 bonus plan structures; drafting and approval of Annual Remuneration Report; and review and approval of 2022 RSP grant structures (excluding Directors).

April

— Finalisation of 2022 RSP grants and 2022 bonus plan.

July

— Review of H1 performance against 2022 bonus plan metrics and review of 2022 hedging of current PSP/RSP awards.

September

— Review of proposed terms for CEO secondment to USA.

December

— Review of Committee composition, year-to-date performance against annual bonus plan, annual governance review, review of remuneration arrangements upon Karen Oliver's resignation, and confirmation of 2023 remuneration timetable.

External advice to the Remuneration Committee

The Remuneration Committee has access to the advice of the Chief Executive Officer, Company Secretary and the Group HR Director as well as external advisers as required. During the year ended 31 December 2022, the Remuneration Committee consulted Mercer Limited, a business of Marsh McLennan Inc, which provided independent advice (for a total fee of £28,300 excluding VAT) on: the CFO salary, benefits and variable remuneration package; remuneration arrangements on the departure of Karen Oliver; incentive design, external market context; general remuneration matters; and corporate governance best practice and disclosure (including the drafting of this report). The Remuneration Committee retains the responsibility for the appointment of remuneration advisers and their associated fees and undertakes due diligence periodically to ensure that its advisers remain independent and that the advice provided is impartial and objective. Mercer Limited is a signatory to the Remuneration Consultants Group Code of Conduct and abides by its requirements to provide advice that is transparent and impartial. Mercer Limited does not provide any other services to the Group.

Compliance statement

This Remuneration Report (inclusive of this introduction and report by Gaëlle Hotellier, the policy outlined on pages 140 to 158 and the report on the implementation of the policy on pages 159 to 170) has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It also meets the requirements of the FCA Listing Authority's Listing Rules and the Disclosure Guidance and Transparency Rules. The sections of the Remuneration Report that are subject to audit are marked as Audited Information. The remaining sections of the Remuneration Report are not subject to audit.

REMUNERATION COMMITTEE REPORT CONTINUED

Dear shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2022. As in previous years, this report is split into three sections: this Annual Statement (pages 136 to 139); the current Remuneration Policy (pages 140 to 158); and the annual report on the implementation of the Remuneration Policy during 2022 (pages 159 to 170). We have also included "at a glance" summaries on pages 141 and 159 to aid the reader.

Implementation of the 2021 Remuneration Policy during the year

Following extensive consultation with major shareholders, the Remuneration Committee proposed a strengthened Remuneration Policy at the 2021 AGM. This policy was passed with the support of 96.30% of voting shareholders. The key improvements in the 2021 Remuneration Policy were: (a) replacement of the Performance Share Plan ("PSP") policy with the Dialight Restricted Share Plan ("DRSP") – granting restricted shares (at a 50% reduction in value) free of performance criteria other than retention in role and Remuneration Committee discretion as to Group performance being in line with strategy; (b) an increase in the Executive Director shareholding guidelines to 200% of base salary; (c) retention of all bonus and DRSP shares to meet shareholding guidelines; and (d) post-employment retention of shares for a two-year period. Following the introduction of the 2021 Remuneration Policy and the final stage of implementation of the restricted share plan (as reported in 2021), the Remuneration Committee's activities during 2022 were primarily focussed upon the routine implementation of that Policy with regards to the annual cycle of review of reward structures across the Group, bonus setting and review, and annual equity-based awards.

Board changes in 2022

Clive Jennings was appointed as CFO and as an Executive Director on 18 January 2022, having previously been interim CFO since 4 May 2021. Details of Clive's remuneration are set out on pages 159 and 160. On 14 December 2022, the Company announced that Karen Oliver had notified the Board that she wished to step down as Chair and Non-Executive Director of the Group on 31 December 2022 for personal reasons. In the circumstances, Karen was entitled to the payment of her three-month contractual notice period (equating to £30,000) This sum was paid to Karen on 6 January 2023.

Exercise of discretion

The Remuneration Committee has not exercised any discretion during the reporting year in respect of approving awards under Schemes that, without the exercise of such discretion, would not have vested. To provide context, however, the Committee has in prior years exercised discretion in the downwards adjustment of remuneration. In the 2020 reporting year the Remuneration Committee exercised discretion in reducing PSP/RSP awards to reflect the decline in the share price (in respect of the 12-month period prior to grant of the 2020 PSP/RSPs). In light of the 2022 financial results, the Committee has exercised its discretion and decided that no payments will be made against the personal objectives element of the APBP.

Post year-end activities

As reported in the Nominations Committee report, Neil Johnson has been appointed with effect from the conclusion of the Annual General Meeting on 16 May 2023 and, as part of that search process, the

Committee has received advice from its remuneration consultants (Mercer Limited). That advice was focused on the appropriate level and structure of remuneration for a successor in the role taking account of prevailing governance standards, market practice and the context of the specification for the role. The Board has additionally received various representations from a number of major shareholders with regards to the Chair role and potential remuneration structures that they believe would be most appropriate in the current context. These representations from shareholders have included a suggestion that the Remuneration Committee considers a value creation plan for the Chair role and/or executive management.

The Remuneration Committee is committed to maintaining an ongoing dialogue with the Company's major shareholders and welcomes any direct correspondence from shareholders on remuneration matters. Equally, the Remuneration Committee will continue to robustly, and with an independent mindset, scrutinise any proposed remuneration structures for the Chair role and/or for senior management – taking account of prevailing external governance codes and regulatory requirements, the advice from its remuneration and legal advisers, the views of its major shareholders (including any dissenting views), the incentivisation requirements to drive Group performance, and the needs and interests of the Group's other stakeholders (including employees).

Following Karen Oliver's departure, David Thomas has stepped in as interim Chair, I have stepped in as interim Senior Independent Director ("SID") and the appointment of Nigel Lingwood as Audit Committee Chair (to replace David Thomas as part of the Board's structured succession planning) has been accelerated. The Remuneration Committee reviewed the level of fees payable for the interim Chair role (receiving advice from its remuneration consultants) and determined that within the context of the interim nature of the role it was appropriate to pay fees at the same level as those paid to Karen Oliver. Whilst it is the Board and not the Remuneration Committee that is responsible for setting fees for Non-Executive Directors, it is noted that the fees payable for the interim SID role and the Audit Committee chair role were also agreed at their previous rates. Further details of all fees payable to Non-Executive Directors are on pages 159 and 160. Additionally, as announced on 13 January 2023, Gotthard Haug has joined the Remuneration Committee.

Having regard to the businesses' operations centred in North America and Mexico, the Committee agreed to the CEO taking a temporary secondment to this region from January 2023. No amount has been paid to the CEO in this respect.

Matters to be considered at the 2023 Annual General Meeting

In addition to the routine resolution relating to this Remuneration Report, the Notice of Annual General Meeting will contain a proposal for the renewal of the Company's 2014 Performance Share Plan (the 2014 Plan). The 2014 Plan is due to expire on 15 April 2024 – a date which could fall within the 2024 annual RSP awards grant window. The decision has therefore been taken, as a precaution, to renew the Plan a year early to avoid any administrative challenges in 2024. The new Plan is permitted by the Remuneration Policy approved by shareholders in 2021.

Gaëlle Hotellier
Chair of the Remuneration Committee
2 April 2023

2022 REMUNERATION POLICY OVERVIEW

A new Remuneration Policy was introduced in 2021 as the final stage of a two-year review and change process. The process involved a series of consultations with key shareholders in 2020 and 2021 and there has additionally been a wider consultation with shareholders in early 2023. The Committee is confident that the Company's Remuneration Policy now delivers an optimal degree of shareholder alignment for Executive Directors' remuneration structures. This page provides an "at a glance" summary of the 2021 Remuneration Policy. The policy is set out in detail on pages 142 to 158.

Executive Director remuneration under the 2021 policy

Total Executive Director remuneration is made up of the following five components:

Extended consultation % of shareholders consulted in 2020 and 2021 on new Remuneration Policy.	**72.4%+** As a % of total issued share capital
New in 2021 % reduction in maximum CEO share awards.	**50%** (from 150% of salary for PSPs to 62.5% of salary for RSPs)
New in 2021 % increase in shareholding requirement for Executive Directors under new Remuneration Policy.	**100%** (to 200% of salary)
New in 2021 Maximum pension payable to Executive Directors (% of base salary).	**5%**
New in 2021 Post-employment shareholding period introduced.	**2 years**
Policy adoption % of voting shareholders voting in favour of new 2021 Remuneration Policy.	**96.3%**

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

REMUNERATION: DIRECTORS' REMUNERATION POLICY (2021)

Policy approval

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

2022 REMUNERATION POLICY OVERVIEW CONTINUED

Background and overview of the policy

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

REMUNERATION POLICY TABLE

LINK TO STRATEGY	OPERATION
BASE SALARY	
To recruit, retain and motivate individuals of high calibre, and reflect the skills, experience and contribution of the relevant Director; to ensure that fixed pay represents a fair return for employment.	The Remuneration Committee sets base salary with reference to relevant market data and an individual's experience, responsibilities and performance. Base salary is considered by the Remuneration Committee on an individual's appointment and then generally reviewed once a year or when an individual changes position or responsibilities. When making a determination as to the appropriate level of remuneration, the Remuneration Committee firstly considers pay and conditions for employees across the Group, the general performance of the Company and the wider economic environment. The Remuneration Committee may also undertake periodic benchmarking for similar roles in comparable organisations.

OPPORTUNITY	PERFORMANCE METRICS
Any base salary increases are applied in line with the outcome of the review. In respect of existing Executive Directors, it is anticipated that salary increases will generally be in line with the broader employee population. In exceptional circumstances (including, but not limited to, material increases in role size or complexity), the Remuneration Committee has discretion to make appropriate adjustments to salary levels to ensure that they remain market competitive. It is not envisaged that this will be a frequent occurrence. Detail of current salaries for the Executive Directors can be found on P159 TO 160.	None

2022 REMUNERATION POLICY OVERVIEW CONTINUED

REMUNERATION POLICY TABLE CONTINUED

LINK TO STRATEGY	OPERATION
BENEFITS	
To provide market competitive, yet cost effective, benefits to attract and retain high-calibre executives.	Executive Directors receive benefits which consist primarily of the provision of a car allowance, life insurance and medical insurance, although they may include such other benefits as the Remuneration Committee deems appropriate including in circumstances where new benefits are introduced for other employees in the location where an Executive Director is based.
PENSION	
To provide market competitive, yet cost effective, benefits to attract and retain high-calibre executives.	A Company contribution to a defined contribution pension scheme or provision of a cash payment in lieu of a pension contribution (or combination of such) for UK-based Directors. In the US, Dialight operates a 401(k) and SERP (or cash equivalent payment in lieu in respect of the latter). Salary is the only element of remuneration that is pensionable.

OPPORTUNITY	PERFORMANCE METRICS
Benefits vary by role and individual circumstances; eligibility and cost are reviewed periodically. The Remuneration Committee retains the discretion to approve a higher total benefit cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially (e.g. increases in life insurance premiums). The value of benefits awarded to the Executive Directors can be found in the table on P166.	None
Executive Directors will receive pension arrangements consistent with the majority of employees in the relevant jurisdiction: — UK-based Executive Directors will be entitled to join the existing defined contribution scheme offering employer contributions of up to 5% of salary, or to receive an equivalent cash payment in lieu. — US-based Executive Directors will be entitled to participate in the 401(k) and the SERP (or to receive a cash equivalent payment in lieu of employer contribution in respect of the latter) on terms consistent with the majority of US employees.	None

2022 REMUNERATION POLICY OVERVIEW CONTINUED

REMUNERATION POLICY TABLE CONTINUED

LINK TO STRATEGY	OPERATION
ANNUAL PERFORMANCE BONUS PLAN ("APBP")	
The APBP incentivises the achievement of annual objectives which support the short-term performance goals of the Company.	APBP measures, weightings and targets are set by the Remuneration Committee at the beginning of each financial year following the finalisation of the budget for that year. Bonuses up to target are paid in cash, with pay-outs above target delivered in Dialight shares. Where the executive receives Dialight shares, half of these vest after two years with the balance vesting after three years, subject to continued employment with the Group. Dividends are accrued on these deferred shares and are paid to the participant on release of shares that are subject to the award. Awards under the APBP are subject to malus and clawback provisions, further details of which are included as a note to the policy table.

OPPORTUNITY	PERFORMANCE METRICS
The maximum bonus opportunity is 150% of salary. Threshold performance will deliver pay-outs of up to 20% of maximum, while pay-outs for target performance will be up to 50% of maximum.	Performance is assessed on an annual basis, as measured against specific objectives set at the start of each year. Financial measures will make up at least 75% of the total annual bonus opportunity in any given year, with up to 25% based on individual objectives linked to Dialight's strategy. The Committee has discretion to adjust the formulaic bonus outcomes both upwards (within the plan limits) and downwards (including to zero) to ensure alignment of pay with performance, e.g. in the event of one of the targets under the bonus being significantly missed or if there are unforeseen circumstances outside management control. The Committee also considers measures outside the bonus framework (including ESG factors) to ensure there is no reward for failure and that outcomes are fair in the context of overall performance and the Group's wider environmental and societal impact.

2022 REMUNERATION POLICY OVERVIEW CONTINUED

REMUNERATION POLICY TABLE CONTINUED

LINK TO STRATEGY	OPERATION
RESTRICTED SHARE PLAN ("DRSP") The DRSP replaced the PSP for awards to Executive Directors in 2021 and thereafter. No new PSP awards will be granted to Executive Directors (except, potentially, in the case of "buy-outs" under the Recruitment Policy shown on page 155). PSP awards made in 2020 or earlier will continue to operate under the terms of the shareholder-approved PSP. The DRSP provides a simple and transparent long-term incentive award to help ensure alignment between the interests of shareholders and those of the Executive Directors, and is aligned to the plans operated below Board level.	DRSP awards may be structured as conditional shares or nil-cost options with a two-year exercise window from the date of vesting. The release of awards may, at the discretion of the Committee, be deferred in whole or in part following the end of a three-year vesting period. The Committee's intention is that all vested awards will be subject to a two-year post-vesting holding period. The Remuneration Committee has the power to authorise the payment of dividends or dividend equivalents under the rules of the DRSP. Awards under the DRSP are subject to malus and clawback provisions, further details of which are included as a note to the policy table.

OPPORTUNITY	PERFORMANCE METRICS
The DRSP provides for an award up to a normal limit of 62.5% of salary for Executive Directors, with an overall limit of 75% of salary for use in exceptional circumstances. These maximum opportunities under the DRSP represent a 50% reduction against the maximum opportunity that was available under the legacy PSP scheme. The Committee has discretion to reduce awards in the event that there has been a significant fall in the share price.	**Vesting of awards will require:** (a) that the recipient remains in role as at the date of vesting (subject to the "leaver" provisions of the shareholder approved share plan); and (b) that the Committee is satisfied that Dialight's underlying performance and delivery against strategy are sufficient to justify the level of pay-out, taking into consideration factors such as absolute total shareholder return ("TSR"), relative TSR, environmental impact and operational performance over the period, as well as individual contribution and the workforce and wider stakeholder experience. The Committee will have discretion to reduce the vesting of awards (including to zero) in the event that it considers that the outcome would be otherwise misaligned with the experience of shareholders and other stakeholders.

2022 REMUNERATION POLICY OVERVIEW CONTINUED

REMUNERATION POLICY TABLE CONTINUED

LINK TO STRATEGY	OPERATION
NON-EXECUTIVE DIRECTOR FEES	
The Company sets fee levels to attract and retain Non-Executive Directors with the necessary experience and expertise to advise and assist with establishing and monitoring the strategic objectives of the Company.	Fee levels are typically considered every year, taking into account fees paid for equivalent roles at companies of similar size, time commitment and complexity. The fees paid to the Chair are determined by the Remuneration Committee, while fees for Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Senior Independent Director and as Chair of any of the Board's Committees. Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's share plans and are not eligible to join the Company's pension scheme.

OPPORTUNITY	PERFORMANCE METRICS
The Company's policy in relation to fees is to reflect the time commitment and responsibilities of the roles, normally by paying up to median level fees, compared to market, depending on the experience and background of the Non-Executive Directors. The Company also reimburses the Non-Executive Directors for expenses reasonably and properly incurred in the performance of their duties. In normal circumstances, increases to fees will be broadly in line with price inflation, subject to cases of material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role. It remains important for the Board to have the necessary flexibility to step outside this general policy should the requirement be clear that a certain type of individual is required to conform with new governance requirements or legislation. Aggregate fees for all Non-Executive Directors will be within the limits set by the Company's Articles of Association. Details of current Non-Executive Director fees can be found on P159 TO 160.	None

2022 REMUNERATION POLICY OVERVIEW CONTINUED

NOTES TO THE REMUNERATION POLICY TABLE

Explanatory detail for future Remuneration Policy table

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

Performance measures and targets

Measures used under the APBP are selected annually to reflect Dialight's main short-term objectives and reflect both financial and non-financial priorities, as appropriate. The performance underpins attached to DRSP awards will be based on those which best reflect the overall performance of the business. These might include, but not be limited to, absolute TSR, relative TSR, ESG metrics and operational performance over the period, as well as individual contribution and broader stakeholder experience. For the APBP, EBIT continues to be used as the primary measure to provide a direct link to one of our KPIs. The Committee introduced a net debt/cash metric for the 2021 APBP, reflecting the importance of careful cash management in ensuring we are able to fund the Company's strategic objectives over the short and longer term. Up to 25% of the APBP may be based on individual strategic goals in order to reflect the importance of incentivising non-financial objectives linked to Dialight's strategy. Targets are set on an annual basis taking into account the Company's budget as well as external expectations for Dialight and the sector. If an event occurs which causes the Remuneration Committee to consider that an outstanding DRSP, PSP award or bonus award would not achieve its original purpose without alteration, the Remuneration Committee has discretion to amend the targets, provided the new conditions are materially no less challenging than was intended when originally imposed. Such discretion could be used to appropriately adjust for the impact of material acquisitions or disposals, or for exceptional and unforeseen events outside the control of the management team and would be disclosed in the relevant Remuneration Report.

Difference between the Directors' Remuneration Policy and that for other employees

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

Senior management is typically eligible to participate in the APBP, with opportunities and performance measures reflecting organisational level and business area, as appropriate.

DRSP awards at senior management level and to other key employees also take the form of restricted share units with vesting subject only to continued employment over a number of years. This helps Dialight remain competitive in the main talent markets in which it operates, while also continuing to align all plan participants (Executive Directors and senior employees alike) with the interests of shareholders in growing the value of the Company over the longer term. Share awards to participants below Executive Director level are not subject to a holding period.

Shareholding guidelines

Executive Directors are required to accumulate and maintain a holding of Dialight shares equivalent in value to 200% of their base salary (an increase from the 100 – 125% of salary requirement in the previous remuneration policy). The net of tax number of vested shares under the Company's DRSP (and awards that vest under the legacy PSP) will normally be required to be retained until the guideline has been met. Current shareholding levels are set out on page 169. The Committee has also introduced post-employment guidelines for Executive Directors. From 2021, Executive Directors have been required to retain shares equivalent to the in-post shareholding guideline (or actual shareholding, if lower) for a period of 24 months following the cessation of their employment.

Committee discretion

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

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

Malus and clawback

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

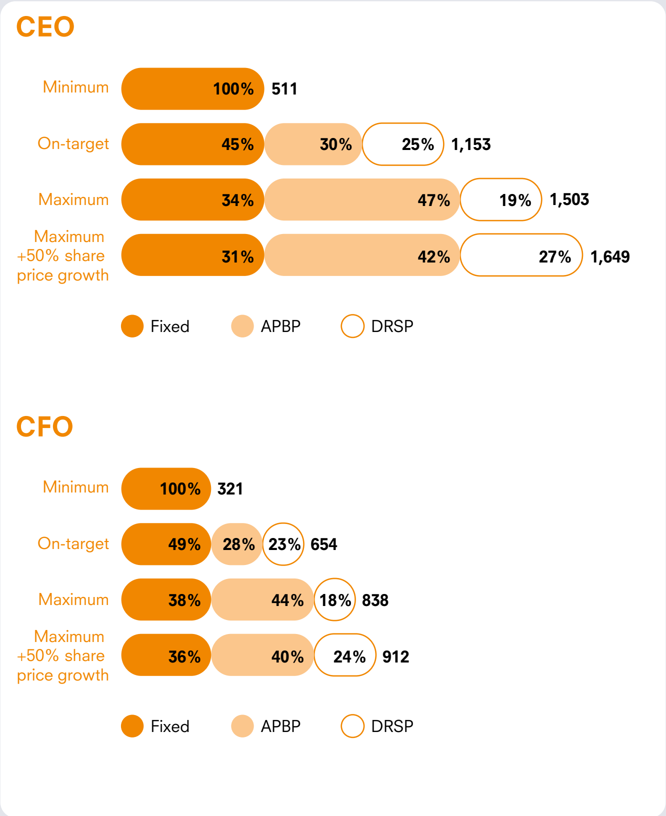
2022 REMUNERATION POLICY OVERVIEW CONTINUED

Pay for performance

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

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

Forward-looking pay scenario charts



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

Recruitment policy

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

COMPONENT:	SALARY	BENEFITS	PENSION	APBP	DRSP
Approach:	Executive Directors will receive a base salary which will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over a period of two to three years subject to the individual's development in the role.	New appointees will be eligible to receive benefits in line with the current policy, as well as expatriation allowances or benefits and any necessary expenses relating to an Executive's relocation on appointment.	New appointees will be eligible to participate in one of the Company's defined contribution plans, or receive a cash supplement or local equivalent on the same basis as the majority of employees in the relevant jurisdiction.	The scheme as described in the policy table will apply to new appointees, with the relevant maximum typically being pro-rated to reflect the proportion of employment over the year. Where applicable, targets for the individual strategic element will be tailored to each Executive.	New appointees will be granted restricted share awards under the DRSP on the same terms as other Executives, as described in the policy table. The normal limit of 62.5% of salary will apply, save in exceptional circumstances where up to 75% of salary may be awarded.
Maximum:	n/a	n/a	n/a	150% of salary	62.5% of salary

2022 REMUNERATION POLICY OVERVIEW CONTINUED

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

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

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

The approach to the recruitment of internal candidates would be similar but the Remuneration Committee would continue to honour existing contractual commitments prior to any promotion. For the avoidance of doubt, this would not extend to pension arrangements which, as above, would be aligned with the majority of employees in the relevant jurisdiction.

For Non-Executive Directors, the Remuneration Committee and the Company would seek to pay fees in line with the Company's existing Policy. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director and/or as Chair of a Board Committee.

Service contracts

Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Remuneration Committee. Executive Directors' service contracts contain provisions that require up to 12 months' notice of termination on either side. Such contracts do not contain any provisions for payments outside the scope of those contained in the contract. Executive Director service contracts are available to view at the Company's registered office. Non-Executive Directors have specific terms of engagement provided in formal letters of appointment, which contain three-month notice periods that are mutual. The Non-Executive Directors are appointed for a three-year term, subject to annual re-election by the shareholders at the Company's AGM.

Notice periods

Executive Directors' service contracts require up to 12 months' notice to be given by Dialight in the event of termination. Fariyal Khanbabi's contract can be terminated with and without cause and requires up to 12 months' notice from either party, whilst Clive Jennings' contract requires six months notice on a similar basis. Both contracts provide for pay in lieu of notice but does not contain any additional compensation provisions, nor does it contain liquidated damages clauses. If a contract is to be terminated, the Remuneration Committee will determine such mitigation as it considers fair and reasonable in each case.

In determining any compensation, it will take into account the best practice provisions of the UK Corporate Governance Code and published guidance from recognised institutional investor bodies, and will take legal advice on the Company's liability to pay compensation and the appropriate amount. The Remuneration Committee periodically considers what compensation commitments an Executive Director's contract would entail in the event of early termination. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. The Remuneration Committee will exercise discretion in making appropriate payments in the context of outplacement, settling legal claims or potential legal claims by a departing Executive Director, including any other amounts reasonably due to the Executive Director; for example, to meet the legal fees incurred in connection with the termination of employment, where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice.

Treatment of departing Executive Directors

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

— Annual bonus: In the event of an Executive Director leaving Dialight before the end of a bonus year or prior to the payment of a bonus, the Remuneration Committee has discretion to allow them to be paid a portion of bonus relative to their point of leaving. This will be highly contingent on the manner of the Executive Director's departure – specifically, payment would only be made if they are classified as a "good leaver" pursuant to the rules of the APBP as well as business performance. For good leavers, deferred bonus shares will normally be retained by the participant and will be released in full following completion of the applicable deferral period. For other leavers, deferred bonus shares will lapse.

— DRSP/PSP Leavers before the end of the performance or vesting period: In most circumstances, awards will lapse. If the Executive Director is classed as a "good leaver", outstanding DRSP/PSP shares would typically be pro-rated for the proportion of the vesting or performance period served and released, subject to applicable performance conditions for PSP awards, at the normal vesting date. The Remuneration Committee has flexibility to allow awards to vest earlier than above when an individual leaves; however, the default position will be for awards not to be released early except in compassionate circumstances.

2022 REMUNERATION POLICY OVERVIEW CONTINUED

— DRSP/PSP leavers after the end of the performance or vesting period: Any awards in a holding period will normally be released following completion of the holding period.

For the purpose of the above, “good leaver” is defined as a participant ceasing to be employed by the Group by reason of death, disability, ill health, redundancy, retirement with agreement of the Company or any other reason that the Remuneration Committee determines in its absolute discretion. As noted above, should the Executive Director leave the Company in any other circumstances, outstanding awards would typically lapse. The Remuneration Committee also retains discretion in the event of a change of control to release awards under the DRSP and/or the PSP. It is usual in this situation that awards would be pro-rated for time and performance subject to the discretion of the Committee. In relation to the APBP, the scheme rules allow the Remuneration Committee to determine that all deferred share elements of the bonus awards will vest on a change of control and may be exercised within such period as the Remuneration Committee shall specify.

External appointments

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

Employment conditions elsewhere in the Group

The Remuneration Committee takes into account what the general rise in employee salaries was across the Group at the review date when considering changes to the remuneration of the Executive Directors. The Remuneration Committee did not expressly seek the views of employees when drawing up the Remuneration Policy, but does carry out an annual review of salaries across the Group, and the Board and Remuneration Committee are regularly updated on employee matters. The Workforce Engagement NED meets with employees across the Group, and remuneration levels (including remuneration arrangements across the Group and for Executive Directors) may be discussed in such fora.

Shareholder views

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

REMUNERATION: POLICY IMPLEMENTATION IN 2022 AND 2023

The Remuneration Committee is responsible for implementation of the Remuneration Policy. This page provides an "at a glance" summary of the implementation of the Remuneration Policy in 2022. The details of that policy implementation and details on how the policy will be implemented in 2023 are set out on pages 167 to 170.

2022 REMUNERATION OUTCOMES

CEO (FARIYAL KHANBABI)

Fixed components:

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

Variable components (CEO):

Bonus metrics:	150% of salary (50% EBIT, 25% cash, 25% strategic goals)
Bonus outcome:	£0
PSP vesting:	Nil (2019 grant)
DRSP awards:**	79,120 (2022 grant)

* Annual increment of 3% effective from 1 April 2022.
** Restricted share awards made under the 2021 Remuneration Policy and awarded on 5 April 2022.

CFO (CLIVE JENNINGS)

Fixed components:

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

Variable components (CFO):

Bonus metrics:	125% of salary (50% EBIT, 25% cash, 25% strategic goals)
Bonus outcome:	£0
PSP vesting:	n/a
DRSP awards*:	41,201 (2022 grant)

* Restricted share awards made under the 2021 Remuneration Policy and awarded on 5 April 2022.

NON-EXECUTIVE DIRECTORS

Chair fee:	£120,000
NED base fee*:	£43,260 / €58,813
SID uplift fee*:	£5,253
AuditCo chair uplift fee*:	£5,253
RemCo chair uplift fee*:	€7,210
Workforce Engagement NED:	£5,000

Variable components (NEDs):

Nil

* Annual increment of 3% effective from 1 April 2022 on these roles.

2023 IMPLEMENTATION OF REMUNERATION POLICY

CEO (FARIYAL KHANBABI)

Fixed components:

Base salary*:	£466,796 (+3%)
Pension:	5%
Benefits:	Car, health insurance, life assurance

Variable components (CEO):

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

* Annual increment to be reviewed in March/April 2023.

CFO (CLIVE JENNINGS)

Fixed components:

Base salary*:	£295,000 (no change)
Pension:	5%
Benefits:	Car, health insurance, life assurance

Variable components (CFO):

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

* Annual increment to be reviewed in March/April 2023.

NON-EXECUTIVE DIRECTORS

Chair fee:	£120,000
NED base fee*:	£44,558 / €60,577
SID uplift fee*:	£5,411
AuditCo chair uplift fee*:	£5,411
RemCo chair uplift fee*:	€7,426
Workforce Engagement NED*:	£5,150

Variable components (NEDs):

Nil

* Annual increment to be reviewed in March/April 2023.

2022 OUTCOMES

Single figure of total remuneration (audited information)

The following tables provide details of the Directors' remuneration for the 2022 financial year, together with their remuneration for the 2021 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

2022 Directors' pay (£'000s)	Salary/fees	Benefits	Pension	Sub-total fixed	Bonus	PSP	Sub-total variable	Total remuneration
Executive Directors								
Fariyal Khanbabi	463	21	23	507	-	–	-	507
Clive Jennings	294	11	15	320	-	–	-	320
Non-Executive Directors								
David Blood	44	–	–	44	–	–	–	44
Gotthard Haug	44	–	–	44	–	–	–	44
Gaëlle Hotellier	€73	–	–	€73	–	–	–	€73
Karen Oliver	123	30	–	153	–	–	–	153
David Thomas	55	–	–	55	–	–	–	55
Nigel Lingwood	7	–	–	7	–	–	–	7

1 The CEO received an annual salary increment of 3% with effect from 1 April 2022 (see pages 159 and 164).
2 Clive Jennings was appointed as a Director on 18 January 2022.
3 The Remuneration Committee exercised its discretion to reduce the personal objectives element of each Executive Directors' 2022 bonus to zero.
4 Karen Oliver resigned with effect from 31 December 2022 but received a contractual notice period payment of £30,000 (equating to 3 months' notice) on 6 January 2023.
5 The Non-Executive Directors received an annual fee increment of 3% with effect from 1 April 2022 on base fees and role-specific increments.
6 Nigel Lingwood was appointed with effect from 1 November 2022.

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

1 Fariyal Khanbabi's bonus was paid as £340,000 cash (under the bonus scheme, the cash element of the bonus is capped at 50% of the maximum bonus opportunity) and the balance was deferred into shares under the APBP.
2 Clive Jennings was not a Director in 2021. From May 2021 to December 2021 he was engaged as Interim CFO and attended Board meetings. Financial data in respect of Clive Jennings for FY2021 is disclosed in the interests of transparency and to facilitate year-on-year comparison.
3 Wai Kuen's appointment was terminated on 14 June 2021. No payments were made to Wai Kuen Chiang over and above contractual salary, pension and benefits through to the date of termination.
4 David Blood stepped down as Chair with effect from 10 September 2021, but remained as a Non-Executive Director. He received an annual fee increment of 3% from October 2021.
5 Gotthard Haug received an annual fee increment of 3% with effect from 1 October 2021.

6 Gaelle Hotellier was appointed as Workforce Engagement NED (superseding David Thomas) with effect from 1 September 2021. She received a fee uplift of £5,000 per annum inn respect of this role. She also received an annual fee increment of 3% with effect from 1 October 2021 in respect of her basic NED fee and her uplift fee for chairing the Remuneration Committee.
7 Karen Oliver was appointed as Chair with effect from 10 September 2021 on an annualised fee of £120,000.
8 Stephen Bird stepped down from the Board with effect on 10 September 2021 and received a pro-rated amount of his annual fee of £42,000 and his SID uplift.

Additional disclosures (audited information)

Executive Directors' benefits

Executive Directors receive benefits comprising life insurance, healthcare and car allowances.

Pensions

The figure includes the amount of Company contributions to Fariyal Khanbabi's and Clive Jennings's pensions during the year. Fariyal Khanbabi received Company contributions of 5% of her base salary (electing, mid-year, to receive a cash payment in lieu of the employer contribution). Clive Jennings received Company contributions of 5% of his base salary for the period from his appointment as a Director on 18 January 2022 (paid in cash). The Company is fully compliant with the requirement that Executive Directors' (both UK-based) pension contributions are aligned with the average pension contribution of the Group's UK workforce (a rate of 5%).

APBP: structure

Following adoption of the 2021 Remuneration Policy, the APBP for Executive Directors operates on the basis that is set out in the Remuneration Policy report on pages 146 and 147. Maximum bonus potential, paid in a mixture of cash and, in respect of performance above target, shares, is 150% of salary for the CEO and 125% of salary for the CFO. Applying the 2021 Remuneration Policy, the 2022 Executive Director APBP was based on three elements: 50% of the available bonus pot being payable against an EBIT metric; 25% against Absolute Net Debt; and 25% against individual strategic objectives set personally for each Executive Director.

2022 OUTCOMES CONTINUED

APBP: personal objective element

The personal objectives were structured around goals of a largely quantifiable nature as follows:

CEO role	CFO role
Securing value (7.5% of available bonus pot). Measured against quantified performance in securing new business for: new customers; strategic accounts; and production efficiencies. **Sustainability** (10% of available bonus pot). Measured against binary sustainability targets: "net-zero" strategy scenarios; publication of environmental product declarations; and implementation of ESG training. **Culture** (7.5% of available bonus pot). Measured against binary objectives targeted at improving the culture of engagement, leadership and actively sponsoring diversity and inclusiveness through; succession planning; and internal communications.	**Production efficiency** (10% of available bonus pot). Measured against binary production efficiency targets for: product costings; inventory reduction; and CAPEX controls improvement. **Transformation** (5% of available bonus pot). Measured against delivery plan targets for: finance team building; improvements in cash forecasting; and business continuity planning. **Controls** (10% of available bonus pot). Measured against binary control-related targets for: IT; external audit; and internal audit.

ABPB: financial element

The performance ranges in respect of quantitative elements of the 2022 EBIT and Absolute Net Debt performance (collectively comprising 75% of the applicable bonus pot) were as follows:

	Threshold	Target	Maximum	Actual
EBIT element (after provision for bonus)	£8.0m	£9.0m	£10.5m	£5.0m
Absolute Net Debt	£10.5m	£9.5m	£8.0m	£20.9m

APBP: 2022 outcomes

As set out above, neither EBIT nor absolute net debt performance met the threshold targets and therefore none of these elements of the available bonus pot was payable.

In light of the results for the year ended 31 December 2022, the Remuneration Committee also decided that no payments will be made against the personal objectives element of the APBP.

PSPs and RSPs (audited information)

Under the 2021 Remuneration Policy the Company's PSP scheme was replaced by a DRSP scheme (see pages 148 and 149). Accordingly, awards of DRSPs were made to the Executive Directors in the awards window following the release of the Group's preliminary results in March 2022 as set out on page 166. The PSP awards made in 2020 to Fariyal Khanbabi (with the applicable three-year performance testing period ended on 31 December 2022) lapsed in their entirety as the relevant performance conditions were not achieved:

CEO pay: pay ratio methodology

The table on page 164 discloses the ratio of the CEO's pay against the remuneration of the Group's UK workforce in 2022. The ratios have been calculated in accordance with "Option A" of the three methodologies provided under the applicable regulations, which we believe to be the most statistically appropriate approach. This data is presented against the comparable, indicative, full-time equivalent total remuneration of those employees whose pay is ranked at the 25th percentile, median and 75th percentile in the Group's UK workforce. Where possible, employee pay was calculated based on actual pay and benefits for the 12-monthly payrolls within the full financial year. Given the small size of the Group's UK workforce, we have adopted the following protocols to avoid skewing the figures: if a role was maintained but the individual(s) in such role changed, the figure provided in respect of such role has been calculated on a pro rata basis for the two or more relevant individuals; and if there was a new role or a role was eliminated, the figure provided was calculated as an annualised rate for such role. It should be noted that all the Group's manufacturing operations and most of its employees are located outside of the UK and therefore do not fall within the reporting requirements.

CEO pay – pay ratio distorting events in 2020 and 2021

The 2020 and 2021 ratios were impacted by the COVID-19 pandemic and resulted in adjustments in Group Remuneration Policy to achieve a more equitable outcome for all employees across the Group at a challenging time for our employees, supply chain and markets. In 2020, the impact was primarily the non-payment of any variable remuneration, and by the voluntary reduction in CEO base pay across five months of the year by 20% (a progressive COVID-19 salary reduction policy under which the most highly paid executives in the Group voluntarily surrendered a higher percentage of their salary), and by layered salary reductions (with the reductions for employees declining in percentage terms at lower pay thresholds). These voluntary deductions have not been subsequently paid to the CEO or any employee. In 2021 the impact was less marked (as all elements of variable remuneration were paid), but the annual incremental pay review was deferred for those Executives on the highest salaries until 1 October 2021 (for employees in our manufacturing operations the equivalent date was 1 May 2021).

2022 OUTCOMES CONTINUED

Year	25th percentile ratio	50th percentile ratio	75th percentile ratio
2022	**8.2:1**	**6.3:1**	**3.7:1**
2021	8.3:1	6.0:1	3.6:1
2020	11.7:1	7.7:1	5.6:1
2019	10.8:1	8.4:1	5.3:1

Director pay – Percentage change in the remuneration of the Directors

The following table sets out the change in remuneration paid to the Directors from 2021 to 2022 compared with the average percentage change for employees as a whole. The above notes in respect of comparison of pay ratio calculations apply. It should also be noted that no CEO PSPs vested in 2021 or 2022. The main benefits provided include healthcare, life insurance and car allowance. There has been no change in the level of benefits provided to Group employees.

	% change 2021-2022			
	CEO	CFO	Non-Executive Directors (excluding Chair fee which was unchanged)	Group employees
Salary	3%	0%	3%	3%
Bonus	(100%)	0%	-	0%
Benefits	3%	0%	-	3%

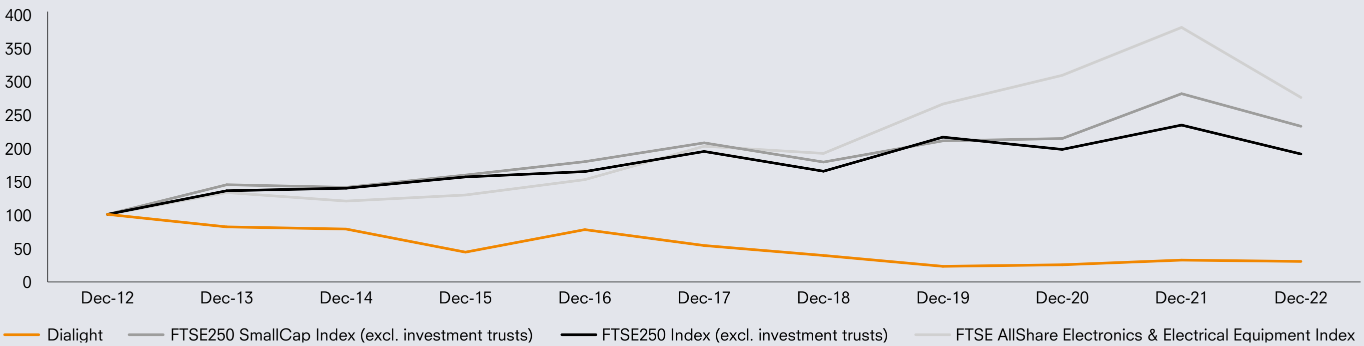
Relative importance of spend on pay

The table below shows the total amount paid by the Company to its employees (excluding severance costs) for each of 2021 and 2022 relative to the total amount of distributions in each year:

	Spend on pay	Distributions
2022	£36.6m	£0m
2021	£29.1m	£0m

Performance graph and table

The graph below sets out the Company's TSR performance over the past 10 years relative to the FTSE 250 Mid Index (excluding investment trusts), the FTSE SmallCap Index (excluding investment trusts) and the FTSE All-Share Electronic & Electrical Equipment Index, indices of which Dialight has been a constituent during the period:



Source: Datastream

Total CEO remuneration

The table below sets out the "single figure" of total remuneration of the CEO over the past ten years:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	R Burton	R Burton	R Burton R Stuckes M Sutsko[1]	M Sutsko	M Sutsko	M Rapp	M Rapp F Khanbabi[2]	F Khanbabi[3]	F Khanbabi	F Khanbabi
Total remuneration (£'000)	**£1,261**	**£930**	**£697**	**£1,182**	**£602**	**£605**	**£573**	**£447**	**£911**	**£507**
Bonus outcome (% of maximum)	0%	29%	0%	74%	0%	0%	0%	0%	62.5%	0%
PSP vesting outcome (% of maximum)	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%

1 R Burton January and February, R Stukes March to June and M Sutsko July to December
2 M Rapp to 09 August, F Khanbabi from 10 August
3 F Khanbabi as Interim CEO to 04 March and as permanent CEO from 05 March
4 All historic USD figures translated using the average 2022 GBP:USD rate of 1.24 to avoid currency impacts

2022 OUTCOMES CONTINUED

RSP awards made in 2022 (audited information)

RSPs were granted to Fariyal Khanbabi and Clive Jennings as set out below. In accordance with the Remuneration Policy, awards will vest so long as: (a) the recipient remains in role as at the vesting date; and (b) the Remuneration Committee is satisfied that Dialight's underlying performance and delivery against strategy are sufficient to justify the level of pay-out. A mandatory two-year post-vesting holding period will apply to any shares received by Executive Directors on the vesting or exercise of these awards (as well as any other applicable restrictions – see pages 152 to 158). In prior years the Remuneration Committee has considered a reduction in awards to reflect any prior-year fall in the share price – so for instance, in 2020, the awards under the then PSP scheme were reduced by 25% to reflect a significant fall in the Company's share price between March 2019 and March 2020 – a total fall in the share price of 55.9%. A similar analysis was conducted prior to all awards of RSPs in 2021. Across the previous 12 months (to April 2022), the share price had risen by 36.1% and accordingly no reduction was made against the level of RSPs awarded.

	Director	
	Fariyal Khanbabi	Clive Jennings
Plan	RSP	RSP
% of salary awarded	62.5%	50%
Nature of interest	Nil-cost option	Nil-cost option
Exercise price per share	n/a	n/a
Number of shares subject to an award[1]	79,120	41,201
Face value of an award[1]	£276,366	£143,915
Performance conditions	Recipient remains in role as at the date of vesting, and the Remuneration Committee is satisfied that the Company's underlying performance and delivery against strategy is sufficient to justify the level of pay-out	
Date of grant of award	5 April 2022	
Date of end of performance period	5 April 2025	

1 Based on five-day average share price on date of award of £3.4930.

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

Karen Oliver stepped down as Non-Executive Chair with effect from 31 December 2022. She was entitled to, and was paid, a sum equivalent to three months' fees (her contractual notice period). No exit or other termination payments were made to her with the exception of £2,600 in respect of legal fees.

IMPLEMENTATION OF THE REMUNERATION POLICY FOR 2023

2023: Executive Director salaries, pensions and benefits

Remuneration for all Executive Directors in 2023 will continue to comply with the 2021 Remuneration Policy (as may be amended through an ordinary shareholder resolution). The Committee has adopted a clear and principled approach to the setting of Executive Director pension contributions, and this is set out in the 2021 Remuneration Policy. All Executive Director pension contributions will be capped at the amount offered in the applicable jurisdiction to the majority of employees. At the present time, in the case of UK-based Executive Directors, this means pension contributions being limited to 5% of base salary.

2023: APBP

The 2023 APBP bonus scheme for Executive Directors will be in line with that set out in the 2021 Remuneration Policy. Specifically: 50% against a cash conversion metric (for which a net debt target is used); and 50% against an EBIT metric. The use of personal strategic objectives in 2023 will be suspended and details of the performance metrics will be released in the Company's 2023 Annual Report. Any bonus payable in excess of target performance (50% of the bonus opportunity) will be paid in shares. 50% of such shares will vest after two years from award date and 50% after three years from award date. Any shares vesting will have to be retained until such time as the recipient meets the applicable shareholding guidelines.

2023: RSP

The 2023 share scheme awards for Executive Directors will be made in the awards window following release of the Group's preliminary announcement (27 March 2023). Any awards made will comply with the structure set out in the 2021 Remuneration Policy (as set out on pages 140 to 158) – i.e. to a maximum of 62.5% of base salary and with vesting based on continuation in role. Any shares that vest after the three-year performance period and two-year holding period will have to be retained until such time as the recipient meets the applicable shareholding guidelines.

IMPLEMENTATION OF THE REMUNERATION POLICY FOR 2023 CONTINUED

Outstanding awards under the PSP and APBP (audited information)

	Type of award	Award date	Number at 01.01.22	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31.12.22	Exercise price	Earliest vesting/ exercise date	Expiry date
Fariyal Khanbabi											
PSP	NCO	05.03.19	68,803	–	–	–	(68,803)	–	–	05.03.22	05.03.24
PSP	NCO	27.03.20	201,367	–	–	–	–	201,367	–	27.03.23	27.03.25
RSP	NCO	19.05.21	89,547	–	–	–	–	89,547	–	19.05.24	19.05.26
RSP	NCO	05.04.22	–	79,120	–	–	–	79,120	–	05.04.25	05.04.27
APBP	NCO	05.04.22	–	24,327	–	–	–	24,327	–	31.01.24	05.04.27
Total			**359,717**	**103,447**			**(68,803)**	**394,361**			
Clive Jennings											
RSP	NCO	05.04.22	–	41,201	–	–	–	41,201	–	05.04.25	05.04.27
Total			**–**	**41,201**	**–**	**–**	**–**	**41,201**			

Notes:

NCO denotes nil-cost options. Those under the PSP are subject to applicable performance conditions.

Post the year ended 31 December 2022, it was determined that Fariyal Khanbabi's PSP award made on 27 March 2020 would lapse in its entirety due to the performance conditions not being met

The average closing market price of a share over the five trading days of 29 March 2022 to 4 April 2022, which was used for the purpose of calculating award values on 5 April 2022 (the date of the awards recorded in the tables above as made during the year) was 349.30 pence.

Options under the PSP scheme are exercisable for two years from the date of vesting. Awards granted since 2018 are subject to a mandatory two-year post-vesting holding period.

Options under the APBP are exercisable for five years from the date of grant.

Under the APBP scheme, awards vest 50% on or after 31 January in the second year after grant with the remaining 50% vesting on or after 31 January in the third year after grant.

During the year, the range of share prices was 230 pence to 371 pence, with the price on 31 December 2022 being 330 pence.

Executive Directors' shareholding guidelines

Executive Directors are required (under the 2021 Remuneration Policy) to accumulate and maintain a holding of Dialight shares equivalent in value to 200% of base salary and are required to retain all net of tax APBP and PSP/RSP share vestings until the guidelines have been met. All Dialight shares, whether purchased on the open market or received through vestings and/or exercises under the various Dialight share plans, are included in the relevant calculation. The Dialight share price used to value a holding for the purposes of the guidelines will be the higher of: (a) the prevailing price on the date that the holding is valued (on the last working day of the relevant financial year); and (b) the acquisition price (i.e. the price on the date on which the shares were acquired/awards vested).

The Remuneration Committee is aware of the significance of Executive Directors having a personal holding of shares in Dialight (to align management's interests with those of the shareholders) and acted to further strengthen the shareholding guidelines under the terms of the 2021 Remuneration Policy. Fariyal Khanbabi's current shareholding position reflects the fact that neither her APBP or PSP awards have vested in recent years, whilst Clive Jennings's current shareholding position reflects his short tenure to date. Although the Committee recognises that neither Executive Director has yet acquired the shareholding required, the Remuneration Committee acknowledges the mitigating circumstances surrounding this issue. The holdings of ordinary shares in the Company as at 31 December 2022 by the Executive Directors are shown below.

Total shareholding of Directors (audited information)

The table below shows the holdings of ordinary shares in the Company as at 31 December 2022 by each of the Directors:

	Beneficially held shares[1]		
Year	Ordinary shares at 1 January 2022	Ordinary shares at 31 December 2022	Unvested and/or subject to performance conditions[2]
Fariyal Khanbabi	12,389	21,504	394,361
Clive Jennings	–	4,556	41,201
David Blood	–	–	–
Gotthard Haug	2,500	2,500	–
Gaëlle Hotellier	882	882	–
David Thomas	5,994	5,994	–
Nigel Lingwood	–	–	–

1 Some of these shares may be held through nominees.
2 Relates to outstanding awards under the PSP and APBP.

IMPLEMENTATION OF THE REMUNERATION POLICY FOR 2023 CONTINUED

Directors' service agreements and letters of appointment

The dates on which Directors' initial service agreements/letters of appointment commenced and the expiry dates as at 31 December 2022 are as follows:

Directors	Commencement date	Expiry date of current employment/service agreement or letter of appointment
David Blood	1 July 2015	Following his resumption of an NED role (on stepping down as Chair on 10 September 2021), David's engagement reverted to his previous appointment terms with a term of up to three years. On 30 March 2023, he decided to step down from the Board.
Gotthard Haug	1 April 2020	Letter of appointment was for an initial term of three years (ending on 31 March 2023).
Gaëlle Hotellier	3 October 2016	Letter of appointment was for an initial term of three years. A subsequent three-year extension was agreed in 2022 (ending in 2 October 2025).
Clive Jennings	18 January 2022	The contract is terminable by the Company or the Director on six months' notice.
Fariyal Khanbabi	8 September 2014	The contract is terminable by the Company or the Director on 12 months' notice. Fariyal entered into a new service agreement on 4 March 2020 upon assuming the CEO role. She retains continuity of service from her earlier agreement entered into on 8 September 2014 (in respect of her CFO role) and supersedes both the arrangements put in place upon her assuming the interim CEO role and her previous contractual entitlement to a higher pension contribution.
Nigel Lingwood	1 November 2022	Letter of appointment was for an initial term of three years (ending on 31 October 2025).
David Thomas	26 April 2016	Letter of appointment was for an initial term of three years. A subsequent three-year extension was agreed in 2022 (ending in 25 April 2025).

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of Dialight plc for the year ended 31 December 2022.

Activities

Dialight plc is a holding company. A list of its subsidiary companies, including its overseas branches, is set out on pages 238-240. Our businesses by sector and their activities are set out on pages 4 to 7.

Ordinary dividends

Under the terms of the remaining COVID-19 CLBILS (£1.6m) and associated additional commercial loan (£0.4m) facilities, distributions are not permitted where there is an outstanding amount under either facility. It is intended that the balance of the outstanding £2m CLBILS and associated commercial loan will be repaid at a monthly rate of £333k with the last repayment scheduled for June 2023, whereupon any associated restrictions will fall away. The Board is therefore not proposing any final dividend payment for 2022 (2021: nil). The Group has a clear capital allocation discipline and is committed to returning future excess funds to shareholders via future dividend or share repurchase, subject to any restrictions under these facilities.

The Company has established the Dialight Employees' Share Ownership Plan Trust ("ESOT"), in respect of which all employees of the Group, including Executive Directors, are potential beneficiaries. The ESOT held 225,451 shares in the Company as at 31 December 2022 (2021: 205,026) and it is likely that it will acquire further shares in the Company in 2023 in anticipation of future vestings under the DRSP. It is anticipated that the ESOT will waive any right to dividends payable in respect of any Dialight shares held by the ESOT.

Share capital and capital structure

Details of the share capital, together with details of the movements in the share capital during the year, are shown in note 19 to the financial statements. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no other classes of share capital. There are no specific restrictions on the size of a holding nor on the transfer of shares, with both governed by the general provisions of the Articles of Association (the "Articles") and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. No purchases by the Company of its own shares were made in 2022 under the authority granted at the 2022 Annual General Meeting ("AGM").

Rights and obligations of ordinary shares

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company and to appoint one or more proxies or, if the holder of shares is a corporation, one or more corporate representatives. On a show of hands, each holder of ordinary shares who (being an individual) is present in person or (being a corporation) is present by a duly appointed corporate representative, not themselves being a member, shall have one vote, as shall proxies (unless they are appointed by more than one holder, in which case they may vote both for and against the resolution in accordance with the holders' instructions).

DIRECTORS' REPORT CONTINUED

On a poll, every holder of ordinary shares present in person or by proxy shall have one vote for every share of which they are the holder. Electronic and paper proxy appointments and voting instructions must be received not later than 48 hours before the meeting. A holder of ordinary shares can lose the entitlement to vote at general meetings where that holder has been served with a disclosure notice and has failed to provide the Company with information concerning interests held in those shares. Except as set out above and as permitted under applicable statutes, there are no limitations on voting rights of holders of a given percentage, number of votes or deadlines for exercising voting rights.

Restrictions on transfer of shares

There are no specific restrictions on the transfer of the Company's shares, although the Articles contain provisions whereby Directors may refuse to register a transfer of a certificated share which is not fully paid. There are no other restrictions on the transfer of ordinary shares in the Company except certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws). The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Substantial interests in shares

As at 13 March 2023, the Company had been notified, in accordance with DTR chapter 5, of the following voting rights as a shareholder of the Company.

SHAREHOLDER	HOLDING	% VOTING RIGHTS
Aberforth Partners LLP	7,677,998	23.30
Generation Investment Management LLP	6,532,248	19.83
Schroder Investment Management	3,835,991	11.64
Sterling Strategic Value Fund S.A., SICAV-RAIF	3,342,517	10.15
Odyssean Capital	3,000,000	9.11
Impax Asset Management	2,757,494	8.37
Blackmoor Investment Partners	1,138,979	3.46

Employee share plans

Details of employee share plans are set out in note 16 to the financial statements. The Company currently has in place two share plans: the Restricted Share Plan ("DRSP") (which under the 2021 Remuneration Policy succeeded the Dialight Performance Share Plan ("PSP")) and the Annual Performance Bonus Plan ("APBP"). It also has a Sharesave Plan, but this was not used for subscriptions in 2022 as it is a UK-orientated scheme and was considered insufficiently responsive to the Group's international employee footprint. There are currently no active savers under the Sharesave Plan. Further details of these share plans are provided in the report of the Remuneration Committee. The 10-year term for the DRSP ends in April 2024. Accordingly, and to allow for any potential delays in 2024 DRSP grants that could arise, a new DRSP will be put to shareholders for approval at the 2023 AGM. Further details on the new DRSP are given in the report of the Remuneration Committee and will be provided in the notice of AGM (to be circulated in April 2023), but there will not be any material changes to the form or functioning of the current DRSP plan.

The rules of the DRSP (and the preceding PSP) provide that, in the event of a change of control through a general offer or scheme of arrangement, shares subject to awards under the DRSP (and the preceding PSP) could be released within one month of the date of notification of the likely change of control. The rules of the Sharesave Plan have special provisions which also allow for early exercise in the event of a change of control, reconstruction or winding-up of the Company. Internal reorganisations do not automatically trigger the early exercise of options. The ESOT held 225,451 shares as at 31 December 2022 (2021: 205,026) and it is likely that it will acquire further shares in the Company in 2023 in anticipation of future vestings under the DRSP (and the preceding PSP). The Trustees of the ESOT retain the voting rights over the shares held in the ESOT and may exercise these rights independent of the interests of the Company.

Appointment and replacement of Directors

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the UK Corporate Governance Code (the "2018 Code"), the Companies Act 2006 and related legislation. Directors can be appointed by the Company by ordinary resolution at a general meeting or by the Board. If a Director is appointed by the Board, such Director will hold office until the next AGM and shall then be eligible subject to Board recommendation, for election at that meeting. In accordance with Provision 18 of the 2018 Code each of the Directors, being eligible, will offer themselves for election or re-election at the 2023 AGM (subject to any retirements). The Company can remove a Director from office, either by passing a special resolution or by notice being given by all the other Directors. The Articles themselves may be amended by special resolution of the shareholders.

Powers of Directors

The powers of Directors are described in the Articles and in the Matters Reserved to the Board, copies of which are available on the Company's website at www.dialight.com/ir, and are summarised in the Corporate Governance report on page 115.

DIRECTORS' REPORT CONTINUED

Directors' indemnities

Qualifying third-party indemnity provisions (as defined by s234 of the Companies Act 2006) were in force in the reporting period for the benefit of the then Directors of the Company and the then Directors of certain subsidiaries of the Company in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers and/or office. The Group also maintains Directors' & Officers' liability insurance which gives appropriate cover for legal action brought against any Directors of the Company and/or its subsidiaries.

Essential contracts and change of control

The Directors are not aware of there being any significant agreements that contain any material change of control provisions to which the Company is a party, other than in respect of the five-year unsecured $34m multi-currency revolving credit facility with HSBC Bank plc ("HSBC") which was entered into on 21 July 2022 for an initial duration of three years expiring 20 July 2025. A £10m CLBILS facility and commercial loan facility was completed on 15 June 2020. Under the terms of both facilities, and in the event of a change of control of the Company, HSBC can withdraw funding and all outstanding loans; accrued interests and other amounts due and owing become payable within 20 business days of the change.

Allotment authority

Under the Companies Act 2006, the Directors may only allot shares if authorised by shareholders to do so. At the 2023 AGM, an ordinary resolution will be proposed which, if passed, will authorise the Directors to allot and issue new shares up to an aggregate nominal value that is in line with Investment Association guidelines. In accordance with the Directors' stated intention to seek annual renewal, an authority granted at the 2022 AGM will expire at the conclusion of the AGM of the Company in 2023. Passing this resolution will give the Directors flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares.

The Companies Act 2006 also requires that, if the Company issues new shares for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. At the 2023 AGM, a special resolution will be proposed which, if passed, will authorise the Directors to issue a limited number of shares for cash and/or sell treasury shares without offering them to shareholders first. The authority is for an aggregate nominal amount of up to 10% of the issued share capital of the Company as at the relevant date set out in the notice of the 2023 AGM, of which 5% of the issued share capital can only be issued for the purposes of financing an acquisition or other capital investment. Whilst it believes that it is entirely appropriate (not least for administrative purposes), and in line with good corporate practice, to seek the allotments that will be set out in the notes accompanying the resolutions to be considered at the 2023 AGM (the "Notes"), it has again provided additional assurance, in the Notes, for shareholders with regard to the circumstances under which such powers may be exercised. In particular, the Company notes that in excess of 89% of voting shareholders supported the allotment resolutions at the 2022 AGM.

Auditor

Each of the persons who is a Director at the date of approval of this Annual Report and Accounts confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006. The Board is recommending to shareholders the appointment of Grant Thornton as auditor of the Company and a resolution authorising the Directors to set its remuneration will be proposed at the forthcoming AGM. KPMG has been the Company's auditor for 22 years. Accordingly, during 2022 a competitive tender exercise was run to seek a replacement auditor, resulting in the selection of Grant Thornton by the Board. Further details of this audit re-tender process are set out in the report by the Audit Committee.

AGM

The Company's AGM will be held on Tuesday 16 May 2023. The Notice of Meeting, together with an explanation of the proposed resolutions, is enclosed with this Annual Report and Accounts and is also available on the Company's website at www.dialight.com/ir.

Scope of the reporting in this Annual Report and Accounts

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and Auditor's Report, for the year ended 31 December 2022.

The Corporate Governance report set out on pages 94 to 176, which includes details of the Directors who served during the year, forms part of this report. There have been no significant events since the balance sheet date, other than the Sanmina ruling as set out in note 27. An indication of the likely future developments in the business of the Company and details of research and development activities are included in the Strategic Report on pages 26 to 29. Details related to employee matters are in the "Our people" section on pages 50 to 55. Environmental matters, including greenhouse gas emissions reporting, are included within the ESG Report on pages 36 to 69. Information about the use of financial instruments by the Company and its subsidiaries is given in note 24 to the financial statements. Information on the Company's political and charitable contributions during the year is set out on pages 54 and 58.

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

By order of the Board.

Richard Allan
Company Secretary
2 April 2023

DIRECTORS' RESPONSIBILITY STATEMENT

Directors are responsible for preparing the Annual Report (including the Directors' Report, the Strategic Report, the Directors' Remuneration Report and the Corporate Governance Statement) and the Financial Statements of the Group and the parent Company, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under the law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law, including FRS 102 (the Financial Reporting Standard applicable in the UK and Republic of Ireland). Under the law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the Group's profit or loss for that period.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and to then apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with the UK-adopted international accounting standards;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent company ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that its financial statements comply with the CA 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website (www.dialight.com), on which this Annual Report and Accounts are published. Legislation in the UK governing the preparation and publication of financial statements may differ from legislation in other jurisdictions.

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

Each of the Directors at the date of approval of this Annual Report and Accounts confirm that to the best of his/her knowledge:

- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the Group and parent company financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in consolidation taken as a whole; and
- the Strategic Report and corporate governance reports include a include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Fariyal Khanbabi
Group Chief Executive
2 April 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIALIGHT PLC

1. Our opinion is unmodified

We have audited the financial statements of Dialight plc ("the Company") for the year ended 31 December 2022 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated statement of total financial position, Consolidated statement of cash flows, Company balance sheet, Company statement of changes in equity, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- The Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 **The Financial Reporting Standard applicable in the UK** and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the directors in 2001. The period of total uninterrupted engagement is for the 21 financial years ended 31 December 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£0.83m (2021: £0.67m) 0.5% (2021: 0.5%) of Group revenue	
Coverage	99% (2021:97.9%) of Group profit before tax	
Key audit matters		**vs 2021**
Recurring risk	Inventory valuation	↔
	Termination of outsourced manufacturing supply agreement	↔
	New: Going concern	↑
	New: Capitalisation of development costs	↑

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Inventory Valuation (£53.6 million; 2021: £42.4million) **Refer to page 128 (Audit Committee Report), page 198-199 (accounting policy) and page 222 (financial disclosures).**	**Subjective estimate: Inventory Provision** The Group has a significant inventory balance representing 37% (2021: 34%) of the total assets. The Group operates in an industry whereby development in product technology may result in inventory becoming slow moving or obsolete. This factor, in turn means that certain finished goods items cannot be sold for at least the carrying amounts and raw materials and sub–assembly inventory cannot be used in the manufacture of products. Significant levels of longer dated inventory may indicate an element of slow moving or obsolete inventory that requires provision. Furthermore, we consider there is a fraud risk relating to inventory provisioning as management could alter the provision in order to create an artificial improvement in the Group's trading performance. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the provision for inventory has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that of materiality. Further details are set out in Note 2 and Note 17.	Our procedures included: – **Methodology implementation:** we assessed the methodology behind the provision calculation to consider whether judgments applied in the methodology are reasonable and incorporates the accounting standards appropriately. – **Reperformance:** we independently recalculated the provision for raw materials and sub-assemblies based on the methodology provided by the directors, using inventory aging data. We also formed our own expectation of the provision based on alternate methodology, using inventory aging and usage data and compared this to the Group's provision. For variances noted, we challenged the directors on their judgment for not recognising a provision in respect of such items. – **Reperformance:** we independently recalculated the finished goods provisions based on the methodology provided by the directors, using historic sales and backlog data. – **Tests of detail:** we verified the aging data element in the provision calculation for raw materials and sub-assemblies. – **Test of detail:** We tested that finished goods on hand at the end of the year were recorded at the lower of cost and net realisable value by testing a sample of inventory items to the most recent sales price or prices in backlog data. – **Sensitivity analysis:** We performed sensitivity analysis on judgemental assumptions such as determination of the excess stock that bears a risk of not being recoverable. – **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision. We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would be unlikely to obtain the required evidence to support reliance on controls. **Our results** – We found the resulting estimate of the carrying value to be acceptable (2021: acceptable).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIALIGHT PLC CONTINUED

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Termination of outsourced manufacturing supply arrangement: Company and Group Refer to page 128 (Audit Committee Report), page 198-199 (accounting policy) and page 222 (financial disclosures).	**Dispute outcome** On 20 December 2019, a claim was brought against the Company by its former outsourced manufacturing partner relating to excess and obsolete inventory and unpaid trade payables balances netted off with an amount held in Escrow. Following the termination of the Group's manufacturing outsourcing agreement, the claimant has alleged it should be reimbursed for this excess and obsolete inventory. This has been disclosed as a contingent liability ($0 - $8.3m) and has not been recognised as a provision in the Group's financial statements. There is a significant judgement involved in determining the likelihood of success of the claim, and if the claimant is successful, the potential range of reasonable financial outflows in the settlement could be greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: – **Enquiry of lawyers:** we assessed the status and likely outcome of the claim through enquiries of the Group's internal legal counsel, and inspection of internal notes and reports, as well as discussions with the Group's external counsel, review of summary judgement requests, and formal legal confirmations from the Group's external counsel as to the status of proceedings. – **Accounting analysis:** we evaluated the treatment of outstanding balances with Sanmina, and the assessment performed by the Directors in determining whether the criteria for recognising a provision or a contingent liability was met at year end. – **Assessing transparency:** we assessed whether the Group's and Company's disclosures relating to the contingent liability and related balances adequately disclose the circumstances and judgement applied. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** We found the treatment and disclosure of this contingent liability to be acceptable. (2021: acceptable).

	The risk	Our response
Going Concern Refer to page 128 (Audit Committee Report), page 198-199 (accounting policy) and page 222 (financial disclosures).	**Disclosure quality** The financial statements explain how the Board have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The key risks relate to continuity and on time supply of materials into the business, pricing and inflationary cost pressures which have been impacted as a result of the challenges in the global economic environment and also the timely delivery of final product to customers. Challenges in these key risks have contributed to lower margins in 2022 compared with 2021. With potential for further impact from the key risks crystallising, these risks might affect the Group's and Company's ability to comply with covenants over a period of at least a year from the date of approval of the financial statements. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have required to have been disclosed.	We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period. We did this by assessing the directors' sensitivity analysis over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. Our procedures included: – **Funding assessment:** obtaining confirmation letters for the loan and cash balances at 31 December 2022. Obtaining and inspecting the facilities' agreements in respect of covenant amendments and assessed the forecasts going forward in light of the terms to identify any expected future covenant breaches or liquidity shortfalls. – **Historical comparisons:** we compared previous cash flow forecasts against actual cash flows achieved in the year and in previous years to assess historical reliability of the forecasting. – **Benchmark assumptions:** we considered sensitivities over the level of available financial resources indicated by the Group's forecasts taking account of severe but plausible downsides that could arise individually and collectively. We challenged the directors' sensitivities over forecast revenue and gross profit margin in the calculation of the forecast covenant tests; – **Our experience:** used our own sector experience to assess and challenge the key assumptions in the cash flow forecasts. – **Evaluating directors' actions and intent:** we evaluated the impact of both actions already taken, as well as those intended to be taken, by the directors in respect of the timing and achievability for cost savings and improving manufacturing productivity, should the risks materialise, by reference to our understanding of the business. – **Assessing transparency:** considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and, dependencies, and related sensitivities. **Our results** We found the going concern disclosure in note 2 without any material uncertainty to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIALIGHT PLC CONTINUED

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Capitalisation of development costs (£9.5 million; 2021: £10.3 million) Refer to page 128 (Audit Committee Report), page 198-199 (accounting policy) and page 222 (financial disclosures).	**Accounting treatment** The Group has significant intangible assets including capitalised development costs. Judgement is applied in assessing compliance with IAS38 Intangible Assets and the ultimate commercial viability of the projects and therefore whether related costs should be capitalised or should be expensed. Once capitalised, there remain risks that costs may not be recovered in full. We have identified a fraud risk that development costs could be incorrectly capitalised to manipulate the results for the year.	Our procedures included: – **Personnel interview:** we enquired with the Technology and Engineering Director about specific projects to understand their status. For closed projects, we enquired whether they were revenue generative or included within the forecasts to be revenue generative. For open projects, we enquired about and challenged the commercial viability of those projects against our understanding of the Group. – **Test of details:** we assessed the Group's policy for capitalisation of development costs and its compliance with accounting standards. We selected costs on a sample basis that were capitalised and checked the nature and amount of these costs to invoices and timesheets. – **Benchmarking assumptions:** for a sample of capitalised projects, costs, we challenged the commercial viability of the projects through assessing forecast sales data, with reference to external evidence (where available), actual sales and gross margin achieved during the year and the directors' intent to continue development. – **Accessing transparency:** we assessed the adequacy of the Group's disclosures outlining the judgement involved in assessing the carrying amount of the capitalised development costs. We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would be unlikely to obtain the required evidence to support reliance on controls. **Our results** We found the carrying value of the capitalised development costs to be acceptable.

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

Materiality for the Group financial statements as a whole was set at £0.83m (2021: £0.67m), determined with reference to a benchmark of Group Revenue of £169.7m, of which it represents 0.5% (2021: 0.5%).

Materiality for the Company financial statements as a whole was set at £0.45m (2021: £0.37m), determined with reference to a benchmark of Company total assets, of which it represents 0.6% (2021: 0.6%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2021: 65%) of materiality for the financial statements as a whole, which equates to £0.54m (2021: £0.44m) for the Group and £0.29m (2021: £0.24m) for the Company. We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.04m (2021: £0.03m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's eight (2021: eight) reporting components, we subjected three (2021: three) to full scope audits for Group purposes and two (2021: two) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed. We conducted reviews of financial information (including enquiry) at a further two (2021: two) non-significant components to confirm cash balances and identify any unusual financial trends.

The components within the scope of our work accounted for the percentages illustrated on page 184.

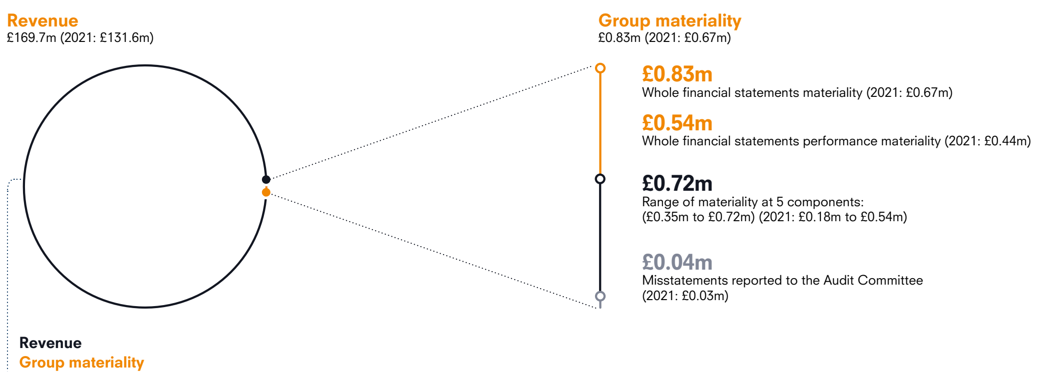
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.35m to £0.72m (2021: £0.18m to £0.54m), having regard to the mix of size and risk profile of the Group across the components. The work on two of the five components (2021: two of the five components) was performed by component auditors and the rest, including the audit of the Company, was performed by the Group team.

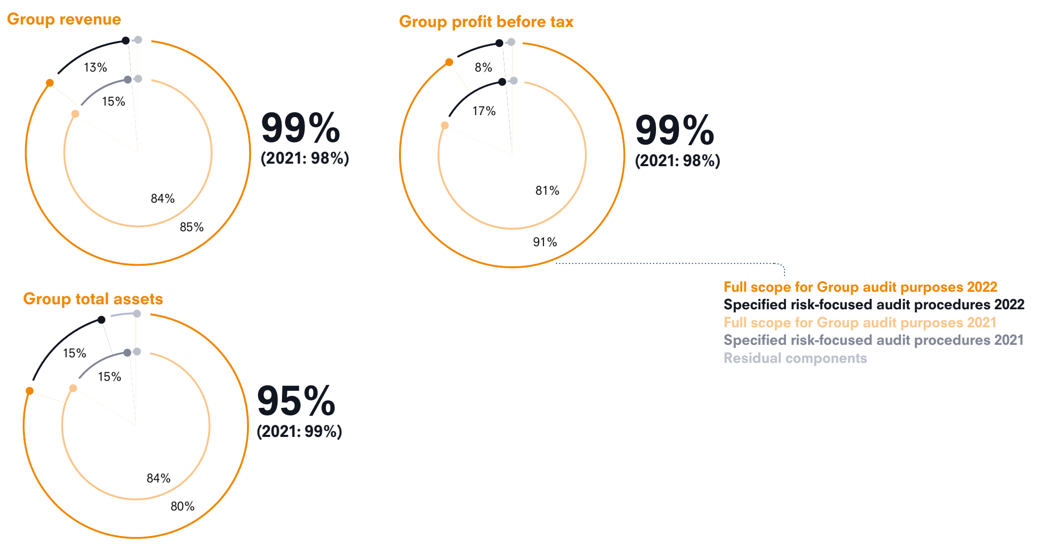
The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

Video- and telephone conference meetings were held with the component auditors. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIALIGHT PLC CONTINUED

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





4. Going concern

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

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2 to be acceptable; and
- the related statement under the Listing Rules set out on page 98 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIALIGHT PLC CONTINUED

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and the Audit Committee as to the Group's high level policies and procedures to prevent and detect fraud, and the Group's channel for "whistleblowing" as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

This included communications from the Group auditors to component audit teams of relevant fraud risks identified at the Group level and to request component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates, such as inventory valuation, capitalisation of overheads and labour, capitalisation of development costs and recoverability of goodwill and other intangible assets. On this audit we do not believe there is a fraud risk related to revenue recognition as the calculation of revenue recognition is non-complex with limited opportunity for manipulation of recognition under IFRS 15.

We also identified fraud risks in relation to allocation of overhead and labour costs to inventory cost, inventory provision manipulation, and capitalisation of development costs, in response to possible pressures to meet profit targets and identified opportunities to manipulate results.

Further details in respect of inventory provision manipulation and capitalisation of development costs are set out in the key audit matter disclosure in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test for all full scope components based on a risk criteria and comparing the identified entries to supporting documentation. Those included journals with unusual account pairings to cash, revenue, inventory, and journals to seldom used accounts, journals with missing descriptions or journals containing selected risk terms.
- Agreeing a sample of capitalised development cost to underlying support, including direct confirmation of timesheets with personnel.
- Assessing a sample of projects against the IAS 38 criteria, through review of the business case and challenge of management.
- Agreeing a sample of capitalised inventory costs to underlying support, and re-calculating the allocation of overheads.
- Assessing the appropriateness of the overhead allocation methodology and performing sensitivities over the underlying assumptions.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias, including assessing inventory valuation, capitalisation of overheads and labour and recoverability of goodwill and other intangible assets.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors (as required by the auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

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

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Further detail in respect of Termination of outsourced manufacturing supply arrangement is set out in the key audit matter disclosures in section 2 of this report.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIALIGHT PLC CONTINUED

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

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

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 90 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 90 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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

Corporate governance disclosures
We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the compliance statements relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. We have nothing to report on the other matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIALIGHT PLC CONTINUED

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 176, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

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

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

Lynton Richmond (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

2 April 2023

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Revenue	5	**169.7**	131.6
Cost of sales		**(115.1)**	(84.6)
Gross profit		**54.6**	47.0
Distribution costs		**(25.5)**	(21.3)
Administrative expenses		**(26.8)**	(23.6)
Profit from operating activities	5	**2.3**	2.1
Underlying profit from operating activities		**5.0**	4.5
Non underlying items	6	**(2.7)**	(2.4)
Profit from operating activities	5	**2.3**	2.1
Financial expense	8	**(1.8)**	(1.4)
Profit before tax	5	**0.5**	0.7
Taxation	9	**(0.1)**	(0.4)
Profit for the year	10	**0.4**	0.3
Profit for the year attributable to:			
Equity owners of the Company		**0.4**	0.1
Non-controlling interests		**–**	0.2
Profit for the year		**0.4**	0.3
Profit per share			
Basic	11	**1.2p**	0.9p
Diluted	11	**1.2p**	0.9p

These results are all from continuing operations.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**8.1**	0.7
Income tax on exchange differences on translation of foreign operations		**(0.6)**	–
		7.5	0.7
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of defined benefit pension liability	16	**0.3**	2.5
Income tax on remeasurement of defined benefit pension liability	9	**(0.1)**	(0.5)
		0.2	2.0
Other comprehensive income for the year, net of tax		**7.7**	2.7
Profit for the year		**0.4**	0.3
Total comprehensive income for the year		**8.1**	3.0
Attributable to:			
Owners of the parent		**8.1**	2.8
Non-controlling interests		**–**	0.2
Total comprehensive income for the year		**8.1**	3.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

	Note	Share capital £m	Merger reserve £m	Translation reserve £m	Capital redemption reserve £m	Share premium £m	Own Shares £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2022		0.6	0.5	10.0	2.2	–	(0.7)	47.0	**59.6**	0.6	**60.2**
Profit for the year		–	–	–	–	–	–	0.4	**0.4**	–	**0.4**
Other comprehensive income:											
Foreign exchange translation differences, net of tax		–	–	7.5	–	–	–	–	**7.5**	–	**7.5**
Remeasurement of defined benefit pension liability, net of tax	16	–	–	–	–	–	–	0.2	**0.2**	–	**0.2**
Total other comprehensive income		–	–	7.5	–	–	–	0.2	**7.7**	–	**7.7**
Total comprehensive income for the year		–	–	7.5	–	–	–	0.6	**8.1**	–	**8.1**
Transactions with owners, recorded directly in equity:											
Share-based payments	7	–	–	–	–	–	–	0.5	**0.5**	–	**0.5**
Re-purchase of own shares	20	–	–	–	–	–	(0.1)	–	**(0.1)**	–	**(0.1)**
Minority interest purchase	30	–	–	–	–	1.0	–	(0.6)	**0.4**	(0.4)	**–**
Total transactions with owners		–	–	–	–	1.0	(0.1)	(0.1)	**0.8**	(0.4)	**0.4**
Balance at 31 December 2022		0.6	0.5	17.5	2.2	1.0	(0.8)	47.5	**68.5**	0.2	**68.7**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

for the year ended 31 December 2022

	Note	Share capital £m	Merger reserve £m	Translation reserve £m	Capital redemption reserve £m	Own Shares £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2021		0.6	0.5	9.3	2.2	–	44.3	**56.9**	0.4	**57.3**
Profit for the year		–	–	–	–	–	0.1	**0.1**	0.2	**0.3**
Other comprehensive income:										
Foreign exchange translation differences, net of tax		–	–	0.7	–	–	–	**0.7**	–	**0.7**
Remeasurement of defined benefit pension liability, net of tax	16	–	–	–	–	–	2.0	**2.0**	–	**2.0**
Total other comprehensive income		–	–	0.7	–	–	2.0	**2.7**	–	**2.7**
Total comprehensive income for the year		–	–	0.7	–	–	2.1	**2.8**	0.2	**3.0**
Transactions with owners, recorded directly in equity:										
Share-based payments	7	–	–	–	–	–	0.6	**0.6**	–	**0.6**
Re-purchase of own shares	20	–	–	–	–	(0.7)	–	**(0.7)**	–	**(0.7)**
Total transactions with owners		–	–	–	–	(0.7)	0.6	**(0.1)**	–	**(0.1)**
Balance at 31 December 2021		0.6	0.5	10.0	2.2	(0.7)	47.0	**59.6**	0.6	**60.2**

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

CONSOLIDATED STATEMENT OF TOTAL FINANCIAL POSITION

at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Property, plant and equipment	12	**13.9**	12.0
Right-of-use assets	13	**10.5**	11.3
Intangible assets	14	**21.4**	21.4
Deferred tax assets	15	**2.4**	1.3
Employee benefits	16	**4.5**	3.9
Other receivables	18	**5.6**	4.7
Total non-current assets		**58.3**	54.6
Inventories	17	**53.6**	42.4
Trade and other receivables	18	**30.2**	26.2
Income tax recoverable		**0.6**	1.2
Cash and cash equivalents	19	**1.7**	1.2
Total current assets		**86.1**	71.0
Total assets		**144.4**	125.6
Liabilities			
Trade and other payables	21	**(37.3)**	(32.9)
Provisions	22	**(0.6)**	(0.6)
Tax liabilities		**(2.3)**	(1.7)
Lease liabilities	13	**(1.2)**	(1.2)
Borrowings	23	**(2.0)**	(4.0)
Total current liabilities		**(43.4)**	(40.4)
Provisions	22	**(1.6)**	(1.3)
Borrowings	23	**(20.6)**	(12.9)
Lease liabilities	13	**(10.1)**	(10.8)
Total non-current liabilities		**(32.3)**	(25.0)
Total liabilities		**(75.7)**	(65.4)
Net assets		**68.7**	60.2

CONSOLIDATED STATEMENT OF TOTAL FINANCIAL POSITION CONTINUED

at 31 December 2022

	Note	2022 £m	2021 £m
Equity			
Issued share capital	20	**0.6**	0.6
Merger reserve	20	**0.5**	0.5
Share premium	20	**1.0**	–
Other reserves		**18.9**	11.5
Retained earnings		**47.5**	47.0
		68.5	59.6
Non-controlling interests		**0.2**	0.6
Total equity		**68.7**	60.2

The accompanying notes form part of these financial statements. These financial statements were approved by the Board of Directors on 2 April 2023 and were signed on its behalf by:

Fariyal Khanbabi
Group Chief Executive

Clive Jennings
Chief Finance Officer

Company number: 2486024

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Operating activities			
Profit for the year		**0.4**	0.3
Adjustments for:			
Financial expense	8	**1.8**	1.4
Income tax expense	9	**0.1**	0.4
Share-based payments		**0.5**	0.6
Depreciation of property, plant and equipment	12	**2.9**	3.1
Depreciation of right-of-use assets	13	**1.8**	2.2
Amortisation of intangible assets	14	**4.4**	3.5
Impairment losses on intangible assets	14	**1.3**	–
Operating cash flow before movements in working capital		**13.2**	11.5
(Increase) in inventories		**(6.7)**	(9.6)
(Increase) in trade and other receivables		**(1.1)**	(5.8)
Increase in trade and other payables		**1.3**	11.1
Increase/(decrease) in provisions	22	**0.3**	(0.8)
Pension contributions in excess of the income statement charge	16	**(0.4)**	(0.4)
Cash generated by operations		**6.6**	6.0
Income taxes paid		**(0.8)**	(0.6)
Interest paid[2]	8,13	**(1.8)**	(1.4)
Net cash generated by operations		**4.0**	4.0
Investing activities			
Capital expenditure	12	**(3.4)**	(2.1)
Capitalised expenditure on development costs and other intangible assets	14	**(3.6)**	(3.2)
Purchase of software and licences	14	**(0.2)**	(0.3)
Purchase of Dialight Australia shares	30	**(0.1)**	–
Net cash used in investing activities		**(7.3)**	(5.6)
Financing activities			
Drawdown of bank facility	23	**8.5**	4.2
Repayment of bank facility	23	**(4.0)**	(4.0)
Arrangement fee for revised facility		**(0.5)**	–
Re-purchase of own shares	20	**(0.1)**	(0.7)
Repayment of lease liabilities[1]	13	**(1.7)**	(1.7)
Net inflow/(outflow) from financing activities		**2.2**	(2.2)
Net decrease in cash and cash equivalents		**(1.1)**	(3.8)
Cash and cash equivalents at beginning of year		**1.2**	5.3
Effect of exchange rates		**1.6**	(0.3)
Cash and cash equivalents at end of year	19	**1.7**	1.2

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. Reporting entity

Dialight plc is a public listed company which is listed on the London Stock Exchange and is incorporated and domiciled in England and Wales under registration number 2486024. Details of the Company's registered office are set out on page 252 under the "Directory and shareholder Information" section. The consolidated financial statements of the Company for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the "Group").

2. Basis of preparation

(a) Statement of compliance

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

(b) Consolidated basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 48. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are discussed in the Chief Financial Officer's Review on pages 80 to 87.

The uncertainty as to the future impact on the financial performance and cash flows of the Group from the uncertainty in the economic environment and current world-wide commodity challenges 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 re-negotiated in July 2022 to a sustainability-linked loan and runs until July 2025. In November 2022, the £25m facility was redenominated to a $34m facility as most drawings are in USD and recent fluctuations in the GBP:USD exchange rate had adversely impacted headroom. The new facility contains normal covenants, covering maximum net leverage and minimum interest cover levels and contains options for two one-year extensions.

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 a £8m Coronavirus Large Business Interruption Loan Scheme (CLBILS) loan and a £2m commercial loan. The £10m additional facilities are repayable over 30 months, in equal instalments, from January 2021. £8m has been repaid to date (2022 £4.0m), with the remaining £2m to be fully repaid by June 2023 at the latest. During the year the debt service cover ratio (DSCR) covenant , which only applies to the CLBILS loan, was waived for Q2 and Q3 as the covenant penalises investment in working capital and capex. In December 2022, HSBC waived the remaining covenant tests for Q4 2022 and Q1 2023. At 31 December the Group had £30m (2021: £31m) in facilities of which £22.6m was drawn and £1.7m of cash on hand.

Further details, including the relevant covenant tests, are included in note 23.

In assessing the going concern assumptions, the Directors have prepared downside scenarios that reflect the risk of lower-than-expected revenue growth in our core Lighting markets, higher revenue decline in the opto-electronic market, lower gross margins due to input cost inflation, the associated forecast outturns alongside identified downside risks and mitigating actions. The Group has modelled four main scenarios in its assessment of going concern, being the base case, a lower revenue scenario, a lower margin scenario and a combined downside taking elements of lower revenue and lower margin.

Base case

The base case is derived from the Board approved 2023 budget, which assumes that demand for our new and existing products remains strong, component availability and pricing normalises, and our factories operate as normal. In this scenario, the Directors consider that the Group will continue to operate within its available committed facilities of $34m (£30m) with sufficient headroom and meet its ongoing financial covenant obligations.

The key assumptions in the base case include:

- continued revenue growth in Lighting due to our focus on markets with growing demand and where growth is driven by structural, safety and sustainability factors but at a lower level than seen in 2022;
- a short-term cyclical downturn in the opto-electronic segment;
- gross margins normalise to pre-COVID levels as component price premiums reduce and supply becomes more readily available; freight costs normalise, and the benefits from cost reduction and automation programmes are delivered; and
- operating costs are flexed in line with the incremental revenue and increasing operational leverage.

Downside cases

Lower revenue

In a severe revenue downside scenario, the Directors have assumed:

- no growth in Lighting revenue in 2023 followed by growth in 2024 at less than 50% of that achieved in 2022;
- no growth in Signals and Components revenue versus 2022; and
- no change in segmental gross margins.

Lower margin

In the margin downside scenario, the Directors have assumed:

- segmental revenues in line with the base case;
- gross margin reduction in 2023 of 1% caused by continued input cost pressures that are not fully mitigated by in-year price increases; and
- gross margin improvement in 2024 to achieve a similar margin to 2021.

Combined downside case

In the combined downside case, the Directors have assumed:

- flat volume compared with 2022 but with the price increases negotiated in November 2022 applying throughout 2023 and into early 2024;
- gross margin reduction of 2% throughout 2023 and into early 2024.

In all these scenarios, the Group has a series of controllable mitigating actions that can be taken swiftly (a number of which have already been enacted), including various temporary and permanent cost and cash saving measures.

The base case and downside cases have been further modelled to show headroom for any material one-off costs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

2. Basis of preparation (continued)

(c) Use of estimates, judgements and assumptions

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

Significant judgements

Termination of outsourced manufacturing agreement

Significant judgement is applied in determining whether to recognise a provision or a contingent liability in respect of the claims from the Group's former manufacturing partner Sanmina. In the view of management, it is not probable that the Group will have to make a payment, therefore no provision is required and the matter is disclosed as a contingent liability in note 27, which contains further details on the matter.

Development and patent costs

The Group capitalises development costs and patent costs provided they meet all criteria in the respective accounting policy. Costs are only capitalised when management applies judgement that is satisfied as to the ultimate commercial viability of the projects based on review of the relevant business case. The capitalised costs are amortised over the expected useful economic life, which is determined based on the reasonable commercial prospects of the product and a comparison to similar products being sold by the Group.

The Group has £11.5m (2021: £12.0m) 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 the prior year cost, there was £1.3m relating to development projects which were paused during COVID-19 while the engineering team was redeployed to focus on projects to source alternative components and consume raw materials on hand, to help the business mitigate the global supply chain challenges. This project was expected to recommence in 2022, but the Group is currently exploring other options that may not use these capitalised costs. Due to uncertainty of next steps, capitalised costs of £1.3m have been written off and the impairment recorded in the income statement as a non-recurring expense (note 6). 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 strategic plan.

Estimates

Inventory reserve – Raw materials and sub-assemblies

In the previous year, the basis for reserving raw materials and sub-assemblies was to reserve the quantity on hand that was greater than 365 days old, exceeded three year's historical usage and where, following a review by engineering and supply chain personnel, there was no reasonable prospect of the components being used or their shelf life not being exceeded. This estimate was felt appropriate given the significant impact that the prolonged pandemic/geopolitical situation had on our operations and the consequential logistics and supply chain challenges, that resulted in inventory being held for longer than normal. The Group has now revised its basis of estimate for calculating the inventory reserve to provide for raw and sub-assembly inventory that is over 24-months old at the balance sheet date. This basis for estimate reduces estimation subjectivity, whilst allowing for the adverse impact from component shortages that have led to high inventory levels and some components being held for longer than expected. Two years is felt to be appropriate as the components have a long shelf life, continue to be used in production and the product demand mix between project and MRO business has been skewed during COVID-19.

Management believes that any reasonably possible change in the assumption would not cause any significant change in the provision estimate for raw materials and sub-assemblies in the next financial year.

Inventory reserve – finished goods

The review of finished goods inventory was based on all inventory over 365 days old. Inventory on hand was compared to historical sales, current orders, sales pipeline and whether the product had been recently launched.

Management judgement was then applied to determine whether there was a reasonable probability that the inventory would be sold, with a provision being required for any inventory that failed this assessment.

Management believes that any reasonably possible change in the assumption would not cause any significant change in the provision estimate for finished goods.

The value of the provision for all categories of inventory over which judgement has been exercised was £4.1m (2021: £3.0m) and this represents 7.7% (2021: 7.0%) of the gross inventory value.

Details of the inventory reserve are set out in note 17.

Inventory – absorbed overhead costs

The valuation of inventory, detailed in note 17, requires the use of estimates in the amount of costs to be absorbed into inventory valuation. There are two elements of cost over which estimates are applied.

Firstly, in relation to the amount of production overheads that are included in the inventory valuation. The pools of cost related to production comprise labour and direct overheads attributable to the production process. They are assessed to ensure that costs not related to production are excluded. Consistent with last year, the Group uses the weighted average inventory turns calculated by comparing the level of inventory on hand with the amount of production by month. This gives the number of days of overhead that should be absorbed in inventory (2022: 68 days, 2021: 64 days). The value of directly attributable costs over which judgement was exercised was £7.0m (2021: £5.0m) and this represents 13% (2021: 12%) of the inventory value. For every day that the estimate of the days used for the overheads absorbed changes, it changes the calculation by £88k.

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 (2022: 151 days, 2021: 162 days). Costs of transporting finished goods to distribution centres on a global basis are included in the inventory valuation until the associated finished goods have been sold outside the Group.

The value of freight costs over which judgement was exercised was £4.1m (2021: £3.1m) and this represents 8% (2021: 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 £24k.

Management believes that any reasonably possible change in the assumptions would not cause any significant change in the amount of costs absorbed into inventory.

Goodwill and other intangible assets

The Group tests at least annually whether goodwill has suffered any impairment in accordance with the accounting policy set out in note 4(h). The recoverable amounts of the Group's CGU's have been determined based on value in use calculations, which involve a high level of estimation due to the uncertainty caused by the geopolitical situation and potential material shortages due to delays in the supply chain.

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 the ability to cope with accelerated product demand and has been reflected in our forecast.

Management believes that any reasonably possible change in the assumptions would not cause the carrying amount to exceed the recoverable amount in the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

2. Basis of preparation (continued)

Pensions/Retirement benefits

Benefits in the form of retirement pensions are provided to current and former employees under defined benefit plans. Obligations under defined benefit plans are calculated annually by independent actuaries using the Defined Accrued Benefit method.

Defined benefit plan surpluses are recognised as an asset to the extent they are considered recoverable. The amount recognised in the statement of comprehensive income in respect of defined benefit plans mainly comprises service cost and net interest. Remeasurement of the net defined benefit asset resulting from actuarial gains and losses, and return on plan assets, are recognised in other comprehensive income. The Group has £4.5m (2021: £3.9m) of defined benefit asset.

The valuation of the defined benefit pension obligations, detailed in note 16, requires the use of estimates for three elements, discount rate, inflation and life expectancy.

The discount rate is a key assumption in calculating the value of defined benefit obligations. The assumption is used to calculate the net present value of the expected benefit payments. The rate is derived from high quality corporate bonds. The rate used for this year's valuation is 4.85% (2021: 1.85%). For every 0.1% change in the discount rate used in the estimate it changes the calculation by £160k.

The inflation rate is a key assumption in calculating the value of defined benefit obligations. The assumption is used to calculate the expected amounts of future benefit payments. The rate is derived from the central bank inflation curve less an inflation premium. The rate used for this year's valuation is 3.3% (2021: 3.6%). For every 0.1% change in the inflation rate used in the estimate it changes the calculation by £100k.

The mortality rate is a key assumption in calculating the value of defined benefit obligations. The mortality assumption estimate how long members are expected to live and receive benefits for. The assumption is used to calculate the expected amounts of future benefit payments; the assumption is derived from current life expectancy and the Continuous Mortality Investigation (CMI) projection tables. For every 6 month change in the mortality rate used in the estimate it changes the calculation by £300k.

3. Changes in significant accounting policies

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

- Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37);
- Annual Improvements to IFRS Standards 2018-2020;
- Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16); and
- Reference to the Conceptual Framework (Amendments to IFRS 3).

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 2022:

- 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);
- 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 IAS 8) (Effective from 1 January 2023);
- Amendments to IAS1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (Effective from 1 January 2023);
- Sale or Contribution of Assets between an Investor and its Associate or Joint venture (Amendments to IFRS 10 and IAS 28).

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

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has (a) power over the investee, (b) exposure, or rights, to variable returns from the investee, and (c) ability to use its power to affect those returns. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. If the Group loses control of a subsidiary, it derecognises the related assets (including goodwill), liabilities and other components of equity, while any resultant gain or loss is recognised in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies as applied to subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Business combinations and goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. In assessing control, the Group takes into consideration potential voting rights that were then currently exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

– the fair value of the consideration transferred; plus
– the recognised amount of any non-controlling interests in the acquiree; less
– the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

Acquisitions between 1 January 2004 and 1 January 2010

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

4. Significant accounting policies (continued)

Changes in ownership interest

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in retained earnings within the statement of changes in equity.

(c) Non-underlying items

The Group incurs costs and earns income that is non-underlying in nature or that, in the Directors' judgement, needs to be disclosed separately by virtue of its size and incidence in order for users of the consolidated financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

These items could include (but are not limited to):

- the costs related to transferring production back from an outsourced manufacturer;
- the impairment of tangible or intangible assets which relate to the closure of part of a business or removal of a product line;
- the impairment of inventory as a result of a significant change in product design;
- individual restructuring projects which are material or relate to the closure of a part of the business and are not expected to recur;
- gains or losses on disposal of businesses;
- gains or losses arising on significant changes to closed defined benefit pension plans; and
- costs arising from legal disputes including that with Sanmina Corporation (see note 6).

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

(d) Foreign currency translation

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

Income and expense items of overseas operations are translated at average exchange rates for the period. The resulting exchange differences are recognised as a separate component of equity within the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction.

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

(e) Derivative financial instruments

Derivative financial instruments are recorded initially at cost and are remeasured to fair value at subsequent reporting dates. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

(f) Property, plant and equipment

All items of property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment. Subsequent costs are included in the asset carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repair and maintenance costs are charged to the income statement in the financial period they are incurred.

(g) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(h) Depreciation and amortisation

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, except for right-of-use assets which are depreciated over the shorter of the lease contract period and their useful lives. Land is not depreciated.

The estimated useful lives are as follows:

Plant, equipment and vehicles	3–10 years
Right-of-use assets	2–9 years

Amortisation

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

The estimated useful lives are as follows:

Patents and trademarks	3–5 years
Development costs	
Product upgrades	3 years
New product	4 years
Control and technology related products	5 years

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

Subsequent measurement

After initial recognition, goodwill is measured at cost less any accumulated impairment losses until disposal or termination of the CGU. Goodwill is allocated to the CGUs and is tested at least annually for impairment. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(i) Research and development costs

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

Development expenditure is capitalised only if the expenditure can be measured reliably, the product and process is technically and commercially viable, future economic benefits are probable and the Group intends and has sufficient resources to complete the development and to use or sell the asset. Costs are only capitalised once the initial research phase has been completed and the business case for development has been approved by management. The expenditure capitalised includes direct cost of material, direct labour and directly attributable overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(j) Impairment

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

4. Significant accounting policies (continued)

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

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

A financial asset, in particular the carrying value of trade receivables, is considered to be impaired if one or more events have had a negative effect on the estimated future cash flows expected to arise from that asset. Any impairment losses are recognised through the income statement.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventory comprises all costs of purchase, costs of conversion and other costs to bring the inventory to its existing location and condition, including an appropriate share of production overheads based on normal operating capacity. Inventory is accounted for on a first-in, first-out basis. When calculating any reserve, management considers the nature and condition of the inventory on an item by item and category basis, as well as basing on an assessment of market developments; change in strategy or business model; regulatory and technology evolvement; and analysis of historical and projected usage with regard to quantities on hand for all raw materials, sub-assemblies and finished goods.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(m) Share capital

(i) Dividends are recognised in the period in which they are approved by the Company's shareholders, or, in the case of an interim dividend, when the dividend is paid.

(ii) When share capital recognised as equity is repurchased by the ESOT, the amount of the consideration paid is recognised as a deduction from equity.

(iii) Under the terms of the PSP, RSP and deferred bonus schemes, dividends accrue on shares not yet vested; however, in the event that the shares lapse or are forfeited then the dividends will not be paid and the accrual is reversed.

(n) Employee benefits

(i) Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

(ii) Defined benefit pension plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in prior periods, discounting that amount and deducting the fair value of any plan assets.

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

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

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

(iii) Share-based payments and deferred bonus transactions

The PSP and RSP allows Group employees to acquire shares of the Company. The fair value of the grants is measured using the five-day weighted average prior to grant, taking into account the terms and conditions upon which the grants were made. The amount recognised as an expense is only adjusted to reflect forfeitures resulting from failures to meet non-market conditions. The share-based payments are equity-settled. Key Group employees can be awarded shares in the Company under the Annual Performance Bonus Plan (APBP). The fair value of the award granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award.

All of the share awards are based on three-year continued service conditions, except under the APBP where 50% vest after two years.

(iv) Bonus plan

The Group recognises a liability in respect of the best estimate of bonus payable where contractually obliged to or where past practice has created a constructive obligation.

(o) Other provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Warranty provision is made

for the expected costs of future warranty claims relating to past product sales. This provision is estimated based on historical trends for returns, product-specific warranty terms, internal knowledge of product performance characteristics and the expected costs of remedying warranty-returned products. All other provisions are based on management's best estimate of a probable expected outcome.

(p) Trade and other receivables

Trade and other receivables are recognised at fair value (which ordinarily reflects the invoice amount) and carried at amortised cost, less an allowance for expected lifetime losses as permitted under the simplified approach in IFRS 9. Fully provided balances are not written off from the balance sheet until the Group has decided to cease enforcement activity.

The Group has applied the simplified approach as permitted by IFRS 9. The expected credit loss (ECL) model considers the Group's historical credit loss, factors specific to each receivable, the current economic environment and expected changes in future forecasts (see note 24).

(q) Trade and other payables

Trade and other payables are initially recorded at fair value and then subsequently stated at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

4. Significant accounting policies (continued)

(r) Revenue recognition

Revenue from the sale of goods is measured by completion of the performance obligations in the contract and at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and product returns. An allowance is made for expected returns, discounts and rebates based on distributor agreements and historical trends. Revenue represents the invoiced value of goods supplied and is recognised in the income statement in line with performance of contractual obligations and based on Incoterms in contract. The majority of our sales are on an ex works basis with revenue recognised on despatch of finished goods. Warranty is not a separable performance obligation so has no impact on revenue recognition.

(s) Net financing costs

Net financing costs comprise interest receivable, interest payable on borrowings, arrangement fees on revised or new borrowing facilities, interest payable on lease liabilities, interest on pension assets and liabilities, foreign exchange gains and losses.

(t) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The tax rate and laws used to compute the amount are those that are enacted or substantially enacted, by the reporting date.

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

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

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

(u) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group operates in multiple economic environments so the incremental borrowing rate (IBR) that applies will vary from lease to lease.

Discount rates applied for different jurisdictions

IFRS 16 allows the use of two possible discount rates, namely the interest rate implicit in the lease from the perspective of the lessor (implicit rate) or the Group's IBR.

The IBR is the rate of interest that Dialight pays to borrow (a) over a similar term, (b) with a similar security, (c) the funds necessary to obtain an asset of a similar value to the right-of-use asset (d) in a similar economic environment. The rate reflects the amount that the Group could borrow over the term of the lease.

The Group operates in multiple jurisdictions and the economic environment in those jurisdictions would also influence the IBR. This is expected to lead to a different IBR for every lease in a different territory. Key information that the Group considered while determining the IBR relates to the region where the lease is domiciled, the functional currency and the currency of the lease, the asset being leased and the remaining years left on the lease.

The Group has property leases in the USA, Mexico, UK, Australia and Malaysia. The Mexican and Malaysian leases are for industrial premises with the remaining leases being for office buildings.

The IBR is determined based on the interest rates available to the Group entities in which the underlying leases are held, based on the credit rating of each of these entities. Certain adjustments are made to these interest rates to reflect the terms of the individual leases and the types of assets leased.

The IBRs calculated for use by the Group vary between 2% and 5% for the UK, USA and Australia jurisdictions and between 5% and 7% for the Mexico and Malaysia jurisdictions.

Lease payments included in the measurement of the lease liability comprise the following:

Fixed payments, including in-substance fixed payments; variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right of use assets that do not meet the definition of investment property in right-of-use assets and lease liabilities separately in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

4. Significant accounting policies (continued)

The Group has elected not to recognise right of use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. The Group classifies the sub-lease as an operating lease as the lease does not transfer substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other revenue".

(v) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework, appropriate for the size and complexity of the Group, with respect to the measurement of fair values. When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(w) Contingent liabilities

A contingent liability arises from past events and includes possible obligations (50% certain or less) whose existence will be confirmed only by the occurrence of uncertain future events not wholly within the entity's control and present obligations which are not recognised because it is not probable that a transfer of economic benefits will be required to settle the obligation or the obligations cannot be measured reliably. It includes guarantees to third parties and certain lawsuits.

5. Operating segments

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

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

There is no inter-segment revenue and there are no individual customers that represent more than 10% of revenue.

All revenue relates to the sale of goods. Segment gross profit is revenue less the costs of materials, labour, production and freight that are directly attributable to a segment. Overheads comprise operations management, selling costs plus corporate costs, which include share-based payments.

Segmental assets and liabilities are not reported internally and are therefore not presented below. Gross profit equals to underlying gross profit.

Reportable segments

2022	Lighting £m	Signals & Components £m	Unallocated £m	Total £m
Revenue	**121.0**	**48.7**	**–**	**169.7**
Gross profit	**40.6**	**14.0**	**–**	**54.6**
Overheads	**(33.7)**	**(8.3)**	**(7.6)**	**(49.6)**
Underlying profit/(loss) from operating activities	**6.9**	**5.7**	**(7.6)**	**5.0**
Non-underlying items (note 6)	**(2.7)**	**–**	**–**	**(2.7)**
Profit/(loss) from operating activities	**4.2**	**5.7**	**(7.6)**	**2.3**
Financial expense				**(1.8)**
Profit before tax				**0.5**
Taxation				**(0.1)**
Profit after tax				**0.4**

2021	Lighting £m	Signals & Components £m	Unallocated £m	Total £m
Revenue	90.5	41.1	–	131.6
Gross profit	33.7	13.3	–	47.0
Overheads	(28.4)	(7.8)	(6.3)	(42.5)
Underlying profit/(loss) from operating activities	5.3	5.5	(6.3)	4.5
Non-underlying items (note 6)	(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

Other segmental data

	2022			2021		
	Lighting £m	**Signals & Components £m**	**Total £m**	Lighting £m	Signals & Components £m	Total £m
Depreciation of property, plant and equipment	**2.1**	**0.8**	**2.9**	2.1	1.0	3.1
Depreciation of right-of-use assets	**1.3**	**0.5**	**1.8**	1.5	0.7	2.2
Amortisation*	**4.4**	**–**	**4.4**	3.5	–	3.5
Impairment of intangible assets	**1.3**	**–**	**1.3**	–	–	–

* representation of 2021 amortisation to Lighting, illustrative purpose only and no changes to the reporting segmental income statement

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

5. Operating segments (continued)

Geographical segments

The Lighting and Signals & Components segments are managed on a worldwide basis, but operate in three principal geographic areas: North America, EMEA and Rest of World. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods. All revenue relates to the sale of goods.

Sales revenue by geographical market

	2022 £m	2021 £m
North America	**132.7**	101.0
EMEA	**14.5**	10.2
Rest of World	**22.5**	20.4
Total sales revenue	**169.7**	131.6

6. Non-underlying items

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

	2022 £m	2021 £m
Non-underlying items		
Costs related to manufacturing partner	**1.0**	2.9
Impairment of capitalised development costs	**1.3**	–
Other litigation costs	**0.4**	–
Release of warranty provision	**–**	(0.3)
Release of litigation provision	**–**	(0.2)
Non-underlying items recorded in administrative expenses	**2.7**	2.4

As previously reported, Dialight sought to reach a negotiated conclusion of various outstanding matters and performance issues following the termination, in 2018, of the manufacturing services agreement (MSA) with its former manufacturing partner, Sanmina Corporation ("Sanmina"). Following unsuccessful mediation at the beginning of the year, Sanmina lodged a motion for summary judgement to dismiss the majority of Dialight's claim. The detailed evidence from both parties was examined by Federal judge and the Court's ruling on Sanmina's dismissal motion was released to the parties under seal on Tuesday 14 March 2023. The court denied Sanmina's motion to dismiss Dialight's fraudulent inducement claim and denied its motion for summary judgment on Sanmina's accounts receivable claim. The court granted Sanmina's motion as to the dismissal of Dialight's willful misconduct claim. The judge ruled that the strength of the evidence on the fraudulent inducement claim, together with various claims and counter-claims relating to accounts receivable and accounts payable, is sufficient that the dispute should be resolved by jury trial, pending any appeal process. This ruling confirms that Dialight can challenge the contractual liability cap in the MSA on the basis of Sanmina's fraudulent inducement and Dialight intends to rigorously pursue this claim, and the various other contract-based claims, to trial. Dialight has sought external legal advice and is paying for the legal costs as incurred. During the year, legal costs of £1m have been expensed, compared to prior-year legal and inventory write off costs of £2.9m.

At the beginning of 2021, the Group paused development of a new range of Obstruction products within the Lighting segment. This was a temporary measure while technical and engineering resources supported the supply chain team in identifying and sourcing alternative components, following world-wide shortages linked to COVID-19. Over the past year management has explored several options to complete the development, including continuing internal development or utilising third party technology. The most likely option is now to utilise third party components in the new product suite, as this will be quicker and allow Dialight to capitalise on market opportunities and gain market share. Given this change in strategy would not involve use of the Dialight developed technology, the paused development costs of £1.3m have been impaired and the non-cash cost classified as non-underlying in accordance with Group accounting policy.

Other litigation costs of £0.4m relate to a contractual litigation case, initiated by Dialight during 2022, relating to the use of the intellectual property. The costs incurred relate to the legal costs incurred in the year.

Prior year release of warranty provision of £0.3m related to unclaimed warranty related to the disposal of the Group's Wind business in 2019. The Group had received and paid all claims related to this disposal and the remaining balance of the provision was therefore released.

Prior year litigation credit related to employment litigation cases; a provision of £0.2m (see note 22) was released as it was not probable that Group would have to pay for the claims which was netted off with £0.2m legal cost incurred in the year relating to the cases.

7. Personnel expenses

	2022 £m	2021 £m
Wages and salaries	**36.6**	29.1
Social security contributions	**4.4**	3.4
Equity-settled share-based payment transactions	**0.5**	0.6
Contributions to defined contribution plans	**0.9**	0.8
Total charge for defined benefit plans	**0.1**	0.1
Total personnel expense	**42.5**	34.0

The increase in personnel costs is driven by increases in national minimum wage levels in Mexico, cost of annual pay reviews and increases in headcount.

The average number of employees by geographical location was:

	2022 Number	2021 Number
US and Mexico	**1,708**	1,445
Rest of World	**262**	234
Total average number of employees	**1,970**	1,679

In 2022, the Group employed an average of 1,358 direct staff (2021: 1,118) and 612 indirect staff (2021: 561).

The main Board Directors are considered to be the Group's key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

7. Personnel expenses (continued)

Key management personnel compensation comprised the following:

	2022 £m	2021 £m
Short-term employee benefits	**1.2**	1.2
Share-based payments	**0.5**	0.6
Total compensation for key management personnel	**1.7**	1.8

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest-paid Director was £0.5m (2021: £0.5m), and pension contributions of £0.0m (2021: £nil) were made to a money purchase scheme on their behalf. During the year, the highest-paid Director received 103,447 shares under a long-term incentive scheme.

	2022	2021
Number of Directors accruing benefits under money purchase schemes	**1**	1
Number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	**2**	1

8. Financial expenses

	2022 £m	2021 £m
Net interest on defined benefit liability	**0.1**	0.1
Interest expense on financial liabilities, except lease liabilities	**1.1**	0.7
Arrangement fee amortisation	**0.1**	0.1
Interest expense on lease liabilities	**0.5**	0.5
Net financing expense recognised in the consolidated income statement	**1.8**	1.4

9. Taxation

Recognised in the income statement

	2022 £m	2021 £m
Current tax expense		
Current year	**2.1**	1.3
Adjustment for prior years	**(0.2)**	(0.6)
Total current tax expense	**1.9**	0.7
Deferred tax expense		
Origination and reversal of temporary differences	**(1.9)**	0.1
Adjustment for prior years	**0.1**	(0.4)
Total deferred tax	**(1.8)**	(0.3)
Total tax expense	**0.1**	0.4

Reconciliation of effective tax rate

	2022 %	2022 £m	2021 %	2021 £m
Profit for the year		**0.3**		0.3
Total tax charge		**0.1**		0.4
Profit before tax		**0.4**		0.7
Income tax using the UK corporation tax rate	**19.0**	**0.1**	19.0	0.1
Effect of higher taxes on overseas earnings	**20.0**	**0.1**	43.0	0.3
Non-deductible expenses	**20.0**	**0.1**	28.6	0.2
Current year losses for which no deferred tax is recognised	**40.0**	**0.2**	57.1	0.4
US carry back claim	**–**	**–**	(43.0)	(0.3)
Adjustment for prior years	**(20.0)**	**(0.1)**	(88.3)	(0.6)
Research and development credits	**(19.0)**	**(0.1)**	(28.6)	(0.2)
Foreign taxes incurred	**(40.0)**	**(0.1)**	69.3	0.5
	20.0	**0.1**	57.1	0.4

The effective tax rate for the year is 20% compared with 57.1% in the prior year and the standard rate of 19% (2021: 19.0%) in the UK. During the year, the Group made a profit of £0.5m, which was lower than the prior year, which resulted in a tax charge in the year of £0.1m.

The normalised tax rate for the Group in the year is 25% (tax rate before adjustments) and based on a pre-tax profit of £0.5m this would generate a tax charge of £0.1m. The Group's overall tax rate was 20%, which was broadly the same as the normalised rate due to untypical adjustments equating each other out. The major adjustments were:

- The current losses in the European Lighting business are not recognised as a deferred tax asset, resulting in £0.2m of tax credit not being recognised in the year. We do not anticipate this business making sufficient taxable profits in the foreseeable future to utilise the losses.
- A current year adjustment of £0.1m relating to additional research and development credit in the US.
- A £0.1m prior year adjustment in Malaysia and US truing up prior-year provisions to actual submissions.

Tax charge/(credit) recognised directly in equity

	2022 £m	2021 £m
Employee benefits	**0.1**	0.5
Other	**0.6**	(0.1)

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

UK
The UK companies are subject to a corporate tax rate of 19% (2021: 19.0%). There are no UK timing differences recognised at 31 December 2022. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

9. Taxation (continued)

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 (2021: 24%, including 21% federal tax and 3% state tax).

Group

The majority of the Group's profits are driven by the US entity where the tax rate is 24% underpinning the Group's tax rate.

10. Profit for the year

Profit for the year has been arrived at after charging:

	2022 £m	2021 £m
Research and development costs:		
Expensed as incurred	**6.1**	4.9
Amortisation charge	**3.3**	2.5
Total research and development costs	**9.4**	7.4
Depreciation of fixed assets, excluding right-of-use assets	**2.9**	3.1
Depreciation of right-of-use assets	**1.8**	2.2
Impairment of intangible assets	**1.3**	–
Lease expense – low value leases and leases with a remaining term of less than one year	**0.1**	0.1

There is a lower capitalisation of, and a higher profit and loss charge for, research and development costs in 2022 compared with the prior year. During 2022 the engineering team continued to focus on projects to identify alternate components and consume components on hand to help alleviate with the global supply shortages (mainly semi-conductors). These factors resulted in less time being capitalised, and consequently a higher profit and loss charge. The amortisation charge increased as two new products became available for sale in 2022, as well as a full amortisation charge for the projects launched in 2021.

Auditor's remuneration

	2022 £m	2021 £m
Audit of these financial statements	**0.7**	0.5
Amounts receivable by auditor in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**0.2**	0.2
	0.9	0.7

11. Earnings per share

Basic earnings per share

The calculation of basic earnings per share ("EPS") at 31 December 2022 was based on a profit for the year of £0.4m (2021: £0.3m profit) and the weighted average number of ordinary shares outstanding during the year of 32,574,668 (2021: 32,393,109).

Weighted average number of ordinary shares

	2022 k	2021 k
Weighted average number of ordinary shares	**32,575**	32,393

	2022	2021
Basic earnings per share	**1.2p**	0.9p

Diluted earnings per share

The calculation of diluted EPS at 31 December 2022 was based on a profit for the year of £0.4m and the weighted average number of diluted ordinary shares during the year of 33,231,301 (2021: 32,803,606), excluding the purchase of 225,451 own shares by the Group.

Weighted average number of ordinary shares

	2022 k	2021 k
Weighted average number of ordinary shares	**33,231**	32,804

	2022	2021
Diluted earnings per share	**1.2p**	0.9p

12. Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At 1 January 2021	2.9	44.5	47.4
Exchange adjustments	–	0.5	0.5
Additions	–	2.1	2.1
At 31 December 2021	2.9	47.1	50.0
Exchange adjustments	0.4	5.6	6.0
Additions	–	3.4	3.4
Other disposals	–	(0.1)	(0.1)
Balance at 31 December 2022	**3.3**	**56.0**	**59.3**
Accumulated depreciation			
At 1 January 2021	(2.9)	(31.7)	(34.6)
Exchange adjustments	–	(0.3)	(0.3)
Charge for the year	–	(3.1)	(3.1)
At 31 December 2021	(2.9)	(35.1)	(38.0)
Exchange adjustments	(0.4)	(4.2)	(4.6)
Charge for the year	–	(2.9)	(2.9)
Disposals	–	0.1	0.1
Balance at 31 December 2022	**(3.3)**	**(42.1)**	**(45.4)**
Carrying amount at 31 December 2022	**–**	**13.9**	**13.9**
Carrying amount at 31 December 2021	–	12.0	12.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

13. Leases

Right-of-use assets

	Buildings £m	Non-property leases £m	Total £m
Cost			
Balance at 1 January 2021	13.5	–	13.5
Exchange adjustments	0.1	–	0.1
Modifications	0.1	–	0.1
Additions	3.0	0.5	3.5
Balance at 31 December 2021	16.7	0.5	17.2
Exchange adjustments	1.0	–	1.0
Balance at 31 December 2022	**17.7**	**0.5**	**18.2**
Accumulated depreciation			
Balance at 1 January 2021	(3.7)	–	(3.7)
Charge for the year	(1.9)	(0.3)	(2.2)
Balance at 31 December 2021	(5.6)	(0.3)	(5.9)
Charge for the year	(1.6)	(0.2)	(1.8)
Balance at 31 December 2022	**(7.2)**	**(0.5)**	**(7.7)**
Carrying amount at 31 December 2022	**10.5**	**–**	**10.5**
Carrying amount at 31 December 2021	11.1	0.2	11.3

The Group leases various industrial premises and office buildings. Rental contracts are typically for fixed periods of 1 to 10 years, but may have extension options as described in note 13(ii). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

From 2021, we have included non-property leases related to vehicles and software. The impact on both right-of-use assets and liabilities value in the previous year was immaterial.

See accounting policy in note 4(u).

Lease liabilities

	Buildings £m	Non-property leases £m	Total £m
Lease liabilities recognised at 1 January 2021	(10.3)	–	(10.3)
Interest expense	(0.5)	–	(0.5)
Lease liabilities variations	(0.1)	–	(0.1)
Additions	(3.0)	(0.5)	(3.5)
Repayment of liabilities	2.0	0.2	2.2
Exchange adjustments	0.1	0.1	0.2
Lease liabilities recognised at 31 December 2021	(11.8)	(0.2)	(12.0)
Interest expense	(0.5)	–	(0.5)
Repayment of liabilities	2.0	0.2	2.2
Exchange adjustments	(1.0)	–	(1.0)
Lease liabilities recognised at 31 December 2022	**(11.3)**	**–**	**(11.3)**

Leases as lessee

The Group leases industrial premises, office buildings, IT and other equipment. The leases typically run for a period of 1-10 years, with various options to renew the leases after that date. Lease payments are renegotiated dependent on the lease terms to reflect market rentals. Some leases provide for additional rent payments that are based on fixed percentage changes and/or changes in local price indices. In Q1 2023, the Group notified the landlords at its two Mexico sites that it wanted to exercise the extension options under the existing leases for up to another five years. This has been agreed in principal with the landlords and the legals are under way.

The Group leases IT and other equipment with contract terms of 1 to 4 years. These leases are short term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

	2022 £m	2021 £m
Interest on lease liabilities	**(0.5)**	(0.5)
Expenses relating to short-term leases	**(0.1)**	(0.1)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	**(0.1)**	(0.1)
Total recognised in profit and loss	**(0.7)**	(0.7)

(i) Amounts recognised in statement of cash flows

	2022 £m	2021 £m
Total cash outflow for leases	**(2.2)**	(2.2)

Of the total £2.2m cash outflow in 2022 (2021: £2.2m), £1.7m was for the principal portion of lease liabilities and £0.5m was for interest on lease liabilities (2021: £1.7m and £0.5m respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

13. Leases (continued)

Leases as lessee (continued)

(ii) Extension options

Extension options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Group as a lessee. The Group has estimated that the potential future lease payments, should it exercise all the extension options, would result in an increase in lease liabilities of £12.3m (2021: £12.6m).

Leases as lessor

The Group has a lease on an office that was entered into during 2019 and which it is also sub-letting.

(i) Operating lease

The Group has classified this sub-lease as an operating lease, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the asset. Note 4(u)(ii) sets out information about the operating lease for the sub-leased property. The head lease expires in 2029 and the sub-lease expires in 2026. The sub-lessor has the option to renew the lease at its sole discretion.

Rental income recognised by the Group during 2022 was £nil (2021: £nil). The following table sets out a maturity analysis of the lease rentals receivable relating to the sub-lease, showing the undiscounted lease payments to be received after the reporting date:

Operating leases minimum rentals receivable under IFRS16	**2022 £m**	2021 £m
Less than one year	**0.2**	0.2
One to two years	**0.2**	0.2
Two to three years	**0.3**	0.2
Three to four years	**0.3**	0.3
Four to five years	**–**	0.3
Total	**1.0**	1.2

14. Intangible assets

	Concessions, patents, licences and trademarks £m	Goodwill £m	Software and licences £m	Development costs £m	Total £m
Cost					
Balance at 1 January 2021	9.3	12.7	5.7	29.9	57.6
Additions	0.8	–	0.3	2.4	3.5
Effects of foreign exchange movement	0.1	0.1	0.1	0.1	0.4
Balance at 31 December 2021	10.2	12.8	6.1	32.4	61.5
Additions	0.9	–	0.2	2.7	3.8
Effects of foreign exchange movement	1.3	0.6	0.3	3.7	5.9
Balance at 31 December 2022	**12.4**	**13.4**	**6.6**	**38.8**	**71.2**
Amortisation and impairment losses					
Balance at 1 January 2021	(7.7)	(4.2)	(4.9)	(19.6)	(36.4)
Amortisation	(0.6)	–	(0.4)	(2.5)	(3.5)
Effects of foreign exchange movement	(0.2)	–	–	–	(0.2)
Balance at 31 December 2021	(8.5)	(4.2)	(5.3)	(22.1)	(40.1)
Amortisation	(0.8)	–	(0.3)	(3.3)	(4.4)
Impairment	(0.1)	–	–	(1.2)	(1.3)
Effects of foreign exchange movement	(1.0)	–	(0.3)	(2.7)	(4.0)
Balance at 31 December 2022	**(10.4)**	**(4.2)**	**(5.9)**	**(29.3)**	**(49.8)**
Carrying amount at 31 December 2022	**2.0**	**9.2**	**0.7**	**9.5**	**21.4**
At 31 December 2021	1.7	8.6	0.8	10.3	21.4

The amortisation charge for the year is included within administrative expenses in the income statement.

Goodwill and other intangible assets (development costs, patents)
The Group has two CGUs, Lighting and Signals & Components, which are the smallest identifiable independent groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where assets and costs are shared between the two CGUs a reasonable apportionment of these is made for the purpose of the impairment calculation.

Goodwill of £9.2m (2021: £8.6m) is recognised in the Group's balance sheet and is attributable to Lighting. The goodwill balance arose from a number of acquisitions in the Lighting segment in prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

14. Intangible assets (continued)

Impairment testing

The Group tests goodwill and capitalised development costs (at the CGU level) annually for impairment or more frequently if there are indications of impairment. The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are externally derived long-term growth rate; pre-tax discount rate and operating cash flow forecasts derived from the Board-approved 2023 budget and the three-year strategic plan extended to cover the following two years (covering the period 2024 to 2027). The plans take into account the continuing impact of uncertainty from the economic environment and current world-wide commodity challenges and impact of climate risk.

	2022
Discount rate	**17.9%**
Terminal growth rate	**2.3%**
Revenue five-year growth rate range for lighting segment	**12-13%**
Gross margin five-years average growth rate	**1.3%**
Stewardship cost allocation	**80%**

The risk-adjusted pre-tax discount rate used to discount the forecast cash flows for the Lighting CGU was 17.9% (2021: 14.1%).

The impairment testing showed that the recoverable amount of £72.0m against all off the assets associated with a goodwill exceeded the carrying amount, and therefore no impairment charge has been recorded.

The pre-tax discount rate is based on the Group's weighted average cost of capital which reflects current market assessments of a number of factors that impact on the time value of money and any risk specific to the Group. The rate includes management's assessment of a normal level of debt-to-equity ratio within similar companies in the Group's sector. The costs of the ultimate holding company (stewardship costs) have been allocated to each CGU as they provide necessary support to the CGUs to generate cash inflows. These costs have been allocated on the same allocation basis as the administration costs. The long-term growth rate into perpetuity has been determined as the average of Consumer Price Index (CPI) rates for the countries in which the CGU operates, predicted for the next five years.

Management has arrived at the five-year strategic plan based upon certain assumptions derived from a combination of an internal assessment of the market size, customer product requirements, production capacity requirements, the operational costs of the organisation and external economic factors, including the impact of supply chain issues and climate change. The key assumptions within the plan are revenue growth and gross profit, which are based on management's best estimate of material, labour and production cost trends, material availability and manufacturing efficiencies.

In undertaking the assessment, the positive impact from climate change on demand for the Group's products and its impact on financial performance has been carefully considered. Considering the Group's business model, strategy and limited exposure to adverse climate change impacts, management believes that the opportunities outweigh any risk and that the major challenge will be our ability to cope with accelerated product demand which has been reflected in the impairment testing models.

Sensitivity to changes in key assumptions:
Management believes that any reasonably possible change in the assumptions would not cause the carrying amount to exceed the recoverable amount. The following table shows the amount which these five assumptions would need to change to individually for the estimated recoverable amount to be equal to the carrying amount.

In percentage	Amount required for amount to equal recoverable amount
Discount rate	26.0%
Terminal growth rate	n/a
Revenue five-year growth rate range	9.9%
Gross margin five-year reduction rate	3.3%
Stewardship cost allocation	n/a

The impairment assessment is not highly sensitive to climate change scenarios.

The recoverable amount incorporates management's view of the impact of supply chain issues on near-term trading. The Group continues to operate within its available committed facilities with sufficient headroom and meet its financial covenant obligations and no impairment is required.

15. Deferred tax

(i) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Property, plant and equipment	**–**	–	**(0.9)**	(1.3)	**(0.9)**	(1.3)
Right-of-use assets	**0.3**	0.3	**–**	–	**0.3**	0.3
Intangible assets	**–**	–	**(0.2)**	(1.1)	**(0.2)**	(1.1)
Employee benefits	**–**	–	**(0.9)**	(0.7)	**(0.9)**	(0.7)
Provisions	**2.6**	2.7	**–**	–	**2.6**	2.7
Losses and other items	**1.5**	1.4	**–**	–	**1.5**	1.4
Tax assets/(liabilities)*	**4.4**	4.4	**(2.0)**	(3.1)	**2.4**	1.3

* 2021 assets and liabilities balances were re-presented to match 2022 balances

Deferred tax assets have been recognised in respect of all tax losses in entities expected to generate sufficient future taxable profits. As mentioned in note 9, surplus losses relating to the European businesses have not been recognised in the year as they are not expected to generate sufficient short-term taxable profits to justify recognising the associated deferred tax assets. The Group expects to generate sufficient taxable profits to recover the remaining deferred tax assets within one to two years based on the latest strategic plan which is also used for Going concern and Viability assessment and the goodwill impairment testing. The geographic split of the deferred tax asset in relation to trading losses and other items is US £0.4m and Singapore £0.2m, with the remaining balance relating to losses in Europe which offset the deferred tax liability from the employee benefit pension surplus. The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred taxation liabilities have not been recognised is £nil (2021: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

15. Deferred tax (continued)

(ii) Movement in temporary differences during the year

	Property, plant and equipment £m	Intangible assets £m	Employee benefits £m	Provisions £m	Other short-term timing differences £m	Right-of-use asset £m	Total £m
Balance at 1 January 2021	(1.3)	(1.8)	(0.1)	2.7	1.7	0.2	1.4
Recognised in income	(0.1)	0.7	(0.1)	–	(0.3)	0.1	0.3
Recognised in equity	–	–	(0.5)	–	–	–	(0.5)
FX translation reserve	0.1	–	–	–	–	–	0.1
Balance at 31 December 2021	(1.3)	(1.1)	(0.7)	2.7	1.4	0.3	1.3
Recognised in income	0.4	0.9	(0.1)	(0.1)	0.7	–	1.8
Recognised in equity	–	–	(0.1)	–	(0.6)	–	(0.7)
Balance at 31 December 2022	**(0.9)**	**(0.2)**	**(0.9)**	**2.6**	**1.5**	**0.3**	**2.4**

(iii) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits.

	2022 £m		2021 £m	
	Gross amount	**Tax effect**	Gross amount	Tax effect
Deductible temporary differences	**–**	**–**	–	–
Tax losses	**40.5**	**10.5**	37.8	9.8
	40.5	**10.5**	37.8	9.8

(iv) Tax losses carried forward

Tax losses for which no deferred tax assets were recognised expire as follows:

	2022 £m	**Expiry date**	2021 £m	Expiry date
Expire	**–**	**–**	–	–
Never expire	**40.5**	**–**	37.8	–

16. Employee benefits

Defined benefit pension obligations

The Group makes contributions to two closed defined benefit plans (referred to below as Plan A and Plan B) to provide benefits for employees and former employees upon retirement. The plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and investment risk. Both plans are administered by discrete funds (the "Funds") that are legally separate from the Group and managed by Trustees that are independent individuals. The Trustees of the plans are required by law to act in the best interests of the plan participants and are responsible for setting certain policies (e.g. investment) of the Funds.

The Company is required to agree a Schedule of Contributions with the Trustees of the Funds following a valuation which must be carried out at least once every three years, with the latest valuation in 2022. The Company expects to pay contributions of £0.4m in respect of the Funds in the year to 31 December 2023. The weighted average duration of the defined benefit obligation is 13 years. There is no effect on recognition of the net defined benefit surplus as a result of the asset ceiling.

For the principal defined benefit plan, the Group considers that it has the right to the refund of a surplus, assuming the gradual settlement of the plan liabilities over time until all members have left the plan. The plan Trustees can purchase annuities to ensure member benefits and can, for the majority of benefits, transfer these annuities to members. The Trustees cannot unconditionally wind up the plan or use the surplus to enhance member benefits without employer consent. Our judgement is that these Trustee rights do not prevent us from recognising an unconditional right to a refund and therefore a surplus.

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit asset and its components:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability/(asset)	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Balance at 1 January	**23.4**	26.2	**(27.3)**	(27.3)	**(3.9)**	(1.1)
Included in profit or loss						
Current service cost	**–**	–	**0.1**	0.1	**0.1**	0.1
Interest cost/(income)	**0.4**	0.3	**(0.4)**	(0.3)	**–**	–
	0.4	0.3	**(0.3)**	(0.2)	**0.1**	0.1
Included in other comprehensive income						
Remeasurements (gain)/loss	**(6.7)**	–	**–**	–	**(6.7)**	–
Actuarial (gain)/loss arising from:						
– changes in demographic assumptions	**–**	(0.4)	**–**	–	**–**	(0.4)
– changes in financial assumptions	**–**	(1.1)	**–**	–	**–**	(1.1)
– past service cost	**0.4**	(0.4)	**–**	–	**0.4**	(0.4)
– return on plan assets excluding interest income	**–**	–	**6.0**	(0.6)	**6.0**	(0.6)
	(6.3)	(1.9)	**6.0**	(0.6)	**(0.3)**	(2.5)
Other						
Contributions paid by the employer	**–**	–	**(0.4)**	(0.4)	**(0.4)**	(0.4)
Benefits paid	**(1.2)**	(1.2)	**1.2**	1.2	**–**	–
	(1.2)	(1.2)	**0.8**	0.8	**(0.4)**	(0.4)
Balance at 31 December	**16.3**	23.4	**(20.8)**	(27.3)	**(4.5)**	(3.9)

Represented by:	**2022 £m**	2021 £m
Net defined benefit asset (Plan A)	**(0.4)**	(0.2)
Net defined benefit asset (Plan B)	**(4.1)**	(3.7)
	(4.5)	(3.9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

16. Employee benefits (continued)

Plan assets consist of the following:

	2022 £m	2021 £m
Equities (class 2)	**2.7**	7.3
Bonds and gilts (class 2)	**17.8**	19.6
Annuities	**0.3**	–
Cash	**–**	0.4
	20.8	27.3

All equity securities and government bonds have quoted prices in active markets.

Actuarial assumptions

The principal assumptions at the balance sheet date (expressed as weighted averages) are:

	% per annum	
	2022	2021
Discount rate at 31 December	**4.9**	1.8
Future salary increases	**n/a**	n/a
Future pension increases	**3.1**	3.5
Inflation – RPI	**3.2**	3.6
Inflation – CPI	**2.4**	2.9

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

	2022		2021	
	Plan A	**Plan B**	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	**23.5**	**20.6**	23.5	20.5
Females	**25.0**	**23.7**	25.2	23.7
Longevity at age 65 for current members aged 45				
Males	**24.5**	**21.5**	24.5	21.5
Females	**26.1**	**24.8**	26.3	24.8

Sensitivity analysis

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

	Defined benefit obligation	
	Increase £m	Decrease £m
Discount rate (0.5% movement)	**0.8**	**0.7**
Inflation (0.5% movement)	**0.5**	**0.5**
Life expectancy (+/–1 year)	**0.6**	**0.6**

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

Share-based payments

PSP and DRSP

During the year, an award under the DRSP was made to the Executive Directors and senior managers, details of which are set out below. The award was based solely on service conditions.

Date of award	Number of awards at the beginning of the year	Number of awards granted during the year	Number of awards vested during the year	Number of awards forfeited during the year	**Number of awards at the year end**	Fair value pence per share	Vesting period	Maturity date
March 2019 (EPS)	66,707	–	–	(66,707)	**–**	453	3 years	Mar 2022
March 2019 (TSR)	22,236	–	–	(22,236)	**–**	314	3 years	Mar 2022
March 2019 (service condition)	81,891	–	(81,891)	–	**–**	453	3 years	Mar 2022
March 2020 (EPS)	100,684	–	–	–	**100,684**	205	3 years	Mar 2023
March 2020 (TSR)	100,684	–	–	–	**100,684**	130	3 years	Mar 2023
March 2020 (service condition)	296,309	–		(22,632)	**273,677**	205	3 years	Mar 2023
April 2021 (service conditions)	316,060	–		(42,359)	**273,701**	257	3 years	Apr 2024
May 2021 (service conditions)	89,547	–		–	**89,547**	307	3 years	May 2024
April 2022 (service conditions)	–	377,402		(20,682)	**356,720**	349	3 years	Apr 2025
April 2022 (service conditions)	–	12,164	–	–	**12,164**	349	3 years	Apr 2025
April 2022 (service conditions)	–	12,164	–	–	**12,164**	349	2 years	Apr 2024
Total	1,074,118	401,730	(81,891)	(174,616)	**1,219,341**			

Further details of the DRSP are included in the Directors' Remuneration Report on pages 136 to 170.

The 2022 awards linked to service conditions have been valued using the five-day weighted average share price prior to award date.

	2022 service condition awards
Share price (April)	**3.49**

The employee expense in 2022 was £0.5m (2021: £0.6m) (see note 7).

17. Inventories

	2022 £m	2021 £m
Raw materials and consumables	**22.7**	22.2
Work in progress	**11.9**	8.7
Finished goods	**18.8**	11.2
	53.4	42.1
Spare parts	**0.2**	0.3
	53.6	42.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

17. Inventories (continued)

Inventories to the value of £79.0m (2021: £55.8m) were recognised as expenses in the year. The inventory reserve at the balance sheet date was £4.1m, which represents 7.7% of inventory (2021: £3.0m representing 7.0% of inventory). Additional reserves of £2.0m were booked in year with an increase of £0.3m due to foreign exchange movements, being offset by utilisation of £1.2m, resulting in a net movement in the reserve of £1.1m.

As at 31 December 2022, management's best estimate of the amount of inventory that will not be used within the next 12 months is c.£4.8m (2021: £3.4m).

In the previous year, the basis for reserving raw materials and sub-assemblies was to reserve the quantity on hand that was greater than 365 days old, exceeded three year's historical usage and where, following a review by engineering and supply chain personnel, there was no reasonable prospect of the components being used or their shelf life not being exceeded. This estimate was felt appropriate given the significant impact that the prolonged pandemic/geopolitical situation had on our operations and the consequential logistics and supply chain challenges, that resulted in inventory being held for longer than normal. The Group has now revised its basis for estimate to calculating the inventory reserve to provide for raw and sub-assembly inventory that is over 24-months old at the balance sheet date. This new basis for estimate reduces estimation subjectivity whilst allowing for the adverse impact from component shortages that have led to high inventory levels and some components being held for longer than expected. Two years is felt to be appropriate as the components have a long shelf life, continue to be used in production and the product demand mix between project and MRO business has been skewed during COVID-19.

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 level of inventory was increased by £11.2m in 2022 driven by £4.5m in foreign exchange and management decisions to increase finished goods stock levels in December to fulfil seasonal demand, however this demand was lower than expected along with several strategic customers deferring anticipated orders.

18. Trade and other receivables

Amounts falling due within one year

	2022 £m	2021 £m
Trade receivables	**26.7**	23.7
Other non-trade receivables	**1.4**	1.1
Prepayments and accrued income	**2.1**	1.4
	30.2	26.2

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 24. The increase in trade receivables resulted from the growth in revenue, that is traditionally weighted towards the end of quarter four.

Amounts falling due in more than one year

	2022 £m	2021 £m
Other receivables	**5.6**	4.7

These relate to deposits on leasehold properties, reclaim of import duties and amounts held in an escrow account by Sanmina Corporation, former manufacturing partner, relating to potential excess inventory claims calculated using the terms of the manufacturing services agreement, pre-contract termination. This calculation has been superseded due to the significant level of inventory purchased post-contract which negates the requirement for this to be held by Sanmina Corporation and Dialight expects it to be returned in full. The movement in the year is caused by foreign exchange as the assets are denominated in USD. See also note 27.

19. Cash and cash equivalents

	2022 £m	2021 £m
Cash and cash equivalents	**1.7**	1.2

20. Capital and reserves

Share capital

	2022 Number	2022 £m	2021 Number	2021 £m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,946,371**	**0.6**	32,610,025	0.6

During the year, 336,346 shares were issued (2021: 47,559) in order to satisfy the requirement for shares that vested as part of the PSP/DRSP scheme (note 16) and to acquire a further 12.5% share of Dialight Australia (see note 30 for further details). There were notional considerations attributed to the issuance, but no cash proceeds in 2022 (2021: nil). The ordinary shares issued in the year have the same rights as other shares in issue.

During the year, the Company purchased 20,425 shares on the open market for £0.1m (2021: 205,026 shares for £0.7m), which are being held in an employee benefit trust to settle share options in the future. This transaction decreased the amount of shares in issue and has an impact on diluted earnings per share (note 11).

	Ordinary shares	
Issued share capital	2022 Number	2021 Number
In issue at 1 January	**32,610,025**	32,562,466
Shares issued	**336,346**	47,559
Issued and fully paid at 31 December	**32,946,371**	32,610,025

Share premium

The share premium representes a fair value of 266,958 shares issued by the Group to aquire a further 12.5% share of its subsidiary Dialight ILS Australia Pty Ltd (note 30).

Merger reserve

On acquiring Lumidrives Limited in 2006, the Company issued ordinary shares as part of the consideration. Merger relief was taken in accordance with Section 131 of the Companies Act 1985 and hence £546,000 was credited to the merger reserve.

Translation reserve

The translation reserve comprises all foreign exchange differences from 1 January 2004 arising from the translation of the financial statements of the Company's overseas subsidiaries.

Capital redemption reserve

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

Other distributable reserve

During the year, the Company purchased 0.0 million shares on the open market for £0.1m, which are being held in an employee benefit trust to settle share options in the future (2021: 0.2 million shares for 0.7m).

Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

21. Trade and other payables

	2022 £m	2021 £m
Trade payables	**24.2**	21.7
Other taxes and social security	**1.0**	0.8
Non-trade payables and accrued expenses	**12.1**	10.4
	37.3	32.9

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

22. Provisions

	Warranty and claims £m	Lease-restoration £m	Total £m
Balance at 1 January 2022	**1.7**	**0.2**	**1.9**
Provisions made during the year	**1.4**	**–**	**1.4**
Provisions used during the year	**(1.3)**	**–**	**(1.3)**
Effects of foreign exchange movement	**0.2**	**–**	**0.2**
Balance at 31 December 2022	**2.0**	**0.2**	**2.2**

The warranty provision relates to sales made over the past nine years. In the previous year, the provision also included other claims across the Group, which were either utilised or released (see note 6). The warranty provision has been estimated based on historical warranty data with similar products. The Group expects to settle the majority of the liability over the next two to three years.

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

	Total 2022 £m	Total 2021 £m
Due within one year	**0.6**	0.6
Due between one and five years	**1.2**	1.1
Due after five years	**0.4**	0.2
	2.2	1.9

23. Borrowings

The Group's multicurrency revolving credit facility with HSBC of £25m was re-negotiated in July 2022 to a sustainability-linked loan and runs until July 2025. In November 2022, the £25m facility was redenominated to a $34m facility as most drawings are in USD and fluctuations in the GBP: USD exchange rate had adversely impacted headroom. The new facility contains normal covenants, covering maximum net leverage and minimum interest cover levels and contains options for two one-year extensions.

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 £2m payable in 2023 and the facilities will be fully repaid by June 2023 at the latest. During the year, the debt service cover ratio (DSCR), linked to the CLBILS loan, was waived for Q2 and Q3 2022 as the test penalises investment in working capital and capex. In December 2022, HSBC waived the remaining DSCR covenant tests for Q4 2022 and Q1 2023.

At 31 December the Group had £30m (2021: £31m) in facilities and £1.7m of cash on hand.

	Loans £m
At 1 January 2021	16.7
Facility drawdown (RCF)	4.2
Facility repayment (CLBILS)	(4.0)
At 31 December 2021	16.9
Facility drawdown (RCF)	**8.5**
Facility repayment (CLBILS)	**(4.0)**
Interest accrued	**1.1**
Interest payment (note 8)	**(1.1)**
Foreign exchange	**1.2**
At 31 December 2022	**22.6**

Details of the facilities	Tenure	Interest rate per annum*	Maturity date	**Amount drawn down as at 31 December 2022 £m**	Amount drawn down as at 31 December 2021 £m
$34m revolving credit facility	3 years	6.97%	July 2025	**20.6**	10.9
£8m CLBILS	3 years	5.59%	June 2023†	**1.6**	4.8
£2m commercial loan	3 years	5.79%	June 2023†	**0.4**	1.2

† This loan is being repaid in equal instalments over three years; repayment started on 15 January 2021.
* This is an indicative rate as at December 2022.

The banking covenants were based on a 12-month rolling EBITDA test until June 2021, when they reverted to:

Covenant test		Every quarter
Ratio	**Calculation**	
Leverage ratio	Net debt/Adjusted EBITDA	<3.0x
Interest cover	Adjusted EBITDA/Interest expense	>4.0x
Debt service ratio*	Net operating income/Total debt service	>1.2

* The debt service cover ratio does not apply to the revolving credit facility and has been waived from June 2022 to the end of the loan.

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24. Financial risk management

The Group has exposure to credit risk, market risk and liquidity risk from its use of financial instruments.

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Trade and other receivables

Credit risk is the risk of financial loss if a customer fails to meet its contractual obligations by not paying the receivables due. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has no significant credit risk as it does not have any major customer concentration.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Each new customer is analysed individually for creditworthiness before the Group's standard payment conditions and terms are offered.

The Group's review includes external ratings when available and, in some cases, bank references. Purchase limits are set for customers. Customers who do not meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of expected future losses in respect of trade and other receivables. Impairment losses are determined having taken into account special customer circumstances and financial position, together with Group information about general payment trends.

IFRS 9 introduced an expected credit loss model for calculating impairment of financial assets and the Group has applied the simplified approach as permitted by IFRS 9. The ECL model considers the Group's historical credit loss, factors specific to each receivable, the current economic environment and expected changes in future forecasts. The trade receivables balance below is shown net of the provision for bad debts. The Group provides against trade receivables based on an ECL model, calculated from the probability of default for the remaining life of the asset.

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2022 £m	**Specific Impairment 2022 £m**	Gross 2021 £m	Specific Impairment 2021 £m
Not past due	**21.9**	**–**	20.2	–
Past due 0–30 days	**3.2**	**–**	3.0	–
Past due 31–120 days	**1.6**	**–**	0.5	–
Total	**26.7**	**–**	23.7	–

The allowance in respect of trade receivables is used to record forecast impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at which point the amount considered irrecoverable is written off against the financial asset directly. Other non-trade receivables of £7.0m (2021: £5.8m) are not past due and have no impairment. The ECL provision for the current year is not material and was not material in the prior year.

Market risk

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

Interest rate risk

The Group's policy is to manage exposure to interest rate risk by utilising borrowings at forward risk free rate plus spread adjustment and the applicable margin based on EBITDA leverage levels. At 31 December 2022, the Group had total borrowing of £22.6m (2021: £16.9m).

Foreign currency risk

Exposure to currency risk arises in the normal course of the Group's business.

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than each subsidiary's functional currency. The currencies giving rise to risk are primarily the Euro, Canadian Dollar and the US Dollar.

Where possible the Group uses natural hedging within the Group to hedge the majority of its foreign currency risk. Natural hedging is the mechanism whereby the cash inflows in a particular currency are matched to the cash outflows in that currency at the same business or a different Group company. The Group has borrowing facilities in US Dollars in order to match the currency of the Group's major market. Foreign exchange contracts may be taken out to manage exposures that are not mitigated through natural hedging but the Group had no foreign exchange contracts at the balance sheet date.

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

The Group's exposure to foreign currency risk was as follows:

	2022 $m	**2022 CAD'm**	**2022 €m**	2021 $m	2021 CAD'm	2021 €m
Trade receivables	**0.4**	**4.0**	**1.9**	0.1	4.5	0.7
Currency cash	**(21.7)**	**0.1**	**0.5**	(11.8)	0.1	–
Trade payables	**–**	**–**	**(0.6)**	–	–	(0.3)
Gross balance sheet exposure	**(21.3)**	**4.1**	**1.8**	(11.7)	4.6	0.4

The following significant exchange rates applied during the year:

	2022 Average rate	**2022 At balance sheet date**	2021 Average rate	2021 At balance sheet date
US Dollar	**1.24**	**1.21**	1.38	1.35
Euro	**1.17**	**1.13**	1.16	1.19
Canadian Dollar	**1.61**	**1.64**	1.72	1.72
Mexican Peso	**24.87**	**23.53**	27.88	27.64

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

24. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Exposure to liquidity risk

For non-derivative financial liabilities, the Group's exposure relates principally to trade and other payables and borrowings. Trade and other payables arise in the normal course of business and there are no unusual or onerous terms and conditions.

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

31 December 2022	Carrying amount £m	Contractual cash flow £m	2 months or less £m	2–12 months £m	1–2 years £m	2–5 years £m	More than 5 years £m
Non-derivative financial liabilities							
Trade and other payables	**(24.2)**	**(24.2)**	**(19.4)**	**(1.3)**	**–**	**(3.5)**	**–**
Borrowings	**(22.6)**	**(22.6)**	**(0.7)**	**(1.3)**	**–**	**(20.6)**	**–**
Lease liabilities	**(11.3)**	**(11.3)**	**–**	**(1.9)**	**(1.7)**	**(5.8)**	**(1.9)**
	(58.1)	**(58.1)**	**(20.1)**	**(4.5)**	**(1.7)**	**(29.9)**	**(1.9)**

31 December 2021	Carrying amount £m	Contractual cash flow £m	2 months or less £m	2–12 months £m	1–2 years £m	2–5 years £m	More than 5 years £m
Non-derivative financial liabilities							
Trade and other payables	(21.7)	(21.7)	(17.7)	(0.8)	(0.3)	(2.9)	–
Borrowings	(16.9)	(16.9)	(0.7)	(3.3)	(2.0)	(10.9)	–
Lease liabilities	(12.0)	(12.0)	(0.1)	(1.7)	(1.8)	(5.0)	(3.4)
	(50.6)	(50.6)	(18.5)	(5.8)	(4.1)	(18.8)	(3.4)

* Prepayments of £2.1m (2021: £1.5m) and other debtors of £1.5m (2021: 0.1m) do not meet the definition of a financial instrument.
** Other taxation and social security payables of £1.0m (2021: £0.8m), and other creditors of £12.0m (2021: £10.4m) do not meet the definition of a financial instrument.

The Group has a three-year unsecured $34m multi-currency revolving credit facility and £2.0m CLBILS, of which £22.6m is drawn at 31 December 2022 (2021: £16.9m); see note 23.

Capital management

The Board's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. As at 31 December 2022, this totalled £68.7m (2021: £60.2m).

The Board is not proposing a final dividend for 2022. The Group has a clear capital allocation discipline and is committed to returning any excess funds to our shareholders via either a future dividend or a share re-purchase, subject to the restrictions imposed by the CLBILS borrowing.

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes, in particular in foreign exchange rates, would have an impact on equity value and consolidation earnings.

At 31 December 2022, it is estimated that a general increase of 1% in the value of the Euro and the US Dollar against UK Sterling would have £0.1m impact on the Group's profit before tax for the year ended 31 December 2022 (2021: £0.1m), and would have increased the Group's equity for the year ended 31 December 2022 by £0.8m (2021: £0.7m).

Fair values versus carrying amounts
The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Carrying amount 2022 £m	**Fair value 2022 £m**	Carrying amount 2021 £m	Fair value 2021 £m
Financial assets				
Cash and cash equivalents	**1.7**	**1.7**	1.2	1.2
Loans and receivables				
Trade and other receivables	**28.1**	**28.1**	24.7	24.7
Total financial assets	**29.8**	**29.8**	25.9	25.9
Financial liabilities				
Lease liabilities	**(11.3)**	**(11.3)**	(12.0)	(12.0)
Trade and other payables	**(36.3)**	**(36.3)**	(32.1)	(32.1)
Borrowings	**(22.6)**	**(22.6)**	(16.9)	(16.9)
Total financial liabilities	**(70.2)**	**(70.2)**	(61.0)	(61.0)
Net financial liabilities	**(40.4)**	**(40.4)**	(35.1)	(35.1)

Details of the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table are set out in note 4(v).

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

	2022 £m	2021 £m
Contracted	**2.9**	2.8

The increase in capital commitments reflects planned capacity improvements, factory improvements and end of life asset replacement, mainly at our Mexico facilities.

26. Operating leases
Non-cancellable operating lease rentals are payable as follows:

	2022 £m	2021 £m
Less than one year	**–**	0.1
Between one and five years	**–**	0.1
	–	0.2

Of the balance less than £0.0m (2021: £0.2m), £nil (£2021: £nil) relates to property plant and equipment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

27. Contingencies

Sanmina litigation

As previously reported, Dialight sought to reach a negotiated conclusion of various outstanding matters and performance issues following the termination, in 2018, of the manufacturing services agreement (MSA) with its former manufacturing partner, Sanmina Corporation ("Sanmina"). The failure to reach a satisfactory resolution of these issues led to both parties issuing formal legal proceedings against the other on 20th December 2019 in the US District Court for the Southern District of New York. The basis of the claim filed by Sanmina 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 counterclaims, and costs and losses suffered by Dialight. Dialight has sought external legal advice and is paying for the legal costs as incurred. As at 31 December 2022, Dialight has not made any provision for future legal costs.

The claim filed by Dialight alleged that Dialight suffered significant costs and losses (with total potential damages of approximately $220m) as a result of: (a) Sanmina's fraudulent inducement of Dialight to enter into the MSA; (b) Sanmina breaching the terms of the MSA in a wilful and/or grossly negligent manner (for example in respect of their failure to appropriately manage supply chain and inventory levels and to deliver product on time and free of workmanship defects); and, (c) Sanmina's gross negligence and/or wilful misconduct in the performance of its duties owed to Dialight. If Sanmina's claim is successful, the range of outcomes could include the payment by Dialight to Sanmina of between $0 and $8.3m (excluding legal costs and judicial interest, but inclusive of Dialight 'escrow' monies held by Sanmina). If Dialight's claims are successful, the range of outcomes could include the payment by Sanmina to Dialight of between $0 and c. $220m (excluding legal costs and judicial interest).

Sanmina subsequently lodged a motion for summary judgement to dismiss elements of Dialight's claims/counter-claims (first filed on 2 May 2022). The detailed evidence and legal arguments from both parties (submitted in May-July 2022) was examined by Federal judge and the Court's ruling on Sanmina's dismissal motion was released to the parties under seal on Tuesday 14 March 2023. The court denied Sanmina's motion to dismiss Dialight's fraudulent inducement claim and denied its motion for summary judgment on Sanmina's accounts receivable claim. The court granted Sanmina's motion as to the dismissal of Dialight's willful misconduct claim. The judge ruled that the strength of the evidence on the fraudulent inducement claim, together with various claims and counter-claims relating to accounts receivable and accounts payable, is sufficient that the dispute should be resolved by jury trial, pending any appeal process. This ruling confirms that Dialight can challenge the contractual liability cap in the MSA on the basis of Sanmina's fraudulent inducement and Dialight intends to rigorously pursue this claim, and the various other contract-based claims, to trial.

Dialight currently expects that the case will go to trial in late 2023 (subject, potentially, to the timing impact of either party appealing any adverse judgment). Open court documents, including the ruling and pleadings in respect of the motion for summary judgment, can be accessed on the Public Access to Court Electronic Records (PACER) public access system for the U.S. District Court for the Southern District of New York (https://ecf.nysd.uscourts.gov).

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.

28. Reconciliation to non-GAAP performance measures

As explained in note 6, the Group incurs costs and earns income that is not considered to be reflective of the underlying performance of the business. In the assessment of performance of the business units of the Group, management examines underlying performance, which removes the impact of non-underlying costs and income.

	2022 £m	2021 £m
Profit from operating activities	**2.3**	2.1
Non-underlying items (see note 6)	**2.7**	2.4
Underlying profit from operating activities	**5.0**	4.5
Profit from operating activities	**2.3**	2.1
Non-underlying items (see note 6)	**2.7**	2.4
Depreciation of property, plant and equipment (see note 12)	**2.9**	3.1
Amortisation of intangible assets (see note 14)	**4.4**	3.5
Underlying EBITDA	**12.3**	11.1
Profit from operating activities	**2.3**	2.1
Non-underlying items (see note 6)	**2.7**	2.4
Depreciation of property, plant and equipment (see note 12)	**2.9**	3.1
Amortisation of intangible assets (see note 14)	**4.4**	3.5
Share-based payments	**0.5**	0.6
Net movement on working capital (Inventories, trade and other receivables, trade and other payables) as per Consolidated statement of cash flows	**(6.5)**	(4.3)
Underlying operating cash flow	**6.3**	7.4

Underlying profit from operating activities and underlying EBIT referred to in the earlier sections of the Annual Report are the same measures. Underlying operating cash flow and adjusted operating cash flow referred to in the earlier sections of the Annual Report are the same measures.

Constant currency

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

This gives a GBP-denominated income statement, which excludes any variances attributable to foreign exchange rate movements. The most important foreign currencies for the Group are: US Dollar, Euro, Canadian Dollar and Mexican Peso. The exchange rates used are in note 24.

Net debt

Net debt is defined as total Group borrowings less cash. Net debt of £20.9m at the year end (2021: £15.7m) consisted of borrowings of £22.6m (2021: £16.9m) less cash of £1.7m (2021: £1.2m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

29. Related parties

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

Transactions with key management personnel

Only Directors are considered to be key management personnel and transactions with them are disclosed in note 16. Directors of the Company and their immediate relatives control less than 1% of the Company.

30. Subsidiaries

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries as at 31 December 2022 is disclosed below. Those companies stated in table (a) below are those, in the opinion of Directors, which principally affect the revenue, profit or assets of the Dialight Group.

The remaining companies that comprise the Dialight Group are set out in table (b) below. These did not change during 2022. The investment is held directly by Dialight plc except for those companies indicated by*.

(a) Trading companies

Name	Percentage owned	Registered office	Principal activity
Dialight Corporation*	100%	1501 Route, 34 South Farmingdale NJ 07727 United States	Design, assembly and sale of Lighting and Signals & Components products
Dialight Europe Limited**	100%	Leaf C Level 36, Tower 42 25 Old Broad Street London EC2N 1HQ United Kingdom	Sale of Lighting products
Dialight GmbH*	100%	Maximilianstrasse 54 80538 Munchen Germany	Sale of Lighting products
Dialight ILS Australia Pty Limited*	87.5%	Level 2 Spectrum 100 Railway Road Subiaco WA 6008 Australia	Sale of Lighting products
Dialight Asia Pte. Ltd*	75%	33 Ubi Avenue 3 07–72 Vertex (Tower A) Singapore, 408868	Sale of Lighting products
Dialight Penang Sdn. Bhd.*	100%	Room B, 3rd Floor 309-K Perak Road 10150, Penang Malaysia	Assembly and sale of Lighting and Signals & Components products
Dialight de Mexico, S. de R.L. de C.V.*	100%	Calle Lirios S/N Colona Pacheco Ensenada Baja California Mexico	Assembly of Lighting, Signals & Components products
Dialight Latin America, S. de R.L. de C.V.*	100%	Calle Lirios S/N Colona Pacheco Ensenada Baja California Mexico	Sale of Lighting and Signals & Components products

There is only one class of share, and all shares held are considered to be ordinary shares. There have been no changes in the class of shares held during the year.

Dialight Asia Pte. Ltd is owned 75% by the Group and there are non-controlling interests of 25%. Dialight ILS Australia Pty Limited is owned 87.5%% by the Group. During the year the Group acquired an additional 12.5% taking its ownership from 75% to 87.5% leaving a non-controlling interest of 12.5% (see Transactions with non-controlling interest below). The total profit for the year attributable to non-controlling interests is £0.0m (2021: profit £0.2m) and their share of equity is £0.4m (2021: £0.6m).

The Group also has branches in France and the United Arab Emirates.

Transactions with non-controlling interest
In May 2022, the Group acquired a further 12.5% share of its subsidiary Dialight ILS Australia Pty Ltd ('Dialight Australia') for consideration of £1m satisfied by issuing 266,958 shares and £0.1m in cash plus £0.1m in costs. This increased ownership to 87.5%. Immediately prior to the transaction, the carrying amount of the 25% non-controlling interest in Dialight Australia was £0.7m.
The Group has recognised a decrease in non-controlling interest of £0.4m and a decrease in equity attributable to the parent of £0.8m. Incremental costs that were directly related to changes in ownership interest were deducted from equity. The effect on Group equity is summarised in the table below:

	31 December 2022 £m	31 December 2021 £m
Carrying amount of non-controlling interest acquired	**0.4**	–
Consideration paid to non-controlling interest	**(1.0)**	–
Incremental costs directly attributable to the transaction*	**(0.2)**	–
Excess of consideration paid less costs recognised in transactions with non-controlling interests within equity	**(0.8)**	–

* £0.1m consideration plus £0.1m of costs

There were no transactions with non-controlling interests in 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

30. Subsidiaries (continued)

(b) Other companies

Unless otherwise stated, the registered office for the subsidiaries listed below is the same as the Company's registered offices set out on page 252 under the "Directory and shareholder information" section.

Name	Percentage owned	Registered office	Principal activity
Belling Lee Limited**	100%		Intermediary holding company
Roxboro Overseas Limited**	100%		Non-trading/intermediary holding company
The Roxboro Trust Company Limited**	100%		Dormant
The Roxboro UK Pension Trustee Limited*	50%		Corporate pension fund trustee
Roxboro Analytical Inc.*	100%	1501 Route 34 South Farmingdale NJ 07727 United States	Non-trading
Roxboro Holdings Inc.*	100%	The Corporation Trust Co. Corporation Trust Centre 1209 Orange Street City of Wilmington County of New Castle DE United States	Non-trading/intermediary holding company
Roxboro Metrology Inc.*	100%	1501 Route 34 South Farmingdale NJ 07727 United States	Non-trading

** These companies are exempt from the requirement to prepare individual audited financial statements in respect of the year ended 31 December 2022, by virtue of Sections 479A and 479C of the Companies Act 2006.

In November 2022, the Group dissolved a fully owned dormant entity CRL Components, Inc.

31. Post balance sheet events

There are no material post balance sheet events requiring adjustment or disclosure. On 14th March 2023, the ruling on Sanmina's motion to dismiss elements of Dialight's legal claim against them was released to the parties under seal. Please see note 27 for full details.

COMPANY BALANCE SHEET (PREPARED UNDER FRS 102)

at 31 December 2022

	Note	2022 £m	2021 £m
Fixed assets			
Intangible assets	4	**0.2**	0.2
Investments	5	**10.9**	10.4
Pension fund asset	14	**0.4**	0.2
		11.5	10.8
Current assets			
Debtors (of which £28.9m due after 1 year (2021: £25.9m)	8	**61.2**	46.5
Total assets		**72.7**	57.3
Creditors			
Amounts falling due within one year:			
Creditors	9	**(2.5)**	(1.6)
Provisions	10	**–**	–
Borrowings	11	**(23.5)**	(17.0)
Total liabilities		**(26.0)**	(18.6)
Net current assets		**35.2**	27.9
Net assets		**46.7**	38.7
Capital and reserves			
Called up share capital	12,13	**0.6**	0.6
Share premium	13	**1.0**	–
Capital redemption reserve		**2.2**	2.2
Other reserves		**4.7**	4.3
Profit and loss account		**38.2**	31.6
Equity shareholders' funds		**46.7**	38.7

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account of the parent company has not been presented. The parent company's profit for the year was £7.6m (2021: loss of £4.3m).

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 2 April 2023 and were signed on its behalf by:

Fariyal Khanbabi
Group Chief Executive

Clive Jennings
Chief Finance Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

	Share capital £m	Other reserve capital contribution £m	Capital redemption £m	Share premium £m	Own Shares £m	Retained earnings £m	**Total equity £m**
Balance at 1 January 2022	0.6	5.0	2.2	–	(0.7)	31.6	**38.7**
Profit	–	–	–	–	–	7.6	**7.6**
Total other comprehensive income	–	–	–	–	–	7.6	**7.6**
Total comprehensive expense for the year	–	–	–	–	–	–	**–**
Transactions with owners, recorded directly in equity							
Share-based payments, net of tax	–	0.5	–	–	–	–	**0.5**
Re-purchase of own shares	–	–	–	–	(0.1)	–	**(0.1)**
Issue of shares (note 13)				1.0		(1.0)	
Total contribution by and distribution to owners	–	0.5	–	1.0	(0.1)	(1.0)	**0.4**
Balance at 31 December 2022	**0.6**	**5.5**	**2.2**	1.0	**(0.8)**	**38.2**	**46.7**

At 31 December 2022 the number of shares held by the Group through the ESOT was 0.2 million ordinary shares (2021: 0.2 million). The market value of these shares at 31 December 2022 was £0.8m (2021: £0.7m).

During the year, the Company purchased 0.0 million shares on the open market for £0.1m, which are being held in an employee benefit trust to settle share options in the future.

The share premium representes a fair value of 266,958 shares issued by the Company to aquire a further 12.5% share of its subsidiary Dialight ILS Australia Pty Ltd.

	Share capital £m	Other reserve capital contribution £m	Capital redemption £m	Own Shares £m	Retained earnings £m	**Total equity £m**
Balance at 1 January 2021	0.6	4.4	2.2	–	35.9	**43.1**
Loss	–	–	–	–	(4.3)	**(4.3)**
Total other comprehensive income	–	–	–	–	–	**–**
Total comprehensive expense for the year	–	–	–	–	(4.3)	**(4.3)**
Transactions with owners, recorded directly in equity						
Share-based payments, net of tax	–	0.6	–	–	–	**0.6**
Purchase of own shares	–	–	–	(0.7)	–	**(0.7)**
Total contribution by and distribution to owners	–	0.6	–	(0.7)	–	**(0.1)**
Balance at 31 December 2021	**0.6**	**5.0**	**2.2**	**(0.7)**	**31.6**	**38.7**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. General information

Dialight plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 252 of this Annual Report and Accounts. The Company is a holding company that manages the other trading subsidiaries of the Dialight Group. The functional currency of Dialight plc is considered to be UK Sterling because that is the currency of the primary economic environment in which the Company operates.

2. Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- cash flow statement and related notes; and
- key management personnel compensation.

As the consolidated financial statements of the Group include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- certain disclosures required by FRS 102.26 Share Based Payments; and
- certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements:

(a) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than 12 months from the date of this report. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements (see note 2(b) in the consolidated financial statements).

(b) Intangible fixed assets

Intangible assets that have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

(c) Financial instruments

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

2. Basis of preparation (continued)

(i) Financial assets and liabilities

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

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

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

(ii) Investments

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

(iii) Equity instruments

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

(d) Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

(e) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(f) Employee benefits

The Company operates both defined benefit and defined contribution plans. The assets of all arrangements are held separately from the assets of the Company in independently administered funds. The amount charged against profits in respect of defined contribution arrangements is the contributions payable to those arrangements in the accounting period.

For the defined benefit arrangements, the assets are measured at market values. The liabilities are measured using the projected unit credit method, discounted at the current rate of return of a high quality corporate bond appropriate to the term and currency of the liability.

The defined benefit scheme surplus or deficit is recognised in full and presented on the face of the balance sheet.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

The Group recognises a liability in respect of the best estimate of bonus payable where contractually obliged to or where past practice has created a constructive obligation.

(g) Foreign currency
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise.

(h) Leases
Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

(i) Share-based payment
The Company grants to its employees rights to the equity instruments of Dialight plc. The fair value of awards granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to receive the awards. The fair value of the awards granted is measured using a pricing model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual value of share awards that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. Where the Company grants awards over its own shares to employees of its subsidiaries, it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements with the corresponding credit being recognised directly in equity.

(j) Dividends
Dividends are recognised in the period in which they are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid. Dividends receivable from subsidiaries are recognised when either received in cash or applied to reduce a creditor balance with a subsidiary.

(k) Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. Critical accounting judgements and key sources of estimation uncertainty
In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors consider that there are no critical accounting judgements or key sources of estimation uncertainty within the Company's individual financial statements apart from the termination of outsourced manufacturing agreement and determining whether to recognise a provision or a contingent liability in respect of the claims from the Group's former manufacturing partner Sanmina. This is included as a significant judgement within note 2 of the consolidated financial statements. In the view of management, it is not probable that the Group will have to make a payment, therefore no provision is required and the matter is disclosed as a contingent liability in note 27 of the consolidated financial statements, which contains further details on the matter.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

4. Intangible assets

	Software £m
Cost	
At 1 January 2022	0.2
Additions	–
At 31 December 2022	**0.2**
Depreciation	–
At 1 January 2022	–
Charge for the year	–
At 31 December 2022	–
Net book value at 31 December 2022	**0.2**
Net book value at 31 December 2021	0.2

5. Investments in subsidiary undertakings

	£m
Cost	
At 1 January 2022	21.8
Share-based payments	0.5
At 31 December 2022	**22.3**
Provisions	
At 1 January 2021 and 31 December 2022	**(11.4)**
Net book value at 31 December 2022	**10.9**
Net book value at 31 December 2021	10.4

In accordance with Section 26 of FRS 102, the cost of investment is increased to reflect the cost of share options awarded to employees of the Company's subsidiaries.

A full list of subsidiaries of the Company is provided in note 30 to the consolidated financial statements.

6. Financial risk management

The Company has exposure to market risk and liquidity risk from its use of financial instruments. The overall framework for managing risk and the interest rate risk that affects the Company is discussed in note 24 to the consolidated financial statements.

All carrying values are considered to be fair values.

A sensitivity analysis has been carried out in note 24 to the consolidated financial statements, and is considered to not be materially different for the results of the Company only.

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

The Company's exposure to foreign currency risk to third parties was as follows:

	2022 $m	2021 $m
Currency cash	**(23.5)**	(17.0)
Gross balance sheet exposure	**(23.5)**	(17.0)

The exchange rates applied during the year are disclosed in note 24 to the consolidated financial statements.

Liquidity risk
The Company's exposure to liquidity risk relates to its borrowings. This is discussed in note 24 to the consolidated financial statements.

7. Share-based payments
Share-based payments are described in full in note 16 to the consolidated financial statements.

PSP and DRSP
The PSP and DRSP relating to employees and Directors of the Company is disclosed on page 148 in the Directors' Remuneration Report and in note 16 to the consolidated financial statements.

Details on assumptions and inputs used in the calculation of share-based payment amounts are disclosed in note 16 to the consolidated financial statements.

8. Debtors

	2022 £m	2021 £m
Amounts owed by subsidiary undertakings <1 year	**31.4**	20.3
Amounts owed by subsidiary undertakings >1 year	**28.9**	25.9
Other debtors	**0.9**	0.3
	61.2	46.5

9. Creditors

	2022 £m	2021 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**0.4**	0.4
Accruals and deferred income	**0.7**	0.7
Other creditors	**1.4**	0.5
	2.5	1.6

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

10. Provisions

	2022 £m	2021 £m
At 1 January	**–**	0.4
Usage	**–**	(0.2)
Release	**–**	(0.2)
At 31 December	**–**	–

Prior year movement relates to the disposal of the Dialight A/S business in September 2019. A provision was established for the maximum amount payable by the Company in respect of future warranty claims relating to historical sales by the business sold, in accordance with the Sale and Purchase Agreement. A claim for £0.2m was received in accordance with the sale contract and paid in 2021. The date for further claims has expired and the remaining provision was released in 2021.

The contingent liability for the Company in relation to litigation by Sanmina Corporation is disclosed in note 27 to the consolidated financial statements.

11. Borrowings

Borrowings are described in full in note 23 to the consolidated financial statements.

12. Called up share capital

	2022 Number	**2022 £m**	2021 Number	2021 £m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,946,371**	**0.6**	32,610,025	0.6
Shares classified in shareholder funds		**0.6**		0.6

During the year, 336,346 shares were issued (2021: 47,559) in order to satisfy the requirement for shares that vested as part of the PSP/DRSP scheme (note 16 to the consolidated financial statements) and to acquire a further 12.5% share of Dialight Australia (see note 30 to the consolidated financial statements for further details). There were notional considerations attributed to the issuance, but no cash proceeds in 2022 (2021: nil). The ordinary shares issued in the year have the same rights as other shares in issue.

13. Capital and reserves

Share premium

The share premium representes a fair value of 266,958 shares issued by the Company to aquire a further 12.5% share of its subsidiary Dialight ILS Australia Pty Ltd (note 30 to the consolidated financial statements).

Dividends

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

Other distributable reserve

During the year, the Company purchased 0.0 million shares on the open market for £0.1m, which are being held in an employee benefit trust to settle share options in the future (2021: 0.2 million shares for 0.7m).

14. Pensions

The Company operates a defined contribution plan and a defined benefit pension arrangement called the Roxboro UK Executive Pension Fund (the "Executive Fund"). The Executive Fund provides benefits based on final salary and length of service on leaving. The Executive Fund is closed to new members. The following disclosures exclude any allowance for defined contribution funds operated by the Company.

The Executive Fund is subject to the "Statutory Funding Objective" under the Pensions Act 2004. An actuarial valuation of the Executive Fund is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustees of the Executive Fund the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The Company is required to agree a Schedule of Contributions with the Trustees of the Executive Fund following a valuation which must be carried out at least once every three years, with the latest valuation in 2022. For full detail, refer to note 16 of the consolidated financial statements.

Recognised assets for defined benefit arrangements

	2022 £m	2021 £m
Present value of funded obligations	**(2.1)**	(2.9)
Fair value of plan assets	**2.5**	3.1
Recognised asset for defined benefit arrangements	**0.4**	0.2

Plan assets consist of the following:

	2022 £m	2021 £m
Bonds	**2.5**	3.1

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

Movements in the present value of defined benefit obligations

	2022 £m	2021 £m
Liabilities at 1 January	**2.9**	3.1
Interest cost	**0.1**	–
Benefits paid	**(0.1)**	(0.1)
Changes in financial assumptions	**(0.8)**	(0.1)
Liabilities at 31 December	**2.1**	2.9

Movements in fair value of plan assets

	2022 £m	2021 £m
Assets at 1 January	**3.1**	3.3
Interest on assets	**0.1**	–
Employer contributions	**0.1**	0.1
Benefits paid	**(0.1)**	(0.1)
Return on plan assets less interest	**(0.7)**	(0.2)
Assets at 31 December	**2.5**	3.1

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2022

14. Pensions (continued)

Expense recognised in the profit and loss account

	2022 £m	2021 £m
Interest on obligation	**0.1**	–
Interest on plan assets	**(0.1)**	–
	–	–

Liability for defined benefit obligations

The principal assumptions at the balance sheet date (expressed as weighted averages) are:

	UK scheme (% per annum)	
	2022	2021
Discount rate at 31 December	**4.9**	1.8
Future pension increases	**3.1**	3.5
Inflation – RPI	**3.2**	3.6
Inflation – CPI	**2.4**	2.9

For its UK pension arrangements, the Group has for the purpose of calculating its liabilities as at 31 December 2022, used SAPS S2NA mortality tables based on year of birth (as published by the Institute and Faculty of Actuaries). The UK mortality tables are based on the latest mortality investigations and reflect an industry-wide recognition that life expectations have improved. The average life expectancy of an individual currently aged 45 years and retiring at age 65 years is 24.5 years for males and 26.1 years for females. For individuals currently aged 65 years the average life expectancy is 23.5 years for males and 25.0 years for females.

15. Related party transactions

During the period, the Company received no management fees or interest on intercompany loans (2021: £nil) from subsidiaries that are not wholly owned. At 31 December 2022 a total of £nil was owed to the Company by those subsidiaries (2021: nil).

FIVE-YEAR SUMMARY (UNAUDITED)

	Prepared under IFRS				
	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Revenue	**169.7**	131.6	119.0	151.0	169.6
Research and development cash expenditure	**6.1**	4.9	4.6	8.1	7.3
Underlying profit/(loss) from operating activities	**5.0**	4.5	(6.4)	5.2*	8.0
Non-underlying items	**(2.7)**	(2.4)	(2.4)	(6.3)	(0.4)
Profit/(loss) from operating activities	**2.3**	2.1	(8.8)	(11.3)	7.6
Finance charges	**(1.8)**	(1.4)	(1.3)	(1.2)	(0.2)
Profit/(loss) before taxation	**0.5**	0.7	(10.1)	(12.5)	7.4
Cash generated by/(used in) operations	**6.6**	6.0	10.5	3.5	(7.4)
Net debt	**(20.9)**	(15.7)	(11.4)	(16.5)	(2.9)
Shareholders' funds	**68.7**	60.2	57.3	67.8	85.1

* after adding back £10.2m of unaudited costs related to insourcing

Statistical information					
Basic earnings/(loss) per ordinary share – pence	**1.2**	0.9	(24.0)	(49.8)	16.4
Dividends per share – pence	**n/a**	n/a	n/a	n/a	n/a
Underlying operating margin	**2.9%**	3.4%	(5.4)%	3.3%	4.7%

DIRECTORY AND SHAREHOLDER INFORMATION

Registered office, contact details and communications

Company Secretary and Registered Office.
Registered in England and Wales
Company number: 2486024

Company Secretary: Richard Allan

Registered office
Leaf C, Level 36, Tower 42,
25 Old Broad Street
London EC2N 1HQ

Contact details:
Email (Company Secretary): dsecretary@dialight.com

Email (investor relations): ir@dialight.com
Web: www.dialight.com

Website
Shareholders are encouraged to visit our website, www.dialight.com, which contains information about Dialight. Any information on or linked from the website is not incorporated by reference into the Annual Report and Accounts unless expressly stated in this Annual Report. There is a section designed specifically for investors at www.dialight.com/ir, which includes detailed coverage of Dialight's share price and our financial results, historical reporting, announcements and other governance information. Investors can register for news alerts at https://www.dialight.com/ir/reports-news/email-alerts. Our share price is also available on the London Stock Exchange's website, www.londonstockexchange.com.

Electronic communications
The carbon footprint and cost saving from electronic communications rather than hard copy printing can be very considerable. We strongly encourage all Dialight shareholders to move to electronic communications. The process to elect for electronic communications is very simple. To receive notification to your email address or in hard copy, whenever shareholder documents are available on the Company's website, please register online by visiting our Registrar's website, www.shareview.co.uk and complete your details.

Registrars and shares

Address
Equiniti, Aspect House
Spencer Road Lancing
West Sussex BN99 6DA

Telephone
Equiniti's Shareholder Contact Centre can be contacted by telephone on +44 (0) 371 384 2495 between 8.30am and 5.30pm Monday to Friday, excluding public holidays in England and Wales.

Web
You can also access details of your shareholding and a range of other shareholder services by registering at www.shareview.co.uk.

Dealing service
Equiniti offers "Shareview Dealing"– a service which allows you to sell your Dialight plc shares or add to your holding if you are a UK resident. You can deal in your shares on the internet or by telephone. For more information about this service and for details of their rates, log on to www.shareview.co.uk/dealing or telephone 0345 603 7037 between 8.30am and 4.30pm, Monday to Friday. If you wish to deal, you will need your account/shareholder reference number which appears on your share certificate. Alternatively, if you hold a share certificate, you can also use any bank, building society or stockbroker offering share dealing facilities to buy or sell shares. If you are in any doubt about buying or selling shares, you should seek professional financial advice.

Advisers

Financial advisers
Peel Hunt LLP
100 Liverpool Street
London EC2M 2AT

Auditors
Through to 2023 AGM:
KPMG LLP
15 Canada Square
London E14 5GL

To be recommended for appointment at 2023 AGM:
Grant Thornton
30 Finsbury Square
London EC2A 1AG

Legal advisers
Ashurst
London Fruit & Wool Exchange
London E1 6PW

Osborne Clarke
One London Wall
Barbican
London EC2Y 5EB

Principal bankers
HSBC Bank PLC
West London Corporate Centre
1 Beadon Road
London W6 0EA

2023 Financial calendar

Annual General Meeting: Tuesday 16 May 2023

Half Yearly Financial Report: Monday 31 July 2023

Any amendments to these dates will be notified on the Company's website (www.dialight.com).

Trademarks

The following registered trademarks of the Dialight Group appear in this document: "DIALIGHT", "VIGILANT", "PROSITE" and "DUROSITE".

Forward-looking statements

Certain sections of this Annual Report contain forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Company and its subsidiaries and associates operate. It is believed that the expectations reflected in the Annual Report are reasonable, but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

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