Dialight

Dialight plc
("Dialight" or "the Group")

Half year results 2019

Dialight plc (LSE: DIA.L), the global leader in sustainable LED lighting for industrial applications, announces its half year results (unaudited) for the six months ended 30 June 2019.

Financial summary	H1 2019 £m	H1 2018 £m
Revenue	**76.1**	77.7
Underlying[1] profit from operating activities	**0.9**	2.8
Underlying basic EPS	**1.5p**	6.4p
Non-underlying costs	**(2.7)**	-
Statutory (loss)/profit from operating activities	**(1.6)**	2.0
Statutory EPS – basic	**(4.9)p**	6.1p
Net (debt)/cash	**(11.0)**	7.3

Marty Rapp, Group Chief Executive, said:

"Our H1 2019 financial results were disappointing. Lighting revenues were impacted by some softening of end markets and delayed market share recovery. However, we did make good operational and strategic progress in the first half, with the physical separation from our contract manufacturer now complete. Operational performance from our Mexico facilities is now significantly better than it was before the move to the contract manufacturer. Our new Penang facility is expected to be fully operational within the next two months.

Progress on increasing our output of new products is on track. We have launched two of the three new platform-level products planned for 2019, and the third one will be launched shortly. There are additional new products in the development pipeline – a combination of upgrades to our existing products and new products to enable to us to participate in a larger market.

We remain confident that the combination of the reputation of Dialight products as the best in the market, our improved operational performance, and the launch of our exciting new products will result in significant long-term growth in revenue and profit. We are taking all appropriate actions to convert these to improved financial results as quickly as possible. Our full year outlook for 2019 remains unchanged."

Results presentation:

A presentation to analysts and investors will be held today at 09.00 BST at Investec, 30 Gresham Street, London EC2V 7QP, United Kingdom. The presentation and an audiocast will be made available on the company's website, www.dialight.com.

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About Dialight:

Dialight (LSE: DIA.L) is a global leader in sustainable LED lighting for industrial applications**.** Dialight's LED products are providing the next generation of lighting solutions that deliver reduced energy consumption and create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance and achieving a rapid return on investment.

The company is headquartered in the UK with operations in the USA, UK, Denmark, Germany, Malaysia, Singapore, Australia, Mexico, Dubai and Brazil. www.dialight.com.

Notes:

1. Defined as excluding non-underlying items of £2.7m (2018: £nil)
2. Constant currency impact is calculated by re-translating the prior year numbers at the exchange rate prevailing in the current year.
3. Comparatives have been restated to exclude discontinued operations. The European Wind business based in Denmark is likely to be sold or closed in the near future and has been treated as discontinued.
4. Cautionary Statement: This announcement contains certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Dialight Plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as 'intends', 'expects', 'anticipated', 'estimates' and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Dialight Plc believes that the expectations will prove to be correct. There are a number of factors, many of which are beyond the control of Dialight Plc, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. This announcement contains inside information on Dialight Plc.

OVERVIEW

The first half of 2019 has seen significant further operational progress on our path to recovery. There were three main areas of achievement: first, improving our service levels and clearing the level of late orders; second, on getting close to fully disengaging from our former contract manufacturer (Sanmina); and third, on new product development. All of these important actions help lay the foundation for future improved financial performance. The Dialight brand is well respected in the market; we will continue to work hard to repair customer confidence after two years of operational difficulties. The markets we serve remain attractive with conversion to LED technology still well under 10%.

Our H1 2019 financial results reflected Lighting revenue impacted some softening of our end markets and a delayed recovery in our market position following the extended period of poor deliveries under Sanmina, and Signals and Components experiencing a downturn in the component market. Our gross margin decline reflected the impact of our production facilities ramping up. The net debt increase was due to additional inventory purchased from Sanmina and capital expenditure for new product development and new facilities.

The sales team have good visibility of the potential sales pipeline but predicting the timing of orders is challenging as the typical order cycle is between four to eight weeks with no long-term contracts. We estimate we have lost some market share over the past two years with our operational difficulties. We intend to recover the market share loss by achieving operational performance at industry leading levels and to launch new products as quickly as we can to best satisfy the needs of our customers and channel partners, though the time it will take is difficult to predict.

We have made significant progress in upgrading, expanding and geographically diversifying our current operational footprint. Both the level of late orders and on time delivery performance from our Mexico facilities are not only significantly better than they were from Sanmina but also better than they have ever been in Dialight history. On average our lead-times in Ensenada, Mexico are four weeks for all product lines, whereas with Sanmina this was between 12-18 weeks. We have moved to larger premises in Penang, Malaysia to accommodate the ramp up of Lighting production and further work continues in providing a robust supply chain serving this factory.

On product development, we have established a regional development centre in the UK which has expanded our capacity to develop new products appropriate for the EMEA and APAC markets. This enables us to handle a total of five simultaneous new products. The niche we occupied from the start is small but in the early years provided enough growth potential. As the market matures from first adopters to mass adoption, our focus is on offering new products to keep our competitive edge and take us into an expanded market space.

Business performance

The Group achieved revenues of £76.1m and underlying profit from operating activities of £0.9m for the six months ended 30 June 2019. Our reported results were adversely affected by additional costs incurred due to the exit from Sanmina totalling c£2.7m.

Dialight has strong sales capabilities across our three global regions. Lighting revenue was 5% down at constant currency compared to H1 2018. We saw the strongest growth in our APAC region which achieved 6% growth at constant currency. The European Lighting business was 27% down on the previous year at constant currency, which was impacted by the ramp up of the Penang facility which serves this region.

US Lighting revenue was 2% down at constant currency compared to H1 2018. We estimate that the US market has c40% of its revenue from customers' maintenance budgets which are supplied from inventory at our distribution channels. The extended lead times on the smaller product lines in the past impacted this region coupled with a general softening in the end markets.

We are focused on initiatives to regain our lost market share now that our lead-times are back to normal levels in the Americas. The key is rebuilding confidence internally and externally by demonstrating consistent on time

delivery with short lead-times. We are able to supply our products with an average lead time of four weeks. In addition, our new product launches are being supported by strong marketing plans.

Our Obstruction business consists of lighting and safety systems for the offshore wind market in EMEA and cell phone towers in the US. We are currently in the process of upgrading our beacons and our integrated obstruction software system which is scheduled to launch in Q1 2020. These are necessary steps to rejuvenate the Obstruction business after insufficient investment in prior years. This business was 5% below H1 2018 at constant currency.

We have been reviewing our strategic options for the small European Wind business and have concluded that the best option is to exit. We have treated this as a discontinued operation in the financial statements. We will provide a further update if and when appropriate. This decision does not impact the remainder of our global Obstruction business.

The Signals and Components business had a difficult second quarter, with a downturn in the component product lines. This business sells exclusively through distribution channels, and the distributors have cited excess inventory as the reason for reduced order intake. We expect these market dynamics to continue for the remainder of the year. This business had a revenue decline of 11% at constant currency in the half year but was able to largely maintain the EBIT levels of last year.

Operations

Operationally, we have achieved a full exit from Sanmina. Our new facility in Tijuana is fully operational and our Ensenada facility is running well. On time delivery to our largest served region, the Americas, is back to normal levels. We have relocated to a new and larger 90,000 sq ft facility in Penang with production ramping up.

At the end of 2018 all final assembly was removed from Sanmina post termination of our agreement. We have now removed all of our equipment for machining and coating housings which is back in our own facilities. As part of exiting we have purchased significantly more inventory from Sanmina than is required for short term production. This inventory is raw materials and some sub-assemblies for our current active product lines. See the Financial review for further information on inventory.

We are in discussions with Sanmina to reach a final settlement on all outstanding matters.

Our Ensenada facility is performing better than at any time in Dialight history. In H1 2019 we were at 82% on time delivery and have reduced the number of late orders by 87%, equating to one day of production volume. The production volumes at this facility have increased to 5,100 units per week from 3,200 at the start of the year with all product lines back to normal. We have strengthened the internal team at the plant and have a comprehensive plan to reduce inventory levels while improving critical material availability. This plant provides 86% of the Group production requirements currently.

In Tijuana the distribution centre is fully operational. We relocated the CNC machines and paint line from Sanmina to this facility. We have all the CNC machines running and our paint line is being installed and is due to be operational in the coming weeks.

As we announced previously, we have commenced Lighting production in our facility in Penang, serving the APAC and EMEA markets, to reduce shipping times from Mexico. This factory was previously only making products for Signals and Components. It was a small and highly efficient facility making long lead time products but it now has the highly complex Lighting products. Production of High Bay products at this facility has been running at acceptable levels. It has inherited significantly overdue orders following the exit from Sanmina. We have made significant improvements to the supply chain for these products and we are nearly at the point of full recovery. We are confident that over the next quarter all product lines will be operating satisfactorily with lead-times and financial performance at the same levels as our facilities in Mexico.

Our operational focus for the remainder of the year is centered around ramping up production in Penang and having full-service in-house capabilities. We are focused on driving down our inventory levels to pre-Sanmina levels

which would be a reduction of between £12-£15m. Now that we are out of firefighting mode the supply chain team is focused on localising supply chain management while focusing on cost reductions.

Strategy

Dialight has operated in a small but growing niche from the start of its Lighting products launch. We pioneered the use of LEDs in industrial lighting and for many years dominated this small niche market. As the market matures beyond first adopters to mass market adoption, we need to be focused on expanding our market reach.

In order for us to successfully compete in the current market we have re-aligned our strategy, as highlighted in our 2018 Annual Report. We intend to offer a wider product range so that we become even more relevant to our customers and channel partners. We estimate the expanded market opportunity to be in the region of c.£2bn per annum. We can offer these products to our current customers in the same facilities where we are already selling our existing lights, through the same sales channels.

We recently launched the first two of three new major platform products this year to address the expanded market opportunity. The Reliant High Bay round product has been designed specifically for the EMEA and APAC markets. This product is in commercial ramp with production in Penang underway since the launch date. The next product to launch was the Reliant High Bay for the Americas market, which will be produced in our Tijuana facility. The third product to launch this year will be in the Linear family. The two Reliant products are easy to install with all units having controls capabilities with a plug and play occupancy sensor. They also come with replacement parts and our 10-year warranty.

In order to provide regionalised products and access an expanded market, we have expanded our internal capabilities. We now have a new product development team in London primarily supporting EMEA and APAC. In addition to the established teams in our facility in New Jersey, we are increasing our capabilities with a further two project teams based in the US to support the expansion of our served markets while upgrading our current products. This expansion in the teams enables us to handle five consecutive projects which will increase to seven in 2020. We are targeting twenty two new platform products over the medium term, with investment funded by our own growth.

In order for us to be able to offer a high SKU count without maintaining excessive inventory or having extended lead times, it is essential that our products are customisable at the "last minute" and we are designing our systems, processes and products to this end.

Business fundamentals

Customers convert to LED lighting and buy Dialight's products because doing so remains the most efficient way to drive down energy usage and total cost of ownership of their lighting. We are delivering the next generation of lighting solutions that not only reduce energy consumption further but create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance and delivering attractive return on investment to our customers. Our market proposition is compelling, with the sustainability benefits of reduced energy usage, lower carbon emissions, reduced maintenance and improved safety offering real value to our customers.

Dialight products are being built with upgradeable and integrated controls. Our customers can optimise their lighting solution through direct lighting controls. Dialight's years of experience has earned a leading position and we have an installed product base of over one million products. With the aim of improving our quality of earnings we have demonstrated our ability to sell across many industrial sectors and reduce our reliance on oil and gas markets. This initiative has continued despite the operational challenges that we have faced.

Management changes announced on 2 July 2019

Martin (Marty) Rapp, who had been a Non-Executive Director since April 2016, came out of retirement to become CEO of Dialight in January 2018 to lead the company through the difficult transition away from Sanmina, which is

largely completed. He has also worked with the Board to reset the strategy of the Group, with an increased focus on new product development and expansion of the markets for Dialight products which is well underway.

As part of succession planning, Marty and the Board agreed that now was the time for the Group to recruit a new CEO for the longer term. The Board's search process is ongoing and Marty will step down as CEO and leave the Board with effect from 9 August 2019. Marty will remain as an adviser to the Group to ensure a smooth transition.

Fariyal Khanbabi, currently CFO of the Group and Deputy-CEO, will become Interim CEO from 9 August 2019. The Board believes Fariyal is well placed to continue to progress the Group's recovery plans. The Board wishes to thank Marty for his leadership of the Group during this critical period and wishes him all the very best as he resumes his retirement.

Chairman change

Wayne Edmunds has indicated to the Board that now is an appropriate time for him to step down as Chairman of the Board. The Board has accepted his decision and wishes to place on record its thanks for his contribution to Dialight. The Board has asked David Blood, Non-Executive Director, to take on the position of Chairman of the Board and he has accepted, with immediate effect. The Board believes that David is well placed to do so given his knowledge of Dialight, its operations and people. David is co-founder and Senior Partner of Generation Investment Management, a 20.1% shareholder in Dialight, and is therefore not considered "independent" under the UK Corporate Governance Code. However, the Board continues to consider David independent in character and judgement.

Full year guidance for 2019

We expect some gross margin recovery in H2 2019 as we return to more normal levels of service. We continue to expect our capital expenditure for the second half of the year to be in the region of c£2m together with c£4m of capitalised development costs. The tax rate for the year is expected to be c26%, and we are expecting inventory levels to reduce by year end but it will take us to the end of Q1 2020 to fully unwind the excess inventory build up.

The Board's expectations for the year ending 31 December 2019 remain for underlying operating profit within the range of £10-13m, which is before incurring c£4m of non-underlying costs. This assumes a pickup in orders and sales activity in H2, in part due to new product launches. As in previous years, Q4 is expected to be an especially important period of activity.

Medium-term outlook

We have made considerable progress in transforming our operations and continue to work towards industry leading levels of service to our customers. The strong focus on product development lays the foundations to restore our market share and drive future growth. The exact timing of the recovery with our customers is difficult to predict.

Our market proposition remains compelling, with the sustainability benefits of reduced energy usage, lower carbon emissions, reduced maintenance and improved safety offering real value to our customers. We remain excited by the Group's prospects over the medium to long term and are confident of delivering future growth.

FINANCIAL REVIEW

Against a background of flat Lighting revenues, overall revenue was lower than H1 2018 as a result of reduced Signals & Component revenue. We achieved an underlying EBIT for H1 2019 of £0.9m, £1.9m lower than H1 2018. The main driver of the reduced profitability was lower volume and additional costs incurred in ramping up production at our own facilities after the exit from Sanmina.

We also incurred £2.7m of costs for relocation of equipment and handling and distribution charges for inventory purchased from Sanmina. Due to the non-recurring nature of these costs, they have been classified as non-underlying in H1 2019.

Underlying EBIT from continuing operations reduced by £1.9m half year over half year. The key drivers for the reduction are as follows:

- (£1.7m) gross margin impact of the revenue reduction;
- (£1.1m) due to additional costs relating to ramping up our own facilities and use of third parties during the transition
- £0.7m lower operating cost
- £0.2m foreign exchange impact

The European Wind business has been in decline for the past two years following the loss of a major customer. We have been reviewing our strategic options for this business and have concluded that the best option is to exit the business. The current year loss of £0.4m and the expected loss on disposal of £1.3m is classified as discontinued operations. The comparatives are restated to exclude the trading related to this business.

We have adopted IFRS 16 Leases from 01 January 2019. Leases for building and equipment that were previously accounted for as operating leases now being treated as finance leases. The result is £8.6m of assets added to the balance sheet with a corresponding liability of £8.4m and the impact on the Profit Before Tax was nil in the period.

The Group's balance sheet remains strong, net debt increased from £2.9m at 31 December 2018 to £11.0m at 30 June 2019. The main cash outflows relate to additional inventory purchased from Sanmina as part of the exit, amounting to £3.8m, and £6.1m of capital expenditure.

Currency impact

Dialight reports its results in Sterling. Our major trading currency is the US Dollar, which in H1 2019 comprised 86% of the Group's revenue. The Group has both translational and transactional currency exposure. Translational exposures arise on the consolidation of overseas results into Sterling and this is the major currency exposure. Transactional exposure is where the currency of sales or purchases differ from the local functional currency. We use natural hedging on revenue and purchases to mitigate the majority of the currency risk.

The US dollar has strengthened by 7% compared to the first half of 2018 which has been the main driver for the currency impact. The average rate for the US Dollar against Sterling has moved from 1.38 in first half of 2018 to 1.29 in the first half of 2019. Based on the current mix of currencies and expected level of activity, a 1% movement in the US dollar relative to Sterling changes annual revenue by £0.7m and has no impact on EBIT.

Lighting segment

Lighting	H1 2019 £m	H1 2018 (re-stated)[3] £m	Variance
Revenue	**56.4**	56.9	(1%)
Gross profit	**19.6**	21.1	(7%)
Gross profit %	**35%**	37%	-200bps
Overheads	**(17.7)**	(17.9)	+1%
Underlying EBIT from continuous operations	**1.9**	3.2	(41%)

The Lighting segment represented 74% of the Group's revenue and 49% of the Group's underlying segmental operating profit. For continuing operations, revenues were 1% lower (5% lower at constant currency) compared with H1 2018. The reduced revenue has been the result of smaller product lines taking longer to recover to normal levels of on time delivery, as well as a general slow-down in orders that we have seen across all regions with some roll-out programs that were in in 2018 not yet replaced by new programs in 2019 due to deferred spend.

Our order intake, i.e. the value of orders received in the year, declined by 8% at constant currency. The EMEA region was particularly impacted with orders reducing by 17%, which was partly due to limited availability of two important product lines during the ramp of Penang. The US was 7% lower than H1 2018 mainly due to a softening in end markets. APAC was 9% lower at constant currency driven by a slowdown in Australian mining business. Overall customer confidence in our delivery is returning slower than expected coupled with large customers deferring orders to due general macroeconomic uncertainty.

Gross margin has reduced by 200 bps year on year to 35%. Of this reduction, 100 bps is the result of additional costs incurred to outsource machining while equipment was relocated and installed in our facility in Tijuana. We also saw the effect of an increased production overhead cost base during the ramp up phase of Tijuana in H1. This resulted in reduced overhead efficiency which was further impacted by lower levels of revenue in 2019, generating a 60 bps reduction. This inefficiency and additional expense will reduce throughout H2 as Tijuana operates at a more optimum level. To ensure customer requirements were met for key orders, we incurred additional costs to air freight products. This generated a 40 bps reduction in gross margin but is not expected to continue in H2.

Operating costs were in line with prior year.

The result of lower revenues and contraction in gross margin, was that the overall underlying operating profit in the Lighting segment reduced by £1.3m to £1.9m.

Signals and Components

Signals and Components	H1 2019 £m	H1 2018 £m	Variance
Revenue	**19.7**	20.8	(5%)
Gross profit	**6.1**	6.3	(3%)
Gross profit %	**31%**	30%	+100bps
Overheads	**(4.1)**	(4.1)	-
Underlying EBIT	**2.0**	2.2	(9%)

Signals and Components is a high-volume business operating within highly competitive markets. The Components product lines have been impacted by a slowdown in orders resulting in an overall reduction of 5% in revenue (11% at constant currency). We have increased our margins by 100bps using a continuous cost improvement programme to mitigate pricing pressures. Overall there was a decrease in underlying operating profit of £0.2m.

Central overheads

Central overheads comprise of costs not directly attributable to a segment and therefore not allocated to these segments. In H1 2019 they amounted to £3.0m, an increase of £0.6m from H1 2018 reflecting additional investment in compliance and moving some divisional roles centrally.

Inventory

At the end of H1 2019, inventory totaled £50m. This is materially higher than the normal run rate, due to £9.2m excess raw materials bought from Sanmina ahead of existing requirements, £4m of Penang set up inventory and £3.4m of safety stock to address supply chain constraints. Going forward managements' target is for inventory of c£35m - £40m for the end of Q1 2020.

Non-underlying costs

The Group incurs costs and earns income that is non-recurring in nature or that is otherwise considered to not be reflective of the underlying performance of the business. In the assessment of performance of the Group, management examines underlying performance, which removes the impact of non-underlying costs and income. The table below presents the components of non-underlying profit or loss recorded within cost of sales.

Non-underlying costs	H1 2019 £m	H1 2018 £m
Freight and handling costs to re-locate materials	1.9	-
Cost of removing equipment from Sanmina premises	0.8	-
Total	2.7	-
Cash impact	2.7	-

As part of the exit from Sanmina, we incurred costs £2.7m in the first half which are non-recurring and consisted of two main elements. The costs related to a handling charge from Sanmina for inventory purchased plus the cost of transportation to our facilities in Mexico and Malaysia. In order to reduce production downtime, materials were air freighted to Malaysia. Secondly, we had to pay £0.8m for removal of our equipment from Sanmina. This encompassed dismantling of the equipment, transport and re-assembly at our own plant.

Cash flow

The Group ended the H1 2019 with net debt of £11.0m, an increase of £8.1m from December 2018. Net debt excludes lease liabilities related to the adoption of IFRS 16 Leases. For covenant testing purposes, these are also excluded.

The roll forward of net debt was as follows:

Cash flow	£m
Net debt at 31 December 2018	(2.9)
Underlying EBITDA	3.0
Net working capital excluding inventory*	2.4
Increase in inventory	(3.8)
Capital expenditure	(6.1)
Non-underlying costs	(2.7)
Provisions and other movements	(0.9)
Net debt at 30 June 2019	**(11.0)**

*Adjusted for impact of discontinued operations

The main drivers for the increase in net debt has been the investment of £6.1m in capital expenditure as we have added new facilities to increase production capacity and invested in product development. Inventory increased by £3.8m as we purchased additional inventory from Sanmina and there were non-underlying cash costs of £2.7m related to the exit from Sanmina. We expect inventory to unwind significantly over the next 12 months and at the end of June 2019 we were carrying excess amounts of between £12-15m.

Banking

The Group has its banking relationships with HSBC Bank plc and Wells Fargo. The Group has a revolving credit facility with HSBC of £25m, with a further £25m "accordion" feature, and the facility runs to December 2021. The Group has £13.0m of borrowings against the facility at the balance sheet date and remains fully compliant with its covenant requirements which ensures significant financial flexibility.

Brexit

The majority of the Group's European sales are outside the UK and are not impacted by Brexit. Finished goods that have already been imported to the UK prior to exit will not attract any further tariffs. The UK market will be served

from our Mexico or Malaysia manufacturing plant. Any potential tariffs on goods imported to the UK from either facility will have to be considered in conjunction with shipping costs and lead times.

Capital management and dividend

The Board's policy is to maintain a strong capital base in order to maintain customer, investor and creditor confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. At 30 June 2019 this equated to £82.1m (H1 2018: £79.9m).

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

Marty Rapp, Group Chief Executive

Fariyal Khanbabi, Group Finance Director

05 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the period ended 30 June 2019 (unaudited)

	Note	6 months ended 30 June 2019 (unaudited) Total £'m	6 months ended 30 June 2018 (unaudited) Re-stated** Total £'m	12 months ended 31 December 2018 (audited) Re-stated** Total £'m
Continuing operations				
Revenue	2	**76.1**	**77.7**	164.8
Cost of sales		**(53.1)**	**(50.3)**	(106.2)
Gross profit		**23.0**	**27.4**	58.6
Distribution costs		**(14.1)**	**(14.6)**	(29.5)
Administrative expenses		**(10.7)**	**(10.0)**	(21.6)
Underlying profit from operating activities *		**0.9**	**2.8**	7.9
Non-underlying expenses	3	**(2.7)**	**-**	(0.4)
(Loss)/profit from operating activities	2	**(1.8)**	**2.8**	7.5
Financial expense	5	**(0.3)**	**(0.1)**	(0.2)
Underlying profit before tax *		**0.6**	**2.7**	7.7
Non-underlying expenses	3	**(2.7)**	**-**	(0.4)
(Loss)/profit before tax		**(2.1)**	**2.7**	7.3
Income tax gain/(expense)	6	**0.5**	**(0.7)**	(2.1)
(Loss)/profit from continuing operations		**(1.6)**	**2.0**	5.2
(Loss)/profit from discontinued operation	10	**(1.7)**	**0.1**	0.1
(Loss)/profit for the period		**(3.3)**	**2.1**	5.3
(Loss)/profit for the period attributable to:				
Equity owners of the Company		**(3.3)**	**2.0**	5.2
Non-controlling Interests		**-**	**0.1**	0.1
(Loss)/Profit for the period		**(3.3)**	**2.1**	5.3
Earnings per share from continuing operations				
Basic	7	**(4.9)p**	**6.1p**	16.0p
Diluted	7	**(4.9)p**	**6.0p**	15.8p
Statutory Earnings per share				
Basic	7	**(10.1)p**	**6.4p**	16.4p
Diluted	7	**(10.1)p**	**6.2p**	16.1p

* Underlying profit measures exclude non-underlying items, which are analysed in note 3.

** For details of re-statement, refer to note 10

The accompanying Notes form an integral part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2019 (unaudited)

	6 months ended 30 June 2019 (unaudited) £'m	6 months ended 30 June 2018 (unaudited) £'m	12 months ended 31 December 2018 (audited) £'m
Other comprehensive income			
Exchange difference on translation of foreign operations	**0.3**	**1.2**	4.2
Income tax on exchange differences on transactions of foreign operations	**-**	**(0.1)**	(0.3)
Remeasurement of defined benefit liability	**(0.1)**	**0.6**	(0.6)
Income tax on remeasurement of defined benefit liability	**-**	**(0.1)**	0.1
Other comprehensive income for the period, net of tax	**0.2**	**1.6**	3.4
(Loss)/profit for the period	**(3.3)**	**2.1**	5.3
Total comprehensive (expense)/income for the period	**(3.1)**	**3.7**	8.7
Attributable to:			
- Owners of the parent	**(3.1)**	**3.6**	8.6
- Non-controlling interest	**-**	**0.1**	0.1
Total comprehensive (loss)/profit for the period	**(3.1)**	**3.7**	8.7

The accompanying Notes form an integral part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2019 (unaudited)

	Share capital £'m	Merger reserve £'m	Translation reserve £'m	Capital redemption reserve £'m	Retained earnings £'m	**Total £'m**	Non-controlling interests £'m	**Total Equity £'m**
Balance at 1 January 2019	0.6	1.4	14.3	2.2	66.2	**84.7**	0.4	**85.1**
Loss for the period	-	-	-	-	(3.3)	**(3.3)**	-	**(3.3)**
Other comprehensive income:								
Foreign currency translation differences, net of taxes	-	-	0.3	-	-	**0.3**	-	**0.3**
Remeasurement of defined benefit liability, net of taxes	-	-	-	-	(0.1)	**(0.1)**	-	**(0.1)**
Total other comprehensive income	-	-	0.3	-	(0.1)	**0.2**	-	**0.2**
Total comprehensive income for the period	-	-	0.3	-	(3.4)	**(3.1)**	-	**(3.1)**
Transactions with owners, recorded directly in equity:								
Share–based payments, net of tax	-	-	-	-	0.1	**0.1**	-	**0.1**
Total contributions by and distributions to owners	-	-	-	-	0.1	**0.1**	-	**0.1**
Balance at 30 June 2019	0.6	1.4	14.6	2.2	62.9	**81.7**	0.4	**82.1**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2018 (unaudited)

	Share capital £'m	Merger reserve £'m	Translation reserve £'m	Capital redemption reserve £'m	Retained earnings £'m	**Total £'m**	Non-controlling interests £'m	**Total Equity £'m**
Balance at 1 January 2018	0.6	1.4	10.4	2.2	61.2	**75.8**	0.3	**76.1**
Profit for the period	-	-	-	-	2.0	**2.0**	0.1	**2.1**
Other comprehensive income:								
Foreign currency translation differences, net of taxes	-	-	1.1	-	-	**1.1**	-	**1.1**
Remeasurement of defined benefit liability, net of taxes	-	-	-	-	0.5	**0.5**	-	**0.5**
Total other comprehensive income	-	-	1.1	-	0.5	**1.6**	-	**1.6**
Total comprehensive income for the period	-	-	1.1	-	2.5	**3.6**	0.1	**3.7**
Transactions with owners, recorded directly in equity:								
Share–based payments, net of tax	-	-	-	-	0.1	**0.1**	-	**0.1**
Total contributions by and distributions to owners	-	-	-	-	0.1	**0.1**	-	**0.1**
Balance at 30 June 2018	0.6	1.4	11.5	2.2	63.8	**79.5**	0.4	**79.9**

For the period ended 31 December 2018 (audited)

	Share capital £'m	Merger reserve £'m	Translation reserve £'m	Capital redemption reserve £'m	Retained earnings £'m	**Total £'m**	Non-controlling interests £'m	**Total Equity £'m**
Balance at 1 January 2018	0.6	1.4	10.4	2.2	61.2	**75.8**	0.3	**76.1**
Profit for the period	-	-	-	-	5.2	**5.2**	0.1	**5.3**
Other comprehensive income:								
Foreign currency translation differences, net of taxes	-	-	3.9	-	-	**3.9**	-	**3.9**
Defined benefit plan actuarial losses, net of taxes	-	-	-	-	(0.5)	**(0.5)**	-	**(0.5)**
Total other comprehensive income	-	-	3.9	-	(0.5)	**3.4**	-	**3.4**
Total comprehensive income for the period	-	-	3.9	-	4.7	**8.6**	0.1	**8.7**
Transactions with owners, recorded directly in equity:								
Share–based payments, net of tax	-	-	-	-	0.3	**0.3**	-	**0.3**
Total contributions by and distributions to owners	-	-	-	-	0.3	**0.3**	-	**0.3**
Balance at 31 December 2018	0.6	1.4	14.3	2.2	66.2	**84.7**	**0.4**	**85.1**

CONDENSED CONSOLIDATED STATEMENT OF TOTAL FINANCIAL POSITION

As at 30 June 2019 (unaudited)

	Note	**30 June 2019 (unaudited) £'m**	30 June 2018 (unaudited) £'m	31 December 2018 (audited) £'m
Assets				
Property, plant and equipment		**16.6**	**13.7**	14.7
Right of use assets		**8.6**	**-**	-
Intangible assets		**18.6**	**14.6**	16.5
Deferred tax asset		**6.1**	**5.5**	5.3
Employee Benefits		**0.6**	**1.8**	0.4
Other Receivables		**0.2**	**0.2**	0.2
Total non-current assets		**50.7**	**35.8**	37.1
Cash and cash equivalents		**2.0**	**7.3**	2.2
Inventories	4	**50.0**	**33.9**	46.0
Trade and other receivables		**33.0**	**28.4**	38.0
Assets classified as held for sale		**0.1**	**-**	-
Total current assets		**85.1**	**69.6**	86.2
Total assets		**135.8**	**105.4**	123.3
Liabilities				
Borrowings		**(13.0)**	**-**	(5.1)
Provisions		**(0.6)**	**(0.9)**	(0.5)
Lease liabilities		**(6.9)**	**-**	-
Total non-current liabilities		**(20.5)**	**(0.9)**	(5.6)
Trade and other payables		**(29.4)**	**(23.9)**	(30.0)
Provisions		**(0.9)**	**(0.6)**	(1.0)
Tax liabilities		**(0.6)**	**(0.1)**	(1.6)
Lease liabilities		**(1.5)**	**-**	-
Liabilities directly associated with assets classified as held for sale		**(0.8)**	**-**	-
Total current liabilities		**(33.2)**	**(24.6)**	(32.6)
Total liabilities		**(53.7)**	**(25.5)**	(38.2)
Net assets		**82.1**	**79.9**	85.1
Equity				
Issued share capital		**0.6**	**0.6**	0.6
Merger reserve		**1.4**	**1.4**	1.4
Other reserves		**16.8**	**13.7**	16.5
Retained earnings		**62.9**	**63.8**	66.2
		81.7	**79.5**	84.7
Non-controlling interests		**0.4**	**0.4**	0.4
Total equity		**82.1**	**79.9**	85.1

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2019 (unaudited)

	6 months ended 30 June 2019 (unaudited) £'m	6 months ended 30 June 2018 (unaudited) £'m	12 months ended 31 December 2018 (audited) £'m
Operating activities			
(Loss)/profit for the period – continuing operations	**(1.6)**	**2.0**	5.2
(Loss)/profit for the period – discontinued operation	**(1.7)**	**0.1**	0.1
Adjustments for:			
Financial expense	**0.3**	**0.1**	0.2
Income tax expense	**(0.5)**	**0.7**	2.1
Share–based payments	**0.1**	**0.1**	0.3
Depreciation of property, plant and equipment	**1.5**	**1.5**	3.1
Depreciation of right of use assets	**0.8**	**-**	-
Amortisation of intangible assets	**0.6**	**0.7**	1.5
Decrease in provisions	**-**	**(0.8)**	(0.8)
Pension charge for GMP equalization	**-**	**-**	0.4
Operating cash flow before movements in working capital	**(0.5)**	**4.4**	12.1
Increase in inventories	**(3.8)**	**(9.0)**	(19.6)
Decrease/(increase) in trade and other receivables	**3.6**	**6.2**	(1.2)
(Decrease)/increase in trade and other payables	**(0.2)**	**(3.1)**	1.8
Pension contributions in excess of the income statement charge	**(0.2)**	**(0.2)**	(0.5)
Cash used in operations	**(1.1)**	**(1.7)**	(7.4)
Income taxes paid	**-**	**(1.2)**	(1.7)
Interest paid	**(0.3)**	**(0.1)**	(0.2)
Net cash used in operating activities	**(1.4)**	**(3.0)**	(9.3)
Capital expenditure	**(3.3)**	**(1.1)**	(3.1)
Capitalised expenditure on development	**(2.8)**	**(1.2)**	(3.3)
Net cash used in investing activities	**(6.1)**	**(2.3)**	(6.4)
Financing activities			
Drawdown of bank facility	**7.9**	**-**	5.1
Repayment of lease payments	**(0.6)**	**-**	-
Net cash from financing activities	**7.3**	**-**	5.1
Net decrease in cash and cash equivalents	**(0.2)**	**(5.3)**	(10.6)
Cash and cash equivalents at 1 January	**2.2**	**12.8**	12.8
Effect of exchange rates on cash held	**-**	**(0.2)**	-
Cash and cash equivalents at end of period	**2.0**	**7.3**	2.2

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2019 (unaudited)

1. Basis of preparation and principal accounting policies

Statement of compliance

The unaudited condensed financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34), and have been prepared on the basis of International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union that are effective for the year ending 31 December 2019. The Directors have a reasonable expectation that the Group has sufficient resources to continue in existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing financial statements.

The unaudited condensed financial statements for the six months ended 30 June 2019, which were approved by the Board on 05 August 2019, and the comparative information in relation to the half year ended 30 June 2018, do not comprise statutory accounts for the purpose of Section 434 of the Companies Act 2006. Those accounts have been reported upon by the Group's auditor and delivered to the Registrar of Companies.

This interim financial report does not include all the notes included in the Annual Report and accordingly, it should be read in conjunction with the Annual Report for the year ended 31 December 2018 and any public announcements made by the Group during the interim reporting period.

The report of the auditor was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

Adoption of new and revised standards

The accounting policies adopted in the preparation of these unaudited condensed financial statements are consistent with the policies applied by the Group in its consolidated financial statements for the year ended 31 December 2018. The following accounting standards, interpretations, improvements and amendments have become applicable for the current period

IFRS 16 – Leases

Amendments to IAS 28 – Long-term interests in associates and joint ventures

Amendments to IAS 19 – Plan amendment, curtailment or settlement

Annual Improvements to IFRS standards 2015-2017 cycle

IFRIC 23 – Uncertainty over income tax treatments

The Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting IFRS 16 Leases. The impact of the adoption of the leasing standard and the new accounting policies are disclosed below. The other standards did not have material impact on the Group's accounting policies and did not require retrospective adjustments.

Adjustments recognised on adoption of IFRS 16

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the year-ended 31 December 2018, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

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

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7.4%.

Lease commitments at 01 January 2019	**£'m**
Operating lease commitments disclosed as at 31 December 2018	7.7
Discounted using the lessee's incremental borrowing rate at the date of initial application	6.4
(Less): Short term leases recognised on a straight-line basis as expense	(0.3)
(Less): Low value leases recognised on a straight-line basis as expense	(0.3)
(Less): Adjustments as a result of a different treatment of lease components	(0.1)
(Add): Adjustments as a result of a different treatment of extension options	1.6
Lease liability recognised as at 1 January 2019	7.3
Of which are:	
Current lease liabilities	1.2
Non-current lease liabilities	6.1
	7.3

Right of use assets

The associated right-of-use assets were measured on a lease by lease basis where either retrospective measurement basis applied as if the new rules had always been applied or right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Balance sheet at 01 January

The right-of-use assets relate to mainly property leases and amount to £7.5m at 1 January 2019 and £8.6m at 30 June 2019. The increase relates to new leases signed in the current year. The principal impacts of the change in accounting policy was on the following items in the balance sheet on 01 January 2019.

Right of use assets - increase by £7.5m

Lease liabilities - increase by £7.3m

Deferred tax liability – increase by £0.1m

Income statement for the period ended 30 June 2019

EBIT increased and financing expenses decreased by the amounts disclosed below for June 2019 as a result of the change in accounting policy.

	EBIT	**Financing expense**	**Profit before tax**
	£'m	£'m	£'m
Lighting	0.1	(0.1)	-
	0.1	(0.1)	-

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

There is no impact on earnings per share for the six months to 30 June 2019 as a result of the adoption of IFRS 16.

Practical expedients applied as part of transitioning to IFRS 16

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

• the use of a single discount rate to a portfolio of leases with reasonably similar characteristics

• the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

• the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

• the use of hindsight in determining the lease term where the contract contains options to extend the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The Group's leasing activities and how these are accounted for

The Group leases various industrial premises, offices and low value equipment. Rental contracts are typically for fixed periods of 2 to 5 years but may have extension options as described below. 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.

Until the end of 2018 financial year, all leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities, where applicable, include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

Right-of-use assets, where applicable, are measured at cost comprising the following:

• the amount of the initial measurement of lease liability

• any lease payments made at or before the commencement date less any lease incentives received

• any initial direct costs, and

• restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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 that is within the control of the Group as a lessee.

Amended standards

The following accounting standards and amendments that are applicable to the Group have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 30 June 2019. The Group is currently analysing the impact these standards would have on its consolidated results and financial position.

Amendments to IFRS 3 – Business combinations, definition of a business

Amendments to IAS 1 – Presentation of financial statements

Amendments to IAS 8 – Accounting policies, changes in accounting estimates and errors, definition of material

Amendments to conceptual framework

Estimates and judgements

In preparing these condensed financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2018.

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

Accounting policies

The Group policy on non-underlying items has been in existence and applied consistently for several years. This has not previously been published.

Non-Underlying

The Group incurs costs and earns income that is non-recurring in nature or that, in the Directors' judgement, need to be disclosed separately by virtue of their size and incidence in order for users of the consolidated financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

These items include (but are not limited to):

- The costs directly arising from transferring production to an outsourced manufacturer
- The costs related to transferring production back from an outsourced manufacturer
- The impairment of tangible or intangible assets which relate to the closure of part of a business or removal of a product line
- The impairment of inventory as a result of a significant change in product design
- Individual restructuring projects which are material or relate to the closure of a part of the business and are not expected to recur.
- Gains or losses on disposal of businesses.
- Gains or losses arising on significant changes to or closures of defined benefit pension plans.

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

2. Operating segments

The Group comprises 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's Chief Executive.

The two reportable operating segments are:

a) 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
b) Signals and Components, which develops, manufactures and supplies status indication components for electronics OEMs, together with niche industrial and automotive electronic components and highly efficient LED signaling solutions for the traffic and signals markets.

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. There are no individual customers representing more than 10% of revenue and there is no inter-segment revenue.

The Group announced its concrete plans to divest 100% of its subsidiary, Dialight A/S, and initiated an active programme to locate a buyer. Segment information about this discontinued operation is provided below and further disclosures is provided in note 10.

Reporting segments

6 months ended 30 June 2019 (Unaudited)	Lighting £'m	Signals and Components £'m	Total £'m
Continuing operations			
Revenue	56.4	19.7	76.1
Underlying gross profit	19.6	6.1	25.7
Overhead costs	(17.7)	(4.1)	(21.8)
Segment operating profit	1.9	2.0	3.9
Unallocated expenses			(3.0)
Underlying operating profit			0.9
Non-underlying expenses			(2.7)
Operating loss			(1.8)
Net financing expense			(0.3)
Loss before tax			(2.1)
Income tax expense			0.5
Loss from continuing operations			(1.6)
Loss from discontinued operation			(1.7)
Loss for the period			(3.3)

Other segmental data

	Lighting £'m	Signals and Components £'m	Total £'m
Depreciation	1.9	0.4	2.3
Amortisation	0.4	0.2	0.6

2. Operating segments (continued)

6 months ended 30 June 2018 (unaudited)	Lighting Re-stated £'m	Signals and Components £'m	Total Re-stated £'m
Continuing operations			
Revenue	56.9	20.8	77.7
Gross profit	21.1	6.3	27.4
Overhead costs	(17.9)	(4.1)	(22.0)
Segment operating profit	3.2	2.2	5.4
Unallocated expenses			(2.6)
Underlying operating profit			2.8
Non-underlying expenses			-
Operating profit			2.8
Net financing expense			(0.1)
Profit before tax			2.7
Income tax expense			(0.7)
Profit from continuing operations			2.0
Profit from discontinued operation			0.1
Profit for the period			2.1

Other segmental data

Depreciation	1.1	0.4	1.5
Amortisation	0.5	0.2	0.7

Year ended 31 December 2018	Lighting Re-stated £'m	Signals and Components £'m	Total Re-stated £'m
Continuing operations			
Revenue	120.2	44.6	164.8
Gross profit	45.4	13.2	58.6
Overhead costs	(37.0)	(8.7)	(45.7)
Segment operating profit	8.4	4.5	12.9
Unallocated expenses			(5.0)
Underlying operating profit			7.9
Non-underlying expense			(0.4)
Operating profit			7.5
Net financing expenses			(0.2)
Profit before tax			7.3
Income tax expense			(2.1)
Profit from continuing operations			5.2
Profit from discontinued operation			0.1
Profit for the period			5.3

Other segmental data

Depreciation	2.3	0.8	3.1
Amortisation	1.1	0.4	1.5

2. Operating segments (continued)

Geographical segments

The Lighting, Signals and 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

	6 months ended 30 June 2019 £'m Unaudited	6 months ended 30 June 2018 £'m Unaudited Re-stated	12 months ended 31 December 2018 £'m Audited Re-stated
North America	**59.2**	58.3	124.1
EMEA	**5.8**	8.1	15.6
Rest of World	**11.1**	11.3	25.1
Consolidated revenue	**76.1**	77.7	164.8

3. Non-underlying items

The Group incurs costs and earns income that is non-recurring in nature or that is otherwise considered to not be reflective of the underlying performance of the business. In the assessment of performance of the Group, management examines underlying performance, which removes the impact of non-underlying costs and income.

	6 months ended 30 June 2019 £'m Unaudited	6 months ended 30 June 2018 £'m Unaudited	12 months ended 31 December 2018 £'m Audited
Freight and handling costs to re-locate materials	**(1.9)**	-	-
Cost of removing equipment from Sanmina premises	**(0.8)**	-	-
Non-underlying costs recorded in cost of sales	**(2.7)**	-	-
Increase pension liability for GMP equalisation	**-**	-	(0.4)
Non-underlying costs recorded in administrative expenses	**(2.7)**	-	(0.4)

The table below presents the components of non-underlying profit or loss recorded within cost of sales:

As part of the exit from Sanmina, we incurred costs £2.7m in the first half which are non-recurring and consisted of two main elements. Firstly, as part of exiting the Sanmina outsourcing contract, we purchased a significant amount of inventory from Sanmina and we had to pay a handling charge on it. We then had to pay to move the inventory to our facilities in Ensenada, Mexico and Penang, Malaysia. Two product lines, serving EMEA and APAC had to be moved to Penang and this resulted in the need to airfreight materials in order to reduce the downtime on these two production lines. Subsequent to the this, we have had to airfreight sub-assemblies to Penang while we set up the local supply chain.
Secondly, we had to pay £0.8m for removal of our equipment from Sanmina. This encompassed dismantling of the equipment, transport and re-assembly at our own plant.

4. Inventories

	6 months ended 30 June 2019 £'m Unaudited	6 months ended 30 June 2018 £'m Unaudited	12 months ended 31 December 2018 £'m Audited
Raw materials and consumables	**21.3**	15.8	17.9
Work in progress	**14.6**	6.2	10.7
Finished goods	**14.1**	11.9	17.4
Net financing (expense) / income	**50.0**	33.9	46.0

Inventories to the value of £35.7m (30 June 2018: £36m) were recognised as expenses in the year. During the year, inventory write-backs totalled £0.2m (30 June 2018: write-back £1.5m).
There has been an increase of £4.0m in inventory compared to the end of the year as a result of increasing production materials ahead of the launch of the new products and purchasing additional material from our former manufacturing partner.

5. Net financing expense

	6 months ended 30 June 2019 £'m Unaudited	6 months ended 30 June 2018 £'m Unaudited	12 months ended 31 December 2018 £'m Audited
Interest expense on the lease liability	**(0.1)**	-	-
Interest expense on financial liabilities	**(0.2)**	(0.1)	(0.2)
Net financing expense	**(0.3)**	(0.1)	(0.2)

6. Income tax expense

The tax credit of £0.5m for the half year to 30 June 2019 reflects the anticipated effective tax rate of 26.0% for the underlying business for the year ending 31 December 2019 excluding the impairment of the goodwill relating to the discontinued Operation. The effective tax rate is higher than the current UK tax rate of 19.0% due to the level of Group profits in the higher tax rate jurisdiction which range from effective tax rates of 23.0% to 30.0%.

7. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2019 was based on a loss for the period of £3.3m (2018: profit of £2.1m) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2019 of 32,534,237 (2018: 32,521,179).

Weighted average number of ordinary shares

	6 months ended 30 June 2019 Number '000	6 months ended 30 June 2018 Number '000	Year ended 31 December 2018 Number '000
Weighted average number of shares	**32,534**	32,521	32,527
Dilutive effect of share options	**-**	616	479
Diluted weighted average number of shares	**32,534**	33,137	33,006

7. Earnings per share (continued)

Underlying earnings per share are highlighted below as the Directors consider that this measurement of earnings gives valuable information on the performance of the Group.

	6 months ended 30 June 2019 Per share Unaudited	6 months ended 30 June 2018 Per share Unaudited	12 months ended 31 December 2018 Per share Audited
Basic earnings	**(10.1)p**	6.4p	16.4p
Underlying basic earnings*	**1.5p**	6.4p	17.3p
Diluted earnings	**(10.1)p**	6.2p	16.1p
Underlying diluted earnings*	**1.5p**	6.2p	17.0p

* Underlying earnings excludes non-underlying items as explained in note 3 and allocates tax at the appropriate rate (see note 5)

8. Dividends

There were no dividends declared or paid in the 12 months ended 31 December 2018. The Directors have not declared an interim dividend for 2019 (2018: nil).

9. Debt facilities

On 12 December 2016, the Company signed a 5-year unsecured £25m multi-currency Revolving Credit Facility with HSBC Bank plc. Under the terms of the facility, the Group also has a £25m "accordion" facility, by which further facilities may be made available by HSBC under the current terms to support significant investment opportunities that may arise. At 30 June 2019 there was £13m drawn on the facility (31 December 2018: £5.1m).

	6 months ended 30 June 2019 £'m Unaudited	6 months ended 30 June 2018 £'m Unaudited	12 months ended 31 December 2018 £'m Audited
Opening balance	**5.1**	-	-
Proceeds from loans or borrowings	**7.9**	-	5.1
Total change in financing cashflows	**13.0**	-	5.1

10. Discontinued operation

Description

The European Wind business has been in decline for the past two years following the loss of a major customer. We have been reviewing our strategic options for this business and have concluded that the best option is to exit the business. The business is located in Denmark and provides on-shore and offshore collision avoidance systems for wind turbines, trading as Dialight A/S. We have announced to employees that the business will either be sold or closed in the short-term.

10. Discontinued operation (continued)

This subsidiary is available for sale immediately in its present condition, its sale is a strategic shift to exit a geographical area of operations, the sale is highly probable as we are in the advanced stages of negotiation with a third party and the relevant IFRS 5 criteria are met to qualify this as held for sale and discontinued operation at the balance sheet date.

Financial information and disclosures previously reported in 2018 have been restated to give effect to the discontinued operations presentation. The results of Danish subsidiary are set out below.

Assets and liabilities of the subsidiary classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 June 2019:

Dialight A/S	6 months ended 30 June 2019 £'m	6 months ended 30 June 2018 £'m	12 months ended 31 December 2018 £'m
Assets classified as held for sale			
Trade and other receivables	**0.1**	-	-
Total assets (excluding cash) of the subsidiary held for sale	**0.1**	-	-
Liabilities directly associated with assets classified as held for sale			
Trade and other payables	**(0.8)**	-	-
Total liabilities of the subsidiary held for sale	**(0.8)**	-	-

Financial performance and cash flow information

The financial performance and cash flow information of the discontinued operation are presented below:

	6 months ended 30 June 2019 £'m	6 months ended 30 June 2018 £'m	12 months ended 31 December 2018 £'m
Revenue	**1.7**	2.4	4.8
Cost of sales	**(1.3)**	(1.4)	(3.1)
Gross profit	**0.4**	1.0	1.7
Expenses	**(0.8)**	(0.9)	(1.6)
(Loss)/Profit before income tax	**(0.4)**	0.1	0.1
Income tax expense	-	-	-
(Loss)/Profit after income tax of discontinued operation	**(0.4)**	0.1	0.1
Remeasurement of discontinued operation to fair value less costs to sell	**(1.3)**	-	-
(Loss)/Profit from discontinued operation	**(1.7)**	0.1	0.1
Exchange differences on translation of discontinued operations	-	-	-
Other comprehensive income from discontinued operations	-	-	-
Net cash inflow/(outflow) from operating activities	**0.9**	0.4	(0.3)
Net increase/(decrease) in cash generated by the subsidiary	**0.9**	**0.4**	**(0.3)**

10. Discontinued operation (continued)

Earnings per share from discontinued operations

	6 months ended 30 June 2019 £'m Unaudited	6 months ended 30 June 2018 £'m Unaudited	12 months ended 31 December 2018 £'m Audited
Basic	**(5.2)p**	0.3p	0.3p
Diluted	**(5.2)p**	0.3p	0.3p

Remeasurement of discontinued operation to fair value less costs to sell

Non-current assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell when they meet the held for sale criteria under IFRS 5. The Group is using the valuation obtained from the definitive agreement signed with the buyer to sell this subsidiary as the fair value. Costs to sell the subsidiary including any professional and legal fees are also included to arrive fair value less costs to sell.

The resulting impairment loss is allocated pro rata to the assets of the subsidiary within IFRS 5's measurement. All of the assets outside IFRS 5's measurement scope are remeasured in accordance with the relevant standards.

	Carrying value immediately prior to reclassification £'m	Impairment £'m	30 June 2019 £'m
Allocation of impairment loss			
Property, plant and equipment	0.1	(0.1)	**-**
Trade and other receivables	0.9	(0.8)	**0.1**
Inventories	0.4	(0.4)	**-**
Cash and cash equivalents*	0.2	-	**0.2**
Total assets of the Denmark subsidiary held for sale	1.6	(1.3)	**0.3**

*Shown in cash and cash equivalents on the balance sheet

11. Principal exchange rates

	6 months ended 30 June 2019	6 months ended 30 June 2018	12 months ended 31 December 2018
Average for the period			
US dollar	**1.29**	1.38	1.33
Canadian Dollar	**1.72**	1.76	1.73
Euro	**1.14**	1.14	1.13
Mexican Peso	**24.77**	26.19	25.63

	30 June 2019	30 June 2018	31 December 2018
Spot rate			
US dollar	**1.26**	1.32	1.27
Canadian	**1.66**	1.76	1.74
Euro	**1.11**	1.13	1.11
Mexican Peso	**24.34**	26.38	25.02

12. Contingent liabilities

We continue to negotiate our final contractual exit from Sanmina, our former manufacturing partner, which includes remaining working capital balances. The Directors believe there is a low probability of this crystallising into an outflow.

The Group operates in jurisdictions that are unstable or have changing political conditions. From time to time certain tax positions are challenged which carry a financial risk. The Directors have considered these risks and believe that they are not material to the Financial Statements.

13. Related party transactions

There have been no changes in the nature of related party transactions to those described in the 2018 Annual Report that could have a material effect on the financial position or performance of the Group in the period to 30 June 2019.

14. Principal risks and uncertainties

The principal risks and uncertainties affecting the business activities of the Group for the next six months of 2019 remain as listed on pages 34 to 37 of the Annual Report for the year ended 31st December 2018 (which can be found at www.dialight.com). We have expanded the risks to include reputational damage due to the operational problems experienced by the Group.

A summary of the principal risks and uncertainties is set out below:

- **Production capacity** – Dialight needs to ensure that it has sufficient production capacity to fulfill customer orders in a timely manner and to be scalable to support growth. Insufficient capacity results in an inability to fulfill orders
- **Reputational risk associated with products** – potential customer fatigue that might have built up in respect of the Group's recent operational challenges.
- **Supply chain management** – The procurement planning process is dependent on the accuracy of sales forecast to ensure adequacy of component supply. The inability to source key raw materials and components required for the manufacture of our products could impact our ability to manufacture products and satisfy customer orders. Inaccuracy in forecasting could also lead to higher inventory obsolescence.

  The procurement planning process is dependent on the accuracy of sales forecast to ensure adequacy of component supply. Inaccuracy in forecasting could lead to higher inventory obsolescence
- **IT systems** – The Group uses IT systems to operate and control its businesses: any disruption would lead to an adverse impact on the business
- **Political conditions** – The Group's main manufacturing plant is in Mexico and its main market is in North America. Proposed tariffs on goods moving between Mexico and the US could impact the Group. "Brexit" has introduced uncertainty to the level of tariffs on goods moving between the European Union and the UK
- **Succession planning and staff caliber** – The Groups performance is dependent on attracting and retaining high quality of staff
- **Intellectual property** – Theft or violation of intellectual property or third parties taking legal action for infringements will have an adverse impact on the Group
- **Market trend and competition** – The Group must be able to identify customer demands and ensure its product portfolio match their requirements
- **Product development strategy** – The Group needs to ensure it can deliver new products to the market in a timely manner
- **Product recall** – The Group gives a ten year warranty on its Lighting products
- **Foreign exchange** – This is the most significant treasury risk and in times of currency volatility it can have a material impact on the performance of the Group.

The identification of risks and opportunities, the development of action plans to manage the risks and maximise the opportunities, and the continual monitoring of progress against agreed key performance indicators (KPIs) are integral parts of the business process and core activities throughout the Group.

These will continue to be evaluated, monitored and managed through the remainder of 2019.

Directors' responsibilities

The Interim Report complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority in respect of the requirement to produce a half-yearly financial report. The Interim Management Report is the responsibility of, and has been approved by, the directors.

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34;
- the Interim Management Report includes a fair review of the important events during the first six months and description of the principal risks and uncertainties for the remaining six months of the year, as required by DTR 4.2.7R;
- the Interim Management Report includes a fair review of disclosure of related party transactions and changes therein, as required by DTR 4.2.8R; and
- the directors have permitted the auditor to undertake whatever inspections it considers to be appropriate for the purpose of enabling the auditor to conduct its review.

On behalf of the Board

Martin L Rapp

Chief Executive Officer

Fariyal Khanbabi

Group Finance Director

The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS).

International Accounting Standard 34 (IAS 34), defines the minimum content of an interim financial report, including disclosures, and identifies the accounting recognition and measurement principles that should be applied to an interim financial report.

Directors are also required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

About Dialight

Dialight (LSE: DIA.L) is a global leader in sustainable LED lighting for industrial applications. Dialight's LED products are providing the next generation of lighting solutions that deliver reduced energy consumption and create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance and achieving a rapid return on investment.

The company is headquartered in the UK with operations in the USA, UK, Denmark, Germany, Malaysia, Singapore, Australia, Mexico and Brazil.

The web site of the Group is as follows: www.dialight.com

Cautionary statement

This announcement contains certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Dialight plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as 'intends', 'expects', 'anticipated', 'estimates' and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Dialight plc believes that the expectations will prove to be correct. There are a number of factors, many of which are beyond the control of Dialight plc, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements.