Dialight plc
(“Dialight” or “the Group”)

Half year results 2021

Dialight plc (LSE: DIA.L), the global leader in sustainable LED lighting for industrial applications, announces its half year results for the period ended 30 June 2021.

Financial summary	H1 2021 £m	H1 2020 £m
Revenue	**60.2**	55.2
Underlying profit (loss) from operating activities	**1.5**	(5.7)
Profit (loss) from operating activities	**0.8**	(5.5)
Profit (loss) for the period	**0.1**	(3.1)
Statutory EPS – basic	**0.2p**	(9.5)p
Net debt	**(12.0)**	(18.0)

Key points

- Order growth of 23% at constant currency, order book higher
- Revenue growth of 17% at constant currency driven by MRO activity, project activity remains subdued although seeing more quoting activity. Reported revenue growth of 9%
- Returned to underlying operating profit, £1.5m in H1 2021
- New product pipeline strengthening, two launches scheduled for H2 2021
- Ongoing robust operational performance, despite material and logistical constraints
- Net debt at £12.0m, £0.6m higher than 31 December 2020 despite £4.0m inventory build to maintain uninterrupted supply
- H2 2021 has started well with substantial order book
- Expectations for full year currently unchanged

Fariyal Khanbabi, Group Chief Executive, said:

“The first half of 2021 has been encouraging with a significant improvement in order intake, revenue and a return to profit combined with ongoing cash flow discipline. We expect our markets to continue to recover, albeit at varying rates, while acknowledging that there are potential ongoing headwinds including currency, inflation, and supply chain constraints. We have a good pipeline of projects for the second half of the year, but our expectations remain unchanged at this stage.

Longer term, our sales pipeline, ongoing product development, team strengthening, and operational performance mean we are strongly positioned to deliver significant growth as end market conditions normalise. Our customers are increasingly seeking more environmentally friendly products to help meet their net zero commitments and as market leader we are at the forefront of providing their solution.”

Full year results presentation
A pre-recorded video of the interim results 2021 presentation can be found at:
http://ir.dialight.com/reports-presentations-and-results/results-presentation/
The slides of the interim results 2021 presentation can be found at:
http://ir.dialight.com/reports-presentations-and-results/reports-and-presentations/

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About Dialight:
Dialight (LSE: DIA.L) is a global leader in sustainable LED lighting for industrial applications**.** Dialight's LED products are providing the next generation of lighting solutions that deliver reduced energy consumption and create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability, and durability, reducing energy consumption and ongoing maintenance, and achieving a rapid return on investment.
The company is headquartered in the UK, with operations in the USA, UK, Mexico, Malaysia, Singapore, Australia, Germany and Dubai. To find out more about Dialight, visit www.dialight.com.

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

Overview

Dialight's first half performance demonstrates the progress that we have made in building a higher quality technology-based Group. With strong order growth in the first half of the year, the Group remains on track to deliver year on year growth and a return to profitability.

We are pleased to report Group revenue growth of 17% at constant currency which reflects some recovery in our end markets and ongoing reclaiming of market share. The decisive actions that we undertook during 2020 by streamlining our cost base, increasing our liquidity, developing stronger sales and supply chain platforms have benefited us in the year-to-date. This is despite the impact of component shortages, extended lead times and logistical challenges.

Our primary goal is to accelerate growth across our global industrial markets. We believe that the combination of our products, strong ESG credentials, people and culture differentiates us from our peers. We continue to focus on developing new routes to market as well as continuing to lead the market in innovation. Our next generation of technology is heavily focused on the sustainability needs of our customers. Our customers are increasingly seeking more environmentally friendly products to help meet their net zero commitments and as market leader we are at the forefront of providing their solution.

Results

Overall group revenues in H1 2021 were 17% higher than the prior year (at constant currency) and 9% higher at reported currency. Revenue growth reflects some recovery in our end markets, but we also believe it represents ongoing reclaiming of market share. We have seen a significant increase in MRO activity; we are yet to see much of a recovery in capex projects although quoting activity is improving.

We are pleased to report an EBIT of £1.5m for H1 2021 compared to a loss of £5.7m in H1 2020. This was driven by increased revenue and gross margins improving to 35% compared with 2020 where gross margins were 27%. Lighting gross margins rose to 37% in H1 2021 showing strong year on year progress. Our focus on strong cost controls continues.

Total orders in H1 2021 were 23% higher than the prior year on a constant currency basis. Lighting order growth was 15%. The majority of Lighting order growth was generated in our core US market which had an increase of 18% (constant currency basis) compared to the prior period. We have seen various upgrade projects changing from capex to MRO, which means they will be completed over time rather than as a one-time project.

Orders in our EMEA business were 9% ahead on a constant currency basis compared to the prior period. Our APAC region was 3% ahead on a constant currency basis driven by a strong performance in Australia offset by the continued lockdowns in Asia making the first half challenging for this region.

Signals and Components is a high-volume business operating within highly competitive markets. The resurgence of this division that we saw in H2 2020 continued in the first half with order growth of 41% (constant currency). Within this division, opto-electronic component sales have been strongly fuelled by increased demand in the electronics market related to home-working. In addition, demand for Traffic Lighting has continued to be strong. Raw material shortages have impacted conversion of orders to revenue but the division enters the second half with a strong order book.

Our operational performance remains good. Our focus in the first half has centred on managing our supply chains. World-wide shortages of key components such as semiconductors, LEDs and specialist cables have impacted production across the Group. A number of our suppliers have still not fully recovered their own operations from COVID-19 impacts and we are seeing increased delays in shipping from Asia.

We enter the second half with an order book higher than usual due to the supply constraints, but we have been able to maintain on-time delivery at 80%. The supply constraints are not expected to significantly improve this year. To mitigate the impact of on-going challenges of the availability of raw materials coupled with extended lead times, we increased our inventory of critical components by £4.0m (constant currency) during H1 2021. Further actions are underway to reduce underlying stock levels, however, we will continue to maintain above average raw material and finished good safety stocks until shipping and lead times for raw materials return to more normal levels.

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

Our focus on product development remains unchanged. We have two new major product launches in H2 2021, with other developments to follow.

Strategy

Dialight's core strengths centre around our products which have a long history of innovation within the industrial lighting markets. Our products focus on the needs of our customers to enhance safety and reduce energy costs and going forward help customers achieve the critical objective of the transition to net zero carbon.

Dialight products 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 plus 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 growth strategy is focused on three key objectives.

First, to protect and grow within our core heavy and harsh industrial markets which has LED conversion rates still below 10% offering Dialight a significant conversion growth opportunity. Dialight has a leading position within this space which has been enhanced by winning back MRO business and combined with the strength of our highly qualified sales team we will continue to expand our reach within this space.

Second, we believe that sustainability will be a major driver in the conversion to LED and this has accelerated post COVID-19. Our newly formed strategic accounts team is focused on expanding our market reach, leveraging corporate ESG goals and our differentiated products. In the first half the team has made progress in identifying and engaging key accounts in addition to developing new routes to market. This consists of targeting the EPC/engineering firms and electrical contractors. We continue working on strengthening our branding and focusing on vertical market applications.

Third, we continue to lead the market in innovation so we can widen our market leading position. The 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 product. In H2 2021 a number of new products will be launched. By retaining our focus on innovation, we can extend our long-term advantage. The timelines for developing new products, and our ability to quickly react to market requirements will increase our innovation lead in the market as we continue to develop advancements.

Our supply chain remains the single biggest factor in ensuring the Group has market-leading lead-times. We also aim to reduce inventory levels further over the medium term; reduce costs by improving operational efficiency; and develop a more flexible cost structure with more of our costs being variable. This will enable us to flex up or down dependent on demand.

Purpose and sustainability

At Dialight we are passionate about playing our part in building a fairer and more resilient world for generations to come. Underpinning this purpose is the transition to net zero carbon which is both an opportunity and an obligation for Dialight. Our products enable our customers to achieve net zero and we are committed to working with them to achieve their goals.

Dialight itself has committed to being a net zero business by 2040 and have registered our commitment with the Science Based Targets Initiative (SBTi). We have recently completed a verification of our carbon footprint under ISO 14064 and using this as a base, we will work with SBTi to set appropriate interim targets and report them. We have reported under CDP in July and we will report our full year results in accordance with the Task Force on Climate-related Financial Disclosures protocols.

In order to enhance our focus on ESG, we have created an ESG committee headed by the CEO with relevant VP's participating on their subject areas. The committee will monitor all aspects of ESG, evaluate current performance (via feedback from CPD and EcoVadis ratings), manage improvement and awareness programs internally and externally. This will include management of the SBTi targets process and setting the internal targets needed to achieve this and monitoring progress against those targets.

The committee will also focus on full life cycle impact of products via the output from our Environmental Product Declarations (EPD's) that are currently being prepared for all major product lines. These will then be used to review the impact of material choices on the whole life emissions related to products including the end-of life disposal impacts in order to guide R&D strategy.

We intend to publish our inaugural ESG Report in H2 2021 which will encompass the output from our 2020 base year carbon footprint plus an update on other Environmental initiatives together with our current progress on Social and Governance matters.

Full year guidance for 2021 and longer term

The first half of 2021 has been encouraging with a significant improvement in order intake, revenue and a return to profit combined with ongoing cash flow discipline. We expect our markets to continue to recover at varying rates, while acknowledging that there are potential headwinds including currency, inflation, and supply chain constraints. We have made good progress in the first half with order intake ahead of revenue and a good pipeline of projects for the second half of the year. Our expectations remain unchanged at this stage.

Longer term the sales pipeline, product development, team strengthening, and operational actions will help ensure we are strongly positioned to sustain significant growth as end market conditions normalise. We are also seeing the increasing requirement of our customers for more environmentally friendly products that help them to meet their net zero commitments and as market leader we are at the forefront of supporting this.

FINANCIAL REVIEW

The financial performance of the Group improved significantly in the first half of 2021 with significant revenue growth and a return to profitability. Operating cashflow of £5.1m was generated which enabled us to fund £4.0m of additional inventory needed to combat material shortages. Net debt was similar to 31 December 2020 and, as planned, we repaid £2.0m of the additional COVID related funding that we secured in 2020.

Currency impact

Dialight reports its results in Sterling. Our major trading currency is the US Dollar, which in H1 2021 comprised 83% of the Group's revenue. The average rate for GBP to USD moved significantly from 1.26 in H1 2020 to 1.39 in H1 2021. As a result, we are presenting revenue movements on a constant currency and actual currency basis to show the business performance without the impact of FX movements.

Group results

Group revenues of £60.2m in H1 2021 were 17% higher than the prior year (at constant currency) and 9% higher at reported currency. Gross margin of 35% benefitted from the non-recurrence of costs associated with factory closures and significant disruption to production in Q2 2020. The combination of increased revenue and improved margins enabled the Group to achieve an underlying profit for H1 2021 of £1.5m.

Underlying EBIT bridge	£m (unaudited)
Underlying EBIT loss H1 2020	(5.7)
Revenue increase impact	2.4
Gross margin improvement	4.9
Change in SG&A costs	(0.1)
Underlying EBIT H1 2021	**1.5**

There were legal related non-underlying costs of £0.7m which resulted in a statutory EBIT profit of £0.8m compared to an EBIT loss of £5.5m in 2020. Financial expenses were higher than prior year at £0.7m (H1 2020: £0.5m) following the additional funding taken out last year (see note 9) resulting in a profit before tax of £0.1m (H1 2020 loss of £6.0m).

Lighting segment

Lighting	H1 2021 £m	H1 2020* £m	Variance %	H1-20 at constant currency £m	Constant currency variance %
Revenue	**40.8**	39.6	+3.0%	37.1	+10.0%
Gross profit	**15.1**	11.3	+33.6%	10.6	+42.5%
Gross profit %	**37.0%**	28.5%	+850bps	28.6%	+840bps
Overheads	**(12.8)**	(14.2)	+9.9%	(13.3)	+3.7%
Underlying EBIT	**2.3**	(2.9)	+179%	(2.7)	+185%

* 2020 numbers have been re-stated following the disposal of Dialight Brazil in the prior period

The Lighting segment represented 68% of the Group's revenue, and consists of two main revenue streams, large retrofit projects and on-going Maintenance, Repair and Operations (MRO) spend. In the last 18 months the challenge has been the lack of project-based revenue as well as Europe and Asia remaining weak given the on-going lockdowns.

Overall revenue grew by 10% on a constant currency basis with the split between MRO remaining at 80% and capex projects at 20%. Gross margins improved to 37%, an increase of 840 bps on 2020. The main reasons for the improvement in margins are that in H1 2021 there were no factory closures (unlike H1 2020), there was an increase in production volumes resulting in better fixed overhead absorption and the benefit from cost saving programmes that were initiated in 2020.

Operating costs were £1.4m lower than prior period mainly due to lower travel costs and the benefit from headcount reductions in H2 2020.

This resulted in an underlying EBIT profit of £2.3m compared to a loss of £2.9m in 2020.

Signals and Components

Signals and Components	H1 2021 £m	H1 2020 £m	Variance %	H1-20 at constant currency £m	Constant currency variance %
Revenue	**19.4**	15.6	+24.4%	14.2	+36.6%
Gross profit	**6.1**	3.8	+60.5%	3.3	+84.8%
Gross profit %	**31.4%**	24.4%	+700bps	23.2%	+820bps
Overheads	**(3.8)**	(3.8)	-	(3.5)	+8.6%
Underlying EBIT	**2.3**	-	-	(0.2)	+1250%

The strong order growth within this division resulted in revenue increasing by 37% (at constant currency) and by 24% at reported currency. Opto-electronic component sales have been very strong due to a higher level of home-working plus more demand from medical device manufacturers. Sales of traffic lighting has also continued to be strong. Raw material shortages have impacted conversion of orders to revenue but the division enters the second half with a strong order book.

There was a significant recovery in gross margin as it increased by 700bps from H1 2020. The main drivers were the non-repeat of factory closure costs and production volumes increases resulting in better absorption of fixed production costs. Overheads were flat year on year.

The improved revenue and gross margin resulted in an underlying EBIT of £2.3m compared to break-even in H1 2020.

Central overheads

Central overheads comprise of costs not directly attributable to a segment and therefore not allocated to these segments. In H1 2021 they were £3.1m, an increase of £0.3m on the prior period. The key increases were in salaries as a result of COVID-19 related salary reductions ceasing.

Inventory

We increased our inventory of critical components by £4.0m (constant currency) during H1 2021 in order to mitigate the impact of on-going challenges of the availability of raw materials coupled with extended lead times.

Further actions are underway to reduce underlying stock levels, however, we will continue to maintain above average raw material and finished good safety stocks until lead times on both availability and shipping times for raw materials return to more normal levels.

Cash and borrowings

The Group ended H1 2021 with net debt of £12.0m, a small increase of £0.6m from December 2020. Net debt excludes lease liabilities related to the adoption of IFRS 16 Leases, as these are excluded for covenant testing purposes. Gross bank debt was £15.0m offset by cash in hand of £3.0m (see note 9 for further details on bank borrowings).

The roll forward of net debt was as follows:

Net Debt	£m
Opening balance 01 January 2021	**(11.4)**
Underlying EBITDA *	**4.5**
Inventory Increase	**(4.0)**
Net working capital excluding inventory	**2.7**
Investment in R&D	**(1.6)**
Maintenance capex/other	**(0.9)**
Non underlying cost (see note 3)	**(0.7)**
Interest paid	**(0.7)**
FX	**0.1**
Closing balance at 30 June 2021	**(12.0)**

*EBITDA profit comprises underlying EBIT of £1.5m with depreciation of property, plant, and equipment of £1.5m and amortisation of £1.5m added back

The Group generated positive EBITDA of £4.5m in the period and working capital (excluding inventory) was well controlled with a £0.8m reduction in receivables and a £1.9m increase in payables, caused by improved supplier payment terms and the impact from increased raw material purchases. To date, customers have continued to pay on-time and we incurred no bad debt. We invested £1.6m in R&D during H1 2021 partly related to two product launches scheduled for the second half and £0.3m in maintenance capex.

Banking

The Group's financing arrangements consist of a revolving credit facility with HSBC of £25m which matures in February 2023 and has an option for a two-year extension and a £10m facility with HSBC maturing June 2023 which comprises £8m under the COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan. The Group has repaid £2m of the £10m facility during the half year in accordance with the terms of the loan. Borrowings under the CLBILS scheme cannot be re-borrowed so the total borrowing facilities of the Group are now £33m. The remaining £8m will be repaid in equal instalments over the next 24 months.

The Group's banking covenants are tested quarterly and the Group was fully compliant with its banking covenant during the period. The covenant tests will revert to a leverage and interest cover basis from September 2021 and the Group expects to be compliant with these at year-end.

Tax

There is no tax charge in the current period. The tax credit in the prior period of £2.9m comprised a tax credit of £1.6m (based on the H1 loss before tax of £6.0m in the half year and an expected full year tax rate of 26%) plus a £1.3m one-off tax credit in the USA (from the ability to carry back losses at a higher tax rate under a COVID-19 related stimulus package under the Cares Act). For the full year 2021, we expect a Group effective tax rate of 25%.

Non-underlying costs

Costs of £0.7m were incurred in the period in relation to the ongoing litigation with Sanmina. A further announcement will be made as and when appropriate.

Capital management and dividend

The Board's policy is to maintain a strong capital base to maintain customer, investor, and creditor confidence and to sustain future development of the business. The Board considers consolidated total equity as capital and at 30 June 2021, this equated to £56.8m (H1 2020: £69.4m). The Board is not declaring an interim dividend payment for 2021 (2020: nil).

Fariyal Khanbabi, Group Chief Executive

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the period ended 30 June 2021

	Note	6 months ended 30 June 2021 (unaudited) Total £'m	6 months ended 30 June 2020 (unaudited restated) Total £'m	12 months ended 31 December 2020 (audited) Total £'m
Revenue	2	**60.2**	55.2	119.0
Cost of sales		**(39.0)**	(40.1)	(85.0)
Gross profit		**21.2**	15.1	34.0
Distribution costs		**(10.2)**	(11.0)	(20.8)
Administrative expenses		**(10.2)**	(9.6)	(22.0)
Profit (loss) from operating activities	2	**0.8**	(5.5)	(8.8)
Underlying profit (loss) from operating activities		**1.5**	(5.7)	(6.4)
Non underlying items	3	**(0.7)**	0.2	(2.4)
Profit (loss) from operating activities		**0.8**	(5.5)	(8.8)
Financial expense	4	**(0.7)**	(0.5)	(1.3)
Profit (loss) before tax		**0.1**	(6.0)	(10.1)
Income tax credit	5	**-**	2.9	2.3
Profit (loss) for the period		**0.1**	(3.1)	(7.8)
Profit (loss) for the period attributable to:				
Equity owners of the Company		**-**	(3.1)	(7.9)
Non-controlling Interests		**0.1**	-	0.1
Profit (loss) for the period		**0.1**	(3.1)	(7.8)
Earnings per share				
Profit (loss) per share basic and diluted	6	**0.2p**	(9.5)p	(24.0)p

H1 2020 has been restated following the disposal of Dialight Brazil in 2020.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2021

	6 months ended 30 June 2021 (unaudited) £'m	6 months ended 30 June 2020 (unaudited) £'m	12 months ended 31 December 2020 (audited) £'m
Other comprehensive (expense) income			
Exchange difference on translation of foreign operations	(0.8)	4.9	(1.8)
Income tax on exchange differences on transactions of foreign operations	**-**	(0.4)	(0.3)
	(0.8)	4.5	(2.1)
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of defined benefit pension liability	**-**	-	(1.3)
Income tax on remeasurement of defined benefit liability	**-**	-	0.3
	-	-	(1.0)
Other comprehensive (expense) income for the period, net of tax	**(0.8)**	4.5	(3.1)
Profit (loss) for the period	**0.1**	(3.1)	(7.8)
Total comprehensive (expense) income for the period	**(0.7)**	1.4	(10.9)
Attributable to:			
- Owners of the parent	**(0.8)**	1.4	(11.0)
- Non-controlling interest	**0.1**	-	0.1
Total comprehensive (expense) income for the period	**(0.7)**	1.4	(10.9)

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 2021 and 30 June 2020 (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 2021	0.6	0.5	9.3	2.2	44.3	**56.9**	0.4	**57.3**
Profit for the period					-	**-**	0.1	**0.1**
Other comprehensive expense:								
Foreign currency translation differences, net of taxes	-	-	(0.8)	-	-	**(0.8)**	-	**(0.8)**
Remeasurement of defined benefit liability, net of taxes	-	-	-	-	-	**-**	-	**-**
Total other comprehensive expense	-	-	(0.8)	-		**(0.8)**	-	**(0.8)**
Total comprehensive (expense) income for the period	-	-	(0.8)	-	-	**(0.8)**	0.1	**(0.7)**
Transactions with owners, recorded directly in equity:								
Share-based payments	-	-	-	-	0.2	**0.2**	-	**0.2**
Total transactions with owners	-	-	-	-	0.2	**0.2**	-	**0.2**
Balance at 30 June 2021	0.6	0.5	8.5	2.2	44.5	**56.3**	0.5	**56.8**

	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 2020	0.6	0.5	11.6	2.2	52.6	**67.5**	0.3	**67.8**
Loss for the period	-	-	-	-	(3.1)	**(3.1)**	-	**(3.1)**
Other comprehensive income:								
Foreign currency translation differences, net of taxes	-	-	4.5	-	-	**4.5**	-	**4.5**
Total other comprehensive income	-	-	4.5	-		**4.5**	-	**4.5**
Total comprehensive income (expense) for the period	-	-	4.5	-	(3.1)	**1.4**	-	**1.4**
Transactions with owners, recorded directly in equity:								
Share–based payments, net of tax	-	-	-	-	0.2	**0.2**	-	**0.2**
Total contributions by and distributions to owners	-	-	-	-	-	**-**	-	**-**
Balance at 30 June 2020	0.6	0.5	16.1	2.2	49.7	**69.1**	0.3	**69.4**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020 (audited)

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

CONDENSED CONSOLIDATED STATEMENT OF TOTAL FINANCIAL POSITION

As at 30 June 2021

	Note	**30 June 2021 (unaudited) £'m**	30 June 2020 (unaudited) £'m	31 December 2020 (audited) £'m
Assets				
Property, plant, and equipment		**11.5**	15.6	12.8
Right of use assets		**9.3**	11.8	9.8
Intangible assets		**21.0**	24.0	21.2
Deferred tax assets		**2.2**	1.7	1.4
Employee Benefits		**1.1**	2.4	1.1
Other Receivables		**4.6**	4.8	5.0
Total non-current assets		**49.7**	60.3	51.3
Inventories	8	**36.0**	41.5	32.5
Trade and other receivables		**19.3**	21.4	19.9
Income tax recoverable		**1.0**	3.6	1.0
Cash and cash equivalents		**3.0**	15.8	5.3
Total current assets		**59.3**	82.3	58.7
Total assets		**109.0**	142.6	110.0
Liabilities				
Trade and other payables		**(23.2)**	(23.9)	(21.5)
Provisions		**(1.1)**	(1.0)	(1.5)
Tax liabilities		**(1.4)**	(0.8)	(1.5)
Lease liabilities		**(1.8)**	(1.6)	(1.4)
Borrowings	9	**(8.0)**	-	(4.0)
Total current liabilities		**(35.5)**	(27.3)	(29.9)
Provisions		**(1.2)**	(1.6)	(1.2)
Borrowings	9	**(7.0)**	(33.8)	(12.7)
Lease liabilities		**(8.5)**	(10.5)	(8.9)
Total non-current liabilities		**(16.7)**	(45.9)	(22.8)
Total liabilities		**(52.2)**	(73.2)	(52.7)
Net assets		**56.8**	69.4	57.3
Equity				
Issued share capital		**0.6**	0.6	0.6
Merger reserve		**0.5**	0.5	0.5
Other reserves		**10.7**	18.3	11.5
Retained earnings		**44.5**	49.7	44.3
		56.3	69.1	56.9
Non-controlling interests		**0.5**	0.3	0.4
Total equity		**56.8**	69.4	57.3

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2021

	6 months ended 30 June 2021 (unaudited) £'m	6 months ended 30 June 2020 (unaudited) £'m	12 months ended 31 December 2020 (audited) £'m
Operating activities			
Profit (loss) for the period	**0.1**	(3.1)	(7.8)
Adjustments for:			
Financial expense	**0.7**	0.5	1.3
Income tax credit	**-**	(2.9)	(2.3)
Share–based payments	**0.2**	0.2	0.4
Depreciation of property, plant, and equipment	**1.5**	1.7	3.1
Depreciation of right of use assets	**1.1**	1.0	2.0
Amortisation of intangible assets	**1.5**	1.0	3.0
Impairment losses on intangible assets	**-**	-	0.3
Loss on disposal of business	**-**	-	1.1
Operating cash flow before movements in working capital	**5.1**	(1.6)	1.1
(Increase) decrease in inventories	**(4.0)**	7.0	12.6
Decrease in trade and other receivables	**0.8**	4.5	2.7
Increase (decrease) in trade and other payables	**1.9**	(6.3)	(6.3)
(Decrease) increase in provisions	**(0.4)**	0.4	0.5
Pension contributions in excess of the income statement charge	**(0.2)**	(0.1)	(0.1)
Cash generated by operations	**3.2**	3.9	10.5
Income taxes (paid) received	**(0.2)**	(0.2)	2.9
Interest paid	**(0.7)**	(0.5)	(1.3)
Net cash generated by operations	**2.3**	3.2	12.1
Capital expenditure	**(0.3)**	(0.4)	(0.8)
Capitalised expenditure on development costs	**(1.6)**	(2.2)	(3.4)
Purchase of software and licenses	**-**	-	(0.3)
Net cash used in investing activities	**(1.9)**	(2.6)	(4.5)
Financing activities			
Drawdown of bank facility	**0.4**	15.8	10.0
Repayment of bank facility	**(2.0)**	-	(10.3)
Repayment of lease liabilities	**(1.2)**	(1.0)	(1.7)
Net cash (outflow) generated from financing activities	**(2.8)**	14.8	(2.0)
Net (decrease) increase in cash and cash equivalents	**(2.4)**	15.4	5.6
Cash and cash equivalents at beginning of period	**5.3**	0.5	0.5
Effect of exchange rates	**0.1**	(0.1)	(0.8)
Cash and cash equivalents at end of period	**3.0**	15.8	5.3

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

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2021 (unaudited)

1. Basis of preparation and principal accounting policies

Dialight plc (the Company) provide sustainable, energy efficient and intelligent LED lighting technologies driving towards a net zero economy. Its primary market is North America, with smaller operations in EMEA and the rest of the world.

The Company is listed on the London Stock Exchange and is incorporated and domiciled in England and Wales under registration number 2486024. Its registered office is at Leaf C, Level 36, Tower 42, 25 Old Broad Street, London EC2N 1HQ.

This condensed consolidated interim financial information was approved for issue on 1st August 2021 and has not been audited.

Statement of compliance

This condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34), as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the financial statements for the 12-month period ended 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, as adopted by the European Union.

This condensed consolidated interim financial information for the period ended 30 June 2021, and the comparative information in relation to the period ended 30 June 2020, do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the 12-month period ended 31 December 2020 were approved by the Board of Directors on 29 March 2021 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498 of the Companies Act 2006.

Going concern

In adopting the going concern basis for preparing the financial information, the Directors have considered the issues impacting the Group during the period as detailed in the business review and have reviewed the Group's projected compliance with its banking covenants.

The uncertainty as to the future impact on the financial performance and cashflows of the Group because of the ongoing COVID-19 pandemic has been considered as part of adopting the going concern basis in the preparation of the consolidated financial information. In particular, the Directors have considered the Group's banking facilities and have prepared various scenarios incorporating the continuing impact of COVID-19 based disruptions as set out below.

The Group has a five-year unsecured £25m multi-currency revolving credit facility, of which £7m was drawn at 30 June 2021, £6.4m in CLBILS and a £1.6m term loan (further details are included in note 9). As part of the facility, the original banking covenants of net debt to EBITDA ratio and interest cover have been replaced by a new test based on exceeding a 12-month rolling EBITDA level that was derived from a COVID-impacted business plan as agreed with HSBC, for the testing periods of June 2020 to June 2021 inclusive. The Group was fully compliant with its revised banking covenant as at 30 June 2021.

Based on the Group's cashflow forecasts and operating budgets, and assuming that trading does not deteriorate considerably from current levels, the directors believe that the Group will generate sufficient cash to meet its

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

requirements for at least 12 months from the date of approval of the interim financial information and will comply with all its banking covenants. Accordingly, the adoption of the going concern basis remains appropriate for the reasons stated below.

Sensitivity analysis

In assessing going concern, the Directors have prepared various scenarios using the latest Group forecast for 2021 that incorporate the continuing impact of COVID-19 based disruptions. These include impact from government restrictions on our operations in countries where we operate, the potential time period for these disruptions, the timescale to recover from them, challenges on raw material availability and increased freight costs and delays. The scenario modelling also includes the mitigating actions that can be taken to reduce the impact on the Group from these risks, as well as the potential for a negative outcome from ongoing litigation.

In the base case scenario, consistent with current trading patterns, our factories which have all been granted "essential business" status will remain in operation, albeit with reduced capacity in accordance with current local guidelines.

In a severe but plausible downside scenario, the Directors have assumed a renewed adverse impact from the on-going global pandemic along with continued challenges in raw material availability and continued high input prices. In particular, the scenario assumes that the revenue recovery seen to date is replaced by a revenue decline and that expected reductions in material and freight costs do not materialise.

In both scenarios, the Group has concluded mitigating actions can be put in place swiftly, including various temporary and permanent cost and cash reductions. Under both scenarios, the Directors consider that the Group will continue to operate within its available committed facilities with sufficient headroom and meet its financial covenant obligations.

Taxation

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to total expected annual earnings.

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 2020.

There are no new or amended standards or interpretations that became effective in the period from 1 January 2021 which have had a material impact upon the values or disclosures in the interim financial information. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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 applicable to the consolidated financial statements as at and for the year ended 31 December 2020.

2. Operating segments

The Group comprises two reportable operating segments. These segments are based on 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 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.

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

6 months ended 30 June 2021 (unaudited)	Note	Lighting £'m	Signals and Components £'m	Total £'m
Revenue		40.8	19.4	60.2
Gross profit		15.1	6.1	21.2
Overhead costs		(12.8)	(3.8)	(16.6)
Segment operating profit		2.3	2.3	4.6
Unallocated overhead				(3.1)
Underlying operating profit				1.5
Non-underlying items	3			(0.7)
Profit from operating activities				0.8
Financial expense	4			(0.7)
Profit before tax				0.1
Income tax				-
Profit for the period				0.1
Other segmental data				
Depreciation of property, plant and equipment		1.0	0.5	1.5
Depreciation of right of use asset		0.7	0.4	1.1
Amortisation		1.0	0.5	1.5

Dialight

2. Operating segments (continued)

Reporting segments

6 months ended 30 June 2020 (unaudited, restated)	Note	Lighting £'m	Signals and Components £'m	Total £'m
Revenue		39.6	15.6	55.2
Gross profit		11.3	3.8	15.1
Overhead costs		(14.2)	(3.8)	(18.0)
Segment operating loss		(2.9)	-	(2.9)
Unallocated overhead				(2.8)
Underlying operating loss				(5.7)
Non-underlying items	3			0.2
Loss from operating activities				(5.5)
Financial expense	4			(0.5)
Loss before tax				(6.0)
Income tax credit				2.9
Loss for the period				(3.1)

Other segmental data

Depreciation of property, plant, and equipment	1.2	0.5	1.7
Depreciation of right of use asset	0.7	0.3	1.0
Amortisation	0.9	0.1	1.0

Year ended 31 December 2020 (audited)	Note	Lighting £'m	Signals and Components £'m	Total £'m
Revenue		81.7	37.3	119.0
Gross profit		23.7	10.3	34.0
Overhead costs		(26.8)	(7.7)	(34.5)
Segment operating (loss) / profit		(3.1)	2.6	(0.5)
Unallocated overhead				(5.9)
Underlying operating loss				(6.4)
Non-underlying items	3			(2.4)
Loss from operating activities				(8.8)
Financial expense	4			(1.3)
Loss before tax				(10.1)
Income tax credit				2.3
Loss for the period				(7.8)

2. Operating segments (continued)

Other segmental data	Lighting £'m	Signals and Components £'m	Total £'m
Depreciation of property, plant, and equipment	2.1	1.0	3.1
Depreciation of right of use asset	1.4	0.6	2.0
Amortisation	2.1	0.9	3.0
Impairment of intangible assets	0.3	-	0.3

Geographical segments

The Lighting and Signals & Components segments are managed on a worldwide basis but operate in three principal geographic areas: North America, EMEA and Rest of World. The following table provides an analysis of 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 2021 £'m (unaudited)	6 months ended 30 June 2020 £'m (unaudited restated)	12 months ended 31 December 2020 £'m (audited)
North America	**44.9**	41.1	89.8
EMEA	**4.8**	4.9	9.9
Rest of World	**10.5**	9.2	19.3
Revenue	**60.2**	55.2	119.0

3. Non-underlying items

The Group incurs cost and earns income that is non-recurring in nature or that, in the Director's judgement, need to be separately disclosed in order for users of the consolidated financial statements 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.

	6 months ended 30 June 2021 £'m (unaudited)	6 months ended 30 June 2020 £'m (unaudited, restated)	12 months ended 31 December 2020 £'m (audited)
Non-underlying items			
Redundancy costs	**-**	-	0.9
(Profit) loss on disposal of subsidiary	**-**	(0.2)	0.8
Litigation costs	**0.7**	-	0.7
Non-underlying costs recorded in administrative expenses	**0.7**	(0.2)	2.4

Litigation costs of £0.7m relates to legal fees for potential claims for and against the Group.

The loss on disposal in 2020 relates to Dialight Brazil. The year to date profit of £0.2m at 30 June 2020 has been restated to be in non-underlying items as the business was sold in H2-20 and a loss on sale of £0.8m recognised in the full year results.

4. Financial expense

	6 months ended 30 June 2021 £'m (unaudited)	6 months ended 30 June 2020 £'m (unaudited)	12 months ended 31 December 2020 £'m (audited)
Interest expense on lease liabilities	0.3	0.3	0.6
Interest expense on financial liabilities	0.4	0.2	0.6
Net interest on defined benefit pension liability	-	-	0.1
Financial expense	0.7	0.5	1.3

5. Income tax expense

There is no tax charge in the current period as taxable profits are de minimis. The Group has an effective tax rate of 25% resulting from the USA (tax rate 24%) contributing the majority of Group profit, with the remaining profit coming from countries with an average tax rate of 28%

6. Earnings per share (EPS)

The calculation of basic EPS at 30 June 2021 was based on a profit for the period of £0.1m (2020: loss of £(3.1)m) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2021 of 32,598,135 (2020: 32,548,429).

Weighted average number of ordinary shares

	6 months ended 30 June 2021 '000	6 months ended 30 June 2020 '000	12 months ended 31 December 2020 '000
Weighted average number of shares	32,598	32,548	32,555
Dilutive effect of share options	298	-	-
Diluted weighted average number of shares	32,896	32,548	32,555

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

	6 months ended 30 June 2021 Per share (unaudited)	6 months ended 30 June 2020 Per share (unaudited)	12 months ended 31 December 2020 Per share (audited)
Basic and diluted profit (loss) per share	0.2p	(9.5)p	(24.0)p
Underlying basic and diluted profit (loss) per share*	1.8p	(9.5)p	(18.4)p

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

7. Dividends

There were no dividends declared or paid in the six months ended 30 June 2021. The Directors have not declared an interim dividend for 2021 (2020: nil).

8. Inventories

	6 months ended 30 June 2021 £'m (unaudited)	6 months ended 30 June 2020 £'m (unaudited)	12 months ended 31 December 2020 £'m (audited)
Raw materials and consumables	**16.9**	16.2	13.5
Work in progress	**7.3**	10.7	6.1
Finished goods	**11.5**	14.2	12.6
Spare parts	**0.3**	0.4	0.3
Total	**36.0**	41.5	32.5

Inventories to the value of £25.8m (30 June 2020: £26.4m) were recognised as expenses in the period. The inventory reserve at the balance sheet date was £2.3m, which represents 6.1% of inventory (31 December 2020 7.0%).

The increase in inventory during the period was driven by a decision to increase the holdings of raw materials given current world-wide shortages of certain products and delays in shipping. We had substantially completed orders at 30 June 2021 valued at £2.5m which were awaiting delayed final components to complete them. We also had £0.7m of pre-purchased components for the new Floodlight product that will be launched in Q3. A number of our suppliers have still not fully recovered their own operations from COVID-19 impacts and we are seeing lengthening lead times for some raw materials, which are compounded by increased delays to shipping from Asia. Our finished goods inventory reduced by £1.1m in the period as the MRO (Maintenance, Repair and Operations) sales remained strong and we focused on selling available product lines.

9. Borrowings

The Group's financing arrangements consisted of a revolving credit facility with HSBC of £25m which matures in February 2023 and has an option for two extensions of one year each, with the approval of the bank. In order to ensure the availability of sufficient liquidity, the Group increased its banking facility with HSBC on 15 June 2020 by adding a further £10m facility on a 3-year basis by utilising a combination of £8m under COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m term loan. The remaining facility fees of £0.2m are amortised over the tenure of the facility until February 2023.

The £10m loan is currently being repaid in equal instalments over 3 years, which started on the 15th January 2021. The £2.0m facility repayment in the period relates solely to this loan.

	6 months ended 30 June 2021 £'m (unaudited)	6 months ended 30 June 2020 £'m (unaudited)	12 months ended 31 December 2020 £'m (audited)
Borrowings at the beginning of the period	**16.7**	17.0	17.0
Facility drawdown	**0.4**	15.8	10.0
Facility repayment	**(2.0)**	-	(10.3)
Impact of revaluing USD borrowings	**(0.1)**	1.0	-
Borrowings at the end of the period	**15.0**	33.8	16.7

10. Principal exchange rates

	6 months ended 30 June 2021	6 months ended 30 June 2020	12 months ended 31 December 2020
Average for the period			
US Dollar	**1.39**	1.26	1.28
Canadian Dollar	**1.73**	1.72	1.72
Euro	**1.15**	1.14	1.12
Mexican Peso	**28.00**	27.22	27.51

	30 June 2021	30 June 2020	31 December 2020
Spot rate			
US Dollar	**1.38**	1.23	1.36
Canadian Dollar	**1.71**	1.68	1.74
Euro	**1.16**	1.10	1.11
Mexican Peso	**27.47**	28.44	27.14

11. Contingencies

As previously reported, we have sought to reach a negotiated conclusion of various outstanding matters following the termination of the manufacturing services agreement with our former outsource manufacturer, Sanmina Corporation. On 20th December 2019, both parties issued legal proceedings against the other. The parties are therefore in formal litigation, with no conclusion expected before 2022 at the earliest. The basis of the claim filed by Sanmina Corporation relates to outstanding invoices and to residual inventory, which they allege that they purchased for Dialight. The claim filed by Dialight is more complex in nature and relates to significant costs and losses suffered as a direct consequence of Sanmina Corporation not performing in accordance with the terms of the manufacturing services agreement. The Group has sought external legal advice and is paying for the legal costs as and when it occurs. As at 30 June 2021, the Group has not made any provision for future legal costs.

The Group remains confident of the merits of our legal position, however in the unlikely event that Sanmina's claim is successful, the range of outcomes could be a cost of £0 – £8m, including legal fees.

The claim filed by Dialight alleges that Dialight suffered significant costs and losses with total damages exceeding £190m suffered as a result of: (a) Sanmina's fraudulent inducement of Dialight to enter into a manufacturing services agreement (MSA); (b) Sanmina breaching the terms of the MSA in a 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.

During 2011, the Roxboro UK Pension Fund (the "Scheme") was closed to future accrual. This Scheme is included within pension asset. As part of the negotiations regarding closure, the Company agreed to grant a parent company guarantee in respect of all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally and in any capacity whatsoever) of Dialight Europe Limited, the principal employer, to make payments in the Scheme up to a maximum amount equal to the entire aggregate liability, on the date on which any liability under the guarantee arises, of every employer (within the meaning set out in Section 318 of the Pensions Act 2004 and regulations made thereunder) in relation to the Scheme, were a debt

11. Contingencies (continued)

under Section 75(2) of the Pensions Act 1995 to have become due on that date. No provision has been made in relation to this contingency.

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

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

12. Related party transactions

There have been no changes in the nature of related party transactions from those described in the 2020 Annual Report that could have a material effect on the financial position or performance of the Group in the period to 30 June 2021.

13. Principal and emerging risks

The principal risks and uncertainties affecting the business activities of the Group for the next six months of 2021 remain as listed on pages 38 to 40 of the Annual Report for the year ended 31st December 2020 (which can be found at www.dialight.com).

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

- **Organic growth -** Growth of the business has stagnated over the past few years driven by the impact of outsourcing production (reduced supply) and also the COVID-19 impact on demand. If this continues, we will see further erosion of shareholder value. Growth needs to be stimulated by having compelling technologies that hasten the adoption of LED by utilising our products.
- **Environmental and geological** - The Group's main manufacturing centre is in Mexico and its main market is North America. Any impediment to raw materials getting into Mexico or restrictions on finished goods entering North America related to natural disasters could have a large impact on profitability. Disruption to global markets and transport systems arising from geological, biological, economic and/or political events may impact the Group's ability to operate and the demand for its products.
- **Funding** - The Group has a net debt position and there is a risk related to liquidity. The Group has not paid a dividend since 2015. The Group reports in Sterling; however, the majority of its revenues and its cost base are in US Dollars. Fluctuations in exchange rates between Sterling and US Dollar could cause profit and balance sheet volatility.
- **Production capacity and supply chain** - Disruption to production capacity due to impact of bio-hazards or supply chain disruption. Disruption to supply chain from border friction, tariffs or impacts on logistics related to biohazards.

13. Principal and emerging risks (continued)

- **Cyber and data systems** – Disruption to business systems would have an adverse impact on the Group. The Group also needs to ensure the protection and integrity of its data. With significantly more employees working from home, there is greater risk of systems being compromised as well as significant reliance on platforms such as Zoom and Microsoft Teams in order to operate the business.
- **Product development strategy** – Inability to translate market requirements into profitable products. Failure to deliver technologically advanced products and to react to disruptive technologies.
- **Product risk** – The Group gives a ten-year warranty on Lighting products which are installed in a variety of high-risk environments. Risks could arise in relation to product failure and harm to individuals and damage to property.
- **Talent and diversity** - The Group performance is dependent on attracting and retaining high-quality staff across all functions.
- **Intellectual property** – Theft or violation of intellectual property by third parties or third parties taking legal action for IPR infringement.

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 2021.

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.

On behalf of the Board

Fariyal Khanbabi

Chief Executive Officer

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 jurisdiction.