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

Unaudited half year results 2023

Challenging first half, full year below prior expectations
Transformational plan to deliver significantly improved performance over medium term

Dialight plc (LSE: DIA.L), a global leader in sustainable LED lighting for industrial applications, announces its half year results for the period ended 30 June 2023.

Financial summary	H1 2023 £m	H1 2022 £m
Revenue	**73.2**	80.8
Underlying (loss)/profit from operating activities	**(2.5)**	3.1
(Loss)/profit from operating activities	**(2.8)**	2.3
(Loss)/profit for the period	**(3.1)**	1.2
Statutory EPS – basic and diluted	**(9.6p)**	3.7p
Net debt – pre-IFRS 16	**(22.7)**	(20.2)

Key points and outlook

- At constant currency Group orders down 12%, with Lighting 6% lower than H1 2022 as a result of weak capex orders, Signals & Components 25% lower
- Group revenue 13% lower than the prior year (9% at reported currency), largely driven by the cyclical downturn in Signals & Components
- Gross margin fell to 29.6%, as a result of continued elevated component costs together with lower overhead absorption (2022: 34.9%). The Group had an operating loss of £2.5m in the first half
- Net debt at 30 June 2023 of £22.7m, driven by the loss in the period, compared to £20.9m at year-end 2022
- Current trading and the full year outlook are below our prior expectations. However, the Board expects an improved second half trading performance when compared to the first half and the prior year period driven by a solid order book in the seasonally strongest period, lower component costs coming through and cost savings. Expected to deliver progress in 2024.

Strategic and operational review

- The Board, led by new Chair Neil Johnson, has undertaken a detailed review of the Group’s operations and strategy
- Concluded that the Group has significant opportunities within its core LED Lighting market, with the potential to deliver increased growth and materially improved profitability
- Transformation plan to be initiated in H2 2023, focused on:
  - Streamlining the Group to focus on core LED Lighting business
  - Resetting and realigning the Group’s cost base; and
  - Accelerating growth in key lighting markets

Fariyal Khanbabi, Group Chief Executive, said:

“It has been a pleasure working with the new Board to create our transformation plan, which we believe will make Dialight a more focused, leaner organisation that is better able to capitalise on the opportunities presented by

structural growth trends in the industrial LED lighting market. Combined with a reduced cost base and investment in improved manufacturing productivity, this should enable the Group to achieve higher underlying profitability over the medium term. With the Group's markets remaining challenging the Board is focused on driving execution of the transformation plan, with initial restructuring actions to be taken in the second half of 2023."

CERTAIN INFORMATION CONTAINED IN THIS ANNOUNCEMENT WOULD HAVE CONSTITUTED INSIDE INFORMATION (AS DEFINED BY ARTICLE 7 OF REGULATION (EU) NO 596/2014), AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUROPEAN UNION (WITHDRAWAL) ACT 2018) ("MAR") PRIOR TO ITS RELEASE AS PART OF THIS ANNOUNCEMENT AND IS DISCLOSED IN ACCORDANCE WITH THE COMPANY'S OBLIGATIONS UNDER ARTICLE 17 OF THOSE REGULATIONS.

Contacts:

Dialight plc
Tel: +44 (0)203 058 3542
Neil Johnson – Chairman
Fariyal Khanbabi - Group Chief Executive

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 the main operations in the USA, UK, Mexico, Malaysia and Singapore, Australia. 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's 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 are 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.

Chairman Overview

I took over as Chair in May post the AGM. The time since it has been a busy period with the newly formed Board having reviewed our strategy and visited our sites in Mexico, our largest manufacturing plants. I have also met with all of the senior team and visited our US sites in Farmingdale and Roxboro. The new Board has significant experience that will be invaluable in supporting the executive team.

Our observations are that Dialight has many positive attributes including great core products in lighting and good engineering capabilities. However, the key part of our transformation plan is to simplify the Group. This will include possible divestments, investment in manufacturing efficiency through greater automation and strengthening the team. The executive team has built plans based on this requirement, which the Board has reviewed and agreed this. We expect that over the medium term this will create substantial profit growth and shareholder value.

CEO review

Overall Group revenues were 9% lower than the prior year (13% constant currency). The main driver of the reduction was lower revenue in Signals & Components, particularly from the Components and Vehicle segments, as well as to a lesser extent softer Lighting demand. The lower Group gross margins of 30% (decrease from 35%) were largely due to component cost inflation, especially as higher priced inventory, purchased in 2022, was worked through, and reduced fixed overhead absorption. We continued our strong focus on cost control, lowering Selling, General and Administrative costs by £0.9m. This resulted in an underlying operating loss of £2.5m compared to £3.1m profit in H1 2022.

We continued to see inflated component prices despite improvements in component availability. We are renegotiating future pricing with key suppliers, with progress here, and have focused our engineering team on product cost reductions that will take effect in the second half and into 2024. Some of this inflation has been offset by the price increases we implemented in the second half of 2022.

Lighting represented c.75% of first half revenues. Lighting orders fell 1% (constant currency 6% decrease) due to lower capex orders. The most significant growth was from EMEA, where orders were up 43% (constant currency 36% increase) versus H1 2022. This was driven from a low base by a key strategic customer within the region. Our core US market saw orders up 1%, (constant currency 4% decrease) with continued growth in our MRO business offset by lower capex orders. Australia grew by 3% (constant currency 2% decrease) whilst Asia had a very disappointing performance but with limited impact on the Group given its relative size.

We continue to develop our strategic accounts team who are working closely with our field sales team. The majority of our large US customers, or potential ones, require a preferred supplier agreement to be in place with their corporate team before any sale is made at the plant level. We have signed a number of key agreements in the first half of the year building on the track record of recent years. We are confident that this will benefit us over the longer term.

Signals & Components is a high-volume business operating within highly competitive markets. 2022 benefitted from an exceptionally high opening order book that helped the strong performance of this division in H1 2022, but H2 2022 saw a significant downturn in the key Component segment and as expected this has continued into 2023. We expect conditions to improve modestly as we go into 2024.

Operations and supply chain management continue to be a priority for the Group. The Group has continued to be focused on maintaining security of supply to our customers, which has impacted on our short-term financial performance. This decision reflects the hard work in recent years to recover our market reputation and share post the problems with our former outsourced manufacturing partner. We have been able to maintain on time delivery of over 90% for all product lines, which we believe is industry leading, especially in the lighting market.

Inventory levels were reduced by £4.6m as the number of component shortages reduced towards the end of the period, lead times improved, and the level of finished goods inventory was reduced from the December high. In constant currency, the reduction was £2.2m as most inventory is denominated in US Dollars.

We continue to invest in new and improved product development with £1.9m spent in H1. The main areas of investment were into new battery backup systems (launched in July), a new high output floodlight (to be launched in H2), power supply improvements and product development that will result in significant cost reductions across several product families and production processes as part of our transformation plan.

Market conditions

The challenging end market conditions experienced at the end of 2022 have continued into 2023 making predicting the timing of larger capex orders difficult. Despite the challenging conditions we continued to grow our sales pipeline, with new business opportunities having at least 50% likelihood (by our definition) growing by 37% since December. All regions have grown, with the key US market up 25%.

The Group continues to be successful in expanding its customer base into a wider range of process industries including aerospace, electric vehicles, and food & beverage, with several large contracts awarded in H1 and further contracts expected in H2 and beyond. Facilities in these markets can be very significant in scale and often have demanding operational requirements which lend themselves to Dialight's highly engineered product range.

The Group's natural resource markets in oil & gas and mining are showing continued solid demand and account for 54% of H1 Lighting revenue (2022: 40%). Mining customers are benefitting from the demand for Lithium and Nickel in battery production.

Transformation Plan

With the support of the new Board, we have developed a comprehensive transformation plan for Dialight, which is designed to address legacy issues associated with excess cost and complexity within the organisation, whilst at the same time focusing more resources on the most attractive growth opportunities within the core LED lighting market. The transformation plan has the potential to increase growth and profitability materially in the medium term, delivered through numerous initiatives, structured around three key objectives:

1. To streamline the Group;
2. To reset the business' cost and productivity profile; and
3. To accelerate growth in key lighting product and market niches

This plan represents the biggest project that Dialight has undertaken in recent years, but we believe it has the potential to unlock significant value for the business and all its stakeholders. Specifically, we are confident that in delivering the plan we can create a business with over £180m in sales, post non-core divestments, gross margins of over 40% and underlying operating margins that are consistently higher than 10%. To deliver the plan, and its benefits, will require relentless focus on execution and will absorb cash short term against a challenging market backdrop but the plan is crucial to delivering the financial returns we know the Group is capable of.

Identified solutions to legacy challenges

Whilst the Group's proprietary technology and commercial strategy have enabled us to establish leading positions in a number of attractive LED lighting markets and supported high levels of growth over recent years, profitability and cash generation have been poor. The new Board's review of the Group's strategy and operations this year has identified several underlying factors which it believes have contributed to disappointing performance:

- Fragmented organisation, comprising five distinct businesses;
- Disparate manufacturing footprint, with low levels of automation;

- Product range which is too broad and complex; and
- Ageing product portfolio in certain areas.

To address each of these challenges, the Group needs to be both simplified and more focused. In particular, the following steps need to be taken to create a better performing organisation:

- Review of the Group's businesses, with any deemed non-core to be exited;
- Consolidate manufacturing operations and invest in increased automation at key sites;
- Realign the cost base to be- fit a more streamlined business;
- Reduce the product range and increase standardisation; and
- Narrow and consolidate supply chains.

Increasing focus

Dialight's core strengths centre around our products and a long history of innovation within the industrial lighting market. Our fixtures meet the needs of our customers to enhance safety, reduce energy and maintenance costs and critically, help them achieve their corporate objectives of being carbon net zero. Our products also provide the best cost of ownership to industrial customers, with attractive paybacks based on energy savings and maintenance cost avoidance.

LED Lighting for industrial applications is the Group's largest business, representing over 65% of revenues in 2022. It is where the majority of our resources are focused. Alongside LED Lighting, the Group has four smaller businesses focused on niches within the wider lighting market: Components (16% Group revenues in 2022); Traffic (7% of Group revenues); Vehicle (6% of Group revenues); and Obstruction (5% of Group revenues). Whilst each of these businesses has attractive facets within their respective niche markets, the Board does not believe that all of them have the potential to generate returns over the long term that are accretive to the LED Lighting business. In part this is reflective of the scale and outlook of the markets involved, but also considers the investment required in product development as well as resources required from a manufacturing perspective. The Board has initiated a review of the Group's portfolio. However, the timing and terms of any potential divestment are uncertain.

Reducing cost

Dialight today has four principal manufacturing sites across Mexico, the US and Malaysia. This footprint helps to support the international nature of our customer base, but also gives rise to inefficiency at both a site and network level. Reducing complexity in our product range and site network will be part of streamlining the business.

We also see the potential for significant productivity and cost benefits to be realised through increasing the automation of our manufacturing processes. Today, many of our manufacturing processes are excessively labour intensive, which has resulted in rapid cost escalation in the last 18 months as wage inflation has accelerated. Against this backdrop, automation represents a significant improvement opportunity with labour reductions of >70% on some process lines possible. Whilst this would require an increase in capital investment, automation alone has the potential to deliver annual cost savings to the Group of over £3m.

Accelerating growth

At >$10bn, the industrial LED lighting market continues to be very attractive, with the conversion from historic technologies and increasing focus on safety and sustainability supporting long term structural growth. Our historic focus on the harsh and hazardous segment has helped achieve a market leading position in the US, with excellent customer and distributor relationships. This has been enhanced by the strategic account initiative which has greatly improved penetration of large-scale customers and led to a significant increase in higher value orders. Alongside this, we have also made very encouraging progress in winning new business in the Food & Beverage sector, which represents an incremental market of $1bn for Dialight.

Alongside the growth in LED Lighting demand, we are also seeing a rapid evolution in technology as customers seek ever-increasing levels of productivity and efficiency from their sites. The integration of monitoring, safety and productivity features within our lighting fixtures represents an immediate opportunity to enhance our products and over the longer term we see the potential for the lighting networks within buildings to play a key role in industrial connectivity. We believe our key areas of product differentiation, technology expertise, open architecture and excellent customer relationships make us well placed to be a leader in this technological evolution.

To capitalise on this opportunity, we are expanding our commercial strategy in two ways. Firstly, we see scope to further monetise our specific technology expertise through selling component elements of this, for example, power supply topology, as separate products into markets where we do not operate. Secondly, we will focus additional resources into developing fixture products with integrated monitoring or control components for specified higher value customer applications. Taken together, we think that the potential for these new products could generate sales of >£10m in the medium term.

Sanmina litigation

As previously disclosed, Dialight is involved in ongoing litigation with Sanmina Corporation, following the termination in September 2018 of the manufacturing services agreement (MSA). The Federal court ruled on 14th March 2023 that the strength of evidence on our claim of fraudulent inducement, together with various claims and counterclaims relating to accounts receivable and accounts payable, is sufficient that the dispute should be resolved by jury trial, pending any appeal process. Sanmina subsequently filed a motion of reconsideration seeking the reversal of the judge's denial of summary adjudication of Sanmina's accounts receivable claim but the Court has yet to release its ruling. The March ruling confirms that Dialight can challenge the contractual liability cap in the MSA based on Sanmina's fraudulent inducement and Dialight intends to rigorously pursue this claim, and the various other contract-based claims, to trial. We will continue to update as appropriate.

Purpose and sustainability

Sustainability continues to be the bedrock of the business influencing product design, material choices and the way we operate the business. Our revenue is categorised as 100% green revenue by FTSE Russell as it is 100% LED based. The level of Co2 emissions that our customers will avoid increases by c. 2m tonnes from Lighting sales every year.

We have used the analysis derived from our carbon foot printing over the past three years to submit our Net Zero plan to the Science Based Target initiative (SBTi) in June this year. This reiterates our target date of 2040. The plan will be reviewed by SBTi during the second half of this year and the verified plan will be published in 2024. The plan is predominantly based around global decarbonisation of the grid as we estimate that 94% of our emissions are linked to electricity usage upstream in materials production, in our operations and downstream in customer usage of our fixtures.

Safety continues to be a priority, not just for our people but also for our customers who use our products in harsh and hazardous locations. We had a single recordable incident in one of our four operating facilities in the first half and continue to investigate any occurrences, as well as any near misses.

It has been three years since the launch of the Dialight Foundation and a huge amount has been achieved over that time with the support of our employees. The Dialight Foundation has specific focus areas of women's rights and educational support for children. We continue to enhance the communities we live in by supporting local initiatives such as school uniforms and back-to-school supplies for the children of our employees. In addition, the Foundation has a hardship fund which can be accessed by staff facing unforeseen expenses primarily related to family healthcare issues.

Dialight is committed to always conducting its business in an ethical and responsible manner, and in full compliance with all applicable laws and regulations. In addition to our supply chain rating of silver from EcoVadis, our Ensenada

facility was audited by the Responsible Business Alliance in the first half. This was a broad-ranging assessment of labour practices, health and safety and procurement ethics and the facility received a silver rating.

In support of our growth strategy to promote conversion to LED, we have taken part in industry influencing social media events over the past few years. With products that do not contain mercury and are up to five times more efficient than legacy products, matched with a business approach of integrity and fair treatment of people, sustainability is the heart of the business.

Change of year end and presentational currency during 2024

Dialight's December year-end coincides with our busiest trading quarter, with a significant number of short-notice orders placed for immediate delivery, especially in the final month. Uncertainty over the extent and timing of these orders creates difficulty in managing and forecasting the business. We therefore are reviewing whether to change our year-end to March, so finishing the year with our quietest quarter.

The Group presents its financial results in Pounds sterling, for historic reasons, although most of our revenues and costs, along with our financing, are denominated in US dollars. Movements in foreign exchange rates can result in major translational differences in our reported results. As such, we also intend to assess whether changing our presentational currency to US dollars would be more appropriate during 2024.

Full year guidance for 2023

Current trading and the full year outlook are below our prior expectations. However, the Board expects an improved second half trading performance when compared to the first half and the prior year period driven by a solid order book in the seasonally strongest period, lower inventory costs coming through and cost savings. Expected to deliver progress in 2024.

FINANCIAL REVIEW

Lower revenue, especially in Signals & Components, combined with margin pressures due to elevated component pricing and labour inflation led to a £5.6m decrease in underlying operating profit on the prior year to a loss of £2.5m. Component costs continued to impact margin as we utilised components forward ordered in 2022 at elevated prices that we have been unable to fully pass on. We are starting to see the benefits from lower pricing coming through, albeit slowly, and this should benefit in the second half. Freight costs are coming down as we increased the minimum order values for free shipping and are consolidating shipments to improve efficiency. However, the minimum wage increased by 20% from 1 January in Mexico, where the majority of our manufacturing team are based, which has acted as a headwind and highlights the necessity to increase automation. Selling, General and Administrative costs fell by £0.9m due to cost reduction programmes, despite inflation, and H2 will see further actions to right size the cost base.

Net debt increased by £1.8m to £22.7m with increased interest costs and payables being partially offset with lower inventory, and favourable movements in the US dollar exchange rate. At June, the Group had access to £3.7m in undrawn facilities.

Currency impact

Dialight reports its results in Pounds sterling. Our major trading currency is the US Dollar, which in H1 2023 comprised 86% of the Group's revenue. The average rate for GBP to USD moved from 1.30 in H1 2022 to 1.23 in H1 2023, with the closing rate increasing from 1.21 to 1.27. We have therefore presented the results on a constant currency and actual currency basis to show business performance without the impact of FX movements.

Lighting segment

Lighting	H1 2023 £m	H1 2022 £m	Variance %	H1-22 at constant currency £m	Constant currency variance %
Revenue	**55.2**	57.1	(3.3%)	59.5	(7.2%)
Gross profit	**17.6**	20.1	(12.4%)	21.1	(16.6%)
Gross profit %	**31.9%**	35.2%	(330bps)	35.5%	(360bps)
Overheads	**(16.7)**	(16.2)	(3.1%)	(17.0)	1.8%
Underlying EBIT	**0.9**	3.9	(76.9%)	4.1	(78.0%)

Lighting represents 75% of the Group's revenue, and consists of two main revenue streams, large capex projects and on-going Maintenance, Repair and Operations (MRO) spend. The segment saw a weaker than expected H1 with customers continuing to exercise tight controls over spending.

US revenues declined by 9% (at constant currency) with market share gains in the MRO market helping to reduce the impact from weakness in the overall market we believe and particularly the lack of larger capex spend. Continued inflationary pressures, economic uncertainty and shortages of key skills are resulting in projects being delayed but we are not seeing projects being cancelled. Additionally, H1 2022 benefited from a strong opening order book for the US whereas the opening 2023 position was c. 70% lower, as previously highlighted. The US order book has grown during H1 and at the end of June was over double December. This should support an improved second half. EMEA had a better performance while Asia and Australia had weaker performances.

Gross margins came under pressure from significant component price increases on raw materials purchased or committed to last year that were consumed in the period. Labour costs increased due to the minimum wage increase in Mexico.

Operating costs were £0.5m higher than in the prior period due to inflation, higher amortisation of new product development costs and the impact from foreign exchange rates (with most costs incurred in USD) being offset by lower sales commissions.

This resulted in an underlying EBIT of £0.9m compared to an EBIT of £3.9m in 2022.

Signals & Components

Signals & Components	H1 2023 £m	H1 2022 £m	Variance %	H1-22 at constant currency £m	Constant currency variance %
Revenue	**18.0**	23.7	(24.1%)	25.0	(28.0%)
Gross profit	**4.1**	8.1	(49.4%)	8.6	(52.3%)
Gross profit %	**22.8%**	34.2%	(1,140bps)	34.4%	(1,160bps)
Overheads	**(3.9)**	(4.5)	13.3%	(4.7)	17.0%
Underlying EBIT	**0.2**	3.6	(94.4%)	3.9	(94.9%)

Signals & Components is a high-volume business operating within highly competitive markets.

The previously highlighted cyclical downturn in the key Component segment resulted in revenue decreasing by 24% (28% constant currency).

This resulted in gross margin at 22.8%, significantly below the 34.2% seen last year, due to the revenue decline, mainly in higher margin products, increased material and labour costs, and lower absorption of fixed production costs that were only partially offset by price increases. Overheads were reduced by £0.6m to £3.9m.

Unallocated costs

Unallocated costs comprise costs not directly attributable to a segment. In H1 2023 they were £3.6m, a decrease of £0.8m on the prior period. The key reductions were lower foreign exchange translational losses and employee variable pay, partially offset by higher professional fees (mainly audit fees and recruitment).

Non-underlying costs

Non-underlying costs	2023 £m	2022 £m
Sanmina costs	**0.2**	0.8
Other litigation costs	**0.1**	-
Total	**0.3**	0.8

Costs of £0.2m were incurred in the period in relation to the ongoing litigation with Sanmina Corporation, following the termination in September 2018 of the manufacturing services agreement (MSA). Further details are provided in note 11.

Cash and borrowings

The Group ended H1 2023 with net debt of £22.7m, an increase of £1.8m from December 2022. Net debt excludes liabilities related to the adoption of IFRS 16 Leases, as these are excluded for covenant testing purposes. The roll forward of net debt was as follows:

Net Debt	£m
Opening balance 01 January 2023	**(20.9)**
Underlying EBITDA *	1.4
Inventory decrease	2.2
Net working capital excluding inventory	(1.4)
Provisions & other movements	(0.2)
Investment in R&D	(1.9)
Maintenance capex/other	(0.7)
Interest & tax paid	(1.7)
Foreign exchange	0.5
Closing balance at 30 June 2023	**(22.7)**

*EBITDA comprises underlying operating loss of £2.5m with depreciation of property, plant, and equipment of £1.6m and amortisation of £2.3m added back

The main factors behind the movement in net debt were:

- Reduction in inventory with raw materials used in production, lower work in progress and the benefit from changes in FX rates on US dollar denominated inventory
- Reduction in trade payables following payment for components purchased in Q4 2022, offset by improved collection of trade receivables
- Continued investment into new product development plus maintenance capex on factory equipment and IT
- Higher interest costs following increases in both base rates in the UK and US, along with a higher level of gross debt
- The translation of US dollar denominated borrowing back into Sterling has reduced debt by £0.5m due to movements in the GBP: USD exchange rate exchange (from 1.21 to 1.27).

Gross bank debt was £23.2m offset by cash in hand of £0.5m (see note 9 for further details on bank borrowings). The interest expense of £1.4m is analysed in note 4 and will increase in H2 following base rate increases. This is prior to the fundraising.

Banking and covenants

The Group's financing comprises a $34m revolving credit facility (RCF) with HSBC (which matures in July 2025 and has an option for two one-year extensions). In accordance with the Group's strong ESG commitment, the RCF facility is a sustainability linked loan. The Group has sufficient liquidity, but headroom has reduced in the period. As expected, the Group has fully repaid its £10m COVID-19 Large Business Interruption Loan Scheme (CLBILS) facility, with £2m repaid since December.

The Group's banking covenants are tested quarterly, and the Group was fully compliant with its banking covenants during the period. The Group has a strong relationship with its primary bank, HSBC, with whom it maintains regular dialogue. Given the current volatility in market conditions, the Group has engaged with HSBC to secure additional covenant flexibility to support in the near term.

* For more information regarding going concern covenants please refer to note 1

Tax

The tax credit of £1.1m for the period to 30 June 2023 reflects the anticipated effective tax rate of 25.0% for the period ending 31 December 2023. Non-underlying items have been taxed using the relevant tax rates. The effective tax rate reflects the current UK tax rate being increased to 25.0% and a US effective tax rate of 24.0%, with the remaining profit coming from countries with an average tax rate of 28%.

Capital management and dividend

The Board's policy is to have 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, which at 30 June 2023 equated to £62.4m (2022: £69.5m). The Board is not declaring an interim dividend payment for 2023 (2022: nil). The Group has a clear capital allocation discipline and is committed to returning excess funds to shareholders via future dividend or share repurchase.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the period ended 30 June 2023

	Note	**6 months ended 30 June 2023 (unaudited)**	6 months ended 30 June 2022 (unaudited)	12 months ended 31 December 2022 (audited)
		Total £'m	Total £'m	Total £'m
Revenue	2	**73.2**	80.8	169.7
Cost of sales		**(51.5)**	(52.6)	(115.1)
Gross profit		**21.7**	28.2	54.6
Distribution costs		**(12.5)**	(12.6)	(25.5)
Administrative expenses		**(12.0)**	(13.3)	(26.8)
(Loss)/profit from operating activities	2	**(2.8)**	2.3	2.3
Underlying (loss)/profit from operating activities		**(2.5)**	3.1	5.0
Non underlying items	3	**(0.3)**	(0.8)	(2.7)
(Loss)/profit from operating activities		**(2.8)**	2.3	2.3
Financial expense	4	**(1.4)**	(0.7)	(1.8)
(Loss)/profit before tax		**(4.2)**	1.6	0.5
Income tax credit/(charge)	5	**1.1**	(0.4)	(0.1)
(Loss)/profit for the period		**(3.1)**	1.2	0.4
(Loss)/profit for the period attributable to:				
Equity owners of the Company		**(3.0)**	1.2	0.4
Non-controlling Interests		**(0.1)**	-	-
(Loss)/ profit for the period		**(3.1)**	1.2	0.4
Earnings per share				
(Loss)/profit per share - basic and diluted	6	**(9.6)p**	3.7p	1.2p

The accompanying notes on pages 19 to 30 form an integral part of these interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2023

	6 months ended 30 June 2023 (unaudited) £'m	6 months ended 30 June 2022 (unaudited) £'m	12 months ended 31 December 2022 (audited) £'m
Other comprehensive (expense)/income			
Exchange difference on translation of foreign operations	(3.6)	7.9	8.1
Income tax on exchange differences on transactions of foreign operations	-	-	(0.6)
	(3.6)	7.9	7.5
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of defined benefit pension liability	-	-	0.3
Income tax on remeasurement of defined benefit liability	-	-	(0.1)
	-	-	0.2
Other comprehensive (expense)/income for the period, net of tax	**(3.6)**	7.9	7.7
(Loss)/profit for the period	**(3.1)**	1.2	0.4
Total comprehensive (expense)/income for the period	**(6.7)**	9.1	8.1
Attributable to:			
- Owners of the parent	**(6.7)**	9.1	8.1
- Non-controlling interests	-	-	-
Total comprehensive (expense)/income for the period	**(6.7)**	9.1	8.1

The accompanying notes on pages 19 to 30 form an integral part of these interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2023 (unaudited)

	Share capital	Merger reserve	Translation reserve	Capital redemption reserve	Share premium	Own Shares	Retained earnings	**Total**	Non-controlling interests	**Total Equity**
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	**£'m**	£'m	**£'m**
Balance at 1 January 2023	0.6	0.5	17.5	2.2	1.0	(0.8)	47.5	**68.5**	0.2	**68.7**
Loss for the year	-	-	-	-	-	-	(3.1)	**(3.1)**	-	**(3.1)**
Other comprehensive income:										
Foreign exchange translation differences, net of taxes	-	-	(3.6)	-	-	-	-	**(3.6)**	-	**(3.6)**
Total other comprehensive expense	-	-	(3.6)	-	-	-	(3.1)	**(6.7)**	-	**(6.7)**
Total comprehensive expense for the year	-	-	(3.6)	-	-	-	(3.1)	**(6.7)**	-	**(6.7)**
Transactions with owners, recorded directly in equity:										
Share-based payments	-	-	-	-	-	-	0.3	**0.3**	-	**0.3**
Own shares released from EBOT and used for share-based payments	-	-	-	-	-	0.1	-	**0.1**	-	**0.1**
Total transactions with owners	-	-	-	-	-	0.1	0.3	**0.4**	-	**0.4**
Balance at 30 June 2023	0.6	0.5	13.9	2.2	1.0	(0.7)	44.7	**62.2**	0.2	**62.4**

The accompanying notes on pages 19 to 30 form an integral part of these interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2022 (unaudited)

	Share capital £'m	Merger reserve £'m	Translation reserve £'m	Capital redemption reserve £'m	Share premium £'m	Own Shares £'m	Retained earnings £'m	**Total £'m**	Non-controlling interests £'m	**Total Equity £'m**
Balance at 1 January 2022	0.6	0.5	10.0	2.2	-	(0.7)	47.0	**59.6**	0.6	**60.2**
Profit for the period	-	-	-	-	-	-	1.2	**1.2**	-	**1.2**
Other comprehensive income:										
Foreign currency translation differences, net of taxes	-	-	7.9	-	-	-	-	**7.9**	-	**7.9**
Total other comprehensive income	-	-	7.9	-	-	-	1.2	**9.1**	-	**9.1**
Total comprehensive income for the period	-	-	7.9	-	-	-	1.2	**9.1**	-	**9.1**
Transactions with owners, recorded directly in equity:										
Share-based payments	-	-	-	-	-	-	0.3	**0.3**	-	**0.3**
Issue of own shares	-	-	-	-	-	0.2	(0.2)	**-**	-	**-**
Repurchase of own shares	-	-	-	-	-	(0.1)	-	**(0.1)**	-	**(0.1)**
Minority interest purchase (note 13)*	-	-	-	-	1.0	-	(0.6)	**0.4**	(0.4)	**-**
Total transactions with owners	-	-	-	-	1.0	0.1	(0.5)	**0.6**	(0.4)	**0.2**
Balance at 30 June 2022	0.6	0.5	17.9	2.2	1.0	(0.6)	47.7	**69.3**	0.2	**69.5**

*Prior year change in presentation.

The accompanying notes on pages 19 to 30 form an integral part of these interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022 (audited)

	Share capital	Merger reserve	Translation reserve	Capital redemption reserve	Share premium	Own Shares	Retained earnings	**Total**	Non-controlling interests	**Total Equity**
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	**£'m**	£'m	**£'m**
Balance at 1 January 2022	0.6	0.5	10.0	2.2	-	(0.7)	47.0	**59.6**	0.6	**60.2**
Profit for the year	-	-	-	-	-	-	0.4	**0.4**	-	**0.4**
Other comprehensive income:										
Foreign exchange translation differences, net of taxes	-	-	7.5	-	-	-	-	**7.5**	-	**7.5**
Remeasurement of defined benefit pension liability, net of taxes	-	-	-	-	-	-	0.2	**0.2**	-	**0.2**
Total other comprehensive income	-	-	7.5	-	-	-	0.2	**7.7**	-	**7.7**
Total comprehensive income for the year	-	-	7.5	-	-	-	0.6	**8.1**	-	**8.1**
Transactions with owners, recorded directly in equity:										
Share-based payments	-	-	-	-	-	-	0.5	**0.5**	-	**0.5**
Re-purchase of own shares	-	-	-	-	-	(0.1)	-	**(0.1)**	-	**(0.1)**
Minority interest purchase (Note 13)	-	-	-	-	1.0	-	(0.6)	**0.4**	(0.4)	**-**
Total transactions with owners	-	-	-	-	1.0	(0.1)	(0.1)	**0.8**	(0.4)	**0.4**
Balance at 31 December 2022	0.6	0.5	17.5	2.2	1.0	(0.8)	47.5	**68.5**	0.2	**68.7**

The accompanying notes on pages 19 to 30 form an integral part of these interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF TOTAL FINANCIAL POSITION

As at 30 June 2023

	Note	30 June 2023 (unaudited) £'m	30 June 2022 (unaudited) £'m	31 December 2022 (audited) £'m
Assets				
Property, plant, and equipment		**12.3**	13.7	13.9
Right of use assets		**8.8**	11.1	10.5
Intangible assets		**20.2**	23.1	21.4
Deferred tax assets		**3.3**	1.6	2.4
Employee benefits		**4.7**	3.8	4.5
Other receivables		**5.5**	5.3	5.6
Total non-current assets		**54.8**	58.6	58.3
Inventories	8	**49.0**	50.0	53.6
Trade and other receivables		**25.9**	27.8	30.2
Income tax recoverable		**0.3**	1.2	0.6
Cash and cash equivalents		**0.5**	2.3	1.7
Total current assets		**75.7**	81.3	86.1
Total assets		**130.5**	139.9	144.4
Liabilities				
Trade and other payables		**(31.5)**	(32.7)	(37.3)
Provisions		**(0.6)**	(0.8)	(0.6)
Tax liabilities		**(1.6)**	(1.2)	(2.3)
Lease liabilities		**(1.7)**	(1.2)	(1.2)
Borrowings	9	**-**	(4.0)	(2.0)
Total current liabilities		**(35.4)**	(39.9)	(43.4)
Provisions		**(1.4)**	(1.3)	(1.6)
Borrowings	9	**(23.2)**	(18.5)	(20.6)
Lease liabilities		**(8.1)**	(10.7)	(10.1)
Total non-current liabilities		**(32.7)**	(30.5)	(32.3)
Total liabilities		**(68.1)**	(70.4)	(75.7)
Net assets		**62.4**	69.5	68.7
Equity				
Issued share capital		**0.6**	0.6	0.6
Merger reserve		**0.5**	0.5	0.5
Share premium		**1.0**	1.0	1.0
Other reserves		**15.4**	19.5	18.9
Retained earnings		**44.7**	47.7	47.5
		62.2	69.3	68.5
Non-controlling interests		**0.2**	0.2	0.2
Total equity		**62.4**	69.5	68.7

The accompanying notes on pages 19 to 30 form an integral part of these interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2023

	6 months ended 30 June 2023 (unaudited) £'m	6 months ended 30 June 2022 (unaudited) £'m	12 months ended 31 December 2022 (audited) £'m
Operating activities			
(Loss)/profit for the period	**(3.1)**	1.2	0.4
Adjustments for:			
Financial expense	**1.4**	0.7	1.8
Income tax (credit)/expense	**(1.1)**	0.4	0.1
Share–based payments	**0.3**	0.3	0.5
Depreciation of property, plant, and equipment	**1.6**	1.5	2.9
Depreciation of right of use assets	**1.0**	0.9	1.8
Amortisation of intangible assets	**2.3**	1.9	4.4
Impairment losses on intangible assets	**-**	-	1.3
Operating cash flow before movements in working capital	**2.4**	6.9	13.2
Decrease (increase) in inventories	**2.2**	(3.1)	(6.7)
Decrease (increase) in trade and other receivables	**3.0**	0.8	(1.1)
(Decrease) increase in trade and other payables	**(4.4)**	(2.9)	1.3
(Decrease) increase in provisions	**(0.2)**	0.2	0.3
Pension contributions in excess of the income statement charge	**(0.1)**	(0.2)	(0.4)
Cash generated by operations	**2.9**	1.7	6.6
Income taxes paid	**(0.3)**	(0.5)	(0.8)
Interest paid[2]	**(1.4)**	(0.7)	(1.8)
Net cash generated by operations	**1.2**	0.5	4.0
Capital expenditure	**(0.7)**	(1.8)	(3.4)
Capitalised expenditure on development costs and other intangible assets	**(1.9)**	(1.7)	(3.6)
Purchase of software and licenses	**-**	-	(0.2)
Purchase of 12.5% of Dialight Australia	**-**	-	(0.1)
Net cash used in investing activities	**(2.6)**	(3.5)	(7.3)
Financing activities			
Drawdown of bank facility	**3.6**	8.2	8.5
Repayment of bank facility	**(2.0)**	(4.0)	(4.0)
Re-purchase of own shares	**-**	(0.1)	(0.1)
Repayment of lease liabilities[1]	**(1.2)**	(1.0)	(1.7)
Net cash generated from financing activities	**0.4**	3.1	2.2
Net (decrease) / increase in cash and cash equivalents	**(1.0)**	0.1	(1.1)
Cash and cash equivalents at beginning of period	**1.7**	1.2	1.2
Effect of exchange rates	**(0.2)**	1.0	1.6
Cash and cash equivalents at end of period	**0.5**	2.3	1.7

The Group has classified:

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

The accompanying notes on pages 19 to 30 form an integral part of these interim financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2023 (unaudited)

1. Basis of preparation and principal accounting policies

Dialight plc (the Company) provides 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 17th September 2023 and has not been audited.

Statement of compliance

This condensed consolidated interim financial information for the six months ended 30 June 2023 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with UK-adopted International Accounting Standard 34 'Interim Financial Reporting' (IAS 34). The condensed consolidated interim financial information should be read in conjunction with the financial statements for the 12-month period ended 31 December 2022, which have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006

This condensed consolidated interim financial information for the period ended 30 June 2023, and the comparative information in relation to the period ended 30 June 2022, 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 2022 were approved by the Board of Directors on 2 April 2023 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

The consolidated financial information is prepared on a going concern basis which the Directors believe to be appropriate for the reasons stated below.

The market conditions faced by the Group in H1 2023 are considered to be short-term in nature, with signs that trading conditions will improve in H2 and will see the benefits from price increases and lower raw material costs coming through. These improvements, together with the actions that management is taking in relation to right-sizing its cost base and reducing product costs, are expected to deliver improved profitability over H2 2023 and beyond. The Group enters H2 2023 with a solid order book and a strong pipeline of projects that are expected to lead to further orders providing cover for the second half.

The Group's financing arrangements consist of a USD $34m revolving credit facility (RCF) with HSBC (which matures in July 2025 and contains options for two one-year extensions). In accordance with the Group's strong ESG commitment, the RCF facility is a sustainability linked loan.

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

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

Sensitivity analysis

In assessing going concern, the Directors have prepared scenarios using the Board approved Group forecast for 2023 and management expectations for 2024. The base case scenario incorporates the latest trends on revenue, costs, and margins; market expectations that demand for OE products will improve from Q4; ongoing benefits from previous price rises; additional H2 price rises in Signals & Components; benefits from H2 cost reduction programmes (including product changes); existing order backlog; and the expected conversion rates for the improved pipeline of potential orders.

In a plausible downside scenario, the Directors have assumed that the expected growth in revenue from market conditions returning to normal for both OE and delayed capex projects occurs but that margins remain under pressure from inflation, and we see lower benefits from product cost reductions and factory efficiency improvements. The scenario modelling also includes the potential for a negative outcome from the ongoing Sanmina litigation (see note 11).

Under a plausible downside scenario, the Group has forecasted a potential breach of its Interest Cover covenant, which gives rise to a material uncertainty, and which may cast significant doubt on the entity's ability to continue as a going concern, meaning it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management has proactively engaged in a series of discussions with its lender to seek flexibility in its covenants in the short term. Encouragingly, the indications from these advanced discussions suggest support to provide such flexibility. However, as of the date of publication of this interim financial information, formal agreements regarding the covenant flexibility have not been finalised.

In light of the aforementioned matters, the Board of Directors has diligently considered the going concern basis in preparing this interim financial information. While acknowledging the outstanding formalisation of covenant flexibility arrangements and resulting material uncertainty, the directors have concluded that, given the positive indications from the lender, it remains appropriate to continue to adopt the going concern basis in the preparation of this interim financial information.

The directors will closely monitor the situation, provide updates as necessary, and, if required, take additional measures to ensure the entity's ability to continue as a going concern

Taxation

Taxes on income in the interim periods are accrued using the effective 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 2022.

During the period the Group has adopted the following new and revised standards and interpretations which have had no impact on these condensed consolidated financial statements:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment to IAS 12);
- Accounting Policies, Changes in Accounting Estimates and Errors: definition (Amendments to IAS 8);
- Amendments to IAS1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements.

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 2022.

2. Operating segments

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

The two reportable operating segments are:

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

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

All revenue relates to the sale of goods. Segment gross profit is revenue less the costs of materials, labour, production, and freight that are directly attributable to a segment. Overheads comprise operations management, selling costs plus the unallocated corporate costs, which includes share-based payments.

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

6 months ended 30 June 2023 (unaudited)	Lighting	Signals & Components	Unallocated	Total
	£'m	£'m	£'m	£'m
Revenue	55.2	18.0	-	73.2
Gross profit	17.6	4.1	-	21.7
Overhead costs	(16.7)	(3.9)	(3.6)	(24.2)
Underlying profit/(loss) from operating activities	0.9	0.2	(3.6)	(2.5)
Non-underlying items	(0.3)	-	-	(0.3)
Profit/(loss) from operating activities	0.6	0.2	(3.6)	(2.8)
Financial expense				(1.4)
Loss before tax				(4.2)
Taxation				1.1
Loss after tax				(3.1)

Other segmental data				
Depreciation of property, plant, and equipment	1.2	0.4	-	1.6
Depreciation of right of use asset	0.8	0.2	-	1.0
Amortisation	2.3	-	-	2.3

2. Operating segments (continued)

6 months ended 30 June 2022 (unaudited)	Lighting	Signals & Components	Unallocated	Total
	£'m	£'m	£'m	£'m
Revenue	57.1	23.7	-	80.8
Gross profit	20.1	8.1	-	28.2
Overhead costs	(16.2)	(4.5)	(4.4)	(25.1)
Underlying profit/(loss) from operating activities	3.9	3.6	(4.4)	3.1
Non-underlying items	(0.8)	-	-	(0.8)
Profit/(loss) from operating activities	3.1	3.6	(4.4)	2.3
Financial expense				(0.7)
Profit before tax				1.6
Taxation				(0.4)
Profit after tax				1.2

Other segmental data

Depreciation of property, plant, and equipment	1.1	0.4	-	1.5
Depreciation of right of use asset	0.6	0.3	-	0.9
Amortisation*	1.9	-	-	1.9

**Re-presentation of H1 2022 amortisation, with no impact on overall income statement*

2022 (audited)	Lighting	Signals and Components	Unallocated	Total
	£'m	£'m	£'m	£'m
Revenue	121.0	48.7	-	169.7
Gross profit	40.6	14.0	-	54.6
Overhead costs	(33.7)	(8.3)	(7.6)	(49.6)
Underlying profit/(loss) from operating activities	6.9	5.7	(7.6)	5.0
Non-underlying items	(2.7)	-	-	(2.7)
Profit/(loss) from operating activities	4.2	5.7	(7.6)	2.3
Financial expense				(1.8)
Profit before tax				0.5
Taxation				(0.1)
Profit after tax				0.4

Other segmental data

Depreciation of property, plant, and equipment	2.1	0.8	-	2.9
Depreciation of right of use asset	1.3	0.5	-	1.8
Amortisation	4.4	-	-	4.4
Impairment of intangible assets	1.3			1.3

2. Operating segments (continued)

Geographical segments

The Lighting and Signals & Components segments are managed on a worldwide basis but operate in three principal geographic areas: North America, EMEA and the 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 2023 £'m (unaudited)	6 months ended 30 June 2022 £'m (unaudited)	12 months ended 31 December 2022 £'m (audited)
North America	**57.8**	61.5	132.7
EMEA	**6.2**	7.3	14.5
Rest of World	**9.2**	12.0	22.5
Revenue	**73.2**	80.8	169.7

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 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 administrative expenses.

	6 months ended 30 June 2023 £'m (unaudited)	6 months ended 30 June 2022 £'m (unaudited)	12 months ended 31 December 2022 £'m (audited)
Non-underlying items			
Legal costs related to manufacturing partner	**0.2**	0.8	1.0
Impairment of capitalised development costs	**-**	-	1.3
Other litigation costs	**0.1**	-	0.4
Non-underlying costs recorded in administrative expenses	**0.3**	0.8	2.7

As previously reported, Dialight sought to reach a negotiated conclusion of various outstanding matters and performance issues following the termination, in 2018, of the manufacturing services agreement (MSA) with its former manufacturing partner, Sanmina Corporation ("Sanmina"). Following unsuccessful mediation at the beginning of 2022, Sanmina lodged a motion for summary judgement to dismiss the majority of Dialight's claim. The detailed evidence from both parties was examined by Federal judge and the Court's ruling on Sanmina's dismissal motion was released to the parties under seal on Tuesday 14 March 2023. The court denied Sanmina's motion to dismiss Dialight's fraudulent inducement claim and denied its motion for summary judgment on Sanmina's accounts receivable claim. The court granted Sanmina's motion as to the dismissal of Dialight's willful misconduct claim. The judge ruled that the strength of the evidence on the fraudulent inducement claim, together with various claims and counterclaims relating to accounts receivable and accounts payable, is sufficient that the dispute should be resolved by jury trial, pending any appeal process. Sanmina subsequently filed a motion of reconsideration seeking the reversal of the judge's denial of summary adjudication of Sanmina's accounts receivable claim but the Court has yet to release its ruling on this motion.

3. Non-Underlying items (continued)

The March 2023 ruling confirms that Dialight can challenge the contractual liability cap in the MSA based on Sanmina's fraudulent inducement and Dialight intends to rigorously pursue this claim, and the various other contract-based claims, to trial. Dialight has sought external legal advice and is paying for the legal costs as incurred. During the period costs of £0.2m have been expensed (2022: £0.8m), with £1.0m in the year to December 2022.

Other litigation costs of £0.1m (2022: £0.4m) relate to a contractual litigation case, initiated by Dialight during 2022, relating to the use of intellectual property.

The prior year's impairment related to the paused development of a new range of Obstruction products within the Lighting segment. During 2022, management explored several options to complete the development, including continuing internal development or utilising third party technology. The most likely option was to utilise third party components in the new product suite, as this would be quicker and allow Dialight to capitalise on market opportunities and gain market share. The change in strategy would not involve use of the Dialight developed technology, so the paused development cost of £1.3m was impaired in H2 2022 and the non-cash cost classified as non-underlying in accordance with Group accounting policy.

4. Financial expense

	6 months ended 30 June 2023 £'m (unaudited)	6 months ended 30 June 2022 £'m (unaudited)	12 months ended 31 December 2022 £'m (audited)
Interest expense on lease liabilities	**0.3**	0.2	0.1
Interest expense on financial liabilities, except lease liabilities	**1.0**	0.5	1.1
Arrangement fee amortisation	**0.1**	-	0.1
Net interest on defined benefit pension liability	**-**	-	0.5
Financial expense	**1.4**	0.7	1.8

5. Income tax expense

The tax credit of £1.1m for the period to 30 June 2023 reflects the anticipated effective tax rate of 25.0% for the period ending 31 December 2023. Non-underlying items have been taxed using the relevant tax rates. The effective tax rate reflects the current UK tax rate being increased to 25.0% and a US effective tax rate of 24.0%, 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 2023 was based on a loss for the period of £3.1m (2022: £1.2m profit) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2023 of 32,785,468 (2022: 32,574,576), excluding the 204,838 own shares purchased by the Group to satisfy share awards (which includes 19,048 shares purchased in the current period for £43k).

6.Earnings per share (continued)

Weighted average number of ordinary shares

	6 months ended 30 June 2023 '000 (unaudited)	6 months ended 30 June 2022 '000 (unaudited)	12 months ended 31 December 2022 '000 (audited)
Weighted average number of shares	**32,785**	32,575	32,575
Dilutive effect of share options	**292**	453	656
Diluted weighted average number of shares	**33,077**	33,028	33,231

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 2023 Per share (unaudited)	6 months ended 30 June 2022 Per share (unaudited)	12 months ended 31 December 2022 Per share (audited)
Basic (loss)/profit per share*	**(9.6p)**	3.7p	1.2p
Diluted (loss) /profit per share*	**(9.6p)**	3.7p	1.2p

** The same number of shares are used in both the H1 2023 basic and diluted loss per share calculations, as there is no dilutive effect when the Group is in a loss-making position.*

7. Dividends

There were no dividends declared or paid in the six months ended 30 June 2023. The Directors have not declared an interim dividend for 2023 (2022: nil).

8. Inventories

	6 months ended 30 June 2023 £'m (unaudited)	6 months ended 30 June 2022 £'m (unaudited)	12 months ended 31 December 2023 £'m (audited)
Raw materials and consumables	**20.8**	24.7	22.7
Work in progress	**11.1**	11.8	11.9
Finished goods	**16.9**	13.2	18.8
Spare parts	**0.2**	0.3	0.2
Total	**49.0**	50.0	53.6

Inventories to the value of £30.4m (30 June 2022: £35.4m) were recognised as expenses in the period. The inventory reserve at the balance sheet date was £3.0m, which represents 6.2% of inventory (31 December 2022 7.7%). The reserve was reduced by £1.1m due to utilisation in the period.

The decrease in inventory since December 2022 was driven by management actions, reductions in raw material prices, improvements in shipping times and movements in the £: USD exchange rate that decreased inventory by c. £2.4m.

We continue to keep inventory levels and future commitments under close review but will continue to maintain above average raw material and work in progress (WIP) stocks until lead times for raw materials return to normal levels. This allows us to maintain supply, which we see as critical to the future success of the Group.

9. Borrowings

The Group's financing comprises a USD $34m revolving credit facility (RCF) with HSBC (which matures in July 2025 and contains options for two one-year extensions). In accordance with the Group's strong ESG commitment, the RCF facility is a sustainability linked loan. As expected, the Group has fully repaid its £10m COVID-19 Large Business Interruption Loan Scheme (CLBILS) facility, with £2m repaid since December 2022.

The Group's banking covenants are tested quarterly and the Group was fully compliant with its banking covenants during the period, except that the additional covenant on the CLBILS facility of adjusted cashflow to debt service was waived during the period. The RCF facility contains standard covenants comprising maximum leverage and minimum interest cover.

	6 months ended 30 June 2023 £'m (unaudited)	6 months ended 30 June 2022 £'m (unaudited)	12 months ended 31 December 2022 £'m (audited)
Borrowings at the beginning of the period	**22.6**	16.9	16.9
Facility drawdown (RCF)*	**3.6**	6.2	8.5
Facility repayment (CLBILS)*	**(2.0)**	(2.0)	(4.0)
Interest accrued	**1.0**	0.5	1.1
Interest paid	**(1.0)**	(0.5)	(1.1)
Impact of revaluing USD borrowings	**(1.0)**	1.4	1.2
Borrowings at the end of the period	**23.2**	22.5	22.6

**Re-presentation of H1 2022 CLBILS repayment and RCF drawdown, with no impact on overall borrowings statement*

** For more information regarding going concern covenants please refer to note 1*

10. Principal exchange rates

	6 months ended 30 June 2023	6 months ended 30 June 2022	12 months ended 31 December 2022
Average for the period			
US Dollar	**1.23**	1.30	1.24
Canadian Dollar	**1.66**	1.65	1.61
Euro	**1.14**	1.19	1.17
Mexican Peso	**26.40**	26.32	24.87

10. Principal exchange rates (continued)

	30 June 2023	30 June 2022	31 December 2022
Spot rate			
US Dollar	**1.27**	1.21	1.21
Canadian Dollar	**1.68**	1.57	1.64
Euro	**1.16**	1.16	1.13
Mexican Peso	**21.66**	24.47	23.53

11. Contingencies

Sanmina litigation

As previously reported, Dialight sought to reach a negotiated conclusion of various outstanding matters and performance issues following the termination, in 2018, of the manufacturing services agreement (MSA) with its former manufacturing partner, Sanmina Corporation ("Sanmina"). The failure to reach a satisfactory resolution of these issues led to both parties issuing formal legal proceedings against the other on 20th December 2019 in the US District Court for the Southern District of New York. The basis of the claim filed by Sanmina relates to outstanding invoices and to residual inventory which they allege that they purchased for Dialight. The claim filed by Dialight is more complex in nature and relates to significant counterclaims, and costs and losses suffered by Dialight. Dialight has sought external legal advice and is paying for the legal costs as incurred. As at 30 June 2023, Dialight has not made any provision for future legal costs.

The claim filed by Dialight alleged that Dialight suffered significant costs and losses (with total potential damages of approximately $220m) as a result of: (a) Sanmina's fraudulent inducement of Dialight to enter into the MSA; (b) Sanmina breaching the terms of the MSA in a wilful and/or grossly negligent manner (for example in respect of their failure to appropriately manage supply chain and inventory levels and to deliver product on time and free of workmanship defects); and, (c) Sanmina's gross negligence and/or wilful misconduct in the performance of its duties owed to Dialight. If Sanmina's claim is successful, the range of outcomes could include the payment by Dialight to Sanmina of between $0 and $8.3m (excluding legal costs and judicial interest, but inclusive of Dialight 'escrow' monies held by Sanmina). If Dialight's claims are successful, the range of outcomes could include the payment by Sanmina to Dialight of between $0 and c. $220m (excluding legal costs and judicial interest).

Sanmina subsequently lodged a motion for summary judgement to dismiss elements of Dialight's claims/counterclaims (first filed on 2 May 2022). The detailed evidence and legal arguments from both parties (submitted in May-July 2022) was examined by Federal judge and the Court's ruling on Sanmina's dismissal motion was released to the parties under seal on Tuesday 14 March 2023. The court denied Sanmina's motion to dismiss Dialight's fraudulent inducement claim and denied its motion for summary judgment on Sanmina's accounts receivable claim. The court granted Sanmina's motion as to the dismissal of Dialight's willful misconduct claim. The judge ruled that the strength of the evidence on the fraudulent inducement claim, together with various claims and counterclaims relating to accounts receivable and accounts payable, is sufficient that the dispute should be resolved by jury trial, pending any appeal process. Sanmina subsequently filed a motion of reconsideration seeking the reversal of the judge's denial of summary adjudication of Sanmina's accounts receivable claim but the Court has yet to release

its ruling. The March ruling confirms that Dialight can challenge the contractual liability cap in the MSA based on Sanmina's fraudulent inducement and Dialight intends to rigorously pursue this claim, and the various other contract-based claims, to trial.

11. Contingencies (continued)

Dialight currently expects that the case will go to trial in early 2024 (subject, potentially, to the timing impact of either party appealing any adverse judgment). Open court documents, including the ruling and pleadings in respect of the motion for summary judgment, can be accessed on the Public Access to Court Electronic Records (PACER) public access system for the U.S. District Court for the Southern District of New York (https://ecf.nysd.uscourts.gov).

Defined benefit pension schemes

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

Uncertainties under income tax treatment

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

12. Related party transactions

There have been no changes in the nature of related party transactions from those described in the 2022 Annual Report that could have a material effect on the financial position or performance of the Group in the period to 30 June 2023 (see also note 13 below).

13. Interests in other entities

Transaction with non-controlling interest

In May 2022, the Group acquired a further 12.5% share of its subsidiary Dialight ILS Australia Pty Ltd ('Dialight Australia') for consideration of £1m satisfied by issuing 266,958 shares and up to £0.1m in cash, plus £0.1m in costs. This increased ownership to 87.5%. Immediately prior to the transaction, the carrying amount of the 25% non-controlling interest in Dialight Australia was £0.7m. The Group has recognised a decrease in non-controlling interest of £0.4m and a decrease in equity attributable to the parent of £0.8m. Incremental costs that were directly related to changes in ownership interest were deducted from equity. The effect on Group equity is summarised as:

	6 months ended 30 June 2023 £m (unaudited)	6 months ended 30 June 2022 £m (unaudited)	12 months ended 31 December 2022 £m (audited)
Carrying amount of non-controlling interest acquired	-	0.4	0.4
Consideration paid to non-controlling interest	-	(1.0)	(1.0)
Incremental costs directly attributable to the transaction	-	(0.2)	(0.2)
Excess of consideration paid less costs recognised in transactions with non-controlling interests within equity	-	(0.8)	(0.8)

There were no transactions with non-controlling interests in 2023.

14. Principal and emerging risks

The Board is responsible for identifying the nature and extent of the risks the Group has to manage in order to successfully pursue its growth strategy and generate shareholder value over the long term. The principal risks and uncertainties affecting the business activities of the Group for the six months to 31 December 2023 remain as listed on pages 74 to 79 of the Annual Report for the year ended 31st December 2022 (which can be found at www.dialight.com).

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

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

- **Environmental and geological** - The Group's main manufacturing centre is in Mexico and its main market is North America. Any impediment to raw materials getting into Mexico or restrictions on finished goods entering North America related to natural disasters could have a large impact on profitability. Disruption to global markets and

transport systems arising from geological, biological, economic and/or political events may impact the Group's ability to operate and the demand for its products.

14. Principal and emerging risks (continued)

- **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 cost base and borrowings are in US Dollars. Fluctuations in exchange rates between Sterling and US Dollar could cause profit and balance sheet volatility.

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

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

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

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

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

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

- **Geopolitical / macro-economic impacts -** The Group faces a range of external geo-political, socio-political, and macro-economic risks which, after a period of relative calm in global markets, have recently emerged as significant potential disruptors. In particular, the Group sources a significant number of key components from China.

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 2023 and beyond.

Directors' responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

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 under IFRS are 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.