5 March 2024

XP Power Limited
(‘XP Power’ or ‘the Group’ or ‘the Company’)

2023 Full Year Results

Strategic progress in a challenging year

XP Power, one of the world's leading developers and manufacturers of critical power control solutions for the Industrial Technology, Healthcare and Semiconductor Manufacturing Equipment sectors, announces its annual results for the year ended 31 December 2023 (“2023” or “the year”).

Year ended 31 December (£ millions unless otherwise stated)	2023	2022	% change At actual exchange rates	% change In constant currency
Order intake	**208.8**	362.9	(42)%	(43)%
Revenue	**316.4**	290.4	9%	9%
Book-to-bill	**0.66x**	1.25x	(0.59)x	
Order book	**192.0**	308.4	(38)%	
Adjusted results[1]:				
Operating profit	**38.1**	42.9	(11)%	(3)%
Profit before tax	**26.6**	38.0	(30)%	
Diluted earnings per share (pence)	**81.8p**	160.1p	(49)%	
Reported results:				
Gross margin	**41.5%**	41.5%	-	
Operating profit/(loss)	**24.5**	(24.1)	202%	
Profit/(loss) before tax	**11.2**	(30.2)	137%	
Diluted loss per share (pence)	**(45.3)p**	(101.6)p	55%	
Cash generated from operations	**62.4**	2.1	2,871%	
Net debt	**112.7**	151.0	(25)%	
Net debt : Adjusted EBITDA	**2.0x**	2.7x	(0.7)x	

[1] *Details of the adjustments made and reconciliations to the reported results can be found in note 2 of the consolidated financial statements.*

Financial Highlights

- Slower order intake due to:
  - Normalisation of order patterns after two years of unprecedented activity during COVID-19 and associated period of supply chain disruption
  - Cyclical slowdown in the semiconductor industry after two years of strong growth
  - Shorter delivery lead times, which have allowed customers to place orders later

- Revenue growth of 9% due to:
  - Strong growth in Industrial Technology and Healthcare
  - Industry-wide cyclical slowdown in Semiconductor Manufacturing Equipment from the second half
  - All sectors benefiting from delivery of backlog

- Gross Margin maintained at 41.5% and protected from residual inflationary impacts with effective price pass through

- Adjusted Operating Profit of £38.1 million:
  - £4.0 million of amortisation and impairment charges booked following review of capitalised product development costs
  - Underlying result excluding these charges was in line with management’s expectations

- Net debt 25% lower than prior year at £112.7 million:
    - Debt reduction from equity raise
    - Record operating cash generation, particularly strong in H2
    - Previously announced management actions delivering expected benefits
    - Net debt : Adjusted EBITDA reduced by 0.7x to 2.0x at year-end

Operational Highlights

- Product development: 11 new products launched and strategic areas, such high voltage/power categories, growing ahead of the Group average

- Customer development: Improvement in project sampling activity during the year and record new business wins

- Supply chain performance: significant increase in manufacturing output, reduction in delivery lead times, and lower inventory

- Sustainability: Net Zero Transition Plan launched, targets approved by the SBTi, significant reduction in emissions

- FuG, acquired in 2022, performing well with further growth potential

- Comprehensive programme of cost reduction actions commenced in Q4 2023 remains on track

Outlook

- As already announced, a slowdown in order intake will affect revenue in 2024 as our order book normalises, backlog is cleared and customers run down buffer stocks, particularly within the Healthcare and Industrial Technology sectors

- Cost reductions being implemented in response in Q1 2024, in addition to those taken in Q4 2023

- Expect performance in 2024 to be second half weighted, with an improvement in trading as the year progresses

- Group remains confident in medium-term prospects, underpinned by our strong market position and broad product portfolio

Gavin Griggs, Chief Executive Officer, commented:

"2023 was a challenging year for the Group. An industry-wide slowdown in the Semiconductor Manufacturing Equipment market, combined with greater than expected spending on major capex projects, led to elevated borrowing levels in the second half of the year. We responded by implementing a plan of operational and funding actions to reduce debt levels in the fourth quarter. This was a difficult period for the Group, but the actions taken were appropriate to the circumstances, in the long-term interests of shareholders, and had lowered our borrowings by year-end.

Whilst the end to the year was disappointing, our leading positions in attractive markets and an improved supply chain performance enabled our order backlog to be delivered, achieving revenue growth for the year as a whole. We also made good progress strategically in areas that will sustain our longer-term progress.

We expect activity levels to reduce in 2024 after our record revenue performance in 2023 and have recently taken further actions to lower our cost base accordingly. The reduction in revenue is largely attributable to a normalising order book, with backlogs now largely cleared, the tail end of the semiconductor downcycle and destocking by Healthcare and Industrial Technology customers as they respond to greater resilience in the global supply chain.

We expect trading to improve as 2024 progresses, creating a second half weighting to performance as channel stock levels reach equilibrium and demand returns to the Semiconductor Manufacturing Equipment market, though it is difficult to be precise about the timing of the improvement. We will continue to take decisive action to manage our costs and maximise cash generation during this slower trading period, prioritising debt reduction, whilst preserving our sources of long-term competitive advantage. We are confident that our market positions remain strong and that the Group remains well positioned to prosper as our key markets resume their trajectory of healthy long-term growth."

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XP Power designs and manufactures power controllers, the essential hardware component in every piece of electrical equipment that converts power from the electricity grid into the right form for equipment to function. Power controllers are critical for optimal delivery in challenging environments but are a small part of the overall customer product cost.

XP Power typically designs power control solutions into the end products of major blue-chip OEMs, with a focus on the Semiconductor Manufacturing Equipment (circa 32% of sales),Industrial Technology (circa 43% of sales) and Healthcare (circa 25% sales) and sectors. Once designed into a programme, XP Power has a revenue annuity over the life cycle of the customer's product which is typically five to seven years depending on the industry sector.

XP Power has invested in research and development and its own manufacturing facilities in China, North America, and Vietnam, to develop a range of tailored products based on its own intellectual property that provide its customers with significantly improved functionality and efficiency.

Headquartered in Singapore and listed on the Main Market of the London Stock Exchange since 2000, XP Power is a constituent of the FTSE SmallCap Index. XP Power serves a global blue-chip customer base from over 30 locations in Europe, North America, and Asia.

For further information, please visit www.xppowerplc.com

Chair's Statement

Strategic progress in a challenging year

2023 was a year in which the Group faced unexpected challenges but delivered some encouraging progress in key strategic areas.

The Group entered 2023 with elevated borrowing due to various one-off factors, including payment of damages in respect of the Comet legal case and investment in inventory to maintain customer service levels during the period of exceptional supply chain disruption in 2022. Strong cash generation has been a hallmark of the Group's historic performance and the Board expected borrowings to reduce during the year. However, an industry-wide slowdown in the Semiconductor Manufacturing Equipment market, combined with the Group's extra spending on key capex projects, made this challenging. In October the Board acted to safeguard the Group's balance sheet position by implementing a funding plan, which included cost and capex reductions, suspension of the dividend, an issuance of new shares and the renegotiation of our banking facilities. Suspension of the dividend was not a decision the Board took lightly, but it was appropriate in the circumstances. In combination, this materially reduced our borrowing and leverage by year-end. The Board's priority is to further reduce net debt leverage into the Group's previously stated range of 1-2x Adjusted EBITDA and then in the longer-term operate in the 0-1x range.

The disappointing end to the year masked some more encouraging signs. Growth for the year as a whole was healthy. We saw double-digit growth within the Healthcare and Industrial Technology sectors, aided by an improved supply chain performance which allowed backlog to be delivered. Demand from the Semiconductor Manufacturing Equipment sector moderated as the year progressed, after two very strong years, albeit with some sub-sectors showing continued strength.

We continue to enjoy leading positions in attractive markets with structural growth characteristics. They have underpinned our historic revenue growth, which has averaged 12% per annum over the last 10 years, and I am confident they will continue to do so for the longer-term.

We successfully protected our gross margins from input cost inflation which continued to work its way through our supply chain in 2023. Our ability to pass through inflation underlines the strength of our brands and our market position.

Our growth in 2023 was weighted toward higher power and more technologically sophisticated products, which, in line with our strategy, are becoming an increasingly important part of our portfolio. We deepened our relationships with key customers by cross-selling them a wider range of products and have a growing pipeline of new products and customer projects to drive long-term growth. We also delivered a record level of new business wins which will support our growth in the medium-term. Our supply chain performance improved notably, with both delivery lead times and inventory levels reducing materially. We made solid progress with the transfer of production from facilities in the West to Asia, with more to come in 2024. While we were forced to re-locate two key sites within the USA in early 2024, both moves are now complete and will help to support our long-term growth. The Group extended its customer reach in Europe by entering into a continent-wide agreement with a leading distributor. We also delivered against our recently launched Sustainability Strategy and invested in our people.

Whilst the second half of the year was challenging, I remain focused on, and excited by, our long-term growth opportunities, which I believe we are well positioned to seize.

Our Board

I was honoured to succeed James Peters as Chair in April 2023. I would like to take this opportunity to thank James for an immeasurable contribution to the Group over his 35 years of service and as founder.

After a detailed search process as set out in the Nomination Committee Report, Matt Webb was appointed as the Group's Chief Financial Officer in September 2023. Whilst still relatively new to his role, Matt has contributed significantly, and I have no doubt will continue to do so. I would like to thank David Stibbs for fulfilling the CFO role on an interim basis whilst the search process was completed, and I am delighted he remains with us.

Our People and Our Values

The success of any organisation is dependent on its culture and the people and talent within it. The Board engages regularly with the Executive Leadership Team and colleagues throughout the Group to ensure we are continuing to identify and develop our key people and bring new talent and capabilities into the business to help underpin our growth ambitions.

As previously announced, the Group restructured its cost base in the second half of the year in response to weakening demand. Restructuring actions were taken promptly to safeguard the future progress of the Group, whilst dealing compassionately and openly with those impacted. I would like to thank our employees for all their hard work throughout the year, but particularly for their support and forbearance whilst the restructuring plan was implemented.

As I travel across the Group, I am continually impressed by the skill, experience and enthusiasm of members of the XP team, which only increases my confidence in our long-term prospects and potential.

Jamie Pike
Chair

Chief Executive Officer's Review

Review of our year

The Group delivered revenue of £316.4 million in 2023, 9% higher than prior year in constant currency. Over the last 10 years, revenue growth has been consistently strong, averaging 12% per annum, as we have amassed a growing share of attractive markets with healthy, long-term growth attributes.

Revenue growth was strongest in the first half of 2023, at 24% in constant currency, as an improved supply chain performance allowed us to deliver our order backlog. Revenue grew significantly in all three of our market sectors in this period: Semiconductor Manufacturing Equipment, Industrial Technology and Healthcare.

The pace of progress moderated as the year progressed. Second half revenue was 2% lower than prior year in constant currency as we faced tougher comparatives and began to experience the impact of the industry-wide slowdown in demand from the semiconductor equipment market after three strong years. Slower market conditions prompted some semiconductor customers to cancel or defer deliveries at the start of the second half, but delivery schedules have remained firm since. Sales to Industrial Technology and Healthcare customers continued to grow, albeit at a reduced pace.

We started 2023 with an elevated order book of £308.4 million, reflecting both strong demand and a supply chain limited by component shortages in previous years. Our order intake reduced to £208.8 million in 2023 (2022: £362.9 million) following two years of unprecedented activity levels in the aftermath of COVID-19, representing a book-to-bill of 0.66x. This reflected the slowdown in the Semiconductor Manufacturing Equipment market and growing confidence in supply chain performance, allowing customers to place orders later, remove buffer inventory and reduce safety stocks of our products. However, the slowdown in order intake had very little impact on our 2023 revenue, which continued to be supported by the delivery of the backlog brought into the year. It is encouraging to see that our design wins continued and we achieved a record level, 7% ahead of the previous record year. This combined with continued strong sampling rates supports our medium-term outlook.

The slowdown in sales in the second half of the year, combined with unexpected additional investment in the relocation of two key US sites, initially left our net debt materially above our target leverage range of 1-2x Adjusted EBITDA with insufficient borrowing headroom versus our banking covenants. We responded by implementing a comprehensive funding plan in October 2023, described in more detail in the Chief Financial Officer's Review. I believe the plan was appropriate to the circumstances and in the Company's best long-term interests. The plan had materially lowered our borrowing and leverage by year-end and we are continuing to prioritise debt reduction in 2024. We should have been better prepared to withstand the trading challenges we have faced and I am therefore focused on taking the steps necessary to navigate this challenging period and build greater operational resilience. In the longer-term, we aim to reduce our leverage range to 0-1x Adjusted EBITDA.

The reduction in borrowing and leverage delivered in the second half was supported by strong operating cash generation, with operating cash conversion of 218% in H2 and 173% for the year as a whole. The strong progress towards the end of the year was aided by inventory reduction, which was particularly pleasing to see given it is an important element of our debt reduction plan.

Sales toward the end of 2023 were slightly above our expectations, due largely to our decision to reschedule the relocation of our facility in California from December 2023 to January 2024, which had the effect of bringing forward some deliveries into late 2023.

Following a thorough review, we identified some capitalised product development costs that needed to be amortised or impaired, adding a non-cash charge of £4.0 million to costs. These costs are discussed in more detail in the Chief Financial Officer's Review. This left full year Adjusted operating profit at £38.1 million. These costs had no impact on cash or borrowing leverage ratios.

Revenue by market

Group revenue grew by 9.0% to £316.4 million, including constant currency growth of 9.3%, and (0.3)% from currency movements.

The breakdown of revenue growth by sector was as follows:

	% of Group revenue	Revenue growth / (decline) %
Semiconductor Manufacturing Equipment	32%	(9.7%)
Industrial Technology	43%	13.8%
Healthcare	25%	37.2%
Total – In constant currency	100%	9.3%
Currency movements		(0.3%)
Total		9.0%

Semiconductor Manufacturing Equipment

Sales to the Semiconductor Manufacturing Equipment sector grew by 5% in constant currency in the first half of the year as we delivered a backlog of orders built up in the preceding two years. Sales declined by 22% year-on-year in the second half against a tough comparative, reflecting the cyclical slowdown in semiconductor investment spending, leaving revenue 9.7% lower for the full year. Our performance was helped by our over-weight positions in more resilient sub-sectors such as deposition, etch and trailing edge chip manufacture which were less impacted by the slowdown. Order intake in the year totalled £59.4 million and book-to-bill was 0.58x.

Whilst the overall market softened, there were pockets of continued strength. We increased production of our high voltage high power range by nearly 50% to meet high demand, with a further increase planned for 2024.

The US and Chinese governments tightened controls over the export of semiconductor manufacturing equipment in the year. Whilst very few of our sales are directly impacted by these controls, their introduction did disrupt the production of one of our key customers in China, with sales slowing whilst the necessary permits were sought. The ongoing uncertainty is an issue the Group will seek to navigate but it will limit expansion in China for some of our product portfolio.

The prospects for this sector are very attractive and we continue to expect long-term market growth averaging 10% per annum, underpinned by the manufacturing expansion required to keep pace with future demand for technologies such as AI, IoT and electrified transportation. Given our customer exposure, we expect to grow ahead of the market. Whilst sales into this sector are likely to remain subdued in the first half of 2024, we continue to expect to see an improvement in order intake in the second half and a stronger performance in 2025.

Industrial Technology

Sales to the Industrial Technology sector grew by 26% in constant currency in the first half of the year and 4% in the second half.

Increased manufacturing output allowed us to clear order backlog and restock the sales channel, supporting revenue throughout the year. Order intake in the year was £92.4 million and the book-to-bill was 0.68x following a slowdown in intake during the second half.

During the year, we signed a sales agreement with a leading, pan-European “design in” distributor, simplifying our European distribution arrangements and increasing our ability to bid on small to medium-sized customer projects, to allow our own sales team to focus on larger accounts. With the new structure in place, we now have the right platform for long-term growth, particularly within the Industrial Technology sector.

Healthcare

The Healthcare sector saw a reset in 2022 after two preceding years of strong demand for products used in the treatment of critical illnesses particularly COVID-19 during the pandemic. We were therefore pleased to see activity levels recover strongly in 2023, with a more normal mix of end uses. This resulted in revenue growth of 37% for the year in constant currency, the highest of any sector. Activity remained strong throughout the year.

Progress was strongest in North America as we switched more of our manufacturing capacity toward the fulfilment of orders from the Healthcare sector as the semiconductor equipment market cooled. Order intake for the year was £57.0 million and the book-to-bill was 0.73x. Order intake slowed toward the end of the year, with customers reporting excess inventories in early 2024. As global supply chains have normalised for the first time post-COVID, customers are now focused on reducing their inventory levels.

Regional Performance

Sales to North America totalled £184.5 million, up 11% in constant currency. The region saw strong growth within the Healthcare sector, with sales to customers in the semiconductor market slowing after two strong years, particularly within low voltage product categories.

Sales to Europe totalled £97.8 million, up 13% in constant currency, with all three market sectors growing. This included record sales from FuG, a business acquired by the Group in 2022. As highlighted at the time of acquisition, we are supporting the future progress of this business by using our sales team to increase its global reach.

Sales to Asia totalled £34.1 million, down 6% in constant currency due largely to reduced demand from the Asian Semiconductor Manufacturing Equipment market. This was largely attributable to permitting issues experienced by one Chinese customer, which we hope will be resolved in due course.

Delivery of our strategy in the year

Our vision is to be the first-choice power solutions provider and deliver the ultimate experience for our customers and our people. Over time we have expanded our product portfolio up the power and voltage scale to provide our customers with a broader offering to meet their power needs. We have added high voltage and radio frequency (“RF”) technology and increased our engineering resource to provide enhanced engineering services capabilities and deliver a complete power solution to our key customers. We are now one of few providers who can offer customers a complete spectrum of power and voltage capabilities and package several power converters into an overall solution customised to the customer’s specific application. This makes us an attractive partner to our key customers and is a key driver of our market share gains.

Our strategy is summarised as follows:

- Product development: Continually develop our market leading range of competitive products, both organically and through selective acquisitions;
- Customer development: Target customer accounts where we can add value and increase our penetration of those target customers;
- Supply chain development: Continually improve our global, end-to-end, supply chain, balancing high efficiency with market leading customer responsiveness; and
- Sustainability: Lead our industry on environmental responsibility

We made progress with our strategic priorities during the year and remain well-positioned to benefit as demand improves. Our progress in the year is summarised below.

Product development

Product development is a key source of our competitive advantage. The XP brand is synonymous with high quality, high functioning and reliable power solutions. It is important that we continually invest to ensure we are offering a broad, up-to-date range of power supplies that meet our customers’ demanding performance requirements. We work closely with them to ensure our power supply is “designed in” at an early stage of their own product development cycle, with high re-engineering and re-certification costs providing a natural barrier to competition thereafter. The “designed in” nature of the sale results in an annuity revenue stream throughout our customer’s product life cycle, which is typically 5-7 years but can be much longer.

Our product development capabilities include Engineering Services teams, most notably in North America and Asia. Located close to the customer, these teams enable the rapid deployment of customised power solutions for individual customers to speed up their own product development process. This a high margin, high growth proposition.

A key aspect of our product strategy over recent years has been to expand into higher power and higher voltage supply categories through selective bolt-on acquisitions, to complement our heritage in lower power areas. The most recent example is the acquisition of FuG, which performed well during 2023.

Our progress in the year can be summarised as follows:

- We launched 11 new products. These included a programmable 3kW power supply series which brings high power with digital control to demanding medical and industrial applications.

- Our Engineering Services group delivered 39 new customised products to customers. Our Engineering Services team in the USA was relocated to a larger, state of the art facility to support future growth.

- Sales of high voltage, high power and RF products grew by 19%, faster than the Group average.

- FuG and Guth delivered record revenue, 6.4% higher than 2022 after adjusting for our period of ownership.

- The pipeline for new products is strong and we expect to bring new platform products to market across our portfolio in the next 12-18 months.

Whilst reductions were made during the year in certain overhead functions, as discussed in detail in the Chief Financial Officer's Review, we were careful to maintain our investment in product development to support future growth.

Customer development

We work with leading OEMs in each of the three market sectors we serve. Relationships are deep and enduring and our customers recognise us for our superior quality, reliability, responsiveness and flexibility. Our sales teams are tasked with identifying new customers who would benefit from our unique business model and maximising our share of each customers' product power needs.

Our progress on customer development in the year can be summarised as follows:

- The value of new projects won grew by 7% year-on-year to a record level, which will translate into growth over the medium term as these products enter production.

- Sampling, a key stage in the new design win process, remains strong for the third year in a row following a dip during the pandemic. Customers resumed new product development work after a period in which their engineering efforts were focused on redesigning existing products to combat component shortages.

- We invested in digital marketing by re-platforming our website and improving our presence in online search.

- As referred to above, we signed a new European distribution agreement.

Supply chain development

After two challenging years, our supply chain performance improved considerably in 2023, in terms of service, resilience and efficiency.

Our order book reduced by £116.4 million in the year to £192.0 million. While our order backlog reduced considerably during 2023 it remains above pre-COVID levels. We expect our order book to return to historic norms by the end of the first half of 2024.

Delivery lead times reduced considerably during the year, improving customer service. Shorter manufacturing lead times reduced the need for air freight, reducing costs and minimising environmental impact.

We added resilience to our supply chain by increasing production flexibility. 71% of the products we manufacture in Asia can now be made in either our China or Vietnam factories. We now have multiple sourcing options for more of our critical components and more of our components can be sourced on a returnable basis should demand change unexpectedly.

We improved efficiency in terms of capital intensity. It was pleasing to see inventory reduce by £22.8 million to £91.6 million in the year, with progress weighted towards the fourth quarter. We also saw a reduction in both raw materials and work in progress, as expected. Reductions in finished goods should follow as the benefits flow through our supply chain, subject of course to demand. The progress we have made in this area was aided by recent investments in our Enterprise Resource Planning system, which provides end-to-end visibility of demand to enable us to plan our supply requirements more efficiently. We have also renegotiated better supplier terms where appropriate, in terms of both pricing and payment, preserving cash.

Slower demand allowed us to defer construction of our new facility in Malaysia by one year, preserving cash, with commissioning now expected by the end of 2025. We expect our existing manufacturing sites to have sufficient capacity to meet demand in the meantime.

Higher raw material prices gradually worked their way into our finished goods inventory, increasing our cost of goods sold. We successfully passed this inflation through, protecting margins, with roughly half of our revenue increase attributable to price. We have seen lower component prices in the last six months, which should support margins going forward.

We are monitoring events in the Red Sea closely. The impact on freight costs has been very modest so far, given that this route is less important to the Group than deliveries across the Pacific. We have sufficient finished goods inventory to accommodate longer transit times if deliveries route via southern Africa and a proven ability to re-price quickly should freight costs increase sustainably.

Sustainability

Sustainability is a key part of our strategy and has been since 2009, when the Group first formed its Sustainability Council. We realised early how important this would be over time to our customers, investors and people.

We set out and publish our priorities in our annual Sustainability Report. We delivered as follows against these priorities in 2023:

- We published our Net Zero Transition Plan.
- Our emission reduction targets were recently approved by the Science Based Targets Initiative ("SBTi").
- We significantly reduced our Scope 2 Greenhouse Gas emissions in the year by acquiring rights to locally sourced renewable electricity.
- We introduced 10 XP Green Power product families in 2023. XP Green Power products generated revenues of £67.1 million in 2023, 13% higher than last year. The estimated lifetime savings from the XP Green Power products shipped in 2023 is 140,300 tonnes of CO_2.

Our progress has not gone unrecognised. In 2022 we were delighted to receive the first ESG award from Lam Research, a leading global supplier of semiconductor manufacturing equipment and one of our largest customers, recognising us for our commitment to strong ESG goals and proactively aligning with Lam on these priorities. This follows the PRISM award we received from ASM in 2021 for sustainability.

We continue to support our employees through training and development, promoting a fair working environment with equal opportunities, and see mental health as a priority. Through workforce engagement, views are heard at Board level.

Litigation Update

As previously reported, in March 2022, an award for damages was made against XP for a total of $40 million in respect of a US legal action brought by Comet Technologies USA Inc., Comet AG, and YXLON International ("Comet").

Our appeal against the original ruling, which we believe to be well founded, was filed with the Appellate Court in August 2023 and we have been responding in line with the Appellate Court's timeline. We expect the appeal to be heard during 2024.

Judgement has yet to be received in respect of Comet's claim for legal fees and interest associated with the case. It is expected soon.

We incurred legal fees of £2.1 million in 2023 and these are reported as an Adjusting item per note 2 to the consolidated financial statements.

While we believe we have provided for the worst-case situation, with the pending judgements and future appeals there remain a broad range of potential outcomes. Further updates will be provided as and when the current position changes.

Outlook

We expect activity levels to reduce in 2024 after our record revenue performance in 2023 and have recently taken further actions to lower our cost base accordingly. The reduction in revenue is largely attributable to a normalising order book, with backlogs now largely cleared, the tail end of the semiconductor downcycle and destocking by Healthcare and Industrial Technology customers as they respond to greater resilience in the global supply chain.

We expect trading to improve as 2024 progresses, creating a second half weighting to performance as channel stock levels reach equilibrium and demand returns to the Semiconductor Manufacturing Equipment market, though it is difficult to be precise about the timing of the improvement. We will continue to take decisive action to manage our costs and maximise cash generation during this slower trading period, prioritising debt reduction, whilst preserving our sources of long-term competitive advantage. We are confident that our market positions remain strong and that the Group remains well positioned to prosper as our key markets resume their trajectory of healthy long-term growth.

Gavin Griggs
Chief Executive Officer

Chief Financial Officer's Review

Statutory Results

The statutory operating profit was £24.5 million, compared with a loss of £24.1 million in the prior year, with the 2022 loss primarily driven by the damages and legal costs from the Comet case.

Net finance expense was £13.3 million (2022: £6.1 million), resulting in a profit before tax of £11.2 million (2022: loss of £30.2 million). The higher net finance expense reflects the higher average debt and increased interest rates. This resulted in an income tax charge of £20.2 million compared to a £10.6 million credit in 2022. The basic loss per share was 45.4 pence whereas in 2022 the Group had a loss per share of 102.0 pence.

Adjusted Results

As in prior years, Adjusted and other alternative performance measures are used in this announcement to describe the Group's results. These are not recognised under International Financial Reporting Standards (IFRS) or other generally accepted accounting principles (GAAP).

Adjustments are items included within our statutory results that are deemed by the Board to be unusual by virtue of their size or incidence. Our Adjusted measures are calculated by removing such Adjustments from our statutory results. The Board believes Adjusted measures help the reader to understand XP Power's underlying results and are used by the Board and management team to interpret Group performance. Note 2 to the consolidated financial statements includes reconciliations of statutory metrics to their Adjusted equivalent and provides a breakdown of the Adjustments made.

Revenue

Revenue grew by 9.0% to £316.4 million (2022: £290.4 million).

Growth consisted of constant currency growth of 9.3% and an adverse currency movement of 0.3%.

The year started strongly, with constant currency growth of 24% in the first half thanks to an improved supply chain performance which allowed us to reduce our order backlog and restock the sales channel. It moderated as the year progressed, with second half revenue 2% lower than prior year in constant currency, as we reached robust comparatives and as sales into the Semiconductor Manufacturing Equipment market inevitably cooled after two years of strong demand. Sales into Industrial Technology and Healthcare sectors grew throughout the year.

The Group's revenue by region and by sector for 2023 is set out in the table below:

	2023 £ million	% change in constant currency
North America		
Semiconductor Manufacturing Equipment	86.0	(8.2%)
Industrial Technology	54.0	20.8%
Healthcare	44.5	56.6%
Total	**184.5**	**10.7%**
Europe		
Semiconductor Manufacturing Equipment	3.4	25.9%
Industrial Technology	67.6	10.3%
Healthcare	26.8	19.1%
Total	**97.8**	**13.1%**
Asia		
Semiconductor Manufacturing Equipment	12.8	(23.7%)
Industrial Technology	14.7	7.0%
Healthcare	6.6	12.2%
Total	**34.1**	**(6.2%)**

North America and Asia were both impacted by the slowdown in Semiconductor Manufacturing Equipment demand. The impact in Asia was greater as a key customer experienced manufacturing delays whilst it adapted to industry-wide export controls. The impact in North America was largely confined to low voltage categories, with sales of high voltage and RF products continuing to grow, which is encouraging given their strategic importance.

North America was able to more than offset the impact of the semiconductor downcycle with very strong growth in Industrial Technology and Healthcare sales, to deliver double-digit revenue growth overall. This included some deliveries brought forward into 2023 from January 2024 to maintain continuity of service whilst we relocated our California facility at the end of its lease.

Europe delivered strong growth in each market sector, particularly in the Industrial Technology sector aided by healthy sales into our distributors as they restocked their networks.

Order intake

Order intake was £208.8 million, 43% lower than last year in constant currency. Book-to-bill in 2023 was 0.66x.

Order intake by quarter 2023 £ million	Q1	Q2	Q3	Q4	**Full Year**
Order intake	61.2	54.4	44.2	49.0	**208.8**

Order intake within the Semiconductor Manufacturing Equipment sector was relatively slow throughout the year and was the largest contributor to the Group's overall year-on-year reduction. Order intake within this sector increased in the fourth quarter due to large orders for high voltage high power products on longer lead times, for which demand remains strong.

Order intake within the Healthcare and Industrial Technology sectors started 2023 strongly but moderated later in the year. We initially attributed this moderation to shorter delivery lead times, which were allowing customers to raise orders later, slowing their rate of order placement. We expected order intake to improve in early 2024 as delivery lead times reached a minimum. This has not been seen to date because customers are also placing fewer orders to reduce their overall inventory of our products, which will hold back our activity levels temporarily in 2024 whilst the extra inventory is utilised.

Order book

Our order book reduced by £116.4 million in the year to £192.0 million at 31 December 2023 as backlog was shipped and delivery lead times reduced.

Gross margin

Gross margin was maintained at 41.5% (2022: 41.5%). In 2023, we sold finished goods that were sourced and manufactured when global supply chain disruption pushed input prices to a peak. Products were appropriately re-priced in response, protecting our margins from inflation. We have seen reductions in input costs over recent months, which should support margins going forward.

Freight costs halved as sea container prices returned to historic norms and shorter manufacturing lead times reduced the need for air freight.

Production output increased. In our Asian plants, this resulted in improved cost efficiency. In our smaller facilities in the United States, the need for greatly increased output introduced some inefficiency which we are addressing by transferring some production to Asia where manufacturing capacity is greater and costs are lower.

Operating expenses

Statutory operating expenses reduced by £37.9 million to £106.8 million due largely to lower costs in respect of the Comet legal case, which have been treated as an Adjustment.

Adjusted operating expenses increased by £15.5 million to £93.2 million.

The increase comprised the following main items:

- c.£2.0 million of cost inflation
- £3.1 million of increased variable pay, including share-based payment accounting charges
- £3.0 million of adverse currency movements

- £6.1 million of increased product development costs, which are discussed in more detail below

The cost base was restructured in the second half following a slowdown in demand, as part of the wider funding plan described below. Whilst 2024 will bring inflationary increases and an extra depreciation on-cost associated with the relocation of two leased premises in the US, we still expect our restructuring plans to drive a material reduction in overheads year-on-year.

Operating profit

Statutory operating profit increased by £48.6 million to £24.5 million due largely to items considered to be Adjustments, as set out later in this Review.

Adjusted operating profit reduced by £4.8 million to £38.1 million and is bridged as follows:

Adjusted £ million	2022	Currency impact	Constant currency	**2023**
Revenue	290.4	(1.1)	27.1	**316.4**
Revenue growth %		(0.3)%	9.3%	9.0%
Cost of sales	(169.8)	0.6	(15.9)	**(185.1)**
Gross margin	120.6	(0.5)	11.2	**131.3**
Gross margin %	41.5%	-	-	**41.5%**
Operating expenses	(77.7)	(3.0)	(12.5)	**(93.2)**
Operating profit	42.9	(3.5)	(1.3)	**38.1**
Operating margin %	14.8%	(1.2)%	(1.6)%	**12.0%**

The impact of currency movements on profit is largely translational rather than transactional and reflects unusually large movements in the value of Sterling versus the US dollar over the last two years. Steps were taken in late 2023 to reduce this impact going forward.

Whilst the impact of the FuG and Guth businesses acquired in 2022 has not been separately reported as they were owned for almost all of 2022, it is worth noting that on a comparative basis they grew at a healthy rate, with some of the proceeds from this growth reinvested in the cost base to sustain progress into 2024. Both businesses have leading product portfolios and a well-earned reputation for expertise and quality. We are confident we can sustain their progress as they increasingly leverage the wider Group's resources.

Profit declined modestly in constant currency. A slowdown in activity levels in the second half meant that growth did not fully support overhead investments previously made, leading to the restructuring actions referenced above. The result was also impacted by the product development cost increase described below. We will continue to keep our overhead base under close review, to ensure it is both affordable in the short-term and sufficient to drive our long-term progress.

Product development costs

Product development is central to the Group's long-term strategy. The Chief Executive Officer's Review sets out the progress made in the year.

Our accounting policy is to capitalise product development costs where they meet criteria prescribed by International Financial Reporting Standards, then start to amortise the capitalised costs when development activity is complete.

The following table summarises the accounting entries for product development costs recorded in the year:

Adjusted costs £ million	**2023**	2022	Change vs 2022
Gross product development costs	**27.3**	24.3	3.0
Of which: capitalised in the year[1]	**(7.8)**	(7.3)	(0.5)
Amortisation of capitalised costs	**5.0**	3.3	1.7
Impairment of capitalised costs	**1.9**	-	1.9
Net product development costs charged to Adjusted operating profit	**26.4**	20.3	6.1

[1] Excluding capitalised interest costs

The Group's development activities divide into two areas: i) traditional development of new products for the mass market and ii) Engineering Services work, where customised products are developed for a specific customer.

Our gross spending on product development activities increased by £3.0 million to £27.3 million in the year.

Our rate of capitalisation was broadly unchanged in the year at £7.8 million. We take a conservative approach to capitalising, only doing so when we are certain exploratory work has transitioned to become a technically and commercially viable development project.

Following a review, a non-cash charge of £1.9 million was recorded to impair previously capitalised development costs. This relates to certain Engineering Services projects where the value deemed to be recoverable from future sales to the customer does not support the carrying amount. This impacts a small number of projects in an otherwise commercially successful area.

The same review recommended a change to the way in which we judge when amortisation should start. Some Engineering Services projects follow an iterative development process, in which the customer requests rolling design changes to launched products, making it harder to judge when development has ended, commercial sales have started, and therefore when amortisation should commence – our new approach makes this clearer. The year-on-year increase in amortisation is £1.7 million and we expect this increased run-rate for amortisation to continue in future years.

Neither the impairment nor the increase in amortisation has any impact on cash, EBITDA or leverage calculations.

Adjusted net finance expense

Adjusted net finance expense increased to £11.5 million (2022: £4.9 million) as a result of higher levels of average debt and a rising Fed Funds rate.

Cash on deposit across the Group reduced materially in the year to minimise borrowing costs.

To manage interest rate risk, we recently capped the interest rate applicable to the majority of our borrowings at a rate slightly above current SOFR.

Tax and earnings per share

The effective tax rate applicable to Adjusted profit before tax was 37%, higher than prior year.

The rate increase included a one-off element and was caused by challenges in obtaining full benefit from available tax losses and credits in our US business, which resulted in a write down to deferred tax assets. We aim to make changes to our tax structure to improve this situation and therefore the future tax rate.

Adjusted basic and Adjusted diluted earnings per share decreased by 49% to 81.9 pence and 49% to 81.8 pence respectively (2022: 160.6 pence and 160.1 pence).

Adjustments

In 2023, the Group incurred costs of £15.4 million (2022: costs of £68.2 million) which we consider to be Adjustments and have therefore excluded them when calculating Adjusted profit before tax. These are summarised below:

Income / (cost) impact by Income Statement line £ million			2023			2022
	Operating profit	Net finance expense	**Profit before tax**	Operating profit	Net finance expense	**Profit before tax**
Restructuring costs	(2.7)	-	**(2.7)**	-	-	**-**
Site double running costs	(2.6)	(2.4)	**(5.0)**	-	-	**-**
Supply chain transformation	(2.7)	-	**(2.7)**	-	-	**-**
Comet legal case	(2.1)	-	**(2.1)**	(59.7)	-	**(59.7)**
Amortisation of acquired intangibles	(3.2)	-	**(3.2)**	(4.1)	-	**(4.1)**
ERP implementation	(0.3)	-	**(0.3)**	(3.8)	-	**(3.8)**
Acquisition costs	(0.1)	-	**(0.1)**	(2.4)	-	**(2.4)**
Other	0.1	0.6	**0.7**	3.0	(1.2)	**1.8**
Total	(13.6)	(1.8)	**(15.4)**	(67.0)	(1.2)	**(68.2)**

Restructuring costs of £2.7 million include severance payments of £1.8 million, product development write-offs of £0.4 million and a provision of £0.5 million for IT licences that will no longer be used as a result of our restructuring.

Site double running costs totalling £5.0 million arose from the relocation of two leased facilities in California. The lease cost of the new facilities, which under IFRS are accounted for as depreciation and interest, were treated as

Adjustments from the start of the lease to the date of initial occupation. The interest element of the lease cost was £2.4 million with the depreciation and other double running costs totalling £2.6 million. Both facilities are now occupied.

In the Notes to the consolidated financial statements, restructuring costs and site double running costs have been aggregated as a total of £7.7 million, with £5.3 million impacting Operating Profit and an additional £2.4 million impacting Net finance expenses.

Supply chain transformation costs of £2.7 million relate to initial design work for our planned factory in Malaysia and temporary engineering resources employed to transfer manufacturing from the West to Asia.

The Chief Executive Officer's Review provides an update on the Comet legal proceedings. The cost of £2.1 million in 2023 largely relates to legal fees incurred in filing our appeal in the case. This is significantly lower than the £59.7 million charged in 2022, which comprised £52.2 million of costs directly relating to the dispute and an associated intangible asset impairment of £7.5 million.

Adjusting items also includes a tax charge of £10.4 million. This includes a £3.2 million tax credit in respect of the costs above plus a £13.6 million charge relating to the Comet legal case. The latter entry reverses a tax credit of £13.6 million booked in the prior year. In 2022, we assumed we would be able to deduct the Comet legal settlement cost from taxable profit in the US. We now recognise this will be challenging for the reasons set out in the previous section.

Other items include a £0.1 million charge relating to fair value gain on derivative financial instruments (2022: £0.1 million charge) impacting operating profit. In addition, there is a £0.6 million gain (2022: £1.0 million loss) relating to modification of Revolving Credit Facility impacting net finance expense. In 2022, there was also a £3.2 million foreign exchange gain on the Euro-denominated loan relating to the FuG and Guth acquisitions.

We challenge ourselves to keep the list of Adjustments to an appropriate minimum. It is very important that we continue to do such that the gap between Adjusted and Reported results is as narrow as possible going forward.

Free Cash Flow

Reported £ million	**2023**	2022
Operating profit / (loss)	**24.5**	(24.1)
Depreciation, amortisation & impairment	**22.6**	25.4
EBITDA	**47.1**	**1.3**
Change in working capital	**14.0**	(33.5)
Provision for Comet legal case	**-**	46.9
Other items	**1.3**	(12.6)
Operating cash flow	**62.4**	**2.1**
Net capital expenditure – Product development costs	**(9.5)**	(8.0)
Net capital expenditure – Other assets	**(30.5)**	(11.4)
Purchase of bond receivable for Comet legal case	**-**	(36.9)
Net interest paid	**(11.9)**	(5.5)
Tax paid	**(4.9)**	(4.1)
Other items	**(2.3)**	(5.8)
Free cash flow	**3.3**	**(69.6)**

Cash generated from operations increased significantly in the year, particularly in the second half. This arose almost exclusively from working capital. Working capital reduced by £1.2 million in the first half and £12.8 million in the second half, reflecting efforts to reduce raw material inventory and work in progress. Stock levels reduced by £22.8 million in the year to £91.6 million, with the closing balance representing 181 inventory days. Further optimisation is expected.

The additional operating cash flow was absorbed by increased capital expenditure and debt interest payments.

Capital expenditure on property, plant, equipment and software totalled £30.5 million (2022: £11.4 million). This included investment in two new sites in California and construction of a new factory in Malaysia. The leases for the previous sites in California expired and we were not able to extend them, necessitating relocating to new leased premises, with associated refurbishment and fit out. The total capex cost of these new sites is expected to be £24.2 million, with £16.6 million spent in 2023 and the balance due in 2024. The Malaysia site remains an important long-term investment to provide flexible low-cost manufacturing capacity. Construction of the facility was suspended in late 2023. Total spend in 2023 was £6.0 million, with a residual amount of £3.0 million to be paid in early 2024 for contracted work up until the point of suspension. Minimal capex spend is expected on the project thereafter until early

2025. Residual payments from 2023's major projects are expected to result in capital expenditure of approximately £25 million in 2024, including capitalised product development costs.

Funding plan

The Group started 2023 with relatively high borrowing, with net debt equalling 2.7x Adjusted EBITDA. The market slowdown in the second half, combined with spending on major projects above, made it challenging for the Group to de-lever. We responded in late 2023 by implementing a comprehensive funding plan. This consisted of three elements: management actions, amendments to the Group's borrowing facility and a share placing.

Management actions

Management actions consisted of:

- Headcount reductions and restrictions on discretionary spend, with an expected full year benefit to EBITDA of £8-10 million.
- Expected inventory reduction of £10-20 million by the end of 2025
- Standardisation of supplier payment terms
- Capex reduction to discretionary levels
- Dividend suspension

Cost reduction actions have now been taken and the benefit is tracking in the middle of the expected range. Further actions being taken at the time of this report are expected to lower the cost base by a further c.£3 million annually.

The reduction in inventory is ahead of schedule, as explained above.

Standardisation of supplier payment terms is underway. We have identified c.50 suppliers, with whom we spend c. $30m annually, whose terms need standardisation. Terms have been extended with suppliers representing 15% of this spend. We expect progress to accelerate in the first half of 2024.

Capex spend for 2024 has been reduced to maintenance levels beyond the residual spend on major projects as explained above.

Amendments to the Group's borrowing facility

In October 2023, we received unanimous support from our banking syndicate for the following amendments to the terms of our Revolving Credit Facility:

- Leverage ratio: Net debt to Adjusted EBITDA covenant limit increased to 3.5x until 31 December 2024, returning to 3.0x thereafter

- Interest cover: Adjusted EBITDA to Adjusted Net Finance Expense covenant floor reduced to 3.0x until 30 September 2025, returning to 4.0x thereafter.

Share placing

During the year the Group generated net proceeds of £44.0 million from issuing additional shares equal to 20% of the share capital of the Company. The shares were issued at a premium to the then prevailing market price and were over-subscribed.

Funding position at year-end

Following implementation of the funding plan, net debt at 31 December 2023 was £112.7 million (31 December 2022: £151.0 million). Our gross cash balance was £13.5 million (31 December 2022: £23.4 million).

Key financing ratios at 31 December 2023 were as follows:

- Leverage ratio: Net Debt to Adjusted EBITDA of 2.0x (2022: 2.7x)

- Interest cover: Adjusted EBITDA to Adjusted Net Finance Expense of 4.8x (2022: 16.8x),

- £73.1 million of undrawn headroom within the Group's committed bank facility. The facility matures in June 2026 with a one-year extension option (subject to lender consent).

Therefore, at 31 December 2023 the Group was comfortably in compliance with its banking covenants and had ample funding liquidity. At this date, it would have required:

- an increase in Net Debt of £81 million (or 72%) or a reduction in Adjusted EBITDA of £23 million (or 42%) to breach the leverage ratio

- a reduction in EBITDA of £21 million (38%) or an increase in Net Finance Costs of £7 million (61%) to breach the interest cover covenant.

The Director's assessment of going concern has involved consideration of the Group's forecast covenant position in both a base case and a severe but plausible downside case. The Group is forecast to remain in compliance with its covenants in both the base and downside cases, albeit with relatively modest additional headroom in the case of the latter. The Group has ample borrowing liquidity in either scenario. Further details can be found in Note 1 of the consolidated financial statements. The Viability Statement is set out in the 2023 Annual Report and Accounts.

Dividends and capital allocation

In late 2023, the Board took the difficult decision to suspend dividend payments as part of the funding plan described above. Therefore, no final dividend is proposed for the fourth quarter of 2023. Dividends previously declared for 2023 are 18.0 pence (2022: 94.0 pence).

Dividends remain an important part of the Group's long-term capital allocation strategy. However, the Board believes it is in the long-term interests of shareholders for debt reduction to be prioritised over shareholder distributions until net debt returns sustainably to our target range of 1-2x Adjusted EBITDA.

Our long-term aim is to operate in a range of 0-1x Adjusted EBITDA.

Matt Webb
Chief Financial Officer

XP Power Limited

Consolidated Income Statement

for the year ended 31 December 2023

£ Millions	Note	Adjusted	Adjustments	2023	Adjusted	Adjustments	2022
Revenue	2	**316.4**	**-**	**316.4**	290.4	-	290.4
Cost of sales		**(185.1)**	*	**(185.1)**	(169.8)	-	(169.8)
Gross profit		**131.3**	*	**131.3**	120.6	-	120.6
Other Income		**-**	**-**	**-**	-	-	*
Expenses							
Distribution and marketing		**(63.5)**	**(6.1)**	**(69.6)**	(54.1)	(4.1)	(58.2)
Administrative		**(3.3)**	**(7.4)**	**(10.7)**	(3.3)	(55.3)	(58.6)
Research and development		**(26.4)**	**(0.1)**	**(26.5)**	(20.3)	(7.6)	(27.9)
Operating profit/(loss)		**38.1**	**(13.6)**	**24.5**	42.9	(67.0)	(24.1)
Net finance expense		**(11.5)**	**(1.8)**	**(13.3)**	(4.9)	(1.2)	(6.1)
Profit/(loss) before tax		**26.6**	**(15.4)**	**11.2**	38.0	(68.2)	(30.2)
Taxation	3	**(9.8)**	**(10.4)**	**(20.2)**	(6.1)	16.7	10.6
Profit/(loss) for the year		**16.8**	**(25.8)**	**(9.0)**	31.9	(51.5)	(19.6)
Attributable to:							
Equity shareholders				**(9.2)**			(20.0)
Non-controlling interests				**0.2**			0.4
Loss for the year				**(9.0)**			(19.6)
Earnings per share:							
Basic earnings/(loss) per share	5	**81.9**	**(127.3)**	**(45.4)**	160.6	(262.6)	(102.0)
Diluted earnings/(loss) per share	5	**81.8**	**(127.1)**	**(45.3)**	160.1	(261.7)	(101.6)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2023

	2023	2022
Loss for the year	**(9.0)**	(19.6)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(5.3)**	7.2
	(5.3)	7.2
Items that will not be reclassified subsequently to profit or loss:		
Currency translation differences arising from consolidation	*	*
Other comprehensive (loss)/profit for the year, net of tax	**(5.3)**	7.2
Total comprehensive loss for the year	**(14.3)**	(12.4)

*Balance is less than £100,000.

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

XP Power Limited

Consolidated Balance Sheet

As at 31 December 2023

£ Millions	Note	2023	2022
ASSETS			
Current assets			
Cash and cash equivalents		**12.0**	22.3
Inventories		**91.6**	114.4
Trade receivables		**43.1**	42.4
Bond receivable		**36.7**	37.0
Other current assets		**8.1**	8.0
Derivative financial instruments		**-**	*
Current income tax recoverable		**0.5**	2.5
Total current assets		**192.0**	226.6
Non-current assets			
Cash and bank balances		**1.4**	1.1
Goodwill		**75.6**	77.5
Intangible assets		**63.1**	69.9
Property, plant and equipment		**59.5**	36.6
Right-of-use assets		**54.0**	54.9
Deferred income tax assets		**0.7**	15.1
ESOP loan to employees		*****	*
Other investment		*****	*
Total non-current assets		**254.3**	255.1
Total assets		**446.3**	481.7
LIABILITIES			
Current liabilities			
Current income tax liabilities		**5.0**	4.8
Trade and other payables		**48.3**	52.6
Derivative financial instruments		**-**	0.1
Lease liabilities		**1.4**	2.4
Provisions		**44.9**	46.1
Borrowings	6	**0.4**	0.2
Total current liabilities		**100.0**	106.2
Non-current liabilities			
Accrued consideration		**1.7**	1.5
Borrowings	6	**125.7**	174.2
Deferred income tax liabilities		**9.3**	10.5
Provisions		**1.0**	0.9
Lease liabilities		**53.3**	48.9
Total non-current liabilities		**191.0**	236.0
Total liabilities		**291.0**	342.2
NET ASSETS		**155.3**	139.5
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**71.2**	27.2
Merger reserve		**0.2**	0.2
Share option reserve		**2.1**	2.5
Treasury shares reserve		*****	*
Translation reserve		**(0.9)**	4.2
Other reserve		**7.6**	6.1
Retained earnings		**74.4**	98.4
		154.6	138.6
Non-controlling interests		**0.7**	0.9
TOTAL EQUITY		**155.3**	139.5

*Balance is less than £100,000.

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

XP Power Limited
Consolidated Statement of Changes in Equity
for the year ended 31 December 2023

£ Millions	Attributable to equity holders of the the Company								Non-controlling interests	Total equity
	Share capital	Share option reserve	Treasury shares reserve	Merger reserve	Translation reserve	Other reserve	Retained earnings	Total		
Balance at 1 January 2022	**27.2**	**5.6**	*****	**0.2**	**(2.9)**	**4.4**	**137.0**	**171.5**	**0.9**	**172.4**
Exercise of share-based payment awards	-	(1.8)	*	-	-	1.8	-	*	-	*
Share-based payment expenses	-	0.1	-	-	-	-	-	0.1	-	0.1
Tax on share-based payment expenses	-	(1.5)	-	-	-	-	-	(1.5)	-	(1.5)
Dividends paid	-	-	-	-	-	-	(18.6)	(18.6)	(0.4)	(19.0)
Acquisition of non-controlling interest	-	-	-	-	-	*	-	*	*	-
Future acquisition of non-controlling interest	-	-	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Exchange difference arising from translation of financial statements of foreign operations	-	0.1	-	-	7.1	-	*	7.2	*	7.2
(Loss)/profit for the year	-	-	-	-	-	-	(20.0)	(20.0)	0.4	(19.6)
Total comprehensive income/(loss) for the year	-	0.1	-	-	7.1	-	(20.0)	(12.8)	0.4	(12.4)
Balance at 31 December 2022	**27.2**	**2.5**	*****	**0.2**	**4.2**	**6.1**	**98.4**	**138.6**	**0.9**	**139.5**
Exercise of share-based payment awards	-	(1.2)	*	-	-	1.6	*	0.4	-	0.4
Share-based payment expenses	-	1.1	-	-	-	-	-	1.1	-	1.1
Tax on share-based payment expenses	-	(0.2)	-	-	-	-	-	(0.2)	-	(0.2)
Issuance of shares	44.0	-	-	-	-	-	-	44.0	-	44.0
Dividends paid	-	-	-	-	-	-	(14.8)	(14.8)	(0.3)	(15.1)
Future acquisition of non-controlling interest	-	-	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Exchange difference arising from translation of financial statements of foreign operations	-	(0.1)	-	-	(5.1)	-	*	(5.2)	(0.1)	(5.3)
(Loss)/profit for the year	-	-	-	-	-	-	(9.2)	(9.2)	0.2	(9.0)
Total comprehensive income for the year	-	(0.1)	-	-	(5.1)	-	(9.2)	(14.4)	0.1	(14.3)
Balance at 31 December 2023	**71.2**	**2.1**	*****	**0.2**	**(0.9)**	**7.6**	**74.4**	**154.6**	**0.7**	**155.3**

*Balance is less than £100,000.
The accompanying notes form an integral part of these financial statements.

XP Power Limited
Consolidated Statement of Cash Flows
for the financial year ended 31 December 2023

£ Millions	Note	2023	2022
Cash flows from operating activities			
Loss for the year		**(9.0)**	(19.6)
Adjustments for:			
- Taxation	3	**20.2**	(10.6)
- Amortisation and depreciation		**20.1**	17.6
- Net finance expense		**13.3**	6.1
- Share-based payment expenses		**1.1**	0.1
- Fair value gain on derivative financial instruments		**(0.1)**	(0.1)
- Loss on disposal of property, plant and equipment		*	*
- Impairment loss on intangible assets		**2.5**	7.8
- Gain on disposal on rights-of-use of assets		**(0.1)**	-
- Unrealised currency translation loss/(gain)		**0.3**	(12.6)
- Provision for doubtful debts		**0.1**	*
- Provision for legal dispute		**-**	46.9
Change in working capital, net of effects from acquisitions:			
- Inventories		**17.4**	(24.8)
- Trade and other receivables		**(3.1)**	(9.5)
- Trade and other payables		**(1.8)**	0.2
- Provision for liabilities and other charges		**1.5**	0.6
Cash generated from operations		**62.4**	2.1
Income tax paid, net of refund		**(4.9)**	(4.1)
Net cash provided by/(used in) operating activities		**57.5**	(2.0)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**-**	(33.0)
Purchases and construction of property, plant and equipment		**(30.6)**	(7.5)
Additions of development costs		**(9.5)**	(8.0)
Additions of software and software under development		*	(3.9)
Purchase of bond receivables		**-**	(36.9)
Proceeds from disposal of property, plant and equipment		**0.1**	*
Proceeds from repayment of ESOP loans		**-**	*
Interest received		**0.1**	*
Payment of accrued consideration		**-**	*
Net cash used in investing activities		**(39.9)**	(89.3)
Cash flows from financing activities			
Proceeds from issuance of new ordinary shares		**44.0**	-
Proceeds from borrowings		**14.5**	170.3
Repayment of borrowings		**(55.7)**	(35.6)
Principal payment of lease liabilities		**(2.7)**	(5.8)
Proceeds from exercise of share-based payment awards		**0.4**	*
Interest paid		**(12.0)**	(5.5)
Dividend paid to equity holders of the Company		**(14.8)**	(18.6)
Dividend paid to non-controlling interests		**(0.3)**	(0.4)
Bank deposit pledged		**(0.4)**	(1.1)
Net cash (used in)/provided by financing activities		**(27.0)**	103.3
Net (decrease)/increase in cash and cash equivalents		**(9.4)**	12.0
Cash and cash equivalents at beginning of financial year		**22.1**	8.8
Effects of currency translation on cash and cash equivalents		**(0.7)**	1.3
Cash and cash equivalents at end of year		**12.0**	22.1

*Balance is less than £100,000.
The accompanying notes form an integral part of these financial statements.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2023

1. Basis of preparation

This financial information is presented in Pounds Sterling and has been prepared in accordance with the provisions of the Singapore Financial Reporting Standards (International) ("SFRS(I)") and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Going concern

The Group has available to it a US $ denominated Revolving Credit Facility (RCF) of $255 million (£200 million). The facility matures in June 2026 and therefore is committed throughout the minimum period for which going concern is assessed, which is 12 months from the date of signing these financial statements.

At 31 December 2023, the Group had drawn down $162 million (£127 million) against this, leaving undrawn facility headroom of more than £73 million.

In late 2023, financial covenants within the RCF agreement were amended as follows as part of the Funding Plan described in the Chief Financial Officer's Review:

- Leverage ratio: Net Debt to Adjusted EBITDA of not more than 3.5x until 31 December 2024, returning to not more than 3.0x thereafter
- Interest cover: Adjusted EBITDA to Adjusted Net Finance Expense to not less than 3.0x until 30 September 2025, returning to not less than 4.0x thereafter

Both covenants are tested quarterly.

As part of its going concern review, the Group developed base and severe but plausible downside scenarios, assessing forecast liquidity and covenant compliance in each case.

The key assumption in both scenarios is revenue, particularly revenue beyond the initial six-month period for which the business already has visibility via existing sales orders. Revenue in this period, H2 2024 in this case, will be determined by, amongst other things, the assumed timing of the semiconductor equipment market upcycle and when any overstocking in the sales channel will be cleared. Other key assumptions relate to the impact of available mitigating actions and future interest rates.

Given that the Group's borrowings are US $ denominated, net debt and therefore the leverage ratio can be impacted by future movements in the US $ exchange rate. In both Cases below, the US $ exchange rate is assumed to be $1.26.

Base Case

The Group's Base Case scenario is that the slowdown in revenue that commenced in mid-2023 will continue until mid-2024 before recovering thereafter as excess channel inventory is cleared and demand returns to the Semiconductor Manufacturing Equipment market. This results in a 14% decline in revenue between 2023 and 2024 in total.

The impact of this is mitigated by management actions to reduce costs, as set out in the Chief Financial Officer's Review.

The Base Case assumes SOFR reduces gradually to 4.25% by 31 December 2024, in line with current market expectations, lowering interest costs. The Group has capped the variable interest rate applicable to the majority of its borrowings at a rate slightly above the current SOFR.

In the Base Case, the Group remains in full compliance with its financial covenants and with ample liquidity throughout the going concern assessment period.
The lowest point of headroom in the Leverage Ratio covenant is at 30 September 2024. EBITDA would need to fall c.32% short of expectations in the period 1 January to 30 September 2024 for a breach to occur. Note that the current order book covers nearly all of the first half's revenue.

The lowest point of headroom in the Interest Cover covenant is at 30 September 2024. EBITDA would need to fall c.24% short of expectations in the period 1 January to 30 September 2024 for a breach to occur.

Downside Case

In the severe but plausible downside scenario, the slowdown in revenue that commenced in mid-2023 continues throughout 2024 with no recovery. This results in a 18% decline in revenue between 2023 and 2024 in total, with the additional 4% decline versus the Base Case arising in H2 2024.

This case assumes a £5.0m reduction in annualised overheads, implemented from the start of H2 2024, which reduces overheads for 2024 by 3.0%, in addition to the reductions assumed in the Base Case.

The interest rate assumption is the same as the Base Case.

In the Downside Case, the Group remains compliant with its financial covenants, albeit with lower headroom, and with ample liquidity throughout the going concern assessment period.

The lowest point of headroom in the Leverage Ratio covenant is 31 December 2024. EBITDA would need to fall c.18% short of expectations in 2024 for a breach to occur.

The lowest point of headroom in the Interest Cover covenant is 31 December 2024. EBITDA would need to fall c.4% short of expectations in 2024 for a breach to occur.

The Group's funding position has improved considerably due to the Funding Plan implemented in late 2023. New funds have been raised from a share Placing, covenant terms were amended with the support of all the Group's lenders, and actions were taken to preserve cash and reduce costs. Actions taken to reduce cost illustrate the Group's ability to respond to changed circumstances robustly and the benefit of these actions is now coming through.

The Directors are confident that the Base Case and Downside Case, including the benefit of the Funding Plan, provides an appropriate basis for the going concern assumption to be applied in preparing the financial statements, whilst recognising lower headroom in the Downside Case.

2. Segmental reporting

The Group is organised on a geographic basis. The Group's products are a single class of business; however, the Group is also providing information in respect of sales by end market to assist the readers of this report.

The revenue by class of customer and location of the design win is as follows:

£ Millions	**Europe**	**North America**	**Asia**	**2023 Total**	Europe	North America	Asia	2022 Total
Semiconductor Manufacturing Equipment	**3.4**	**86.0**	**12.8**	**102.2**	2.7	93.8	16.9	113.4
Industrial Technology	**67.6**	**54.0**	**14.7**	**136.3**	61.3	44.5	13.8	119.6
Healthcare	**26.8**	**44.5**	**6.6**	**77.9**	22.5	28.9	6.0	57.4
Total	**97.8**	**184.5**	**34.1**	**316.4**	86.5	167.2	36.7	290.4

Revenue of £56.6 million (2022: £48.3 million) is derived from a single external customer. This is attributable to the semiconductor manufacturing equipment sector across all geographical regions.

Reconciliation of segment results to loss for the year:

£ Millions	**2023**	**2022**
Europe	**24.2**	21.5
North America	**55.1**	48.5
Asia	**11.9**	10.5
Segment results	**91.2**	80.5
Research and development	**(21.9)**	(19.8)
Manufacturing	**(11.5)**	(3.7)
Corporate cost from operating segment	**(19.7)**	(14.1)
Adjusted operating profit	**38.1**	42.9
Net finance expense	**(13.3)**	(6.1)

Adjustments – as set out below	**(13.6)**	(67.0)
Profit/(loss) before tax	**11.2**	(30.2)
Taxation	**(20.2)**	10.6
Loss for the year	**(9.0)**	(19.6)

Reconciliation of adjusted measures

Adjusted measures

The Group presents adjusted operating profit and adjusted profit before tax by adjusting for costs and profits which management believes to be significant by virtue of their size, nature, or incidence or which have a distortive effect on current year earnings. Such items may include, but are not limited to, costs associated with business combinations, gains and losses on the disposal of businesses, fair value movements, restructuring charges, acquisition related costs and amortisation of intangible assets arising from business combinations.

In addition, the Group presents adjusted profit for the year by adjusting for certain tax charges and credits which management believe to be significant by virtue of their size, nature, or incidence or which have a distortive effect.

The Group uses these adjusted measures to evaluate performance and as a method to provide shareholders with clear and consistent reporting. See below for a reconciliation of operating profit to adjusted operating profit, profit before tax to adjusted profit before tax and profit for the year to adjusted profit for the year. Further details relating to these adjustments are provided in the Chief Financial Officer's Review.

(i) A reconciliation of operating profit to adjusted operating profit is as follows:

£ Millions	**2023**	**2022**
Operating profit/(loss)	**24.5**	(24.1)
Adjusted for:		
Restructuring costs	**5.3**	0.1
Global supply chain transformation	**2.7**	-
Costs relating to legal dispute	**2.1**	52.2
Impairment of intangible assets	*	7.5
Amortisation of intangible assets acquired from business combinations	**3.2**	4.1
Costs related to Enterprise Resource Planning system implementation	**0.3**	3.8
Acquisition costs	**0.1**	2.4
Foreign exchange gain on loan drawn down to finance acquisition	**-**	(3.2)
Revolving credit facility fees	*	0.2
Fair value adjustments on derivative financial instruments	**(0.1)**	(0.1)
	13.6	67.0
Adjusted operating profit	**38.1**	42.9

(ii) A reconciliation of profit before tax to adjusted profit before tax is as follows:

£ Millions	**2023**	**2022**
Profit/(loss) before tax	**11.2**	(30.2)
Adjusted for:		
Restructuring costs	**7.7**	0.3
Global supply chain transformation	**2.7**	-
Costs relating to legal dispute	**2.1**	52.2
Impairment loss on intangible assets	*	7.5
Amortisation of intangible assets acquired from business combination	**3.2**	4.1
Costs related to Enterprise Resource Planning system implementation	**0.3**	3.8
Acquisition costs	**0.1**	2.4
Foreign exchange gain on loan drawn down to finance acquisition	**-**	(3.2)
Revolving credit facility fees	*	0.2
(Gain)/loss on modification of revolving credit facility	**(0.6)**	1.0
Fair value gain on derivative financial instruments	**(0.1)**	(0.1)
	15.4	68.2
Adjusted profit before tax	**26.6**	38.0

(iii) A reconciliation of profit for the year to adjusted profit for the year is as follows:

£ Millions	2023	2022
Loss for the year	**(9.0)**	(19.6)
Adjusted for:		
Restructuring costs	**7.7**	0.3
Global supply chain transformation	**2.7**	-
Costs relating to legal dispute	**2.1**	52.2
Impairment loss on intangible assets	*	7.5
Amortisation of intangible assets acquired from business combinations	**3.2**	4.1
Costs related to Enterprise Resource Planning system implementation	**0.3**	3.8
Acquisition costs	**0.1**	2.4
Foreign exchange gain on loan drawn down to finance acquisition	**-**	(3.2)
Revolving credit facilities fees	*	0.2
(Gain)/loss on modification of revolving credit facility	**(0.6)**	1.0
Fair value gain on derivative financial instruments	**(0.1)**	(0.1)
Non-recurring tax charge/(benefits)[1]	**10.4**	(16.7)
	25.8	51.5
Adjusted profit for the year	**16.8**	31.9

[1] Adjusted for tax on specific items relating to completed acquisitions of £16,526 (2022: £0.6 million), gain on foreign exchange impact on Euro-denominated loan drawn down to finance the acquisition of £nil million (2022: £0.5 million), costs related to Enterprise Resource Planning system implementation of £49,878 (2022: £0.8 million), costs relating to legal dispute of £0.5 million (2022: £13.6 million), impairment of intangible assets of £5,272 (2022: £2.0 million), gain on modification of revolving credit facility of £0.1 million (2022: £ 0.2 million), restructuring cost of £1.9 million (2022: £30,117), global supply chain transformation £0.7 million (2022: £nil), fair value impact on derivative financial instruments of £15,775 (2022: £22,462) and tax loss relating to legal claim £13.6 million (2022: £nil).

3. Income taxes

£ Millions	2023	2022
Singapore corporation tax:		
- current year	**3.6**	2.8
- over provision in prior financial year	**(0.3)**	(0.2)
Overseas corporation tax:		
- current year	**3.3**	4.1
- under/(over) provision in prior financial year	*	*
Withholding tax	**0.6**	0.6
Current income tax	**7.2**	7.3
Deferred income tax:		
- current year	**13.7**	(17.1)
- over provision in prior financial years	**(0.7)**	(0.8)
Tax expense/(income)	**20.2**	(10.6)

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions at the balance sheet date.

The differences between the total income tax expense shown above and the amount calculated by applying the standard rate of Singapore income tax rate to the profit before income tax are as follows:

£ Millions	2023	2022
Profit/(loss) before income tax	**11.2**	(30.2)

Tax on profit/(loss) at standard Singapore tax rate of 17% (2022: 17%)	**1.9**	(5.1)
Tax incentives	**(0.9)**	(0.5)
Higher rates of overseas corporation tax	**(0.9)**	(4.6)
Deduction for employee share options	*	0.2
Non-deductible expenditure	**1.1**	1.0
Non-taxable income	**(0.2)**	(1.0)
Deferred tax effect of change in tax rate	**0.4**	(0.2)
Deferred tax asset on tax losses and wear and tear allowances not provided for	**5.8**	-
Over provision of tax in prior financial years	**(1.0)**	(1.0)
Deferred tax arising from adjustments to the value of deferred tax assets	**13.4**	-
Withholding tax	**0.6**	0.6
Tax expense/(income)	**20.2**	(10.6)

4. Dividends

Amounts recognised as distributions to equity holders in the period:

	2023		2022	
	Pence per share	**£ Millions**	Pence per share	£ Millions
Prior year third quarter dividend paid	**21.0***	**4.1**	21.0	4.1
Prior year final dividend paid	**36.0***	**7.1**	36.0	7.1
First quarter dividend paid	**18.0^**	**3.6**	18.0*	3.6
Second quarter dividend paid	**-**	**-**	19.0*	3.8
Total	**75.0**	**14.8**	94.0	18.6

* Dividends in respect of 2022 (94.0p).
^ Dividends in respect of 2023 (18.0p).

No further dividends are proposed in respect of 2023 financial year.

5. Earnings per share

The calculations of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company are based on the following data:

£ Millions	**2023**	2022
Loss for the purposes of basic and diluted (loss/)earnings per share		
Loss attributable to equity holders of the Company	**(9.2)**	(20.0)
Loss for earnings per share	**(9.2)**	(20.0)
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**20,281**	19,616
Effect of potentially dilutive share options (thousands)	**23**	63
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**20,304**	19,679
(Loss)/earnings per share:		
Basic	**(45.4)p**	(102.0)p

Basic adjusted*	**81.9p**	160.6p
Diluted	**(45.3)p**	(101.6)p
Diluted adjusted*	**81.8p**	160.1p

*Reconciliation to compute the adjusted earnings from operations is as per below:

£ Millions		
Earnings for the purposes of basic and diluted earnings per share		
Loss attributable to equity holders of the Company	**(9.2)**	(20.0)
Restructuring costs	**7.7**	0.3
Global supply chain transformation	**2.7**	-
Costs relating to legal dispute	**2.1**	52.2
Impairment loss on intangible assets	*	7.5
Amortisation of intangible assets acquired from business combination	**3.2**	4.1
Costs related to Enterprise Resource Planning system implementation	**0.3**	3.8
Acquisition costs	**0.1**	2.4
Foreign exchange gain on loan drawn down to finance acquisition	**-**	(3.2)
Revolving credit facilities fees	*	0.2
(Gain)/loss on modification of revolving credit facility	**(0.6)**	1.0
Fair value gain on derivative financial instruments	**(0.1)**	(0.1)
Non-recurring tax charge/(benefits)	**10.4**	(16.7)
Adjusted earnings for the purposes of basic adjusted and diluted adjusted earnings per share	**16.6**	31.5

6. Borrowings

The Group's debt is sourced from a US$ 255m Revolving Credit Facility ("RCF"). The RCF facility is committed until June 2026. The facility has no fixed repayment terms until maturity. The revolving loan is priced based on the Secured Overnight Financing Rate (SOFR) administered by the Federal Reserve Bank of New York plus a margin. The margin applicable to drawn amounts range from 1.5-3.25%, depending on the Net Debt:Adjusted EBITDA ratio for the previous quarter. The non-utilisation fee payable for the undrawn element of the facility is priced at 40% of the margin applicable to drawn amounts.

The covenants attaching to the RCF were renegotiated in November 2023. The Net Debt/Adjusted EBITDA covenant was increased to 3.5x until 31 December 2024, returning to 3.0x thereafter. The Adjusted EBITDA/Net Finance Expense covenant was reduced to 3.0x until 30 September 2025, returning to 4.0x thereafter.

The borrowings are repayable as follows:

£ Millions	**2023**	2022
On demand or within one year	**0.4**	0.2
In the second year	**-**	-
In the third year	**125.7**	174.2
In the fourth year	**-**	-
Total	**126.1**	174.4

All loan covenants have been complied with as at 31 December 2023.

7. Principal risks and uncertainties

Board Responsibility

The Group has well established risk management processes to identify and assess risks. The Group's principal risks are regularly reviewed by the Board and are mapped onto a risk universe from which risk mitigation or reduction can be tracked and managed. This helps facilitate further discussions regarding risk appetite and draws out the risks that require a greater level of attention.

Disruption to manufacturing

An event that results in the temporary or permanent loss of a manufacturing facility could result in the Group being unable to sell products to customers. This could include climate-related events, such as severe weather, or government-imposed restrictions or compulsory purchase orders. As the Group manufactures approximately 80% of revenues, this would cause a short-term loss of revenues and profits and disruption to our customers and therefore would risk reputational damage.

Risk mitigation – We now have two facilities (China and Vietnam) where we can produce most of our power converters. We have disaster recovery plans in place for both facilities.

We have undertaken a risk review with manufacturing management to identify and assess risks which could cause a serious disruption to manufacturing, and identified and implemented actions to reduce or mitigate these risks where possible.

Our key facilities are owned or on long-term leases and we have business interruption insurance in place.

Supply chain risks

The Group is dependent on retaining its key suppliers and ensuring that deliveries are on time and materials supplied are of an appropriate quality.

As the Group makes significant use of its Asian manufacturing footprint to supply US and European markets, it is exposed to any risks relating to threats to global shipping. Whilst alternative routes by sea or air freight can be used, these would come with a time or cost impact.

Whilst global supply chains progressively normalised in 2023, some key product components remain on relatively long lead times, increasing the risk of shortages at the point of manufacture.

Risk Mitigation – Components are dual sourced wherever possible.

We conduct regular audits of our key suppliers.

Appropriate amounts of safety inventory of key components are held and these levels are regularly reviewed with reference to demand and lead times.

We monitor risks to our established transport routes, developing contingency plans and ensuring our customers are kept aware of issues and implications.

Market/customer-related risks

The semiconductor market represents a significant % of Group revenue and is inherently cyclical.

A material proportion of the Group's revenue is derived from its largest customers. Demand for our products may be impacted by gains or losses of business with them, or changes in their inventory levels of our products.

A significant semiconductor downturn could have a material adverse impact on the Group's revenue, profitability and financial condition.

If the Group lost some of its key customers, this could have a material impact on its financial condition and results of operations. However, for the year ended 31 December 2023, no single customer accounted for more than 18% of revenue, and that revenue was spread over a large number of individual programmes.

Risk mitigation - Staying close to our key customers and understanding the end-market to provide visibility of likely market movements.

The Group focuses on providing excellent service. Customer complaints and non-conformances are reviewed monthly by members of the Executive Leadership team.

Whilst visibility of customer inventory levels is naturally limited, our sales teams discuss this with customers wherever possible and reflect it in their demand projections.

Product-related risks

A product recall due to a quality or safety issue would have serious repercussions to the business in terms of potential cost and reputational damage as a supplier to critical systems.

Failure to develop new products or to not respond to new disruptive products/technologies would impact the Group's future revenue stream.

Risk mitigation – We perform 100% functional testing on all own-manufactured products and 100% hi-pot testing, which determines the adequacy of electrical insulation. This ensures the integrity of the isolation barrier between the mains supply and the end user of the equipment. We also test all the medical products that we manufacture to ensure the leakage current is within the medical specifications.

Where we have contracts with customers, we always limit our contractual liability regarding recall costs.

We prioritise investment and work closely with our customers to ensure that our product offering remains market-leading.

IT/data

The Group is reliant on information technology in multiple aspects of the business from communications to data storage. Assets accessible online are potentially vulnerable to theft and customer channels are vulnerable to disruption. Any failure or downtime of these systems or any data theft could have a significant adverse impact on the Group's reputation or its ability to operate.

Risk mitigation – The Group has a defined Business Impact Assessment which identifies the key information assets; replication of data on different systems or in the Cloud; an established backup process in place as well as a robust anti-malware solution on our networks.

Internally produced training materials are used to educate users regarding good IT security practice and to promote the Group's IT policy.

All recommendations from an outsourced internal auditor assessment have been implemented to further mitigate cyber risk and safeguard the Group's assets.

Funding/Treasury

The Group is reliant on external bank funding and needs to comply with the related covenants. The Group could find itself in breach of banking covenants and lose access to its funding.

Changes in interest rate % impacts the interest payments and charges.

The majority of the Group's sales and material purchases are in US dollars, creating a natural transactional hedge. However, a minority of sales and costs are denominated in other currencies, exposing the Group to some transactional risks. The Group faces translation currency risk from reporting in sterling. This could lead to material adverse movements in reported earnings and cash flows.

Risk mitigation - The Group has set a clear and conservative leverage policy and performs detailed and regular cash forecasting to ensure the leverage targets are met.

The Group reviews balance sheet and cash flow currency exposures and, where appropriate, uses forward exchange contracts to hedge these exposures. The Group does not hedge any translation of its subsidiaries' results to sterling for reporting purposes.

Legal & regulatory

The Group operates in multiple jurisdictions with applicable trade and tax regulations that vary. The Group ships product internationally, both in terms of the internal supply chain and from third party supplier and to end customers and also transfers manufacturing from North America to Asia locations. Compliance with export laws is critical. Failing to comply with local regulations could impact the profits and reputation of the Group and its ability to conduct business.

Intellectual property in terms of product design is an important feature of the power converter industry.

The effective tax rate of the Group is affected by where its profits fall geographically. The Group's effective tax rate could therefore fluctuate over time and have an impact on earnings and potentially its share price. It could also fluctuate if an efficient tax structure is not maintained.

Risk mitigation – The Group hires employees with relevant skills and uses external advisers to keep up to date with changes in regulations and to remain compliant.

Export compliance software is in place to monitor customers and sales.

An outsourced internal audit function provides risk assurance in targeted areas of the business and recommendations for improvement. The scope of these reviews includes behaviour, culture, and ethics.

The Group establishes clear healthy and safety policy and procedures.

M&A

The Group may elect to make strategic acquisitions. A degree of uncertainty exists in valuation, particularly in evaluating potential synergies. Post-acquisition risks arise in the form of change of control and integration challenges. Any of these could influence the Group's revenues, operations and financial performance.

Risk mitigation – Preparation of robust business plans and cash projections with sensitivity analysis and the help of professional advisers as appropriate.

Post-acquisition reviews are performed to extract "lessons learned".

People-related risks

The future success of the Group is substantially dependent on the continued services and continuing contributions of its Directors, senior management, and other key personnel. The loss of key employees could have a material adverse effect on the Group's business.

Risk mitigation – The Group undertakes performance evaluations and reviews to help it stay close to its key personnel. Where appropriate, the Group also makes use of financial retention tools such as equity awards.

Climate-related risks

The Group is exposed to climate related risks that can have a negative impact on the business. Severe weather could affect our own locations or the supply chain. Not meeting net zero targets may cause reputational damage and reduced revenue.

Risk Mitigation – Ensure we maintain as flexible a manufacturing footprint as possible to allow us to respond any single-site disruption. We look to have dual-sourced supplies for material purchases and conduct regular review of safety inventories to ensure we have sufficient stocks.

We put relevant policies and KPIs to ensure environmental targets are deliverable.

8. Responsibility Statement

The statements below have been prepared in connection with the Company's full Annual Report and Accounts for the year ended 31 December 2023. Certain parts are not included in this announcement.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Annual Report and Accounts confirm that, to the best of their knowledge:

- that the balance sheet of the Company and consolidated financial statements of the Group, are drawn up in accordance with the applicable set of accounting standards, to give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group for the year ended 31 December 2023; and

- the Annual Report and Accounts includes a fair review of the development and performance of the business and the financial position of the Group and the Company, together with a description of the principal risks and uncertainties they face.

9. Other information

XP Power Limited (the "Company") is listed on the London Stock Exchange and incorporated and domiciled in Singapore. The address of its registered office is 19 Tai Seng Avenue, #07-01, Singapore 534054.

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2022 or 2023. The financial information for the year ended 31 December 2022 is derived from the XP Power Limited statutory accounts for the year ended 31 December 2022, which have been delivered to the Accounting and Corporate Regulatory Authority in Singapore. The auditors reported on those accounts; their report was unqualified. The statutory accounts for the year ended 31 December 2023 will be finalised based on the financial information presented by the Directors in this earnings announcement and will be delivered to the Accounting and Corporate Regulatory Authority in Singapore following the Company's Annual General Meeting.

Whilst the financial information included in this earnings announcement has been computed in accordance with SFRS(I) and IFRS as issued by the IASB, this announcement does not itself contain sufficient information to comply with SFRS(I) and IFRS as issued by the IASB. The Company expects to publish full financial statements that comply with SFRS(I) and IFRS as issued by the IASB.

This announcement was approved by the Directors on 4 March 2024.