



**XP Power**

**ANNUAL REPORT  
& ACCOUNTS**  
for the year ended  
31 December 2018



POWERING THE WORLD'S CRITICAL SYSTEMS

# INTRODUCTION

## WHAT WE DO

We provide our customers in the Healthcare, Industrial, Technology and Semiconductor Manufacturing Equipment sectors with solutions to power their critical systems and get their products to market in the shortest possible time.

Electronic equipment cannot operate directly from the electricity provided by the mains supply which is a relatively high voltage alternating current. All electronic equipment requires the mains supply to be a stable, direct current in order to operate. In addition, we provide power converters which produce radio frequency alternating current (RF Power) used in various processes requiring plasma generation, dielectric or induction heating.

Our electronic power converters are designed-in to our customers' end equipment, often with the aid of our engineering services expertise. Our power solutions also provide the vital safety barrier between the potentially lethal mains supply and the user of the end equipment.

Our target customers provide vital equipment where the cost of downtime or implications of failure are significant.

## OUR PURPOSE

We power the world's critical systems.

## OUR VISION

To be the **first choice** power solutions provider delivering the **ultimate experience** for our customers and **our people**.

## OUR CORE VALUES

Our core values of **Integrity, Knowledge, Flexibility, Speed** and **Customer Focus** are our DNA and are fundamental to our continued success.



XP Power has enjoyed another excellent year, building our position in our chosen markets, expanding our product portfolio both through acquisition and organically. We have made significant progress towards the achievement of our vision of being the first choice power solutions provider, delivering the ultimate experience to our customers and our people.

Our design win pipeline was strong in 2018, boding well for continued future market share and revenue growth. We also continued to move our product portfolio up to higher power and technically more complex applications, and to expand the number of design wins with higher engineering solutions content.

**Duncan Penny**

Chief Executive Officer

5 March 2019

 FOR MORE INFORMATION  
WITHIN THE REPORT

 VISIT US ONLINE AT:  
[HTTP://WWW.XPPOWERPLC.COM/](http://www.xppowerplc.com/)



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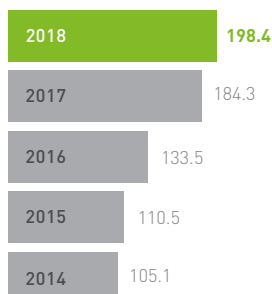
# HIGHLIGHTS IN 2018

## ORDER INTAKE

[£ MILLIONS]

**+8%**

(12% in constant currency)

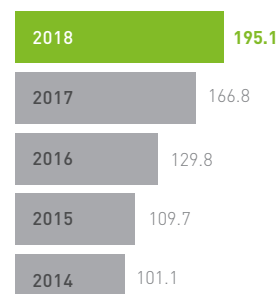


## REVENUE

[£ MILLIONS]

**+17%**

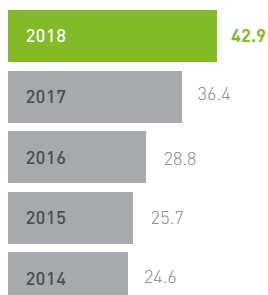
(21% in constant currency)



## ADJUSTED OPERATING PROFIT

[£ MILLIONS]

**+18%**

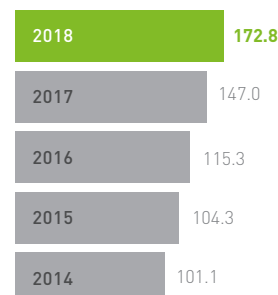


## ADJUSTED DILUTED EARNINGS PER SHARE

[PENCE]

**+18%**

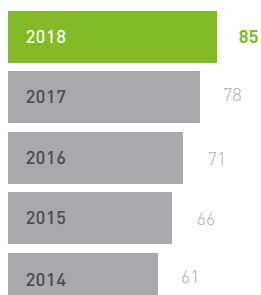
(after adjusting for specific items and non-recurring tax benefits)



## DIVIDEND PER SHARE

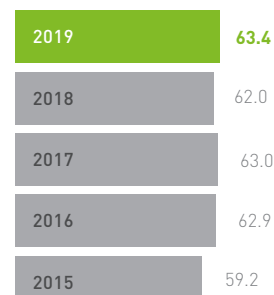
[PENCE]

**+9%**




## EMPLOYEE CULTURAL SURVEY

[SCORE]



## OPERATIONAL HIGHLIGHTS


- Record order intake, revenues and earnings achieved in 2018
- Excellent progress moving up in power and complexity
- Acquisition of Glassman High Voltage enhances product portfolio and expands addressable market
- Completed construction of second manufacturing facility in Vietnam


 For more information on our performance please see pages 24 to 35





# OUR INVESTMENT PROPOSITION


- +** Exposure to a **broad cross section** of end markets Industrial, Healthcare, Technology and Semifab – but with no direct exposure to consumer electronics.


 FOR MORE INFORMATION ON OUR MARKETPLACE PLEASE SEE PAGES 10 AND 11
- +** A **diverse customer base** of over 4,500 active customers, with no one customer accounting for more than 14% of revenue.


 FOR MORE INFORMATION ON OUR MARKETPLACE DRIVERS PLEASE SEE PAGES 10 AND 11
- +** A **growing** penetration of a global, blue-chip customer base.


 FOR MORE INFORMATION ON OUR GROWTH DRIVERS PLEASE SEE PAGES 12 AND 13
- +** **Powerful customer relationship** management tools which allow the efficient management of our customer base and identification of pricing and product trends that enable the development of appropriate, innovative new products.

 FOR MORE INFORMATION ON OUR BUSINESS MODEL PLEASE SEE PAGE 14
- +** An established broad portfolio of leading **“Green”** products which operate at high efficiency.

 FOR MORE INFORMATION ON OUR COMMITMENTS TO SUSTAINABILITY PLEASE SEE PAGES 42 AND 43
- +** **Revenue annuity** – although design-in cycles are often long, once our power converters are approved for use in our customer’s end equipment, XP Power enjoys a revenue annuity for the lifetime of the customer’s equipment, which is typically seven years.

 FOR MORE INFORMATION ON OUR REVENUE PLEASE SEE PAGE 15
- +** **Attractive margins** and lower capital investment requirements when compared to many manufacturing industries, resulting in strong free cash flow and margins that are amongst the highest in the industry.

 FOR MORE INFORMATION ON OUR PERFORMANCE PLEASE SEE PAGES 24 AND 25
- +** **Progressive Dividend** – the business model allows for a progressive dividend which is paid quarterly.

 FOR MORE INFORMATION ON OUR DIVIDEND PLEASE SEE PAGE 16



# XP POWER AT A GLANCE

XP Power's portfolio of leading-edge, ultra-high efficient products are helping the world's leading manufacturers to create new technologies and products.

## WHAT XP POWER DO

Our power converters live inside the world's critical systems, taking the electrical mains supply from the grid and converting it into the correct form of electricity to power our customers' equipment in critical applications in the healthcare, industrial, semiconductor equipment manufacturing and technology industries.

The design and integration of these essential power conversion devices into the end equipment they power involves many challenges and trade-offs. The result is a unique set of requirements from the customers who themselves are constantly attempting to differentiate their equipment from their competitors.

Our long-term investment in research and development and excellent customer service has positioned XP Power as a key partner for the world's leading manufacturers of critical capital equipment.

## OUR POWERFUL OFFERING

- Broad, leading-edge product line with ultra-high efficiency
- Class-leading manufacturing ensuring excellent quality, reliability and competitive cost
- Class-leading customer service and support through our highly knowledgeable and experienced sales team and power systems engineers
- Engineering on three continents providing excellent support during design-in to reduce time to market

## THE OFFERING ENABLES US TO MEET OUR CUSTOMERS' REQUIREMENTS

Our offering and expertise enables us to meet the requirements of our customers. Through the transition from a specialist distributor, to designer, to design manufacturer, we have a unique understanding of our customers and market. Our business model is to sell directly to our key customers, who sit in four market sectors: healthcare, industrial, semiconductor equipment manufacturing and technology.

## POWER OF OUR GLOBAL REACH

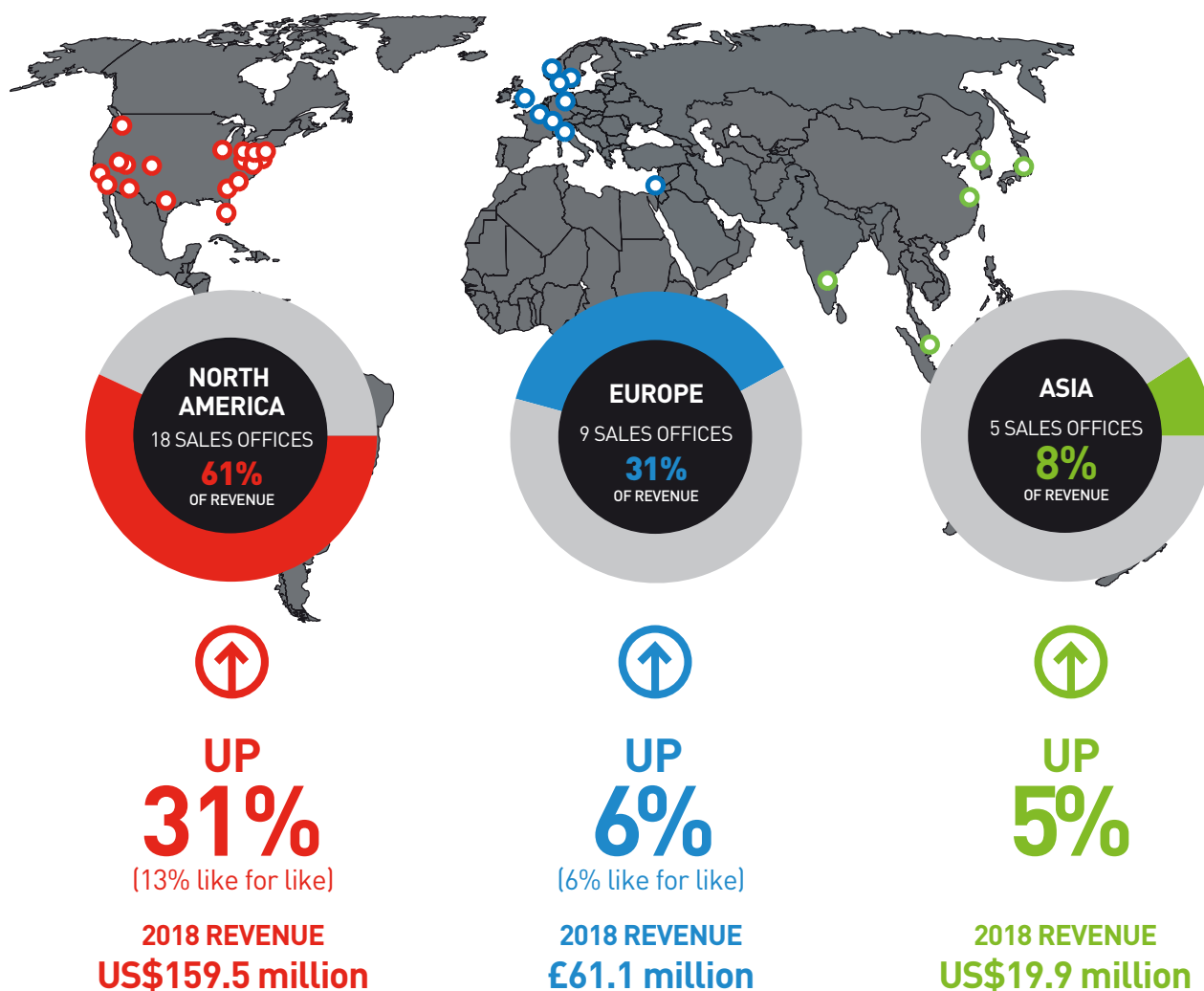
Our global reach and target sectors help insulate us from market volatility.

Our customers are leading original equipment manufacturers (OEM) in their respective sectors. We do not have any direct exposure to consumer electronics or high-volume, low margin business seen in the computing, data centre and office equipment industries.

The equipment our products power is often mission-critical so quality and reliability are paramount. Cost, although important, is normally a secondary consideration for our customers.

Increasingly, the design and manufacturing processes of major international Original Equipment Manufacturers takes place across different continents, with these blue-chip companies demanding global support. In response, XP Power has established an international network of offices which offers the necessary customer support across technical sales, design engineering, logistics and operations.

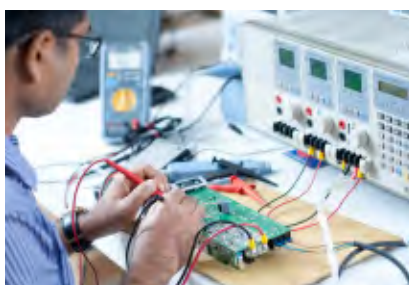
This network gives XP Power a strong competitive advantage over both its smaller competitors, who do not have the scale and geographic reach to serve global customers, and its larger competitors, who often lack the operational flexibility to provide excellent service and speed that customers seek. We believe that this balance is key to our success in winning new contracts and offers XP Power the opportunity to further increase its market share.



### NORTH AMERICA

The North American network consists of 18 sales offices; an extensive engineering solutions function based in Northern California with production facilities in Nevada, Massachusetts and New Jersey, and a design centre in Southern California.

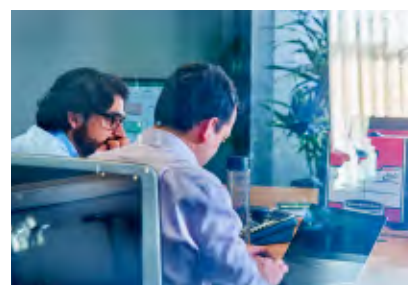
This network allows XP Power to provide its major customers with local, face-to-face support and rapid response times.



### EUROPE

In Europe, the network consists of nine direct sales offices and a further nine distributor offices. In addition, XP Power has engineering solutions centres in Germany and in the UK.

With good coverage across Europe, we have the operational flexibility to provide good quality and timely service.



### ASIA

We have five direct sales offices in Asia run from Singapore, where we also manage a network of seven distributors serving the region. We have engineering solutions capability in Singapore and South Korea to complement our offering to customers in the region.

 For more information on our marketplace please see pages 10 and 11

# OUR PRODUCTS ARE ALL AROUND US - POWERING CRITICAL SYSTEM EVERYWHERE

Every piece of electronic equipment requires a power converter to operate. Numerous products in our daily lives contain our power conversion solutions. They are in factories and industrial units, hospitals and diagnostic laboratories, semiconductor manufacturing facilities, airports, motorways, satellite and cellular base stations, sports stadiums, musical events and many other locations.

## SEMICONDUCTOR FABRICATION

- Deposition
- Wafer handling
- Etch
- Semiconductor test
- Ion implantation

## TECHNOLOGY

- Computing
- Broadcast
- Displays
- Communications
- Security

Examples of just a few of the many applications we power are set out above.





## INDUSTRIAL

- 3D printing
- Process control
- Test & measurement
- Smart grid
- Transport

## HEALTHCARE

- Analytics and Imaging
- Patient monitoring
- Life science
- Surgical tools
- Home healthcare

 VISIT US ONLINE AT:  
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# CHAIRMAN'S STATEMENT



*“2018 was another year of significant progress. We have achieved a third successive year of record revenues and earnings per share demonstrating the strength of our business model and successful execution of our strategy.”*

**James Peters**  
Chairman

## OUR PROGRESS IN 2018

**2018 was another year of significant progress. We have achieved a third successive year of record revenues and earnings per share demonstrating the strength of our business model and successful execution of our strategy. Significantly, we completed the acquisition of Glassman High Voltage which expands our addressable market by an estimated \$500 million and gives us a foothold in an exciting new product segment. In addition, we completed construction of our second manufacturing facility in Vietnam which will start production in Q2 2019.**

exceeding the £184.3 million achieved in 2017, and representing a 12% increase in constant currency. On a like-for-like basis after excluding the acquisitions of Comdel and Glassman, the increase in order intake was 5%. We grew across all our regions and sectors however we did see a slowdown in the semiconductor manufacturing sector in the fourth quarter in line with the wider market and as outlined in our January Trading Update.

Reported profit before tax was £37.6 million (2017: £32.2 million). After adding back acquisition costs, both completed and aborted, of £0.6 million (2017: £3.3 million), costs related to ERP implementation of £0.2 million (2017: £nil) and amortisation of intangible assets due to business combination of £2.8 million (2017: £0.6 million), adjusted profit before tax was £41.2 million (2017: £36.1 million), an increase of 14% over that reported in 2017. Basic earnings per share increased by 6% to 157.8 pence (2017: 148.3 pence). Diluted adjusted earnings per share increased by 18% to 172.8 pence (2017: 147.0 pence).

of our existing target accounts where we still have relatively low market shares. This approach has served the Group well and our conclusion is that we can still continue to grow and take market share by executing this strategy.

## **17% INCREASE IN REVENUE**

During the year the Board completed a review of the Group's strategic progress. It was determined that our strategy was working effectively to grow the Group's revenues, market share in our target sectors and customers and our brand strength as demonstrated by the 18% revenue growth compound annual growth rate performance from 2014 to 2018 whilst building the processes to operate a global supply chain which balances high efficiency with market-leading customer responsiveness. We continue to drive improvements in engineering, the supply chain and manufacturing to support the sales growth we are generating. This includes a project to upgrade our ERP system to the latest version of SAP S/4 Hana across the Group.

## RESULTS

Our financial performance in the year was good. Revenues were £195.1 million, exceeding the prior year total of £166.8 million. This was an increase of 21% in constant currency or an increase of 11% on a like-for-like basis, excluding the acquisitions of Comdel in September 2017 and Glassman in May 2018. Order intake also set a new record of £198.4 million,

## STRATEGY REVIEW

The key essence of the Group's strategy has remained consistent for a significant period of time and is built on the development of a market-leading range of competitive products, either organically or by acquisition, to enable further penetration

## **18% ADJ EPS INCREASE**

*“Record order intake, revenues and earnings achieved”*


## OUR BOARD

Mike Laver, currently an executive director, will not be standing for re-election to the Board at this year's Annual General Meeting. On stepping down from the Board, Mike will retain his operational role as President, Corporate Development.

Peter Bucher, Non-Executive Director retired from the Board on 31 December 2018.

I would like to thank Peter for his contribution to the development of the Group since joining the Board in 2014 and wish him a happy retirement.

Under the new UK Corporate Governance Code that came into effect in 2019, public companies are required to have at least an equal number of non-executive directors to executive directors, excluding the Chairman. To address this requirement, we are actively searching for a replacement for Peter.

 **FOR MORE INFORMATION PLEASE SEE PAGE 54.**

## OUR PEOPLE AND OUR VALUES

The success of an organisation is dependent on its culture and the people and talent within it. The DNA of our business is built around our core values of Integrity, Knowledge, Flexibility, Speed and Customer Focus. We have significant strength and depth within our Company, with the majority of our executives boasting long tenures with XP Power. We have conducted annual employee engagement surveys since 2015 and I am pleased that we have shown strong scores each time we repeat the survey, having taken actions to address any issues arising from the results of the prior survey. One of the main findings from these employee surveys was that our employees are proud to be part of our Company, highlighting the significant engagement we have between the business and our people. Our cultural survey score is one of our non-financial key performance indicators.

As the Group has grown, we have consistently added more talent across the business to build even greater strength and depth and we hired more people in 2018 than in any year in our history. A key focus is engineering where we will continue to add talent to partner effectively with our customers and address all the opportunities we see before us.

## DIVIDEND

Our continued strong financial performance and confidence in the Group's long-term prospects have enabled us to increase dividends consistently since listing in 2000. The Board is recommending a final dividend of 33 pence per share for the fourth quarter of 2018. This dividend will be payable to members on the register on 22 March 2019 and will be paid on 23 April 2019. When combined with the interim dividends for the previous quarters, the total dividend for the year will be 85 pence per share (2017: 78 pence), an increase of 9%.


The compound average growth rate of our dividend has been 15% over the last ten years, demonstrating the Board's commitment to our progressive dividend policy.

*“The compound annual growth rate of our dividend has been 15% over the last ten years.”*

## SUSTAINABILITY

We are committed to the long-term sustainable success of XP Power in all its aspects. We have helped lead the industry in developing “green” products which consume less energy while powering the application or in standby mode. These products reduce CO<sub>2</sub> emissions year over year and are by far the biggest positive impact we can make on the environment.

Sustainability also resonates with our employees. We have adopted energy and water saving practices throughout the Group and have a network of passionate environmental representatives who promote best practice and raise awareness regarding sustainability across our global workforce.

 **FOR MORE INFORMATION PLEASE SEE PAGES 42 AND 43.**

## OUTLOOK

The new financial year has begun against a background of ongoing macroeconomic uncertainty. While we are not immune from the impact of external events, we are encouraged by our start to 2019 in terms of order intake and our healthy order book. On this basis, and with the benefit of the Glassman acquisition, we expect further revenue growth in 2019 but this will be weighted to the second half of the year.



**James Peters**  
Chairman

# OUR MARKETPLACE

We continue to expand our product portfolio to grow our addressable market and provide more products to our key customers where we are already an approved or preferred supplier.

## MACROECONOMIC TRENDS

Electronic devices are becoming ever more pervasive in our lives which means more demand for power conversion products across our target market sectors of healthcare, industrial, semifab and technology.

More and more roles that are performed by people are rapidly being taken over by electronic machines and robotics as augmented intelligence advances. These devices all need safe reliable power to operate. In particular we expect long-term growth opportunities in the semiconductor equipment manufacturing sector driven by the Internet of Things (IoT), Big Data and Augmented Intelligence. The customers who make the equipment that fabricates these silicon devices value the XP Power proposition. We are one of the few companies in the world that can offer them the complete range of power products they require in their tools from the low voltage converters that power the control and electronics, to the RF Power to produce the plasma used in their process technology, to the high voltage products used for ion implantation. Our engineering services groups can also package these products together in one enclosure to provide a complete power solution that the customer can easily integrate into their tool. While this industry is cyclical we are confident that this sector has strong long-term growth prospects.

Healthcare is a particularly attractive sector for us with good long-term growth trends due to medical advances, an ageing world population and a growing market for home healthcare products.

The current tariff war between the USA and China is concerning as some of our products manufactured in China ship into the USA. We are working with our customers to mitigate the effect of these tariffs. We have an advantage over many of our competitors as we also have factories in Vietnam which are not subject to these new tariffs.

While not immune to potential macro-economic and political impacts we are encouraged regarding our prospects for 2019.

## THE MARKETS WE SERVE

We have a broad exposure to the Healthcare, Industrial, Semiconductor Equipment Manufacturing and Technology markets. Our customers are manufacturers of capital equipment and their end markets all exhibit different degrees of cyclicality. Generally, the Technology markets are most cyclical but it is clear that the long-term growth prospects for technology are robust. Healthcare is our least cyclical sector with Industrial lying between Technology and Healthcare.

We have a diverse customer base of over 4,500 customers that we deal with directly and many more customers serviced through our distribution channels which have been growing strongly in recent years. The diversity of our business is a significant strength with no single customer exceeding more than 14% of revenue. Further, there is no single dominant player in the markets we address due to the diversity of customer requirements. We have no direct exposure to consumer products.

## MARKET SIZE AND OPPORTUNITY

We estimate that since expanding into the RF power and high voltage market XP Power has a 7% share of the available global market. Our overall share in the low voltage market is estimated at 8%.



### NORTH AMERICA

North America is a significant market for power electronics with many large customers, particularly in healthcare and semifab.



### EUROPE

The European market is much more fragmented than North America or Asia. In particular it contains numerous smaller industrial companies as well as a number of larger healthcare companies.



### ASIA

Although Asia is a large market much of it is not available to XP Power as many customers value purely cost over service and support. Nevertheless, there are a number of significant niches where our proposition is compelling.



### HIGH VOLTAGE

High voltage high power is an attractive market where we are finding many new opportunities since acquiring this product range.

\* Share is based on annualised revenue



### RF POWER

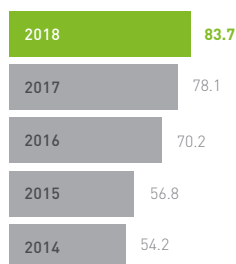
The RF Power market is significant. The semiconductor equipment manufacturers are significant users of this product, but it is also used in healthcare and applications involving dielectric and induction heating.



## REVENUE TRENDS

The revenue trends for each sector are set out below:

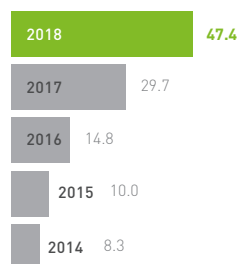
### INDUSTRIAL £ millions



#### 43% of revenues

Reported revenues for industrial grew 7% in 2018 (2017: 11%). The broad based recovery seen in industrials continued into 2018. Industrial is the most fragmented sector we deal in and very few of our top 30 customers are industrial despite the fact it made up 43% of our overall revenues.

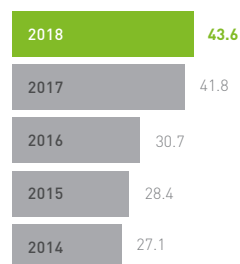
### SEMIFAB £ millions



#### 24% of revenues

Reported revenues for semifab grew 60% in 2018 (2017: 101%). This sector benefitted from a cyclical upturn in 2017 which continued into 2018 but started to reverse at the end of 2018. The super growth we saw in this sector was also aided by significant new programmes and the acquisitions of Comdel and Glassman.

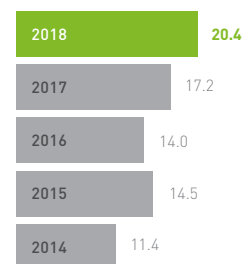
### HEALTHCARE £ millions



#### 22% of revenues

Reported revenues for healthcare grew 4% in 2018 (2017: 36%). We had a number of significant new programmes ramp in 2017 which have continued into 2018. Our healthcare customers particularly value our high efficiency products which can operate without a fan and are therefore intrinsically more reliable. It also allows the customer to seal their equipment to prevent liquids entering the equipment.

### TECHNOLOGY £ millions

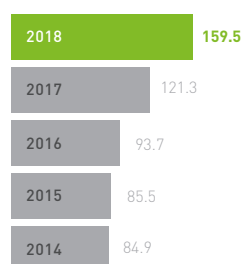


#### 11% of revenues

Reported revenues for technology grew 19% in 2018 (2017: 23%). Our technology customers can often have larger programmes that have shorter lifetimes than the seven to eight years we are used to in the sectors in which we operate. This can make this sector's revenues more volatile from year to year.

Revenue by geography is set out as follows expressed in US Dollars to highlight the underlying trends in North America and Asia and Sterling in Europe.

### NORTH AMERICA US\$ millions

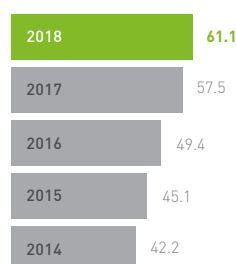


#### 61% of revenues

North America revenues were US\$159.5 million in 2018 (2017: US\$121.3 million), an increase of 31%. The increase was 13% after excluding the revenues from the acquisitions of Comdel of US\$19.7 million (2017: US\$5.4 million) and Glassman of US\$8.8 million (2017: US\$nil). North America represented 61% of overall revenues (2017: 57%).

The North America business particularly benefitted from the growth in the semiconductor equipment manufacturing sector but all sectors grew year on year.

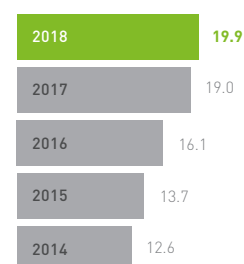
### EUROPE £ millions



#### 31% of revenues

Our European business grew by 6% to £61.1 million (2017: £57.5 million). All sectors grew year on year, but healthcare showed the strongest growth due to a number of larger medical programmes entering production from some of our larger customers.

### ASIA US\$ millions



#### 8% of revenues

Asia revenues were US\$19.9 million in 2018 (2017: US\$19.0 million), an increase of 5% with the strongest growth in industrial and declines in healthcare and technology as programmes went end of life. Asia represented 8% of overall revenues (2017: 9%).

# OUR MARKETPLACE: OUR GROWTH DRIVERS

DRIVER	HOW WE'RE RESPONDING
<p><b>ENERGY EFFICIENCY AND RELIABILITY</b></p> <p>The requirement from customers and legislation for products to consume and waste less energy is driving demand for more efficient power converters. This goes hand in hand with reliability for critical applications as ultra-high efficiency products do not require relatively unreliable fans to cool them, and cooler systems mean key components such as electrolytic capacitors have longer lifetimes.</p>	<p>➔ We have developed a portfolio of XP "Green" Power products with class-leading efficiencies.</p>
<p><b>INNOVATION</b></p> <p>Our customers possess a competitive need to launch new products offering increased productivity and functionality while reducing harmful environmental impacts. In addition, our customers are trying to differentiate their products from their competitors which frequently results in different or new power conversion requirements.</p>	<p>➔ With the acquisitions of Comdel in September 2017 and Glassman in May 2018 we now have six design centres around the globe.</p>
<p><b>NEW PRODUCTS</b></p> <p>The diverse product requirements of XP Power's target market provide opportunities to enter new niches and provide flexible solutions.</p>	<p>➔ We have the broadest range of standard products in our industry which are designed to be easy to modify to power the customer's specific application.</p>
<p><b>PENETRATION</b></p> <p>Our blue-chip customer base provides good opportunities to win additional new product programmes from multiple engineering teams across the globe. We have gained corporate approval at many blue-chip companies over the past few years. We are now capitalising on these approvals to win a larger share of the business that is available.</p>	<p>➔ RF Power from the acquisition of Comdel and high voltage from the acquisition of Glassman increase our available market from US\$3.1Bn to \$4.8Bn.</p>
<p><b>HEALTHCARE</b></p> <p>A global population that is both increasing and ageing, coupled with increased legislation, is driving the deployment of more healthcare devices, particularly in the home. This, in combination with new technologies and treatments becoming available, makes Healthcare an excellent sector for XP Power. The customers in this area demand the ultimate quality and reliability and appreciate and value XP Power's value proposition.</p>	<p>➔ We have the broadest, most up-to-date range of medically approved power converters in our industry.</p>

# OUR BUSINESS MODEL

## KEY RESOURCES ○ — ○ KEY ACTIVITIES ○



### STRONG RELATIONSHIPS

with our suppliers, employees and shareholders.



### STRONG LEADERSHIP

A strong Executive team with a clear strategic vision



### PEOPLE

An experienced and committed workforce



### TECHNOLOGY

We are investing in our future through our investment in infrastructure and technology.

### DESIGN

We have transitioned our business from a specialist distributor, to designer to design manufacturer. This has enabled us to ascend the value chain to grow our revenues and margins. Through acquisition we have moved further up the power and voltage scale so we can fulfil more of the opportunities presented to us by our target customers. We have design engineering teams on three continents – this allows us to release a high number of innovative new products required by this highly diversified market. These products often have class-leading energy efficiency and small footprints to meet the ever-higher demands of our key customers. Additional engineering service teams in Germany, North America, Singapore and the UK are able to provide value-added services close to our key customers. We are able to provide modified product solutions which allow the customer to more easily integrate the power converter into their equipment, therefore delivering a cost saving.

### PRODUCTS

We have the broadest, most up-to-date product offering in the industry with over 250 product families in our portfolio. Our products are specific to the requirements of the various industries and applications we target. Our philosophy is to provide highly flexible products which are easy to modify.

This saves our customers the cost, time and risk of pursuing a fully customised solution. Our product portfolio has been enhanced with high voltage modules following the acquisition of EMCO in November 2015, RF power from Comdel in September 2017 and now high voltage/high power products from Glassman in May 2018.

### MANUFACTURING

We manufacture our own products and this provides us with the ability to ensure excellent quality, and an agile supply chain to meet customers' lead time expectations.

### BUILDING AND MANAGING RELATIONSHIPS WITH CUSTOMERS

Our customers are at the heart of what we do. Our model is to sell directly to our key customers where we can add genuine value, offering excellent service and support combined with class-leading products.

We have carved out a leading position in our industry. An up-to-date, high efficiency product offering, delivered to our customers by the largest and most technically competent sales engineering team in the industry, backed up by highly- skilled power systems engineers, combined with the safety and reliability benefits of world-class manufacturing, provide a compelling value proposition to our customers.

### SUPPLY CHAIN MANAGEMENT

The management of our supply chain is critical to our success. Quality and reliability are paramount to our customers who often provide critical healthcare or industrial systems. For that reason, we need excellent suppliers with high-quality standards.

We have a rigorous approval process which looks at all aspects of a supplier before we engage with them. This not only includes a prospective supplier's quality systems and standards, but also their financial viability and, of course, their environmental performance and treatment of their people.

We are a full member of the Responsible Business Alliance (RBA) and have adopted the RBA Code of Conduct throughout our organisation. This not only deals with environmental standards but also treatment of people, health and safety and business ethics.

Our customers demand excellent quality and security of supply and strong corporate social responsibility standards.

### QUALITY

Our stringent quality standards ensure the ultimate in quality and reliability. This is vital to our customers. This starts from the design phase right through to production and after sales support.



## ○ SALES CYCLE ○

Our sales process is generally a technical sale, between XP Power sales engineer and customer design engineer. Our customers are typically experts in their field, whether it is a drug delivery device, a piece of complex factory control machinery or a high-end communications device operating in a harsh environment. They will approach a company such as ours to recommend and assist them to design a power converter into their end system to allow it to function.

Generally, with larger customers it is not possible to engage on a specific opportunity until we are on an approved or preferred vendor list. This will involve qualification by the customer's technical, quality and purchasing teams and may often involve a physical audit of our quality systems and a factory audit.

### 1 IDENTIFICATION

A new design programme is identified at a customer where we are an approved or preferred vendor. This is typically quite late in the customer's development cycle as they will not usually know the total power requirement of their system until they have a working prototype.

### 2 QUOTATION

An XP Power sales person will work with the customer to understand the requirements including the power requirements at different voltages, communication required between the power converter and end system, any specific safety agency requirements and the physical dimensions. XP Power will then advocate a solution and provide a quotation to the customer. This solution could be a modification of one of our standard products.

### 3 SAMPLE

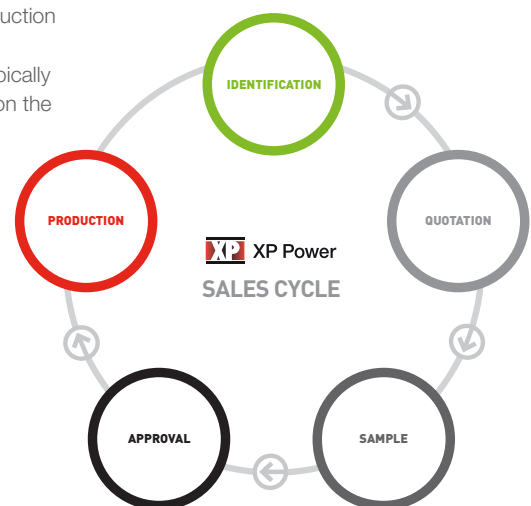
One or more samples are provided to the customer for them to evaluate in their system. This is a critical stage of the sale and we often find that the first company providing a sample that works in the equipment will win the design slot. Speed is therefore critical. Our power systems engineers will often work closely with the customer at this stage to assist them with any issues they might experience such as dealing with electrical noise.

### 4 APPROVAL

The power converter is approved for use in the customer system following the customer's technical evaluation and external safety agency approval. This is generally the longest part of the sales cycle as the technical and safety evaluation are very time consuming for the customer. XP Power will often add value by providing technical assistance during this stage and it is not unusual for us to have a technical power systems engineer working directly with the customer.

### 5 PRODUCTION

The customer commences production of their product and XP Power's revenue stream starts. This is typically around seven years depending on the application and end market.







WE CREATE LONG TERM VALUE FOR STAKEHOLDERS:

OUR PEOPLE

- A diverse workforce
- A safe and healthy working environment
- Talent management
- Engagement

OUR CUSTOMERS

- Quality and value
- Innovation and expansion to further enhance value
- High efficiency product offering
- Excellent service and support

OUR SUPPLIERS

- Fair negotiation
- Visibility on revenues
- Dealing with a member of the responsible business alliance
- Supply chain ethics and due diligence

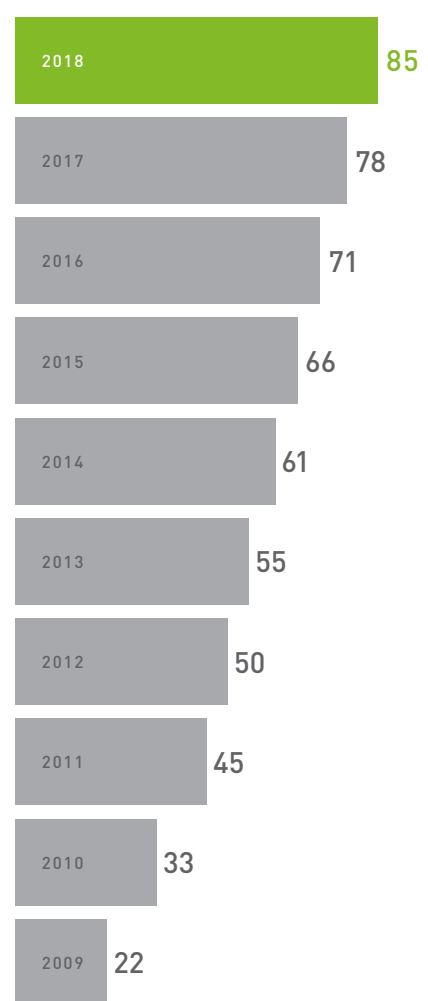
OUR COMMUNITIES AND THE ENVIRONMENT

- Community initiatives
- Raising money for charities and volunteer work
- A focus on reducing harmful emissions
- Environmentally friendly design concepts moving forward

OUR SHAREHOLDERS

- Progressive dividend policy
- Investing in a growing business with attractive margins and market opportunities

TEN YEAR DIVIDEND HISTORY (PENCE PER SHARE)



# OUR COMPETITIVE ADVANTAGES

## THESE ENABLE US TO DIFFERENTIATE OURSELVES



### 1 OUR PEOPLE

As in any business the most important asset is our people. We have a large and highly technically trained sales force. Our customers deal directly with a sales engineer that can solve their power conversion problems. We do not put our key customers through distribution channels. We also provide global support.

Our Executive Leadership Team, located on three different continents, is not only talented but given a relatively young average age has an impressive average length of service. The breadth and depth of experience and collective teamwork of our people deliver genuine value to our customers.

### 2 OUR PRODUCTS

We have the broadest, most up-to-date product offering in the industry with over 250 product families in our portfolio. Our products are specific to the requirements of the various industries and applications we target. Our philosophy is to provide highly flexible products which are easy to modify. This saves our customers the cost, time and risk of pursuing a fully customised solution. Our product portfolio has been enhanced with high voltage modules following the acquisition of EMCO in November 2015 and RF power from Comdel in September 2017.

### 3 OUR DESIGN ENGINEERING

We have design engineering teams on three continents – this allows us to release a high number of innovative new products required by this highly diversified market. These products often have class-leading energy efficiency and small footprints to meet the ever-higher demands of our key customers. Additional engineering service teams in Germany, North America, Singapore and the UK are able to provide value added services close to our key customers. We are able to provide modified product solutions which allow the customer to more easily integrate the power converter into their equipment, therefore delivering a cost saving.



### 4 OUR GREEN INNOVATION

Environmental considerations are becoming increasingly important to our customers. There is strong demand for products that consume less material, including harmful chemicals, and power converters that consume less energy. Our product portfolio reflects this with many products having class-leading efficiencies and low stand-by power consumption.

### 5 OUR MANUFACTURING

Our Asian manufacturing bases in China and Vietnam are not only low cost but best-in-class. This capability is instrumental to winning new programmes with larger blue-chip customers that require the ultimate in quality and reliability. We also offer highly competitive lead times and flexible logistics arrangements.

### 6 OUR QUALITY

Our stringent quality standards ensure the ultimate in quality and reliability. This is vital to our customers. This starts from the design phase right through to production and after sales support.

# OUR STRATEGY

Our vision is to be the **first choice** power solutions provider delivering the **ultimate experience** for **our people** and **our customers**.

XP Power has followed a clear and consistent dual track strategy of moving up the value chain through its internally developed products and adding complementary products through acquisitions to target key accounts where we can add genuine value.

	NEW PRODUCT FAMILIES RELEASED	TARGET ACCOUNTS WHERE WE CAN ADD VALUE	VERTICAL PENETRATION OF FOCUS ACCOUNTS
<b>RATIONALE</b>	<p>We need a market-leading range of products to be attractive to our customers. The product range also needs to be broad due to the fragmented nature of the markets we serve which have a multitude of product requirements.</p> <p>The broader and more up-to-date our product range the more chance we will have something that will work effectively in our target customers' applications</p>	<p>We pride ourselves in the level of service and support we offer to our customers, particularly during the design-in stage.</p> <p>We have a compelling proposition where customers expect excellent quality and reliability to power their mission-critical equipment, but in particular where they face a power problem due to either heat dissipation or electrical noise. These are the type of customers that we target.</p>	<p>We still have a relatively small share of the available business in some of the accounts we call on. We are continuing to expand our product portfolio so we can address more of the opportunities that are available in these accounts to grow our revenues.</p>
<b>PAST PERFORMANCE</b>	<p>Over the past few years we have been expanding our product portfolio and have developed a number of highly efficient, leading edge products.</p>	<p>We have targeted customers for which reliability is key or where their equipment may be located in harsh environments. These customers value the support and service that our highly trained sales force and power systems engineers deliver.</p>	<p>We have spent the last few years gaining approved or preferred supplier status at the key customers in the Industrial, Healthcare and Technology sectors. We are focused on this existing customer base in order to grow our revenues.</p>
<b>PLANNED FUTURE ACTIONS</b>	<p>Emphasis has now shifted towards products which still have leading efficiencies but which are more mainstream and attractive from a cost perspective.</p>	<p>We are prioritising our resource on the customers that fit our value proposition. We are de-emphasising customers that may have significant revenue potential but where cost is a more critical factor than quality and reliability or engineering support during the design phase.</p>	<p>As we expand our product offering through continued product development and acquisitions, we aim to address an increasing proportion of our customers' requirements with our excellent service and support.</p>
<b>LINK TO KPIS</b>	<ul style="list-style-type: none"> <li>● New product families released</li> <li>● Proportion of own-designed revenue</li> </ul>	<ul style="list-style-type: none"> <li>● Revenue</li> </ul>	<ul style="list-style-type: none"> <li>● Revenue from top 30 customers</li> </ul>
<b>LINK TO RISKS</b>	<ul style="list-style-type: none"> <li>● Competition from new market entrants and new technologies</li> <li>● Loss of key personnel or failure to attract new personnel</li> </ul>	<ul style="list-style-type: none"> <li>● Dependence on key customers</li> <li>● Product recall/quality management</li> </ul>	<ul style="list-style-type: none"> <li>● Dependence on key customers</li> <li>● Product recall/quality management</li> </ul>

DRIVER	HOW WE'RE RESPONDING
<p><b>PROLIFERATION OF ELECTRONIC DEVICES</b></p> <p>Electronic devices are becoming more and more pervasive in our lives as new technologies and innovation emerges. This trend is accelerating with the adoption of the Internet of Things (IoT), Augmented Intelligence (AI) and big data. These devices drive demand for semiconductor manufacturing equipment which is a key focus area for XP Power.</p>	<p>We have the broadest range of standard products in our industry which are designed to be easy to modify to power the customer's specific application. Many of our products are suitable to power semiconductor manufacturing equipment.</p>
<p><b>LEGISLATION</b></p> <p>Our industry continues to be the subject of an increasing raft of legislation from numerous countries and standard setters relating to areas such as environmental impacts, safety requirements, and above all energy efficiency. The compliance costs of keeping up with this legislation favour a company the size of XP Power, where we are large enough to be able to devote resources to this, yet agile enough to respond quickly with new products or documentation as required.</p>	<p>We have dedicated resources devoted to safety legislation which we are expanding.</p>
<p><b>CAPITAL EQUIPMENT</b></p> <p>Our products are designed into and power capital equipment and as such are subject to the capital equipment cycles. While industrial company investment in capital has been subdued over recent history due to global economic conditions, new capital investment generally leads to greater productivity. We consider that the medium and long-term opportunities remain positive for capital equipment. This is particularly the case in emerging markets as we see labour costs rising significantly.</p>	<p>We have the largest direct sales force in our industry together with the broadest product portfolio so are well positioned to take advantage of any recovery in the capital equipment markets.</p>
<p><b>EXPANSION OF "GREEN" PRODUCTS</b></p> <p>Climate change and emission of greenhouse gases is becoming an increasingly significant issue as emerging countries develop and urbanise. XP Power has taken a leading role in developing ultra-efficient products which consume and waste less energy and that are suitable for use in healthcare and industrial applications.</p>	<p>We have developed a portfolio of XP "Green" Power products with class-leading efficiencies and have the most environmentally friendly manufacturing facility in our industry.</p>

## THE OPPORTUNITIES FOR XP POWER – EXPANDING OUR ADDRESSABLE MARKET

The acquisitions of Comdel in September 2017 and Glassman High Voltage in May 2018 respectively bring Radio Frequency (RF) Power and high power/high voltage products to the Group. This expands our addressable market by an estimated US\$1.7 billion. These new product ranges support can be sold to a number of our existing target customers in support of our strategy.



- ☑ For more information on our strategy in action please see pages 20 and 21
- ☑ For more information on our KPIs please see pages 22 and 23
- ☑ For more information on risks please see pages 36 to 41

**BUILD A GLOBAL SUPPLY CHAIN WHICH BALANCES HIGH EFFICIENCY WITH MARKET LEADING CUSTOMER RESPONSIVENESS**

Since coming to the market in 2000 we have built a strong brand in the power converter market. This, together with our product portfolio and excellent customer service, has allowed us to consistently take market share and grow significantly. As the Company grows we need to upgrade our systems and process and in particular our supply chain processes in order to scale and run a much larger business as we continue to grow.

We have evolved from a distributor to a manufacturer, now having manufacturing facilities in China, Vietnam and North America. We have recruited supply chain talent to achieve this transformation.

As the business continues to grow and become more complex we will continue to add talent to our supply chain operations in 2019.

In 2019 we will also be upgrading our ERP system in our sales companies and Asian manufacturing facilities.

- Earnings per share

- Loss of key personnel or failure to attract new personnel
- Cybersecurity/information systems failure

**LEAD OUR INDUSTRY ON ENVIRONMENTAL MATTERS**

Strong corporate social responsibility is not only important to our key customers but also to our employees and the communities in which we operate. This incorporates not only environmental performance but also health and safety, treatment of our people and business ethics.

We are a full member of the Responsible Business Alliance (RBA). The RBA Code of Conduct to which we comply addresses all of these important ethical and environmental matters which we strongly endorse.

We will remain a committed member of the RBA. We strive to lead our industry on environmental matters and have a committee dedicated to raising awareness of "green" initiatives, however small.

- Lifetime CO<sub>2</sub> emissions savings from "green" products

- Risks relating to regulation, compliance and taxation
- Loss of key personnel or failure to attract new personnel

**MAKE SELECTIVE ACQUISITIONS OF COMPLEMENTARY BUSINESSES TO EXPAND OUR OFFERING**

Our strong balance sheet and cash generative business model allow us the capacity to pursue business acquisitions. This is another avenue to expand our product offering and addressable market.

Through acquisitions in the past 24 months, we have added both RF power to our product range and more recently high power/high voltage.

We continue to look for acquisitions to expand our product offering and other capabilities.

- New product families released

- Strategic risk association with valuing or integrating new acquisitions

# OUR STRATEGY IN ACTION: ACQUISITION OF GLASSMAN HV

**Glassman, based in New Jersey, USA, supplies the industrial, healthcare and semiconductor sectors with a range of standard, modified and custom high voltage, high power conversion products, which are generally used in applications involved in the ionization and acceleration of particles.**

## RATIONALE

XP Power completed the acquisition of Glassman High Voltage in May 2018. Glassman has been designing and manufacturing high voltage, high power products for more than 40 years.

Glassman's products and engineering capabilities enhances the Group's ability to implement its strategy of winning a greater share of business from its core customers by achieving wider vertical penetration of key accounts. In addition to expanding our capabilities in our core customers the Glassman products will also bring a number of new customers to the Group including new technologies in research laboratories and universities.

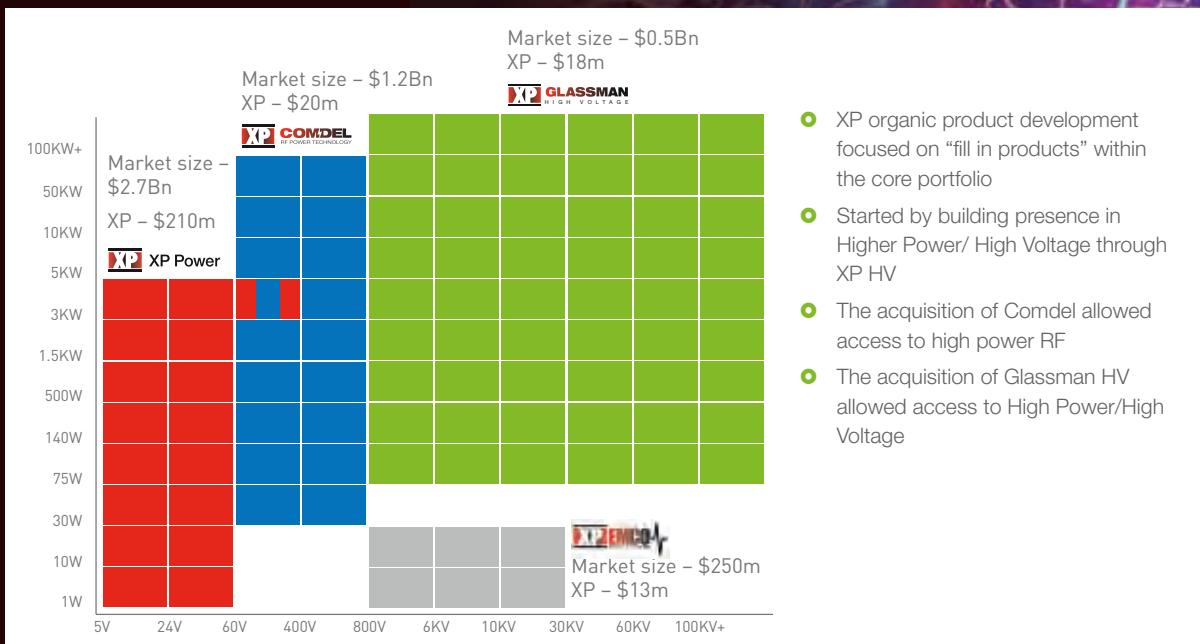
The below chart shows the wide product gap that the Glassman acquisition fills. XP estimates this market to be approximately US\$500 million in market size. Together with our other recent acquisitions, Glassman's market leading product range coupled with XP's sales organisation, present an exciting opportunity to capture market share.

## LINK TO STRATEGIC OBJECTIVES:

- Acquire businesses to expand our offering
- Vertical penetration of our focus accounts
- Develop a broad range of competitive products

## STRATEGY IN ACTION – PRODUCT PORTFOLIO

The addition of Emco, Comdel and Glassman increases XP's product portfolio significantly



# OUR STRATEGY IN ACTION: HIGH POWER/ HIGH VOLTAGE APPLICATIONS

Combining XP Power's Sales and Marketing expertise with the Glassman product portfolio to deliver customer solutions

## XP GLASSMAN

### XP Sales

### XP Marketing

#### ORIGINAL EQUIPMENT MANUFACTURERS

Existing XP Power customer base  
Vertical penetration of focus accounts  
Fills power gaps, expanding product range  
High reliability applications

Medium volume/large programme values

#### RESEARCH AND DEVELOPMENT

National research laboratories and universities  
Enabling next generation developing technologies  
Forefront of technology commercialisation  
Establishes brand recognition

Low volume/high margin

#### KEY APPLICATIONS

Semiconductor equipment manufacturers  
Analytical instrumentation  
Vacuum plasma processes  
Medical treatment and diagnostics  
Test equipment  
Manufacturing process applications

Typical applications are 10 to 250 kilovolts

#### KEY APPLICATIONS

Particle accelerators  
Neutron sources  
Free electron lasers  
Pulse forming networks  
Lifesciences

Typical applications are 5 to 500 kilovolts

#### EXAMPLE: ION IMPLANTERS

Ion implanters used in semiconductor manufacturing equipment use high voltage power supplies to drive Boron or Phosphorous atoms into silicon crystal lattices to control the flow of electricity through the silicon to make transistors – the building blocks from which chips are made.

#### EXAMPLE: PARTICLE BEAM ACCELERATORS

A particle accelerator is a machine that uses high voltage and electromagnetic fields to propel charged particles to very high speeds and energies in a well-defined beam. Used for particle physics research including oncological purposes, radioisotope production for medical diagnostics, mass spectrometers and ion implanters.

# OUR KEY PERFORMANCE INDICATORS

We have defined a number of Key Performance Indicators (KPIs), both financial and non-financial, which are closely aligned with our strategy and core values.

Our performance over the years demonstrates significant and consistent progress.

## FINANCIAL

	REVENUE GROWTH	REVENUE FROM TOP 30 CUSTOMERS (%)	PROPORTION OF OWN-DESIGNED REVENUE (%)
2018	195.1	52	80
2017	166.8	50	76
2016	129.8	44	73
2015	109.7	44	68
2014	101.1	40	66

### DEFINITION

We target revenue growth of 10% per annum. Whether we achieve this or not can depend on market cyclicality and exchange rates.

We expect revenue from our top 30 customers to increase as we pursue our strategy.

We have now achieved the 80% target we had set ourselves.

### TARGET ACHIEVED (AND COMMENTARY)

Yes

Yes

Yes

### OUR PROGRESS IN 2018

- Successfully increased our share of the semi-conductor manufacturing equipment market
- We expanded our product offering, both organically and through acquisition

- Revenue from our top 30 customers represented 52% (2017: 50%) of revenue.

- In 2018, revenue from our own-designed/own-manufactured products grew 22% from £127.4 million in 2017 to £155.3 million in 2018. This now represents 80% of revenue.

### OUR PLANS FOR 2019

- Leveraging off the new products gained through acquisition
- Provide increasing support to our customers through our engineering solutions group
- Expand our distribution channels

- Continue to grow our share of customers' business where we are preferred or approved suppliers.
- Expansion of our product portfolio to increase our addressable market in our existing customer base.

- Continue to drive this metric through investment in our product development group, combined with growth from our Engineering Solutions Group.

### LINK TO STRATEGY

- Target accounts where we can add value

- Vertical penetration of focus accounts

- Develop a broad range of competitive products





### LINK TO CORE VALUES



### LINK TO RISK





-  For more information on our strategy please see pages 18 to 21
-  For more information on risks please see pages 36 to 41
-  For more information on our core values please see pages 44 and 45
-  For more information on sustainability please see pages 42 to 53

## NON-FINANCIAL

ADJUSTED DILUTED EARNINGS PER SHARE GROWTH (%)	NEW PRODUCT FAMILIES RELEASED	CULTURAL SURVEY SCORE (INDEX OUT OF 100)	LIFETIME CO <sub>2</sub> EMISSION SAVINGS FROM "GREEN" PRODUCTS (TONNES)
2018: 172.8	2018: 27	2019: 63.4	2018: 236,000
2017: 147.0	2017: 27	2018: 62.0	2017: 291,000
2016: 115.3	2016: 47	2017: 63.0	2016: 158,000
2015: 104.3	2015: 22	2016: 62.9	2015: 133,000
2014: 101.1	2014: 26	2015: 59.2	2014: 102,200

We target to grow this metric by a double digit percentage each year.

Not all products are equal in terms of their complexity to develop or their revenue potential. In assessing new product opportunities, we consider the potential revenue from a new product family as well as the absolute number of new product introductions. We target 30 new releases per annum.

We target to improve this score each year with the long-term aim to achieve a score of 67 which will put us in the "clearly the best" category as defined by the external consultant assisting us with the survey.

We have set a target to increase the lifetime CO<sub>2</sub> emissions savings from XP "Green" Power products by at least 5% per annum.

Yes

No

No

No

- Acquired Glassman HV to expand our product offering and addressable market
- Balanced the need for additional investment in people to underpin future growth

- We released 27 new product families in 2018 (2017: 27)
- 20 (2017: 19) of these new product families can be classified as "Green XP Power" products

We continue to undertake an annual employee cultural survey to identify the areas our people tell us where we can improve to drive operational excellence.

Using the results of this survey we have:

- Improved our on-boarding process
- Continued training and development for employees and managers to extract maximum benefit and provide career progression

- Of the 27 new product families launched in 2018, 20 were ultra-high efficiency products
- Our revenues from XP "Green" Power products increased 6% to £42.1 million in 2018
- CO<sub>2</sub> emission savings declined in 2018 due to product mix

- Commence production of second Vietnam manufacturing facility, significantly increasing overall capacity
- Upgrade and harmonise the ERP system

- Target 25 new product releases in 2019 with continued focus on high power products.

- Drive individual teams to come up with plans to address the opportunities identified in the cultural survey

- Continue training and development for employees and managers to extract maximum benefit and provide career progression

- We will continue to release products with class-leading efficiency

- Achieve operational excellence

- Develop a broad range of competitive products

- Achieve operational excellence

- Leading our industry on environmental matters



# PERFORMANCE: OPERATIONAL REVIEW



*“XP Power has enjoyed another excellent year, building our position in our chosen markets, expanding our product portfolio both through acquisition and organically and making significant progress towards the achievement of our vision of being the first-choice power solutions provider, delivering the ultimate experience to our customers and our people.”*

**Duncan Penny**  
Chief Executive Officer

## REVIEW OF OUR YEAR

**XP Power has enjoyed another excellent year, building our position in our chosen markets, expanding our product portfolio both through acquisition and organically and making significant progress towards the achievement of our vision of being the first choice power solutions provider, delivering the ultimate experience to our customers and our people.**

The consistent execution of our strategy has led to another year of successive growth in order intake, revenue, adjusted operating profit and adjusted earnings per share. All market sectors showed revenue growth over 2017. The first half of 2018 saw extremely good growth from our semiconductor equipment manufacturing sector which then softened in the second half of the year, in line with wider market performance and in particular the fourth quarter as detailed in the Group's Trading Update on 14 January 2019. In contrast the industrial, healthcare and technology sectors all showed growth in the second half of 2018 versus the first half and remained robust in the fourth quarter.

Our design win pipeline was strong in 2018, boding well for continued future market share and revenue growth. We also continued to move our product portfolio up to higher power and technically more complex applications, and to expand the number of design wins with higher engineering solutions content.

We announced the acquisition of Glassman High Voltage in May 2018. This business gives XP Power an entry into the high voltage, high power market. We are one of the few companies in the world that can offer our customers a complete range of power solutions across voltage and power. This makes us an ideal partner to many of our target customers and greatly expands our value proposition.

## MARKETPLACE

All industry sectors and all geographies experienced revenue growth in 2018 over 2017 and, significantly, sequential growth in the second half of 2018 over the first half with the exception of the semiconductor equipment manufacturing sector.

The order performance was also strong, with order intake up 8% on a reported basis to £198.4 million (2017: £184.3 million). In constant currency this growth was 12% and on a like-for-like basis, excluding the Comdel and Glassman acquisitions growth was 5%. The resulting book-to-bill ratio was 1.02.

Overall revenues grew 17% to £195.1 million (2017: £166.8 million) on a reported basis. In constant currency the growth was 21% or 11% on a like-for-like basis, excluding the Comdel and Glassman acquisitions.

The average exchange rate for US Dollar to Sterling was 1.34 in 2018 versus 1.28 in 2017, representing a 5% strengthening. We discuss the impact of foreign exchange volatility in more detail in our Financial Review.

## MARKETPLACE: SECTOR DYNAMICS

Revenues from industrial customers grew 7% to £83.7 million (2017: £78.1 million) as the recovery in that sector continued into 2018. Revenues from industrial customers represents 43% (2017: 47%) of overall revenues but very few of these customers make it into our top 30 customer list due to the highly fragmented nature of this market. The applications in this sector are very diverse and include test and measurement equipment, displays, factory automation, smart grid and industrial printing; the areas that drove the 2018 growth included distribution, analytical instrumentation, defence and industrial printing. All items of industrial equipment that are electrically powered will require a power converter.

semiconductor manufacturing equipment sector has been an interesting area for XP Power. Revenues from these customers grew 60% to £47.4 million (2017: £29.7 million). Revenues from semiconductor manufacturing equipment sector customers represented 24% of overall revenues (2017: 18%). In the first half of 2018 we benefitted from a cyclical upswing in that sector which began in 2017, combined with strong market share gains and the revenues from the acquisition of Comdel and Glassman. Our expansion into high voltage and high power products, combined with our engineering services offering, has made us an attractive supplier to that industry. The new products we have allow us to service considerably more of the opportunities we see in this sector. The sector slowed significantly in the second half of 2018, as widely reported, and this impacted our fourth quarter order intake and revenues.

Despite the sector's cyclicity this market remains highly attractive due to its robust fundamentals, which are being driven by the proliferation of applications involving the Internet of Things (IoT), Artificial Intelligence (AI), autonomous vehicles and Big Data.

Revenues from healthcare customers grew 4% to £43.6 million (2017: £41.8 million) representing 22% of overall revenues (2017: 25%). Healthcare remains another attractive market for XP Power given the breadth of our medical product range and high level of customer service. These are demanding customers in terms of quality and reliability, and this means our value proposition is attractive to these customers. We provide mission-critical power solutions for numerous applications in the healthcare arena from patient contact applications, to diagnostic equipment such as MRI and ultrasound, through to laboratory equipment. There are special requirements and regulatory approvals regarding a medical power solution. Healthcare tends to be much less cyclical than the other sectors we address which adds resilience to our diversified business model.

Revenues from technology customers grew 19% to £20.4 million (2017: £17.2 million) representing 11% of overall revenues (2017: 10%). Typical applications in technology include areas such as broadcast, high-end communications such as satellite and telecom base stations, and high-end computing. These programmes are often quite large but generally have much shorter lifetimes than the seven to eight years which are typical in the other market sectors.

#### MARKETPLACE: NORTH AMERICA

North America revenues were US\$159.5 million in 2018 (2017: US\$121.3 million), an increase of 31%. The increase was 13% after excluding the revenues from the acquisitions of Comdel of US\$19.7 million (2017: US\$5.4 million) and Glassman of US\$8.8 million (2017: US\$nil). North America represented 61% of overall revenues (2017: 57%).

The North America business particularly benefitted from growth in the semiconductor equipment manufacturing sector but all sectors grew year-on-year.

Order intake in North America was US\$158.1 million (2017: US\$139.2 million), an increase of 14% resulting in a book-to-bill ratio of 0.99. The increase was 2% after excluding the order intake from the Comdel acquisition of US\$14.6 million (2017: US\$7.7 million) and Glassman of US\$9.4 million (2017: US\$nil). Comdel had exceptionally strong order intake in the fourth quarter of 2017 as semiconductor manufacturing equipment makers placed orders for delivery throughout 2018.

#### MARKETPLACE: TARIFFS AND TRADE WARS

The Section 301 tariffs which the USA Government has imposed upon Chinese sourced products has a mixed impact on XP Power. From 24 September 2018 a 10% tariff has been imposed on power converters imported from China where XP Power has a manufacturing facility. There are proposals to increase this to 25% if there is not a satisfactory outcome to USA/China trade negotiations. Where possible we have been recovering some of these tariffs from customers where we are able.

*“All industries and geographies experienced growth in 2018”*

However, XP Power's facility in Vietnam has presented a notable opportunity over many of our competitors who largely manufacture in China as Vietnam is not caught by these new tariffs. We have been moving the lower power products from China to Vietnam and the Section 301 tariffs development has caused us to accelerate this process. We are fortunate to be bringing our second Vietnam facility on stream in the second quarter of 2019 which we expect will give us a competitive advantage in respect of the USA tariff situation.

#### MARKETPLACE: EUROPE

Our European business grew by 6% to £61.1 million (2017: £57.5 million). All sectors grew year-on-year, but Healthcare showed the strongest growth due to a number of larger medical programmes entering production from some of our larger customers. The semiconductor manufacturing equipment business in Europe is currently insignificant.

Europe represented 31% of overall revenues (2017: 34%).

Order intake in Europe was £64.6 million (2017: £61.5 million), an increase of 5% resulting in a book to bill ratio of 1.06.

#### MARKETPLACE: ASIA

Asia revenues were US\$19.9 million in 2018 (2017: US\$19.0 million), an increase of 5% with the strongest growth in industrial and declines in healthcare and technology as programmes went end of life. Asia represented 8% of overall revenues (2017: 9%).

Order intake in Asia was US\$21.4 million (2017: US\$19.0 million), an increase of 13% resulting in a book to bill ratio of 1.08.



# PERFORMANCE: OPERATIONAL REVIEW



## SUPPLY CHAIN

As previously announced, during the first half of 2018 we started to see significant tightening of the supply chain for certain electronic components which resulted in increased lead times and component cost inflation. In response, we went into the market to secure supplies of critical components, at prices beyond our standard costs, in order to ensure we could continue to meet our lead times to customers. Lead times for certain components increased dramatically, in some cases lead times moved from 12 to 52 weeks. The result of these lead time extensions meant we have had to increase our safety inventories significantly. The higher prices we had to pay for components were a drag on gross margins in the second half of 2018 which were offset by other cost savings and favourable product mix.

Recently, the supply of certain components such as multi-layer ceramic capacitors and chip type resistors has started to improve but many of the active power semiconductor devices we use remain on long lead times. We will continue to proactively manage our inventory to ensure continuity of supply but expect the levels to reduce in 2019 and 2020 as lead times reduce.

## ADAPTING TO THE MARKET AND THE COMPETITION

Since listing on the London Stock Market in 2000, XP Power has evolved from a specialist distributor of power conversion products to a designer and then manufacturer of power solutions for the industrial, semiconductor manufacturing equipment, healthcare and technology markets.

We continue to perform well against our traditional established competition. Our broad range of standard products, now augmented by recent acquisitions, and excellent customer service delivered by the largest direct sales force in our industry is an attractive customer proposition. We are now one of very few power solutions providers who can supply our target customers with a complete portfolio of products from low to high power and low to high voltage, including RF power. This, combined with our engineering services offering, where we take standard products and tailor them to provide complete plug and play power systems, makes us a compelling business partner.

We expect future competitors to emerge from Asia as companies with low cost manufacturing and engineering attempt to enter parts of the industrial and healthcare markets in Europe and North America. We need to continually adapt our product offering and services to respond to this threat.

Low cost Asian competitors continue to become more prevalent, particularly in the low power/low complexity end of the market. It is straightforward to source low cost/low power products directly from Asian manufacturers. Engineering solutions are not easily managed remotely and work most effectively when situated close to the customer so design discussions and design reviews can take place face-to-face. We continue to add more and more value to our customers as we expand our engineering service groups across the globe.





In addition to providing a higher content of engineering solutions, we have moved our product portfolio up in terms of power level and complexity to help protect our business from low cost Asian competition, which remains a significant threat. Specifically, we have expanded the capability within our product portfolio with the acquisition of Comdel, which gives us RF power at high power levels and more recently with Glassman, which provides very high power at very high voltage.

We are building a broad and compelling product offering which will make us an increasingly attractive partner for leading companies in the industrial, healthcare, semiconductor manufacturing equipment and technology sectors to choose to power their mission-critical applications.

**We are building a broad and compelling product offering**

## STRATEGIC PROGRESS

We have followed a consistent strategy which has enabled us to produce strong results over a sustained period of time. The fundamental essence of the strategy – targeting key accounts where we can add value and gaining more of the available business in those accounts – continues to remain appropriate and effective. We constantly challenge and refine our strategy, as we have done again in 2018.

Our strategy can be summarised as follows:

- Develop a market-leading range of competitive products, organically and through selective acquisitions;
- Target accounts where we can add value;
- Increase vertical penetration of target accounts;
- Build a Global Supply Chain which balances high efficiency with market leading customer responsiveness;
- Lead our industry on environmental matters; and
- Make selective acquisitions in identified strategic markets or of complementary businesses to expand our product offering.

We continue to make significant progress against each of these strategic objectives. We believe we have the broadest, most up-to-date portfolio of products, many of which are class-leading in terms of efficiency and low stand-by power. We also continue to see revenues from our own-designed/ manufactured products grow at a faster rate than those from other products.

We consider that our transition from a specialist distribution company, through the addition of a design capability, to designer and manufacturer is now complete. We are now clearly recognised as both a designer and manufacturer by key customers in our target markets. Revenues from our own-designed products set a new record of £155.3 million in the year (2017: £127.4 million), representing 80% of revenue (2017: 76%).

PERFORMANCE:  
OPERATIONAL REVIEW





We expect further improvement in the mix of own-designed products in 2019. We are now moving our business further up the value chain by providing our key customers with higher levels of engineering solutions where we add value, enabling the customer to more easily integrate the power solution into their critical systems. These services range from providing simple voltage and connector changes, through to changes in mechanical format, the addition of thermal management, communication to the customer's end equipment utilising firmware and ultimately full custom designs. This is a much more engineering intense activity but does mean we work very closely with the customer's design engineers to provide them with a complete power solution in the shortest possible time, delivering genuine value.

## ACQUISITION OF GLASSMAN HV

On 25 May 2018 XP Power acquired the business and assets of Glassman High Voltage, a designer and manufacturer of high voltage, high power, power converters. The acquisition also included the purchase of Glassman's small European sales business.

### Glassman's products and engineering capabilities have enhanced the Group

Total consideration of US\$47.5 million (£35.7 million) was paid in cash on completion. The acquisition was on a debt and cash free basis and was funded with a US\$45.0 million extension of the Group's existing revolving credit facility.

We share several customers with Glassman and while there is no direct overlap in product lines, the power supply solutions of the two companies are highly complementary. Glassman's products and engineering capabilities have enhanced the Group's ability to implement its strategy of winning a greater share of business from its largest customers by achieving wider vertical penetration of key accounts.

The business is being integrated into the Group well, and we are already finding exciting new opportunities for these products in our existing and new customers. As well as a product offering suitable for an array of applications used by some of XP Power's existing customer base, Glassman has also brought a number of new customers to the Group.

We are building a broad and compelling product offering which will make us an increasingly attractive partner for leading companies in the industrial, healthcare, semiconductor manufacturing equipment and technology sectors to choose to power their mission-critical applications.

## MANUFACTURING

In October 2017 we commenced construction of a second manufacturing facility in Vietnam on our existing site near Ho Chi Minh City. Construction of this second facility is now complete and we expect to begin production during the second quarter of 2019. In terms of end revenues, our existing manufacturing capacity in China and Vietnam I is \$170 million. Vietnam II conservatively adds an additional \$130 million of capacity bringing our total Asia manufacturing capacity up to \$300 million.

This additional capacity is necessary to accommodate our growth trajectory. It also gives us the opportunity to transfer the production of more products from China to Vietnam, thereby saving the costs of the Section 301 Tariffs currently imposed on Chinese goods by the authorities in the USA. We believe this will give us a competitive cost advantage over many of our competitors with Chinese based manufacturing.

Our end objective is to have the flexibility to be able to build all products in either China or Vietnam to provide flexibility and robust business continuity planning.

## ENGINEERING SOLUTIONS

As well as expanding our product offerings, we have continued to expand our engineering solutions groups in Asia, Europe and North America. Our customers frequently require a high degree

of customisation to allow the power conversion system to operate within their end equipment or simply to make it easier for the customer to integrate the power conversion solution into their application. Our engineering solutions groups work closely with the customer's engineering teams to provide these customised solutions. Speed and proximity to the customer are critical as the power solution is often one of the last parts of the system to be designed so is invariably one of the gating items to get the end product to market. This is an area where XP Power adds significant value to the customer and we are seeing increasing demand for these services.

## RESEARCH AND DEVELOPMENT

We have continued to invest in research and development to further expand our portfolio of products and the size of our addressable market opportunity. In particular, we increased our design engineering resource and capabilities during 2018. We released 27 new product families in 2018 (2017: 27) and 20 (2017: 19) of these can be classified as "Green XP Power" products having ultra-high efficiency and/or low standby power.

### 27 NEW product families

One example is a high efficiency 4,500 watt product which has a variable, rather than fixed output voltage, that can be adjusted via a digital control. This is an example of moving up the power and complexity level, producing more sophisticated products which can communicate directly with the customer's system.

**Duncan Penny**  
Chief Executive Officer

# PERFORMANCE: OUR SUPPLY CHAIN



*“We will also continue to strengthen our systems and processes in order to build a global supply chain which balances high efficiency with market leading customer responsiveness.”*

**Adrian Irwin**

Executive Vice President Global  
Manufacturing & Operations

## REVIEW OF OUR YEAR

**As our business has grown from a specialist distributor to designer/manufacturer our supply chain has naturally become more complex. We now have manufacturing facilities in China, Vietnam and the USA.**

## VIETNAM

We have just completed the construction of the second manufacturing facility in Vietnam which is adjacent to our existing Vietnam facility. This conservatively adds an additional \$130 million of end revenue capacity, bringing the combined capacity of our Asia manufacturing footprint to \$300 million.

Vietnam has proved a good location for the Group. The performance of Vietnam has been excellent and the additional capacity enables significant advantages to the manufacturing supply chain. Having two plants helps to mitigate the growing pressures from the tariffs imposed on Chinese manufacturing products into the USA. In addition to the increased capacity, strategic investment in new capital equipment significantly improves the robustness of the supply chain by improving our Business Continuity Planning.

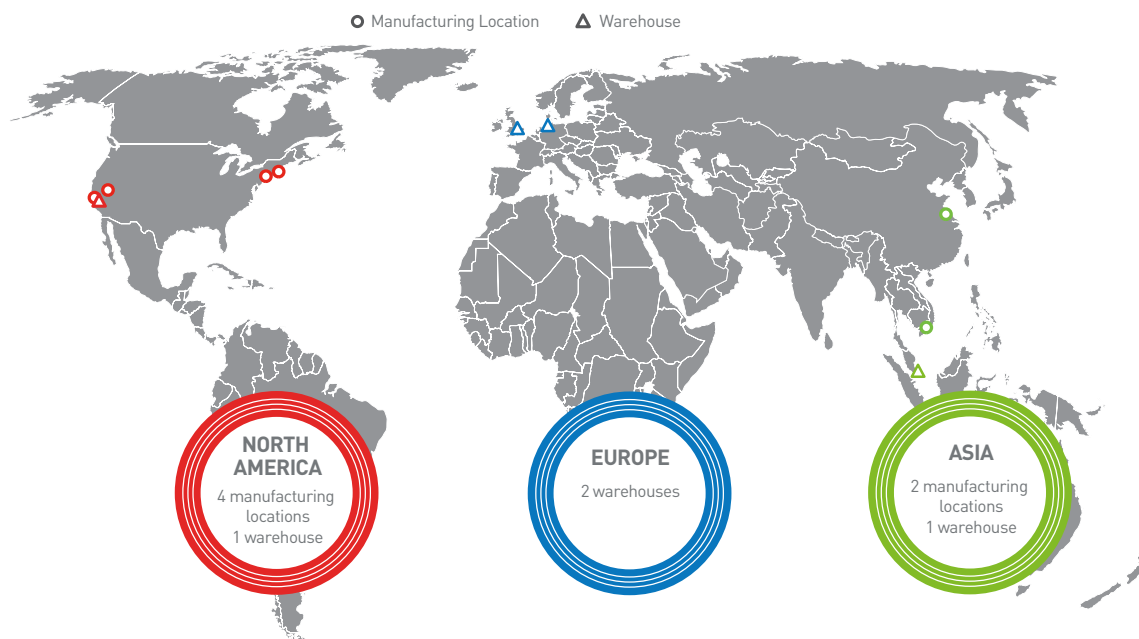
By Q2 2019, both facilities will have very similar capabilities, therefore allowing capacities to be evenly distributed within Asia manufacturing. This has the added advantage of being able to flex capacity, maintain lead times and deliver performance during unpredictable demand spikes.

Despite the implications of US tariffs, we will continue to operate in Kunshan, China where we have been building the high power more complex products. We have a strong technical workforce in that facility, many of whom have long service with the Group and extensive power converter knowledge.

## COMPONENT SUPPLY

During the first half of 2018 we started to see significant tightening of the supply chain for electronic components which resulted in dramatically increased lead times and component cost inflation. We went into the market to secure supplies of critical components at prices beyond our standard costs in order to meet our lead times to our customers and ensure we could continue to ship. Lead times for certain components increased dramatically, in some cases lead times moved from 12 to 52 weeks. The result of these lead time extensions has meant we have had to significantly increase our safety inventories. The extra prices we had to pay for components were a drag on gross margins in the second half of 2018. Recently the supply of certain components such as multi-layer ceramic capacitors and chip type resistors has started to improve but many of the active power semiconductor devices we use remain on long lead times.





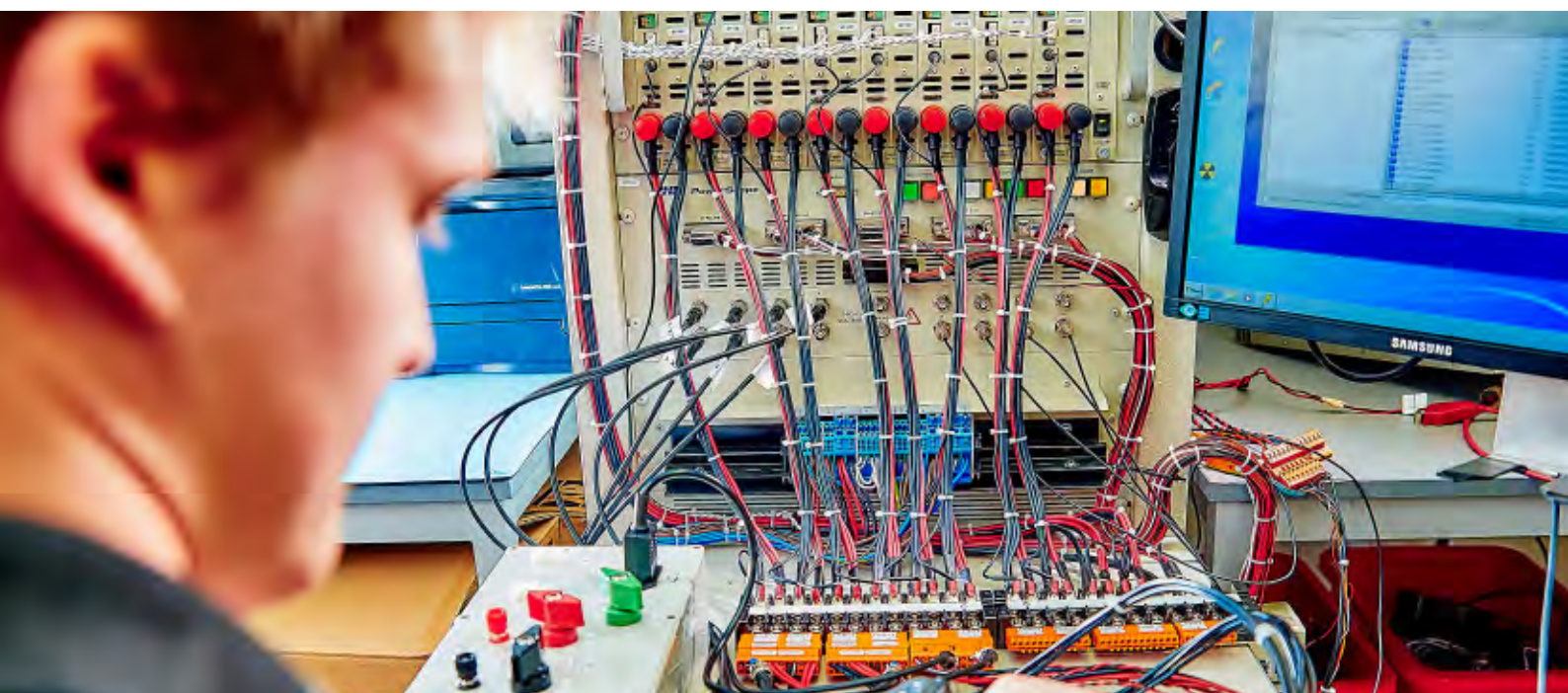
## SUPPLY CHAIN STRATEGY

Over the years we have built an enviable brand in the power solutions market. Our product portfolio, excellent customer service and successful execution of our strategy has led to consistent growth in market share. In particular, growth in the past two years has been extremely strong which has tested the agility of our supply chain and manufacturing operations. While they have been able to cope with this growth profile it is clear that we need to upgrade our systems and processes

in order to be able to scale and run a much larger company. We have embarked on a project to make SAP S/4HANA our ERP system across the Group, replacing our existing manufacturing systems. This will bring great benefits to the Group and manufacturing operations in particular.

The recent strategic acquisitions have expanded our product offering. This also allows consolidation and leveraging of the supply chain. We are in a very strong position to leverage these supply chain synergies, improving operational flexibility, delivery, quality and cost objectives.

We will also continue to strengthen our systems and processes in order to build a global supply chain which balances high efficiency with market-leading customer responsiveness.



# PERFORMANCE: FINANCIAL REVIEW



*“We continue to invest in our business and people, whilst still being able to deliver strong year on year profit growth”*

**Gavin Griggs**  
Chief Financial Officer

## REVIEW OF OUR YEAR

**XP Power delivered another strong performance in 2018. The strong order and revenue growth coupled with clear investment priorities and effective control of operating expenditure, has delivered strong year-on-year growth in profits. We have also made further investment in capital projects in order to increase the production capacity and build the capabilities necessary to support our future sales growth. The business exited the year with a robust financial position.**

## STATUTORY RESULTS

On a statutory basis, revenue was £195.1 million (2017: £166.8 million), representing growth of 17%. Operating profit was £39.3 million (2017: £32.5 million), an increase of 21% over the prior year, with operating margin at 20.1% (2017: 19.6%). Net finance costs were £1.7 million (2017: £0.3 million) resulting in Profit before tax of £37.6 million (2017: £32.2 million) giving rise to an

income tax expense of £7.2 million (2017: £3.6 million), equivalent to an effective tax rate of 19% (2017: 11%). Basic earnings per share were 157.8 pence (2017: 148.3 pence), an increase of 6%.

## ADJUSTED RESULTS

Throughout this Annual Report, adjusted and other alternative performance measures are used to describe the Group's performance. These are not recognised under International Financial Reporting Standards (IFRS) or other generally accepted accounting principles (GAAP).

When reviewing XP Power's performance, the Board and management team particularly focus on adjusted results rather than statutory results. There are a number of items that are included in statutory results, but which are considered to be one-off in nature or not representative of the Group's performance and which are excluded from adjusted results. The tables on pages 115 and 116 show the full list of adjustments between statutory operating profit and adjusted operating profit by business, as well as between statutory profit before tax and adjusted profit before tax at Group level for both 2018 and 2017.

## REVENUE PERFORMANCE

The Group generated revenue growth of 17% during the year on a reported basis, 21% in constant currency and 11% on a like-for-like constant currency basis adjusting for the foreign exchange

headwind and the impacts of the Comdel and Glassman acquisitions in 2017 and 2018. The Group's revenue performance was driven by growth in the Semiconductor manufacturing sector, which grew 60% to £47.4 million (2017: £29.7 million) and the Technology sector, which grew 19% to £20.4 million (2017: £17.2 million). The Industrial sector grew 7% to £83.7 million (2017: £78.1 million) and the Healthcare sector grew 4% to £43.6 million (2017: £41.8 million).

All three of our regions delivered growth in 2018. North America grew strongly, up 26% (31% in constant currency) due in part to the effect of the Glassman and Comdel acquisitions. On a like-for-like basis North America grew by 8% to £97.7 million (2017: £90.4 million), due to strong growth in the Semiconductor manufacturing sector. Europe delivered growth of 6% (6% in constant currency) to £61.1 million (2017: £57.5 million), driven by strong performance in the Nordics, up 22% and Central Europe, up 9%. Asia revenues grew 6% in constant currency with reported revenue flat compared to 2017 at £14.9 million.

This revenue performance was as a result of a good order backlog at the start of 2018 and order bookings of £198.4 million in 2018, an increase of 8% over 2017 on a reported basis, or 12% in constant currency. Orders and revenue for 2018 represent a full year book-to-bill ratio of 1.02 (2017: 1.11).

## Revenue up 17%

### GROSS PROFITABILITY

Gross margin improved to 47.3% (2017: 46.5%), largely due to product mix, improving performance at Comdel and the effect of the appreciation of Sterling versus the US Dollar; this helped offset the impact of price increases on components and the increases as a result of scarce supply seen in the first half of 2018.

### ADJUSTED OPERATING EXPENSES AND MARGINS

The Group increased its investment in operating resources, excluding specific items, by 20% to £49.4 million (2017: £41.2 million). Investing in our people remains a focus and resulted in payroll and staff costs increasing by 25%. Headcount, excluding factories and acquisitions increased by 10% compared to 2017 as we invested in our engineering and sales organisations. Non-cash share-based payment charges amounted to £0.8 million (2017: £0.1 million) and related to a grant to senior management under the Long-Term Incentive Scheme during the year. Adjusted Operating margins were in line with 2017 at 22.0% (2017: 21.8%).

### FOREIGN EXCHANGE

In 2018 the average Sterling to US Dollar exchange rate increased by 5%, from 1.28 to 1.34. The majority of this movement was seen in the first half of 2018, with a 10% strengthening in Sterling compared with 2017. For the final six months of the year Sterling to US Dollar exchange rate was marginally lower than 2017.

Approximately 84% of our revenues (2017: 82%) are denominated in US Dollars and the translation of these revenues into Sterling for reporting purposes has had a negative effect.

### FINANCE COST

Net finance cost increased to £1.7 million (2017: £0.3 million) due to increased average borrowings following the acquisition of Glassman in May 2018 and additional requirement for inventory in the second half of 2018 as a result of the significant increases in component lead times.

Interest cover (EBITDA as a multiple of net interest expense as defined by our Revolving Credit Facility) was 32 times (2017: 199 times) which is well in excess of the four times minimum required in our banking covenants.

Net debt to EBITDA at the year-end was comfortable at 1.07 (2017: 0.22).

*“Revenue growth has translated into earnings growth”*

### ADJUSTED PROFIT BEFORE TAX

The Group generated adjusted profit before tax and specific items of £41.2 million, up 14% compared to last year, lower than revenue growth due to the increased investment in operating costs.

### SPECIFIC ITEMS

Specific items are excluded from management's assessment of profit because by either their size, their nature or are non-repetitive and therefore could distort the Group's underlying earnings. In 2018, the Group incurred £3.6 million (2017: £3.9 million) of specific items, predominantly related to costs associated with acquisitions, both completed and aborted, of £0.6 million, £2.8 million for amortisation of intangible assets due to business combination and £0.2 million costs related to ERP implementation.



# PERFORMANCE: FINANCIAL REVIEW

## TAXATION

The effective tax rate from continuing operations before specific items increased by 750bps to 17.5% (2017: 10.0%). The rate returned to more normal levels as the prior year benefitted from refunds of historic taxation paid predominantly in Singapore and the revaluation of the deferred tax credit in the United States following the 2017 Tax Cuts and Jobs Act. In 2018, the Group benefitted from the reduction in the corporate tax rate in the United States

The effective tax rate from continuing operations after specific items increased by 790 bps to 19.1% (2017: 11.2%). Going forward, XP Power expects the effective tax rate to be approximately 17-19% depending predominantly on the regional mix of profits.

## ADJUSTED EARNINGS PER SHARE

Basic and diluted adjusted earnings per share from continuing operations before specific items increased by 18% and 18% to 176.1 pence and 172.8 pence respectively (2017: 149.4 pence and 147.0 pence). This was driven by the increase in continuing profit before tax during the year.

## OPERATING CASH FLOW

The Group generated £26.7 million net cash from operations compared with £29.7 million in the previous year. The lower level of operating cash flows was largely a result of increased inventory, due to component shortages and longer lead times seen in 2018, which led to working capital outflows of £16.4 million.

## NET DEBT

We finished 2018 in a net debt position of £52.0 million (2017: £9.0 million), with the increase due to funding the acquisition of Glassman (£35.7 million) and higher working capital levels. The Group continued its progressive dividend policy which meant returning £15.3 million (2017: £14.0 million) to shareholders in the form of dividends.



**Adjusted EPS  
increases 18%**



## STATEMENT OF FINANCIAL POSITION

The Group has a revolving credit facility of US\$105 million (2017: US\$40 million), which matures in September 2021. The Group funded the acquisition of Glassman through the credit facility and, at the balance sheet date, had drawn down on US\$81 million (2017: US\$33 million) of the facility. The Group continues to operate well within its banking covenants with significant headroom under each financial ratio.

## FIXED ASSETS

We continue to invest in our business with the majority of spend on manufacturing and supporting our future sales growth. The majority of the manufacturing spend relates to our new Vietnam site located adjacent to our current facility. We plan to invest circa £10 million during the new financial year, a £5 million increase on 2018. This acceleration is principally due to the completion of our new Vietnam site and an investment in upgrading our ERP system.

## DIVIDENDS

The attractive cash flow generated by the XP Power business model has enabled the Company to pursue a progressive dividend policy over a sustained period of time.

The policy is to increase dividends progressively while maintaining an appropriate level of cover. This year's financial performance in terms of both profitability and cash flow has enabled us to recommend a final dividend of 33 pence per share which, together with the quarterly dividends already paid, gives a total dividend for the year of 85 pence per share (2017: 78 pence per share), an increase of 9%. Dividend cover for the year was 1.9 times (2017: 1.9 times).

## FINANCIAL INSTRUMENTS

The Group's financial instruments consist of cash, money market deposits, and various other items such as trade receivables and trade payables that arise directly from its business operations.

The Group uses forward currency contracts to hedge highly probable forecast transactions. The instruments purchased are denominated in the currencies of the Group's principal markets. The Group had £10.8 millions of forward currency contracts outstanding at 31 December 2018 (2017: £7.8 million).



**Dividend per share  
increases 9%**





## BREXIT

In terms of the broader economic impacts of Brexit on our business, we do not consider that they will be material. Our products are made in Asia and are already imported into Europe where we have warehouses in both Germany and the United Kingdom and hence, we could ship our product destined for the European Union directly into Germany or another appropriate location. Plans are in place that will help minimise any logistical issues that arise following the United Kingdoms exit from the European Union.

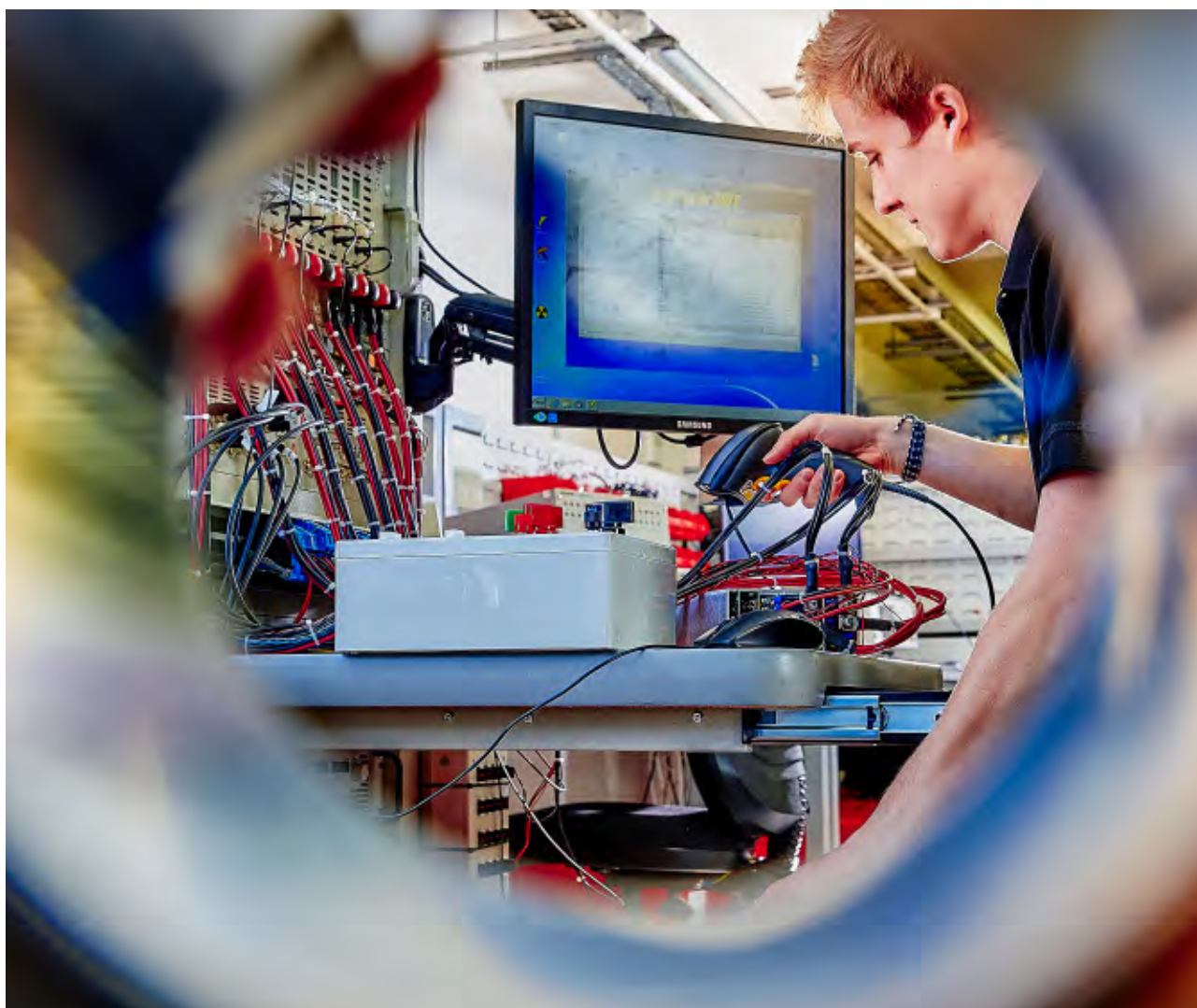
## SYSTEMS DEVELOPMENT

Efficient and robust systems are essential in order for us to manage an international business and supply chain with a highly diverse customer base. We operate a global Customer Relationship Management system covering all three regions which allows us to collaborate, share information and provide efficient and effective customer service. The cornerstone of our supply chain is built on the SAP ERP System. In 2018, we started on a project to implement the latest version of SAP across our entire global supply chain with the first focus being on our existing operating regions and then the China and Vietnam manufacturing facilities.

We expect this implementation to have significant benefits in terms of factory planning and will of course give us significant operational advantages with the factory systems running on the same platform as sales companies. Further gains will be realised when we migrate the most recent acquisitions of Comdel and Glassman likely to be in 2020.

This integrated approach ensures that we have the robust systems and reporting necessary to support our future growth.

**Gavin Griggs**  
Chief Financial Officer



# MANAGING OUR RISKS

**The Group has well-established annual and ongoing risk management processes to identify and assess risks. Nonetheless, renewed emphasis, encouraged by the more recently appointed Non-Executive Directors, coupled with the introduction of internal audit reviews, has strengthened these processes.**

The Group's principal risks have been mapped onto a detailed risk universe from which key areas for business focus can be identified. This helps facilitate further discussions on risk appetite and draws out the risks that require a greater level of attention in terms of audit or assessment.

## OUR RISK ASSESSMENT

The key risks that have been identified and the mitigating actions are summarised on the following pages and classified according to:

- The assessment of their level of impact to the viability of the business if they occurred – ranging from severe to minor;
- The likelihood of a risk occurring – ranging from high to low; and
- The direction in which they are trending – risks are classified according to whether they are assessed as becoming more likely to occur, less likely to occur or whether the risk of occurrence remains unchanged.

Although the attributes assigned to the identified risks are judgemental and qualitative in nature, the Board regards the methodology as useful in determining the focus that should be given to each risk.

This is not an exhaustive list of risks that the Board has identified and considered but does include all risks which are assessed as having a severe or moderate impact to the business if they occurred.

## RISK APPETITE

The Board determines the appropriate level of risk for operating the business and pursuing their vision and strategic objectives. A key focus for the Board is minimising the Group's exposure to financial, operational, human, legislative and reputational risks.

## OUR RISK MANAGEMENT FRAMEWORK

### TOP DOWN:

Identifying, assessing and mitigating risk at Group level. Setting the risk appetite for the Group

### The Board

A robust risk assessment has been carried out at Board level and where possible actions set to mitigate and / or reduce the identified risk. The Board acknowledges that it is responsible for the Group's internal controls and for reviewing their effectiveness. XP Power has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group; these identified risks and processes are documented, reviewed and updated at Board meetings.

### Audit Committee and Internal Audit

The Audit Committee ensures that the Group is effectively managing risk and internal control procedures. This is achieved through:

- The Audit Committee reviewing the effectiveness of internal controls.
- An internal audit and risk assurance programme.

### Operational level

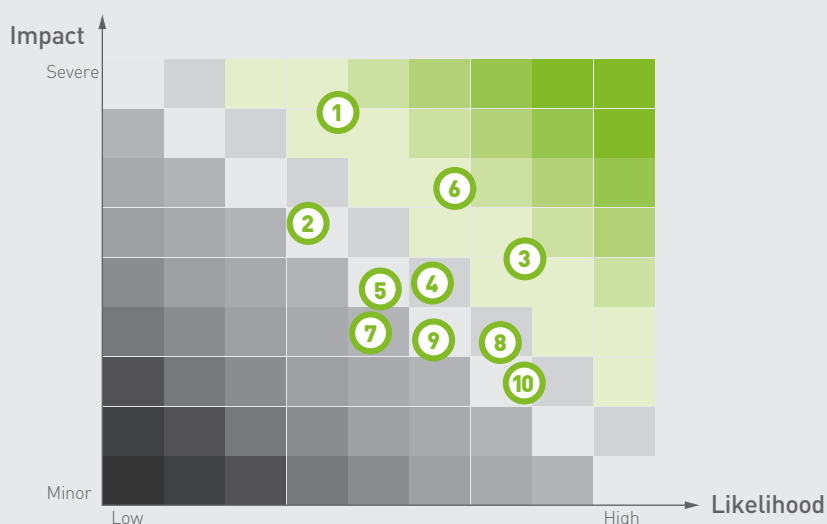
A key control procedure is the day-to-day supervision of the business; this is supported by managers within the Group's companies. These include:

- Authority matrices are in place to clearly define who is able to authorise particular transactions, transfer funds, commit Company resources and enter into particular agreements.
- Monthly reporting of management accounts and key metrics to senior management with performance measured to budget and material variances reported to the Board.
- Quality control checks throughout our manufacturing process, burn in, electrical testing to detect early failures, 100% functional testing, and quality inspection.
- Disaster recovery and business continuity plans are in place at all facilities, documented and communicated to key personnel to help cope with unexpected events.

### BOTTOM UP:

Identifying, assessing and mitigating risk across functional areas

## HEAT MAP OF THE IDENTIFIED RISKS INDICATING THE LIKELIHOOD AND LEVEL OF IMPACT



- ① An event that causes a disruption to one of our manufacturing facilities.
- ② Product recall.
- ③ Competition from new market entrants and new technologies.
- ④ Fluctuations of revenues, expenses and operating results due to an economic shock.
- ⑤ Dependence on key customers/suppliers.
- ⑥ Cybersecurity/information systems failure.
- ⑦ Risks relating to regulation, compliance and taxation.
- ⑧ Strategic risk associated with valuing or integrating new acquisitions.
- ⑨ Loss of key personnel or failure to attract new personnel.
- ⑩ Exposure to exchange rate fluctuations.

### KEY

○—○ No change to risk

○— Increase in risk

○— Decrease in risk

### Risks that could have a severe impact on the Company's business and possibly on the viability of the Company's business

RISK	EXPLANATION OF RISK	MITIGATION	ASSESSED TREND
<p>①</p> <p><b>AN EVENT CAUSES A DISRUPTION TO OUR MANUFACTURING FACILITIES</b></p>	<p>An event that results in the temporary or permanent loss of a manufacturing facility would be a serious issue. As the Group manufactures 80% of revenues, this would undoubtedly cause at least a short-term loss of revenues and profits and disruption to our customers and therefore damage to reputation.</p>	<ul style="list-style-type: none"> <li>● We now have two facilities (China and Vietnam) where we are able to produce power supplies. However, not all power converter series can be produced in both facilities.</li> <li>● We have disaster recovery plans in place for both facilities.</li> <li>● We have undertaken a risk review with the manufacturing management to identify and assess risks which could cause a serious disruption to manufacturing, and then identified and implemented actions to reduce or mitigate these risks where possible.</li> </ul>	○—○
<p>②</p> <p><b>PRODUCT RECALL</b></p>	<p>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.</p>	<ul style="list-style-type: none"> <li>● We perform 100% functional testing on all own-manufactured products and 100% hi-pot testing, which determines the adequacy of electrical insulation on own-manufactured products. 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 we manufacture to ensure the leakage current is within the medical specifications.</li> <li>● Where we have contracts with customers, we limit our contractual liability regarding recall costs.</li> <li>● No single customer project accounts for more than 4% of overall revenue.</li> </ul>	○—○

# MANAGING OUR RISKS

Risks that could have a moderate impact on the Company's business and possibly on the viability of the company's business			
RISK	EXPLANATION OF RISK	MITIGATION	ASSESSED TREND
<p><b>3</b></p> <p><b>COMPETITION FROM NEW MARKET ENTRANTS AND NEW TECHNOLOGIES</b></p>	<p>The power supply market is diverse and competitive. The Directors believe that the development of new technologies could give rise to significant new competition to the Group, which may have a material effect on its business. At the lower end of the Group's target market, in terms of both power range and programme size, the barriers to entry are lower and there is, therefore, a risk that competition could quickly increase, particularly from emerging low cost manufacturers in Asia.</p>	<ul style="list-style-type: none"> <li>The Group reviews activities of its competition, in particular product releases, and stays up-to-date with new technological advances in our industry, especially those relating to new components and materials. The Group also tries to keep its cost base competitive by operating in low cost geographies where appropriate.</li> <li>The general direction of our product roadmap is to move away from lower complexity products and to increase our engineering solutions capabilities as to reduce the inherent market competitiveness.</li> </ul>	
<p><b>4</b></p> <p><b>FLUCTUATIONS OF REVENUES, EXPENSES AND OPERATING RESULTS DUE TO AN ECONOMIC SHOCK</b></p>	<p>The revenues, expenses and operating results of the Group could vary significantly from period to period as a result of a variety of factors, some of which are outside its control. These factors include: general economic conditions; adverse movements in interest rates; conditions specific to the market; seasonal trends in revenues, capital expenditure and other costs; and the introduction of new products or services by the Group, or by its competitors. In response to a changing competitive environment, the Group may elect from time to time to make certain pricing, service, marketing decisions or acquisitions that could have a short-term material adverse effect on the Group's revenues, results of operations and financial condition.</p>	<ul style="list-style-type: none"> <li>Although not immune from an economic shock or the cyclicality of the capital equipment markets, the Group's diverse customer base, geographic spread and revenue annuities reduce exposure to this risk.</li> <li>The Group's business model is not capital intensive and the strong profit margins lead to healthy cash generation which also helps mitigate risks from these external factors.</li> <li>The Group benefits from good order exposure 12 months out allowing it to recognise market changes and mitigate the impact.</li> </ul>	
<p><b>5</b></p> <p><b>DEPENDENCE ON KEY CUSTOMERS/ SUPPLIERS</b></p>	<p>The Group is dependent on retaining its key customers and suppliers.</p> <p>Should the Group lose a number of its key customers or key suppliers, this could have a material impact on the Group's financial condition and results of operations. However, for the year ended 31 December 2018, no single customer accounted for more than 14% of revenue.</p>	<ul style="list-style-type: none"> <li>The Group mitigates this risk by providing excellent service. Customer complaints and non-conformances are reviewed monthly by members of the Executive Leadership team.</li> <li>As the proportion of our own-manufactured products has increased, the reliance on suppliers for third party product has been mitigated proportionally. There has been a shift from a finished goods risk to a raw materials risk.</li> <li>We conduct regular audits of our key suppliers and in addition keep large amounts of safety inventory of key components.</li> </ul>	



Risks that could have a minor impact on the Company's business and possibly on the viability of the Company's business			
RISK	EXPLANATION OF RISK	MITIGATION	ASSESSED TREND
<p><b>6</b></p> <p><b>CYBERSECURITY/ INFORMATION SYSTEMS FAILURE</b></p>	<p>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 on the results of operations.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Internally produced training materials are used to educate users regarding good IT security practice and to promote the Group's IT policy.</li> <li>A cyber assessment carried out by the outsourced internal auditor resulted in recommendations that are being implemented to further mitigate cyber risk and safeguard the Group's assets.</li> </ul>	
<p><b>7</b></p> <p><b>RISKS RELATING TO REGULATION, COMPLIANCE AND TAXATION</b></p>	<p>The Group operates in multiple jurisdictions with applicable trade and tax regulations that vary. Failing to comply with local regulations or a change in legislation could impact the profits of the Group. In addition, 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.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>The Group hires employees with relevant skills and uses external advisers to keep up-to-date with changes in regulations and to remain compliant.</li> </ul>	
<p><b>8</b></p> <p><b>STRATEGIC RISK ASSOCIATED WITH VALUING OR INTEGRATING NEW ACQUISITIONS</b></p>	<p>The Group may elect from time to time to make strategic acquisitions. A degree of uncertainty exists in valuation and in particular in evaluating potential synergies. Post-acquisition risks arise in the form of change of control and integration challenges. Any of these could have an effect on the Group's revenues, results of operations and financial condition.</p>	<ul style="list-style-type: none"> <li>Preparation of robust business plans and cash projections with sensitivity analysis and the help of professional advisers if appropriate.</li> <li>Post-acquisition reviews are performed to extract "lessons learned".</li> </ul>	

# MANAGING OUR RISKS

Risks that could have a minor impact on the Company's business and possibly on the viability of the Company's business			
RISK	EXPLANATION OF RISK	MITIGATION	ASSESSED TREND
<p><b>9</b></p> <p><b>LOSS OF KEY PERSONNEL OR FAILURE TO ATTRACT NEW PERSONNEL</b></p>	<p>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 the services of key employees could have a material adverse effect on the Group's business.</p>	<ul style="list-style-type: none"> <li>The Group undertakes performance evaluations and reviews to help it stay close to its key personnel as well as annual employee engagement surveys. Where considered appropriate, the Group also makes use of financial retention tools such as equity awards.</li> </ul>	
<p><b>10</b></p> <p><b>EXPOSURE TO EXCHANGE RATE FLUCTUATIONS</b></p>	<p>The Group deals in many currencies for both its purchases and sales including US Dollars, Euros and its reporting currency Pounds Sterling. In particular, North America represents an important geographic market for the Group where virtually all the revenues are denominated in US Dollars. The Group also sources components in US Dollars and the Chinese Yuan. The Group therefore has an exposure to foreign currency fluctuations. This could lead to material adverse movements in reported earnings.</p>	<ul style="list-style-type: none"> <li>The Group reviews balance sheet and cash flow currency exposures and where considered appropriate, uses forward exchange contracts to hedge these exposures. Any forward contract requires the approval of both the Chief Executive Officer and Chief Financial Officer.</li> <li>The Group does not hedge any translation of its subsidiaries' results to Sterling for reporting purposes.</li> </ul>	

## BREXIT AND FOREIGN EXCHANGE

The weakening of Sterling versus the US Dollar in the period following the United Kingdom referendum on EU membership in June 2016 had a material effect on the presentation of our financial results in both 2016 and 2017.

Approximately 84% of our revenues (2017: 82%) are denominated in US Dollars and the translation of these revenues into Sterling for reporting purposes has had a beneficial effect. However, the majority of our cost of sales and a large proportion of our operating expenses are also denominated in US Dollars. While a stronger US Dollar helps our overall gross margin in absolute terms (albeit to a limited degree) it also has the effect of reducing the gross margin percentage as costs rise disproportionately to the revenues. We estimate that our reported 2018 gross margin percentage could be approximately 40bps (2017: 60bps) higher as a result.

In terms of the broader economic impacts of Brexit on our business, we do not consider that they will be material. Our products are made in Asia and are already imported into Europe where we have warehouses in both Germany and the United Kingdom and hence we could ship our product destined for the European Union directly into Germany or another appropriate location.

## VIABILITY STATEMENT

In accordance with provision C.2.2 of the 2016 revision of the UK Corporate Governance Code, the Directors are required to assess the prospects of the Company over a period longer than the 12 months required by the "Going Concern" provision.

In making the assessment, the Directors considered a three-year financial model including the Group Annual Plan for 2019 and strategic financial plan for the years beyond this. The Directors assessed the viability of the Company over a three-year period as this timeframe is within the Group's strategic financial planning period used to evaluate performance and liquidity and aligns with the design-in cycle for which the Group has visibility.

In determining the viability term, the Board assessed the deliberately austere scenarios against the controls in place to prevent or mitigate the risks occurring.

It also considered them against the Group's current banking facilities, a revolving credit facility of US\$105 million which expires in September 2021, within the three-year lookout period. Based on the strategic plan an extension to the facility is reasonable and is assumed in the financial model.

The Company has a business model where its products are designed into numerous applications, with numerous customers, in numerous geographies. The Company's products are all designed into capital equipment which is generally in production for a number of consecutive years, resulting in a revenue annuity. This diversity and revenue annuity are both deemed important factors in mitigating many of the risks that could affect the long-term viability of the Group. Nevertheless, the Directors' obligation is to assess the Company's viability in conjunction with the principal risks that could cause a severe but plausible threat. The major risks set out on pages 37 to 40 were each modelled in a hypothetical and deliberately austere scenario to help determine the potential effect, primarily to cash flow.

The financial model was stress-tested with scenarios which considered the principal risks identified in the Group's annual risk assessment process. Certain subjective assumptions and judgments were made to achieve this. Given the cash generative nature of the business, each risk scenario occurring in isolation did not breach the Group's theoretical borrowing facility headroom. The most severe threats occurring in isolation were found to be a serious and prolonged systems failure, such as to our ERP or CRM systems, or a significant & permanent economic collapse/significant competition scenario.

Scenarios were also prepared to model the unlikely event of more than one risk occurring at the same time. A combination of a temporary or permanent disruption at one of our facilities together with a serious and prolonged economic shock and a combination of tax and regulations compliance failure together with a serious and prolonged economic shock was modelled. In neither of these two scenarios did the Group breach its theoretical borrowing capacity. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company is viable for at least a period of three years to 31 December 2021.



# OUR COMMITMENTS TO SUSTAINABILITY



*“This past year we continued to demonstrate the commitment of the organisation to be the leader in environmental initiatives. We further expanded our Vietnam manufacturing facility utilising the same industry leading environmental design concepts as our first Vietnamese facility, installed solar panels to one of our core European locations and expanded our “XP Power Green” product offering.”*

**Sean Ross**

Environmental Committee Chairman and Vice President of Quality Assurance

## OUR COMMITMENT

Since 2010 we have been a member of the Responsible Business Alliance. This has helped us establish a base foundation from which to further advance sustainability initiatives globally within XP Power. The organisation further promotes a culture and understanding that we are fully committed to leading our industry on Corporate Social Responsibility matters.

A global Environmental Committee has been established which helps us achieve our vision of leading our industry on environmental matters. This group meets quarterly to collaborate and share ideas for engagement and key initiatives. This further encourages getting involved and giving back to our local communities. Members from all of our core locations are represented and set up activities within the community, promoting new environmental initiatives and encouraging more awareness of our programme.

## OUR IMPACTS

We performed an assessment of the most significant impact that we as an organisation have on the environment. The review is consistent with our past conclusions that the greatest environmental contributor is the efficiency of the product solution we provide to our customers. As part of our design and development process we have further expanded on our ultra-high efficiency products within our product portfolio. These “Green XP Power” products require less energy, are void of hazardous substances and consume less material. We continue to promote the use of these products to our customers, and the benefit of using “Green XP Power” products. The positive impact on these types of products helps maximise energy savings during the entire lifetime of the customers end-equipment. In addition, we also continue to ensure we are adopting the best practices in all of our facilities and continually promoting awareness of environmental issues among our team members.

## OUR SUSTAINABILITY STRATEGY

XP Power’s strategy is to further product development of those power converters with industry-leading efficiency. This helps reduce the amount of wastage and heat loss during operation within a customer’s end application. The solutions we are able to develop can achieve efficiency of up to 95%. This provides a significant

advantage over the standard power supply which typically will have an 80% efficiency rating. As we have demonstrated in the past, the example below helps convey the significance of this delta in efficiency rating:

*XP Power supplies 95% efficient product to power 100 watt load. 105 watts of input power is required to deliver 100 watts at this level of efficiency.*

*Competitor supplies an 80% efficient, product to power 100 watt load. 125 watts of input power is required to deliver 100 watts at this level of efficiency.*

*Moving from 80% efficiency to 95% is actually a five-fold saving in waste energy!*

The waste heat as highlighted above is calculated in watts. There is a significant difference considering there is a five-fold improvement in energy wastage and the overall potential for savings will be throughout the entire lifetime of electronic equipment. To achieve these efficiency gains requires a greater number of higher cost components and more complex circuits.

The return on investment of a higher efficiency product can be captured in terms of consumption of electricity. The full payback on electricity costs is usually within the first year of use. Therefore, we continue to promote and encourage the use of these high efficiency products.



We anticipate that the trend in the market through both demand and legislation for higher efficiency products is expected to continue in the electronics industry. These legislation requirements are projected to extend across various industries from consumer equipment to the healthcare and industrial markets that we serve.

## 20 new XP Power Green products launched

### OUR KEY ACHIEVEMENTS IN 2018

There were three key significant environmental initiatives within the business:

- (1) Expanding our portfolio of “XP Power Green” Products.
- (2) Further expansion of our Vietnam manufacturing location which utilised the same industry-leading environmental design concepts as our first Vietnamese facility.
- (3) Installing Solar panels at our Pangbourne, UK location.

The revenue growth of our “XP Power Green” products continues to increase. In 2017 we shipped £42.1 million pounds of our green products in 2018 which was a 6% increase on 2017.

Of the 27 product families that we launched in 2018, 20 were “XP Power Green” products having high efficiency and/or low standby power.

The calculated annual savings in CO<sub>2</sub> from these products compared to a standard 80% efficient converter are significant. Based on our calculations, we estimate that the annual CO<sub>2</sub> emissions savings from the “Green XP Power” converters we sold in 2018 is 33,700 tonnes.

The annual savings will recur each year for the lifetime of the product, which we estimate conservatively as seven years. This would result in lifetime savings of 236,000 tonnes of CO<sub>2</sub>. This helps demonstrate the environmental impact that we can make by providing these types of products. Considering this is only one year of shipments the potential cumulative effect of year after year shipments has an extreme impact.

### SUSTAINABILITY INITIATIVE – CELEBRATING THE EARTH

Earth Day occurred on 22 April this past year. As in previous years we used this event to recreate awareness regarding the environment in our key locations with an entire week of environmental and community initiatives.

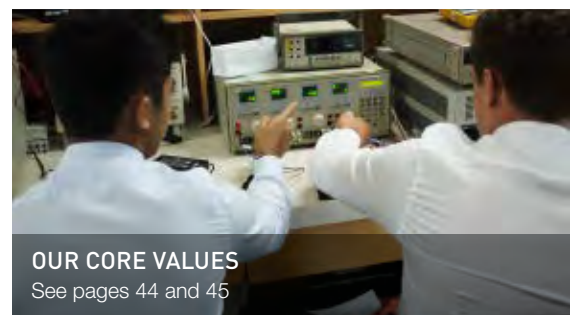
### ECONOMIC SUSTAINABILITY

As well as responsible environmental and social responsibility practices we consider the sustainability of our business model and business practices. Our internal Code of Conduct sets high standards in terms of how we treat people, health and safety, integrity and business ethics, as well as the environment and how we support the communities in which we operate. We consider that this not only makes XP Power a great place to work and to do business with, but also ensures that we have a sustainable economic business model.

### OUR PLANS FOR THE YEAR AHEAD

Products: There are additional high efficiency products on our road map for 2019.

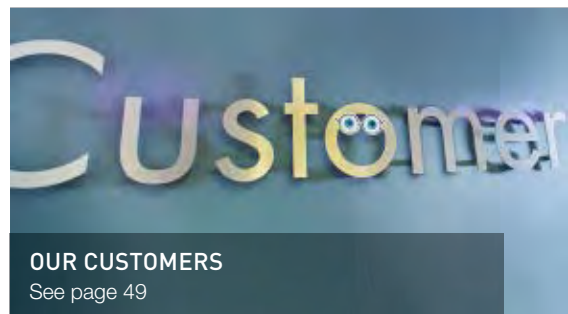
Facilities: Continue to look at our existing facilities to determine opportunities where we can make improvements to be more environmentally friendly. This includes locations of our recent acquisitions.



**OUR CORE VALUES**  
See pages 44 and 45



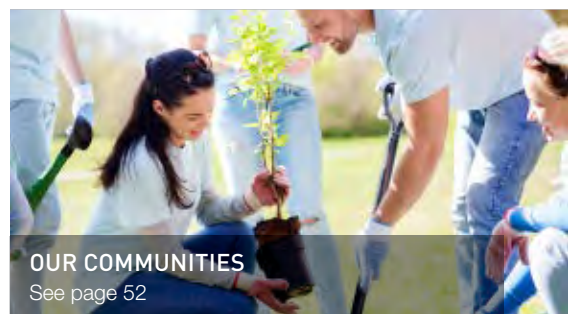
**OUR PEOPLE AND THEIR HEALTH AND SAFETY**  
See page 46



**OUR CUSTOMERS**  
See page 49



**OUR SUPPLIERS**  
See page 50



**OUR COMMUNITIES**  
See page 52

# OUR CORE VALUES



- + Honest in all our interactions with our colleagues, customers and suppliers
- + Always doing the right thing
- + Taking care of our people-ensuring XP Power is a great place to work where we trust the people we work with, have pride in what we do and gain enjoyment from our work



- + Delivering genuine value to our customers through our knowledge and experience
- + Continually developing our skills and capabilities as individuals and as an organisation



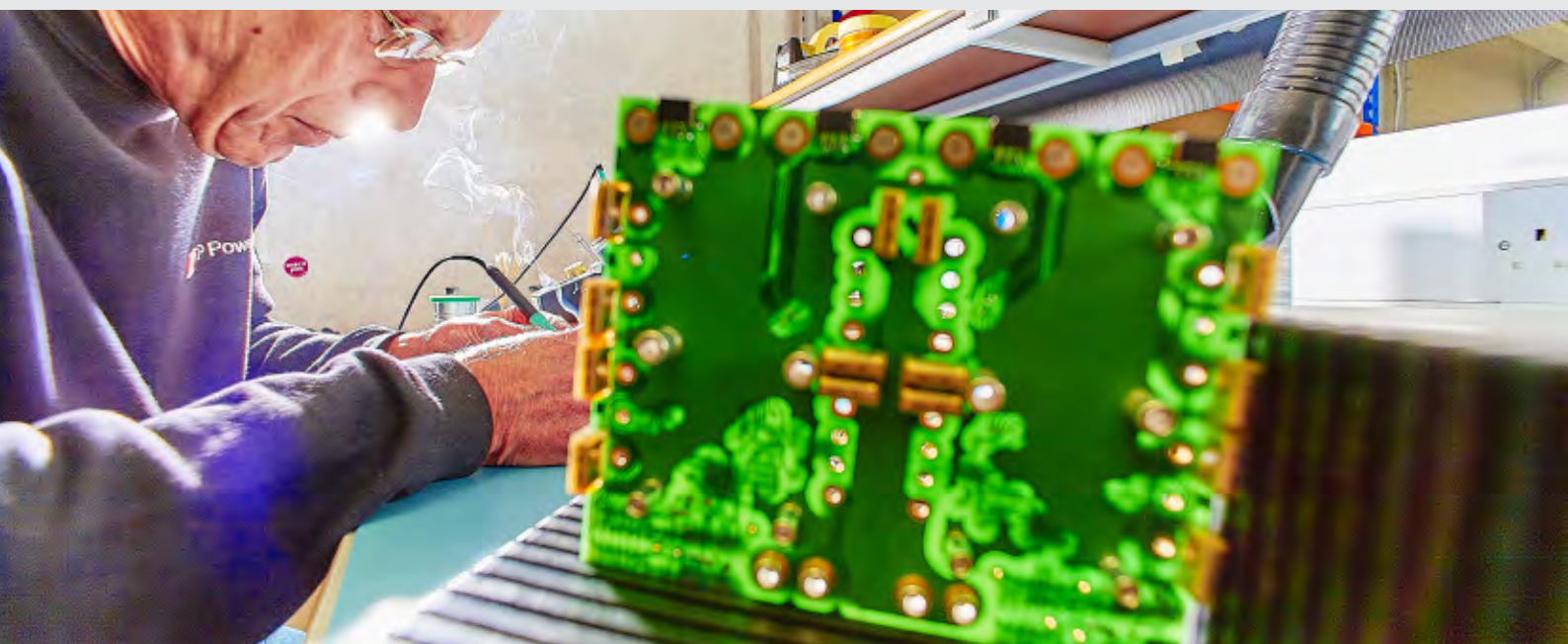
- + Receptive to the needs of our customers to provide outstanding customer service
- + Willing to challenge the way we do things and adapt to constantly improve and innovate
- + Collaborating with our colleagues and customers for better results



- + Responding to our customers and colleagues with impressive speed
- + Constantly looking at faster and more efficient ways of delivering value in everything we do



- + Always considering our customer's experience in everything we do
- + Never forgetting that without our customer we do not have a business



# OUR CORE VALUES IN ACTION



*“Our Core Values support our vision, shape our culture and underpin our strategy. In an environment of constant change, they are a unifying force that enable us to work toward a common purpose.”*

**Heather Murdock**

Head of Global Human Resources

**2018 was another year of strong growth for XP Power, including the acquisition of Glassman High Voltage, the continued hiring of new talent to support the future growth of the business and the increasing need to unify our teams and processes in a fast-paced global landscape.**

One of our people strategies is to continue to embed our company Core Values of integrity, knowledge, speed, flexibility and customer focus. They support our vision, shape our culture and underpin our strategy. In an environment of constant change they help us to work toward a common purpose.

We believe that engaging our employees in our vision and mission is critical to our success and we constantly reinforce this through our global communication meetings and our performance management process. Last year we continued to develop our culture and our people. We focused priorities to ensure we were aimed at the right objectives and targets.

We continued to build our infrastructure and systems that will enable our people and business to scale and continue to grow and succeed.

During 2019 we will leverage the work we did in 2018 to provide the ultimate experience for our people so they will deliver the ultimate experience to our customers.

## HOW OUR CORE VALUES LINK TO OUR CULTURE

Our Core Values are inherently connected to our culture. We track our culture and our values through our employee surveys and performance appraisal system to ensure that we are adhering to them and evolving the culture that we believe has made the business successful as it continues to grow and develop.

We are encouraged that the score from our 2019 cultural survey held up well at 63.4 compared to 62.0 in 2018 against the background of a large increase in new employees including those becoming part of XP Power as a result of the Glassman acquisition who partook in the survey for the first time.

The highest scoring questions in our cultural survey are consistently:

- I am proud to be part of XP Power
- XP Power takes Health and Safety very seriously
- XP Power shows a passion to deliver high-quality products to all our chosen markets
- I feel capable of delivering high standards of customer expectation
- I would recommend XP Power as a great place to work

This reaffirms that we have a positive culture which is fundamental in supporting our strategy and success, especially given the importance of customer focus and service and support to our value proposition. These top scoring questions include some of the most difficult characteristics to embed in an organisation. Being proud to work for an organisation and recommending it as a great place to work speak for themselves.

The cultural survey also highlighted areas where we have further opportunities to improve which included questions relating to sharing best practices and teamwork. We will continue to work on these areas in 2019 as we assimilate the new talent we have brought into the organisation, both organically and through acquisition.

We remain excited regarding the future of XP Power and what we are able to achieve.



# OUR PEOPLE AND THEIR HEALTH AND SAFETY

Our people are our most important asset and we make great efforts to ensure we have policies in place to provide a safe working environment to protect our employees.

As an organisation, it is important that XP Power promotes workforce diversity, integrity and a safe and healthy work environment.



## INTEGRITY

It is imperative that all of our employees are ethical. Integrity is one of our corporate Core Values and is regularly communicated throughout the organisation.

We live and breathe our Core Values. We address them in our communication meetings, performance appraisals and prominently post them throughout our facilities as a reminder of the importance of these values throughout our day-to-day activities. We have a comprehensive Code of Conduct that all our employees receive and sign up to. Integrity means, to us, that we are:

- Honest in all our interactions with our colleagues, customers and suppliers.
- Always doing the right thing.
- Taking care of our people to ensure XP Power is a great place to work where we trust the people we work with, have pride in what we do and gain enjoyment from our work.

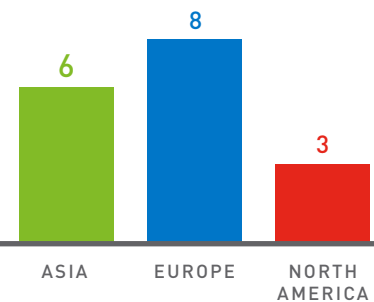
## TRAINING AND DEVELOPMENT

We focus on improving our training and development, ensuring we maintain an innovative and dynamic business that is focused on providing the best solutions for customers and an exciting and engaging work environment for our people. In particular, we believe our sales team is the best trained and most technical in our industry. This enables them to provide genuine value to our customers.

## RECRUITMENT AND RETENTION

We focus on recruiting the right people into the business who are passionate about solutions that power the world's critical systems and who align with our culture and values. Retaining the knowledge and expertise is fundamental to the sustainable success of XP Power. In our annual cultural survey, questions such as "I am proud to be part of XP Power" and "I would recommend XP Power as a great place to work" have consistently scored in the top five.

## NO. OF INCIDENTS



## HEALTH AND SAFETY

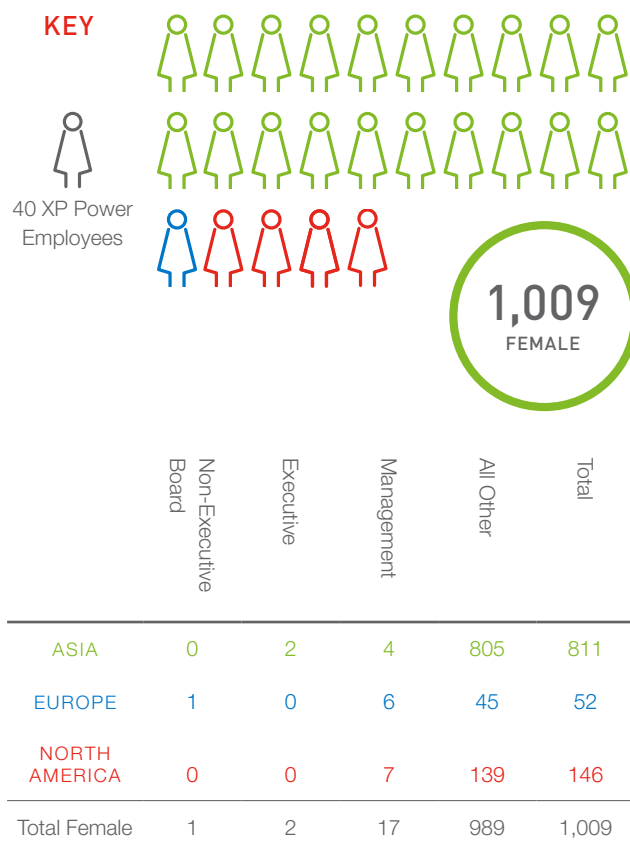
As an organisation, XP Power seriously considers the suitability of our Health and Safety programme. The programme we have in place focuses on preventive action to ensure that we are being proactive and therefore reducing the risk of incidents from occurring. In addition to meeting the requirements set out in the Responsible Business Alliance Code of Conduct, we ensure that we comply with and keep abreast of particular local requirements. There are Committee members at each of our key sites that ensure any accidents are reported, acted upon and analysed for management review. The Health and Safety metrics are reported to the Board of Directors to ensure visibility throughout all levels of the organisation.





MALE

FEMALE



## DIVERSITY

We operate in a global market and recognise the benefits of a diverse and talented workforce and consider this a key competitive advantage. Our business success is a reflection of the quality and skill of our people and the Group is committed to seeking out and retaining the finest talent.

XP Power believes in treating all people with respect and dignity. We strive to create and foster a supportive and understanding environment in which all individuals realise their maximum potential within the Company regardless of their differences.

We believe our diversity benefits all our stakeholders and our Company as a whole. We recognise that each employee brings their own unique capabilities, experiences and characteristics to their work and we value diversity at all levels of the Company.

# OUR PEOPLE AND THEIR HEALTH AND SAFETY



## MODERN SLAVERY ACT 2015

The United Kingdom has enacted legislation to address abhorrent abuse of human rights.

XP Power does not engage in any slavery or human trafficking activities and is strongly against any offences of slavery, servitude forced labour and/or human trafficking. XP Power has also adopted a corporate policy which has been communicated to all employees.

## MODERN SLAVERY POLICY

XP Power is committed to a work environment that is free from modern slavery.

This is achieved by:

- Communicating that as an organisation we do not engage and are strongly against any offences of slavery, servitude/forced labour and/or human trafficking
- Performing due diligence on our supply chain. We would immediately disengage with any supplier that does not have the same vision on forced labour as XP Power
- Complying with all relevant legislation including the Modern Slavery Act 2015
- Adopting this policy within our Corporate Sustainability and Code of Ethics programme

## LINK TO SUSTAINABLE DEVELOPMENT GOALS

Our approach to business links directly to many of the Sustainable Development Goals of the United Nations Development Programme to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.



Through our health and safety programme, we promote healthy lives and well-being of all our employees.



XP Power are committed to gender equality within the workplace, therefore ensuring women are able to effectively participate in all levels of the business.



We promote quality education through our training and development opportunities at XP Power. We also ensure our opportunities are equally accessible for both men and women.



We promote decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value. We also take action to eradicate modern slavery through our modern slavery statement.

# OUR CUSTOMERS

## CUSTOMER FOCUS

Customers have helped drive our growth with our “Green XP Power” offering. This is demonstrated by the increase in revenues year over year since 2010 of these product offerings. This aligns with one of our organisation’s core values, customer focus.

## CUSTOMERS CLEARLY

see the benefit of ultra-high efficiency power converters and this has allowed us to be more focused on delivering these products to meet the customer expectations. The feedback we have also received is that customers are willing to pay a premium for these “Green” products due to their higher performance. One of the underlying benefits of a high efficiency product is that the product is inherently more reliable. Once the power converter gets to a level of efficiency that we are achieving, there is very little waste energy as heat, and there is no longer a need for a mechanical fan for cooling (which also consumes power). If the system engineer can design-in a power converter without a mechanical fan they have now removed the most unreliable part of the power system.

Furthermore, as the power converter runs cooler, the electronic components which are sensitive to heat, such as electrolytic capacitors, have longer lifetimes. The result

## MORE RELIABLE

is that not only is the power system consuming and wasting less energy it has also become significantly more reliable. This is of particular benefit when we consider that many of our products are designed into critical applications in the healthcare and high-end industrial sectors where product failure and downtime are not acceptable. It is with this understanding of the customer’s expectation for an ultra-high efficiency, extremely reliable power supply that we have been able to focus on providing the best solution for the customer’s requirements.

## KEY ACHIEVEMENTS

We have added 27 additional product families to our portfolio during 2018.

## 27 ADDITIONAL PRODUCT FAMILIES

Of these 27 families, 20 were high efficiency “Green XP Power” products. One example is a high efficiency 4,500 watt product which has a variable, rather than fixed output voltage, that can be adjusted via a digital control. This is an example of moving up the power and complexity level, producing more sophisticated products which can communicate directly with the customer’s system.

## OUR PLANS AHEAD

Our plan is to continue to invest in products we can bring to market that provide the most benefit to customers in terms of the high efficiency, and low stand-by power that meet our customers’ cost expectations.

## LINK TO SUSTAINABLE DEVELOPMENT GOALS



We provide solutions for our clients that incorporate technological advancement and innovation.



We produce high efficiency products which reduce CO<sub>2</sub> emissions year after year.



# OUR SUPPLIERS



## RESPONSIBLE BUSINESS ALLIANCE (RBA)

**The United Kingdom has enacted legislation to address abhorrent abuse of human rights.**

XP Power does not engage in any slavery or human trafficking activities and is strongly against any offences of slavery, servitude/forced labour and/or human trafficking. XP Power has also adopted a corporate policy which has been communicated to all employees.

## SUPPLY CHAIN ETHICS

One of the key elements of XP Power's core values is integrity. We work towards ensuring our supply chain partners have the same approach towards ethical business practices as XP Power. This is done by a stringent on-site qualification process of potential new suppliers. It includes an assessment regarding environmental performance, treatment of labour, health and safety and business ethics standards. As the suppliers we engage with are considered long-term partners it is imperative that these suppliers share our vision.

The XP Power ethics policy is included within our Code of Conduct and includes the following requirements as it relates to suppliers:

- We will uphold high levels of business ethics in dealing with our suppliers; and
- We will not at any time take or give bribes or other means of inducement to obtain improper advantage.

These requirements have been actively communicated to our supply chain employees.

## SUPPLY CHAIN DUE DILIGENCE

As part of our due diligence process within our supply chain, we have updated our qualification process to include an evaluation to ensure our suppliers do not engage in or support any slavery, human trafficking, servitude or forced labour. We disengage with suppliers that fail to meet our vision on ethical standards.

In 2010 the US Dodd-Frank Wall Street Reform and Consumer Protection Act was passed concerning "conflict minerals" originating from the Democratic Republic of the Congo or adjoining countries. XP Power has worked with our suppliers to try and eliminate using those sources that have originated from those countries in question. We have adopted the reporting template issued by the Global e-Sustainability Initiative (GeSI) and Responsible Business Alliance which we provide to our customers so they gain the necessary assurance we are not using conflict minerals in our products.

## OUR PLANS FOR THE YEAR AHEAD

The supply chain programme we have in place has been extremely effective in promoting industry-leading sustainable programmes with our suppliers.

We will continue to expand this programme as we determine additional ethical requirements that are in alignment with our Core Values.

## LINK TO SUSTAINABLE DEVELOPMENT GOALS

Our approach to business links directly to many of the Sustainable Development Goals of the United Nations Development Programme to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.



We work with suppliers that are ethical and thereby achieve full and productive employment for all genders, ethnicities and persons with disabilities.



We source from responsible suppliers and ensure that our facilities have minimal impact on the environment.





# OUR COMMUNITIES



## COMMUNITY POLICY

Last year we implemented a new policy for community service. The organisation allows for a day of paid time off to support local community activities.

This shows a level of commitment by the organisation to allow our employees to give back to the local communities in which we operate.

This has been a successful programme and we have seen lots of enthusiasm for this new policy. Some of the activities that took place in 2018 included:

- Members of our Singapore office volunteered to pack and distribute food to the needy elderly.
- Our Orange County employees supported a Rescue Mission Centre by donating time to stock shelves and serve food for those in unfortunate situations. This is the third year in a row supporting this organisation.
- Volunteering at the local animal park in Pangbourne.
- Employees from our Sunnyvale office volunteered to clean the local park during Earth Week.

## SECOND HARVEST FOOD BANK

Volunteers from the Orange County, California office helped again at the second harvest foodbank.

## OUR PLANS FOR THE YEAR AHEAD

The local representatives that coordinate activities continue to be fully engaged within the community. These include opportunities for volunteering, raising funds to support local charities, or simply promoting awareness of events or activities that will enhance our environments. This is an ongoing agenda item as part of our local environmental teams' periodic meetings to see how we can make a difference within the communities in which we operate.

## LINK TO SUSTAINABLE DEVELOPMENT GOALS

Our approach to business links directly to many of the Sustainable Development Goals of the United Nations Development Programme to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.



We aim to promote and empower all at XP Power, irrespective of age, sex, disability, origin or religion. We ensure this is outlined in policies and appropriate legislation.

# THE ENVIRONMENT



## CO<sub>2</sub> EMISSIONS

In 2009 we set ourselves a target of reducing CO<sub>2</sub> emissions per unit of revenue by 5% per annum. This aligns with the Chinese Government's target of reducing carbon emissions per unit of GDP by 40% to 45% between 2005 and 2020.

We measure our CO<sub>2</sub> emissions in accordance with the internationally recognised Green House Gas (GHG) Protocol and our metrics include scope 1 and scope 2 emissions. The CO<sub>2</sub> emissions data shows the three-month moving average of CO<sub>2</sub> emissions per unit of revenue at our Kunshan and Vietnam facilities. Our total Green House Gas emissions for 2018 were 4,307 tonnes of CO<sub>2</sub> compared to 3,906 tonnes in 2017. This increase is lower than our revenue increase for the year, demonstrating some efficiency gains. CO<sub>2</sub> emissions per unit of revenue deteriorated in Vietnam due to construction of the Vietnamese facility.

## WATER

We have determined that our operations are considered as low water usage. Water is not used in the design, manufacturing or services of our products. We are cognisant of the fact that there is some level of water usage at our facilities and try to limit the use and employ best practices.

Our water usage is tracked and monitored as one of our key environmental metrics across the business. The necessary actions are taken to reduce usage as needed and consistent with our corporate water policy.

## CARBON DISCLOSURE PROJECT

Annually we participate and report our environmental data to the Carbon Disclosure Project. The data is publicly available on the Carbon Disclosure Project website at [www.cdproject.net](http://www.cdproject.net).

## HARMFUL SUBSTANCES

In 2005 new legislation was introduced in Europe which limited the levels of certain hazardous substances. The European legislation, Restriction of Hazardous Substances (RoHS) has been implemented in the design and manufacture of XP Power products. XP Power took the initiative to be compliant with this legislation, not just for our European customer base, but for our customers in Asia and North America.

The RoHS directive was recast with additional requirements which came into effect in July 2011. We are pleased to report that with the exception of recently acquired Comdel, we are compliant with the latest RoHS directive as of July 2014.

## OUR PLANS FOR THE YEAR AHEAD

- Assessment of facilities that currently do not have solar panels to determine the suitability.
- Utilising environmentally friendly design concepts during expansion of the XP Power Vietnam manufacturing location.
- Expand on our "XP Power Green" product portfolio.

## LINK TO SUSTAINABLE DEVELOPMENT GOALS

Our approach to business links directly to many of the Sustainable Development Goals of the United Nations Development Programme to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.



We are integrating climate change measures into the business through monitoring emissions and carbon disclosures.

We are developing our focus towards promoting resource and energy efficiency.

CO <sub>2</sub> Emissions Data	2018	2017	2016	2015	2014
CO <sub>2</sub> emissions (tonnes) – China and Vietnam facility	<b>4,307</b>	3,906	3,581	3,361	3,068
CO <sub>2</sub> emissions per unit of factory revenue (kg/\$1,000) – China facility	<b>54</b>	54	56	47	46
CO <sub>2</sub> emissions per unit of factory revenue (kg/\$1,000) – Vietnam facility	<b>107</b>	81	82	141	110

Water Data	2018	2017	2016	2015	2014
Average number of employees	<b>1,972</b>	1,953	1,506	1,448	1,160
Water consumed (thousand litres)	<b>39,605</b>	39,480	32,582	32,220	25,300
Water consumed per employee (thousand litres)	<b>20.1</b>	20.2	21.6	22.3	21.8

# CHAIRMAN'S INTRODUCTION TO GOVERNANCE



*“The Board of Directors’ primary remit is to provide direction to help shape the strategy of the Group and ensure that this is being executed effectively within a structure that is well controlled, mitigates risk and is compliant with corporate and social responsibility.”*

**James Peters**  
Non-Executive Chairman

The Board of Directors’ primary remit is to provide direction to help shape the strategy of the Group and ensure that this is being executed effectively within a structure that is well controlled, mitigates risk and is compliant with corporate and social responsibility. Good corporate governance emanates from the top which is why the Board gives continued prominence to this area.

The Financial Reporting Council has updated The UK Corporate Governance Code and this new update comes into effect for accounting periods beginning after 1 January 2019 (the “new Code”). There are a number of areas where the new Code has ramifications to the Group as follows and we intend to be compliant with this new Code by the end of 2019.

We have tried to clearly lay out how we meet the five principles of the existing Code, namely: leadership, effectiveness, accountability, remuneration and relations with Shareholders. For the benefit of Shareholders who are not familiar with the existing Code we have set out the main principles of the existing Code in detail and have stated how we have addressed them in this report. We will adopt a similar approach in our 2019 Annual Report to demonstrate how we have addressed the new Code. In addition, we have supplemented our corporate governance report to explain how we address some of the key principles of the new Code.

In the following pages we set out our approach to corporate governance. Under the Singapore Companies Act, Chapter 50, the Company is not required to follow the Singapore Corporate Governance Code. The Company has voluntarily agreed to the principles of corporate governance contained in the UK Corporate Governance Code (the “Code”) as required under the Listing Rules of the Financial Services Authority of the United Kingdom.

**James Peters**  
Non-Executive Chairman



# GOVERNANCE: BOARD CALENDAR AND ACTIVITIES

The Board continually reviews key areas of focus for the business and this impacts upon the key activities of the Board over the year.

The main focus areas are outlined below:

Board focus	Overview	Activity in year
<b>BOARD STRUCTURE</b>	Overview effectiveness of the Board and its committees	<ul style="list-style-type: none"> <li>Terms of reference review of the Board and its committees</li> <li>Annual work plan for the Board</li> <li>Performance evaluation by anonymous online questionnaires</li> <li>Succession planning</li> </ul>
<b>STRATEGY</b>	Review and evaluation of the business strategy and the performance against the strategy	<ul style="list-style-type: none"> <li>Review of the Group's strategy and refinement of that strategy</li> </ul>
<b>BUSINESS PERFORMANCE</b>	Review and monitoring of business performance against forecasts and plans	<ul style="list-style-type: none"> <li>Regular business updates including reviews of Key Performance Indicators</li> <li>Reviews of financial performance against budget</li> <li>Reviews of tax and treasury including foreign exchange and hedging</li> <li>Review of the Group's strategy</li> </ul>
<b>COMPLIANCE</b>	Review of compliance	<ul style="list-style-type: none"> <li>Review of results of internal audits and resulting recommendations</li> <li>Review of any whistleblowing reports (none in 2018)</li> <li>Review of health and safety incidents</li> </ul>
<b>RISK MANAGEMENT</b>	Review of risk management	<ul style="list-style-type: none"> <li>Review of the risks facing the Group and actions to be put in place to mitigate those risks</li> <li>Review of insurance arrangements</li> <li>Setting the risk appetite of the Group in relation to risks identified</li> <li>Reviewing cybersecurity arrangements</li> </ul>
<b>REMUNERATION</b>	With the assistance of the Remuneration Committee, approval of remuneration policies across the Group	<ul style="list-style-type: none"> <li>Setting remuneration arrangements for the executive directors</li> <li>Approving remuneration arrangements for the senior management</li> <li>Review of staff pay</li> </ul>
<b>FINANCIAL STATEMENTS</b>	Final approval of annual financial statements and accounting policies	<ul style="list-style-type: none"> <li>Review and approval of interim and final results</li> </ul>
<b>SUSTAINABILITY</b>	Ensuring the Group is following a sustainable business model	<ul style="list-style-type: none"> <li>Review and refinement of the Group's environmental policy</li> <li>Review and approval of the Group's Code of Conduct</li> <li>Evaluation of performance of the Group's Environmental Social Governance key performance indicators including health and safety, CO<sub>2</sub> emissions and water usage.</li> </ul>

# DIRECTORS AND OFFICERS



## DUNCAN PENNY

CHIEF EXECUTIVE OFFICER

Appointed 3 February 2003

### XP POWER

Duncan joined as Group Finance Director, a position he held between April 2000 and February 2003 before being promoted to Chief Executive Officer.

### SKILLS AND BUSINESS EXPERIENCE

Extensive experience of corporate finance matters.

Worked for LSI Logic Corporation for eight years where he held senior financial positions in both Europe and Silicon Valley.

Controller for the European, Middle Eastern and African regions of Dell Computer Corporation between 1998 and 2000.

Duncan is also a non-executive director of The Vitec Group plc.



## GAVIN GRIGGS

CHIEF FINANCIAL OFFICER

Appointed 31 October 2017

### XP POWER

Gavin joined XP Power on 31 October 2017 as Chief Financial Officer.

### SKILLS AND BUSINESS EXPERIENCE

CIMA qualified accountant who has worked in a range of acquisitive businesses with an international footprint.

Held senior finance roles at Logica, Sodexo, PepsiCo and SABMiller.

Served as CFO of Alternative Networks plc, a listed Information Technology and Telecommunications provider, prior to its acquisition by Daisy in December 2016 when he became Group Finance Director for Daisy Group.



## MIKE LAVER

PRESIDENT, CORPORATE DEVELOPMENT

Appointed 20 August 2002

### XP POWER

Mike joined the Group as a result of the acquisition of ForeSight Electronics in 2000.

Mike was responsible for global sales and marketing prior to becoming President, Corporate Development Office in November 2017.

### SKILLS AND BUSINESS EXPERIENCE

Over 29 years' experience in the power converter industry.

After completing his degree in Electrical Engineering at UC Santa Barbara, he held several sales and technical positions with:

Power Systems Distributors, Compumech and Delta Lu Research.

Mike joined ForeSight Electronics in 1991 and held various senior roles prior to their acquisition by XP Power in 2000.



## ANDY SNG

EXECUTIVE VICE PRESIDENT, ASIA

Appointed April 2007

### XP POWER

Andy joined the Group in July 2005 as General Manager for Asia where he started up the Shanghai operation. He currently oversees the sales and marketing for Singapore, China, Japan, South Korea and India.

### SKILLS AND BUSINESS EXPERIENCE

Over 15 years in the power converter industry.

Graduated from Nanyang Technological University with a degree in Electrical and Electronic Engineering and an MBA from Manchester Business School.

Prior to joining the Group, he held technical and commercial roles with companies such as

Silicon Systems (Singapore) and Advanced Micro Devices (Singapore).



## JAMES PETERS

NON-EXECUTIVE CHAIRMAN

Appointed 30 June 2014

### COMMITTEES

Nomination (Chair)

### SKILLS AND BUSINESS EXPERIENCE

James has over 40 years' experience in the power converter industry.

### XP POWER

James founded XP Power in November 1988.

Appointed European Managing Director in April 2000, responsible for the development of the Group's European business.

Became Deputy Chairman in February 2003 and moved to

a non-executive role in May 2012, before his appointment as Non-Executive Chairman in June 2014.



## TERRY TWIGGER

SENIOR NON-EXECUTIVE DIRECTOR

Appointed 1 January 2015

### COMMITTEES

Audit (Chair)  
Nomination  
Remuneration

### SKILLS AND BUSINESS EXPERIENCE

Between July 1993 and May 2013, Terry spent 20 years with Meggitt PLC, the FTSE 100 global engineering group specialising in extreme environment components and smart sub-systems for aerospace, defence and energy markets.

For the last 12 years at Meggitt, Terry was Chief Executive Officer and grew its revenues from £0.4 billion to £1.6 billion through a combination of organic growth and numerous successful acquisitions.

On 19 April 2018, Terry retired from his position as a Non-Executive Director of Essentra plc, the supplier of specialist plastic, fibre, foam and packaging products.



## POLLY WILLIAMS

NON-EXECUTIVE DIRECTOR

Appointed 1 January 2016

### COMMITTEES

Remuneration (Chair)  
Audit Nomination

### SKILLS AND BUSINESS EXPERIENCE

Polly is a chartered accountant and a former Partner at KPMG LLP. She resigned from her partnership in 2003 and has held a number of non-executive directorship roles.

She is currently a Non-Executive Director at:

Jupiter Fund Management plc;

TSB Group plc; and

Royal Bank of Canada Europe Ltd.

She is also a Trustee of the Guide Dogs for the Blind Association.

# CORPORATE GOVERNANCE REPORT



## LEADERSHIP

### A.1 THE ROLE OF THE BOARD

#### MAIN PRINCIPLE:

**Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.**

The Directors have considered the composition and structure of the Board and have concluded that it is appropriate for a company of the size and complexity of XP Power. Despite not being considered independent by the Corporate Governance guidelines, the involvement of James Peters (Non-Executive Chairman) as a founder with a substantial shareholding is considered of benefit to Shareholders, aligning the interests of Shareholders with the Board. The Senior Non-Executive Director is an independent Director.

The following matters are specifically reserved for the Board's decision:

- Opinion of the Group's viability and going concern.
- Approval of strategic plans, financial plans and budgets and any material changes to them.

- Oversight of the Group's operations, ensuring competent and prudent management, sound planning, an adequate system of internal control and adequate accounting and other records.
- Changes to the structure, size and composition of the Board.
- Consideration of the independence of Non-Executive Directors.
- Review of management structure and senior management responsibilities.
- With the assistance of the Remuneration Committee, approval of remuneration policies across the Group.
- Final approval of annual financial statements and accounting policies.
- Approval of the dividend policy.
- Approval of the acquisition or disposal of subsidiaries and major investments and capital projects.
- Delegation of the Board's powers and authorities including the division of responsibilities between the Chairman, Chief Executive Officer and the other Executive Directors.

### A.2 DIVISION OF RESPONSIBILITIES

#### MAIN PRINCIPLE:

**There should be a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business. No one individual should have unfettered power of decision.**

The roles of Non-Executive Chairman (James Peters) and Chief Executive Officer (Duncan Penny) are separate and clearly defined. The Chairman is responsible for the running of Board meetings as well as taking the lead on strategy. The Chief Executive Officer is responsible for the day-to-day running of the Company and the execution of the strategy.

In order to ensure the Board is effective we review and monitor the skill set of the Directors. We also ensure there is a clear division of responsibilities. These principles are demonstrated through the skills matrix on the following page.

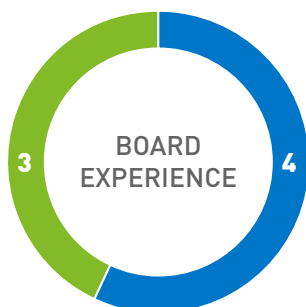


## SKILLS MATRIX

The Directors consider that the Board and Committees have the appropriate balance of skills, experience, independence and knowledge to discharge their duties effectively.

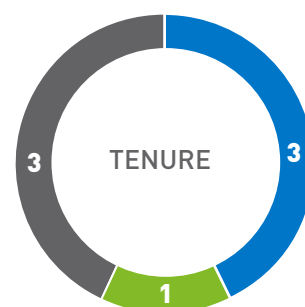
In line with the new UK corporate governance code of 2018, we include an appropriate combination of executives and non-executives (principle G); the figures are outlined below. As Section 3, principle K proposes, there is a combination of skills, experience and knowledge. XP Power also consider the length of service in order to ensure the Board is effective in its role.

Through the above skills matrix, XP Power have proven Board strength and diversity, enabling the Board to make effective decisions which should in turn ensure long-term sustainable.



- Power electronics experience
- Public company experience

4 Power electronics industry experience/3 public company, financial, acquisitions and corporate governance experience



- 0-3 Years
- 4-6 Years
- 7+ Years

4/7 appointed to their current position in the last 5 years



- Non-Executive
- Executive

The balance of the make-up of the Board between non-executive and executive, excluding the chairman will be addressed in 2019. Mike Laver will not stand for re-election at the 2019 Annual General Meeting. We have started a search for a new non-executive director to replace Peter Bucher who retired from the Board on 31 December 2018. We are searching for an individual with relevant experience in the markets we operate in.

# CORPORATE GOVERNANCE REPORT

## A.3 THE CHAIRMAN

### MAIN PRINCIPLE:

**The Chairman is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role.**

The Chairman sets the calendar and agenda of the Board and facilitates the discussions. The Chairman also initiates and coordinates the processes defined below which evaluate the effectiveness of the Board and of the individual Directors.

## A.4 NON-EXECUTIVE DIRECTORS

### MAIN PRINCIPLE:

**As part of their role as members of a unitary board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.**

Other than their normal attendance and participation in discussions at Board meetings the Non-Executive Directors actively participate in the review and determination of the Company's strategy.

Terry Twigger is the Senior Independent Non-Executive Director.

## EFFECTIVENESS

### B.1 THE COMPOSITION OF THE BOARD

#### MAIN PRINCIPLE:

**The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.**

The Directors consider that the Board and Committees have the appropriate balance of skills, experience, independence and knowledge to discharge their duties effectively.

The Board considers Peter Bucher, Terry Twigger and Polly Williams to be independent. Peter Bucher retired from the Board on 31 December 2018. A search for a replacement with experience in our sector is under way.

The Corporate Governance guidelines do not consider James Peters to be independent by virtue of his previous executive roles. However, as a founder and substantial Shareholder, his membership of the Board is considered beneficial to Shareholders as a whole.

### B.2 APPOINTMENTS TO THE BOARD

#### MAIN PRINCIPLE:

**There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.**

#### NOMINATION COMMITTEE

The Nomination Committee consists of James Peters (Chair), Terry Twigger and Polly Williams. The Committee reviews and considers the appointment of new Directors. All Non-Executive Directors are involved in the appointment of proposed candidates. Any appointment of a new Director is voted on by the whole Board.

The Nomination Committee met once during the year. The attendees were as follows:

Date	Attendees
28 July 2018	All and Duncan Penny (guest)

The Terms of Reference of the Nomination Committee are available in the Corporate Governance section of the Company's website [www.xppowerplc.com](http://www.xppowerplc.com)

### B.3 COMMITMENT

#### MAIN PRINCIPLE:

**All Directors should be able to allocate sufficient time to the Company to discharge their responsibilities effectively.**

There were five Board meetings during the year and all Directors attended each meeting.

Date	Attendees
27 February 2018	All
9 April 2018	All
27 July 2018	All
5 October 2018	All
4 December 2018	All

## B.4 DEVELOPMENT

### MAIN PRINCIPLE:

**All Directors should receive induction on joining the Board and should regularly update and refresh their knowledge and skills.**

Directors receive a full induction on joining the Board. The programme is tailored to the individual needs of each Director.

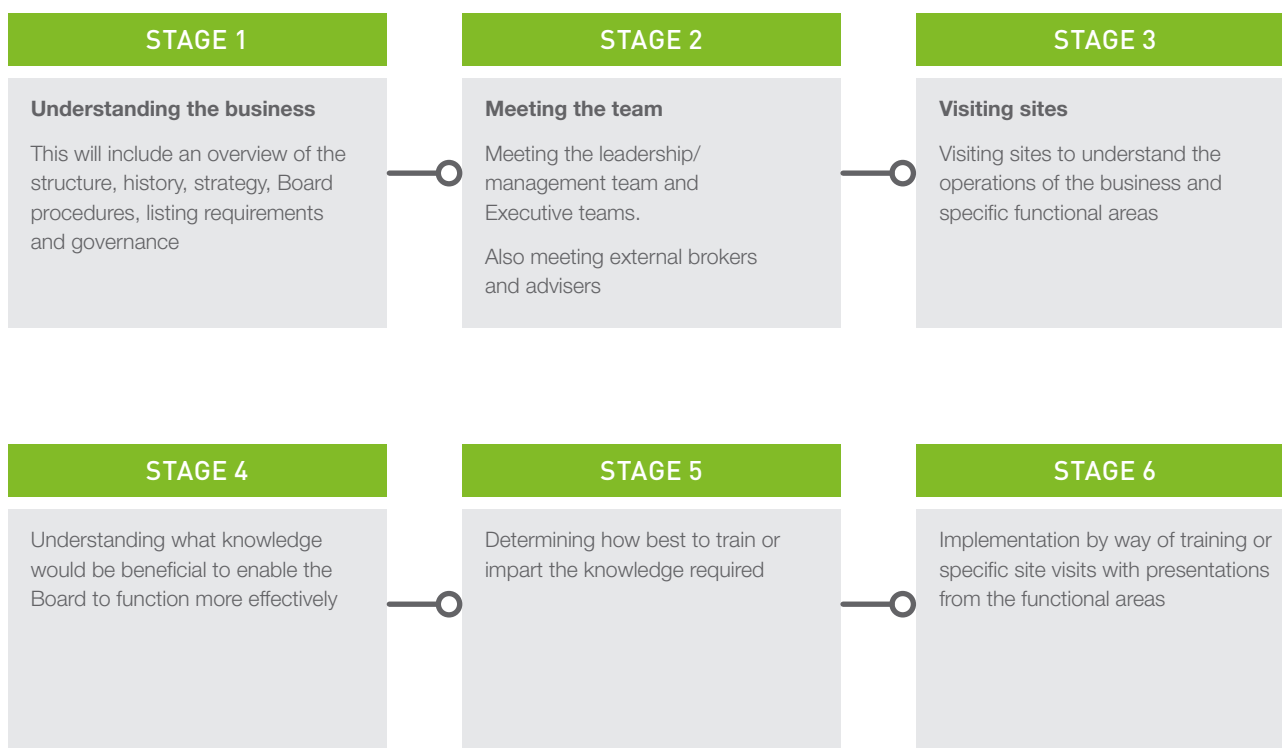
The Board visited three of the Group's North American facilities in 2018. This included our RF Power facility in Massachusetts, the design centre in Southern California and the Sales and Engineering Service Group in Northern California. This visit included a number of presentations by the function heads of the Group. Non-Executive Directors were able to update and refresh their knowledge of the business first-hand and interacted with the management team and employees helping them gain a deeper understanding of the business and allowing them to contribute ideas.

The Directors have a clear Board induction and training process, outlined on the following page.

## BOARD INDUCTION AND TRAINING

All Directors should receive induction on joining the Board and should regularly update and refresh their knowledge and skills.

Directors receive a full induction on joining the Board. An example of a Board induction process is outlined below.



### 2018 TRAINING

The Board visited three of the Group's North American facilities in 2018. This included our RF Power facility in Massachusetts, the design centre in Southern California and the Sales and Engineering Service Group in Northern California. This visit included a number of presentations by the function heads of the Group. Non-Executive Directors were able to update and refresh their knowledge of the business first-hand and interacted with the management team and employees helping them gain a deeper understanding of the business and allowing them to contribute ideas.

During the year, the Directors also received presentations from the Operations Director and the Executive VP, Global Manufacturing. These presentations reported on systems security and the plans for expanding the Vietnam manufacturing facility, respectively.

In 2019 the Board intends to visit the manufacturing facilities in China and Vietnam and the design centre in Singapore.

# CORPORATE GOVERNANCE REPORT

## B.5 INFORMATION AND SUPPORT

### MAIN PRINCIPLE:

**The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.**

The Board receives “flash” reports, detailed management accounts and detailed financial forecasts prepared on a monthly basis to enable it to review trading performance, forecasts and strategy implementation. Board meeting materials are provided in advance of Board meetings to allow Directors sufficient time to prepare adequately. The Board also received specific presentations and information from management during the year covering the results and actions of the employee survey, the results of a strategy review by the executive management team, compliance exception reports, insurance coverage and the sustainability policy and metrics.

## B.6 EVALUATION

### MAIN PRINCIPLE:

**The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors.**

The Board’s evaluation of its own performance and that of its committees is conducted annually using a Board effectiveness questionnaire. The questionnaire was revamped in 2016 with the help of an independent external consultant to ensure that it covered all aspects of effectiveness: capabilities and communication; culture and practice; process and organisation; as well as meeting rigour and relationships. With respect to continually improving Board effectiveness, the questionnaire also asked Directors to comment on what it should stop doing, start doing and continue doing.

The online questionnaire was circulated to each Director in relation to the Board and the committees on which they serve. The independent consultant collated the responses into an anonymous report for the Board to consider and discuss at a Board meeting.

There were no significant issues or concerns raised in the report.

## BOARD EVALUATION PROCESS

In section 4, principle L, the new UK corporate governance code discusses the need to evaluate the Board. This evaluation should cover the Board’s composition and diversity, and how effectively members work together to achieve objectives.

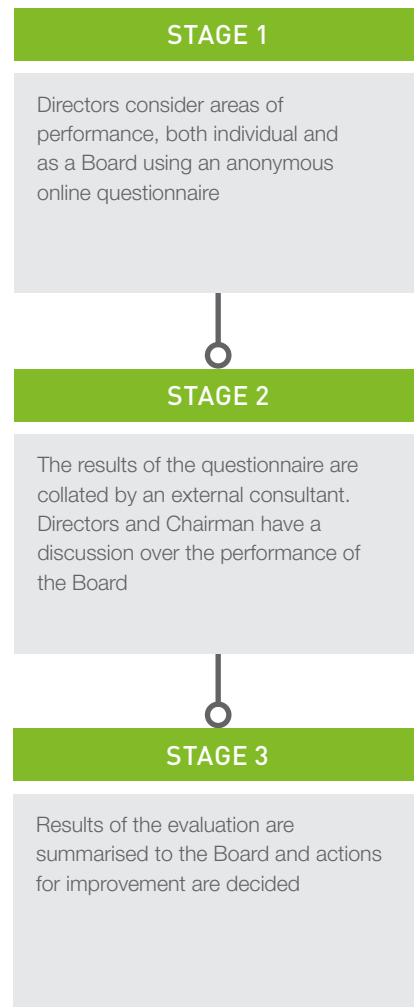
We regularly evaluate the Board and its committees, facilitated by an external consultant and the Chairman of the Board or the chair of the respective committees. The Board’s evaluation of its own performance and that of its committees is conducted annually using an online Board effectiveness questionnaire. The questionnaire was revamped in 2016 with the help of an independent external consultant to ensure that it covered all aspects of effectiveness.

In order to evaluate the Board, the Directors were given a high-level questionnaire, providing the opportunity to express views on key areas:

- Capabilities and communication
- Culture and practice
- Process and organisation
- Meeting rigour
- Relationships

The questionnaire was circulated to each Director in relation to the Board and the committees on which they serve.

With respect to continually improving Board effectiveness, the questionnaire also asked Directors to comment on what it should stop doing, start doing and continue doing. The independent consultant collated the responses into an anonymous report for the Board to consider and discuss at a Board meeting.



There were no significant issues or concerns raised in the report but following items were identified:

- Greater use of external consultants to assist with remuneration committee matters;
- More interface with the executive team.
- Improvements to the succession planning process.
- Make-up of the Board to include members with power solutions experience.

We expect to make improvements to all these areas in 2019.





### B.7 RE-ELECTION

#### MAIN PRINCIPLE:

**All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.**

All Directors voluntarily offer themselves for re-election annually. This is in spite of the Company's Articles of Association which require Directors to retire and offer themselves for re-election on a rotation basis and at least every three years.

## ACCOUNTABILITY

### C.1 FINANCIAL AND BUSINESS REPORTING

#### MAIN PRINCIPLE:

**The Board should present a balanced and understandable assessment of the Company's position and prospects.**

The Board considers that both the Interim Report and Annual Report and Accounts, supported by quarterly trading updates which are timetabled at the beginning of each year, comprehensively fulfil this requirement. The Annual Report includes a detailed description of the Group's strategy and business model which has enabled it to generate significant value over

a prolonged period of time. It also details the significant risks the Group faces and how these are mitigated and includes the Board's assessment of the longer term viability of the Group.

The Company also makes available a number of videos on its investor relations website at the time of its interim and annual reporting as well as investor videos describing products, markets, strategy, business model, growth drivers and its investment proposition.

#### GOING CONCERN

The Directors, after making enquiries, are of the view, as at the time of approving the accounts, that there is a reasonable expectation that the Company will have adequate resources to continue operating for the foreseeable future and therefore the going concern basis has been adopted in preparing these accounts. In addition, in accordance with C.2.2 of the revision of the Code, the Directors have considered the prospects of the Company over the longer term and provided a viability statement on page 40.

### C.2 RISK MANAGEMENT AND INTERNAL CONTROL

#### MAIN PRINCIPLE:

**The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.**

The Board acknowledges that it is responsible for the Group's internal controls and for reviewing their effectiveness. The Group's internal controls are designed to manage rather than eliminate the risk of failure to meet business objectives, and can only provide reasonable not absolute assurance against material misstatement or loss.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place during the entire financial year and has remained in place up to the approval date of the Annual Report and Financial Statements. The identified risks and the processes by which these are addressed are documented, reviewed and updated at Board meetings. The Directors confirm that

# CORPORATE GOVERNANCE REPORT

an assessment of the principal risks facing the Group was reviewed, further details of which are included in the Managing Our Risks and Viability Statement sections within the Strategic Report on pages 36 to 41. The Directors also considered the Company's appetite of risk against each of the risks identified to aid in determining mitigating actions.

As might be expected in a group of this size, a key control procedure is the day-to-day supervision of the business by the Executive Directors supported by managers within the Group companies. Examples of key controls with respect to ongoing processes include:

- Authority matrices are in place to clearly define who is able to authorise particular transactions, transfer funds, commit Company resources and enter into particular agreements.
- Monthly reporting of management accounts and key metrics to senior management with performance measured to budget and material variances reported to the Board.
- Quality control checks throughout our manufacturing process, burn-in, electrical testing to detect early failures, 100% functional testing, and quality inspection.
- Disaster recovery and business continuity plans are in place at all facilities, documented and communicated to key personnel to help cope with unexpected events.
- An internal audit and risk assurance programme is operating.
- The Audit Committee reviews the effectiveness of internal controls.

### C.3 AUDIT COMMITTEE AND AUDITOR

#### MAIN PRINCIPLE:

**The Board should establish formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles, and for maintaining an appropriate relationship with the Company's Auditor.**

The Audit Committee Report on pages 66 to 69 sets out in detail the Group's arrangements to ensure corporate reporting complies with legal and accounting standards together with effective risk management and internal control processes and appropriate supervision and performance of the external Auditor.

The Terms of Reference of the Audit Committee are available in the Corporate Governance section of the Company's website [www.xppowerplc.com](http://www.xppowerplc.com)

## REMUNERATION

### D.1 THE LEVEL AND COMPONENTS OF REMUNERATION

#### MAIN PRINCIPLE:

**Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality required to run the Company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.**

The Remuneration Committee report on pages 70 to 85 sets out in detail the Group's approach to remuneration.

### D.2 PROCEDURE

#### MAIN PRINCIPLE:

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.

The Remuneration Committee report on pages 70 to 85 sets out in detail the Group's policy on remuneration and the remuneration packages for the Board. No Director participates in the deciding of their own remuneration. Polly Williams is Chair of the Remuneration Committee.

The Terms of Reference of the Remuneration Committee are available in the Corporate Governance section of the Company's website [www.xppowerplc.com](http://www.xppowerplc.com)

## RELATIONS WITH SHAREHOLDERS

### E.1 DIALOGUE WITH SHAREHOLDERS

#### MAIN PRINCIPLE:

There should be a dialogue with Shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with Shareholders takes place.

The Group engages in two-way communication with both its institutional and private investors and responds quickly to all queries received. The Group uses its website [www.xppowerplc.com](http://www.xppowerplc.com) to give private investors access to the same information that institutional investors receive in terms of investor presentations. This includes video interviews with the Chief Executive Officer and Chief Financial Officer available on the morning of the day that the interim and annual results are published. The Company also makes available a number of informational videos on its investor relations website which cover products, markets, strategy, business model, growth drivers and its investment proposition.

Interested parties are also able to register for the Group's email alert service on this website to receive timely announcements and other information published from time to time.

The Chairman and Senior Independent Director are available to meet Shareholders if required. The Board members receive any feedback prepared by brokers or our financial PR company following meetings with Shareholders in order to keep in touch with Shareholders' opinions.

The Remuneration Committee consulted with major Shareholders in respect of significant decisions on Executive remuneration.

The Board members receive any feedback prepared by brokers or our financial PR company following meetings with Shareholders in order to keep in touch with Shareholders' opinions.

The Remuneration Committee consulted with major Shareholders in respect of significant decisions on Executive remuneration.

## E.2 CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING

### MAIN PRINCIPLE:

The Board should use the Annual General Meeting to communicate with investors and to encourage their participation.

Certain Directors are available at the Annual General Meeting to answer any questions from Shareholders. However, given we have a Singaporean parent company we recognise it is not generally convenient for our UK based investors to attend this meeting. The Chief Executive Officer and Chief Financial Officer do however make themselves readily available throughout the year to answer questions from Shareholders.

## STAKEHOLDER ENGAGEMENT

As stated within the new UK corporate governance code, the Board should ensure effective engagement with and encourage participation with shareholders and stakeholders (section 1, principle D). Outlined below are how XP Power engages with stakeholders.

## HOW WE ENGAGED WITH SHAREHOLDERS THIS YEAR

### FORMAL INVESTOR MEETINGS

The Group engages in two-way communication with both its institutional and private investors and responds quickly to all queries received. The Chairman and Senior Independent Director are available to meet Shareholders if required.

## ANNUAL REPORT AND ACCOUNTS

Through our annual report and accounts we provide key information on the previous year's performance. This enables stakeholders to understand our marketplace, business model, strategy and performance in more detail.

## CORPORATE WEBSITE

The Group uses its website [www.xppowerplc.com](http://www.xppowerplc.com) to give private investors access to the same information that institutional investors receive in terms of investor presentations. This includes video interviews with the Chief Executive Officer and Chief Financial Officer available on the morning of the day that the interim and annual results are published. The Company also makes available a number of informational videos on its investor relations website which cover products, markets, strategy, business model, growth drivers and its investment proposition. Interested parties are also able to register for the Group's email alert service on this website to receive timely announcements and other information published from time to time.

## CONSULTATIONS

The Remuneration Committee consulted with major Shareholders in respect of significant decisions on Executive remuneration.

## FEEDBACK FROM BROKERS AND FINANCIAL PUBLIC RELATIONS

The Board members receive any feedback prepared by brokers or our financial Public Relations company following meetings with Shareholders in order to keep in touch with Shareholders' opinions.

## KEY THEMES DISCUSSED WITH SHAREHOLDERS

The key themes discussed with Shareholders in 2018 include the following:

- Sustainability of margins as the Company grows
- Supply chain shortages and increasing component lead times resulting increased component costs and higher inventory positions
- Potential effects of Section 301 trade tariffs in the USA

- Implications of Brexit for the Group
- Cyclical nature of the semiconductor equipment manufacturing sector
- Opportunities in Radio Frequency (RF) Power and high power/high voltage products from the acquisitions of Comdel and Glassman respectively

## HOW WE ENGAGED WITH OTHER STAKEHOLDERS

### EMPLOYEES

We hold a minimum of three live global communications meetings where employees are encouraged to ask questions of management. We undertake an annual anonymous employee engagement survey and report the results to the workforce.

### CUSTOMERS

We receive feedback from our customers and use this to inform future strategic decisions. The Board visited a customer site to see how the power converter is used in an end product and gain the customer's perspective of the product and customer experience.

### SUPPLIERS

We are committed to a focus on supply chain ethics. In order to achieve this we visit, audit and evaluate suppliers.

### COMMUNITIES

In order to engage with the local communities in which we operate we have committed paid time off to support local initiatives. This is an ongoing agenda as part of our local environmental team's periodic meeting on how XP Power can make a difference.

### THE ENVIRONMENT

Our sustainability committee focuses on our commitment to the environment promoting awareness and best practice throughout our Company. This is then reported within our annual report.

# AUDIT COMMITTEE REPORT



*“Further progress has been made during the year in developing a more mature risk management environment and to ensure controls remain robust”*

**Terry Twigger**

Audit Committee Chair

Dear Shareholder

As Chairman of the XP Power Audit Committee, I am pleased to present the 2018 Audit Committee Report to Shareholders and to be able to confirm, on behalf of the Board, that the Annual Report is fair, balanced and understandable.

It has been another year of change with the acquisitions of Comdel in September 2017 and Glassman in May 2018 against a background of continuing organic growth. Further progress has been made during the year in developing a more mature risk management environment and to ensure controls remain robust. This is primarily supported by the internal audit programme which was focused on probing into financial controls in certain regions,

reviewing the export control procedures and performing an assessment of the Group's approach to Treasury and the associated controls. These reviews continue to provide insightful perspectives, which have led to improvements in processes and controls and inform future reviews.

The report aims to provide the following information:

- The Audit Committee's principal responsibilities and its governance.
- The key activities which were reviewed by the Audit Committee, including those items of regular annual review and other current areas of focus.
- The discussions and actions undertaken, in conjunction with the external auditor, on any significant judgements and/or issues.
- Details of the ongoing review of the external auditor and the amount of non-audit work undertaken.

I believe that the audit committee has the necessary experience, expertise and financial understanding supported by the internal and external auditors to fulfil its responsibilities and to continue to monitor and contribute to the various improvement initiatives.

The Audit Committee is satisfied that the Company has maintained sound risk management and internal controls throughout the year, and that the internal audit programme has been planned and sufficiently resourced to confirm that these controls are effective.

It was anticipated that the external audit would be retendered in 2019. However, the Group is upgrading its ERP system in 2019 and 2020 which will improve the embedded controls and change the approach to the audit. After careful consideration the audit committee has concluded that the retendering of the external audit should now take place in 2021. As a result, the Audit Committee has recommended to the Board that the re-appointment of PricewaterhouseCoopers LLP should be proposed at the forthcoming Annual General Meeting, and I hope that you will support me in this resolution.

**Terry Twigger**

Audit Committee Chair

5 March 2019



## MEMBERS OF THE AUDIT COMMITTEE

**Terry Twigger** (Chair), Independent Non-Executive Director

**Peter Bucher**, Independent Non-Executive Director (retired 31 December 2018)

**Polly Williams**, Independent Non-Executive Director

## GOVERNANCE

The current Audit Committee members are all independent Non-Executive Directors and have financial and/or related business experience gained in senior positions in other diverse organisations. Terry Twigger has been the Audit Committee Chair since 2015 and the Board is satisfied that Terry has recent and relevant financial experience.

## PERFORMANCE EVALUATION OF THE AUDIT COMMITTEE

During the year, the Audit Committee reviewed its performance as part of the Board's updated evaluation process. The Committee considered it had adequate qualifications and skills to perform its responsibilities, particularly through Terry Twigger's financial and management background and Polly Williams' financial and audit experience.

## MEETINGS OF THE AUDIT COMMITTEE

The Audit Committee met four times during 2018 with attendance on the dates as follows:

Date	Attendees
16 January 2018	All except Peter Bucher
27 February 2018	All
26 July 2018	All
20 November 2018	All

Peter Bucher was unable to attend the January meeting due to a prior commitment.

The Chief Financial Officer and Group Financial Controller were involved at each of the meetings as were the external auditor, PricewaterhouseCoopers LLP, and the outsourced internal audit firm, Deloitte LLP. The Committee also discussed matters with both the external auditor and internal auditor without the Group's management being present.

The Audit Committee supports the Board and reports to it on a regular basis, certainly no less frequently than at every Board meeting following a meeting of the Audit Committee.

There is an annual cycle of items that are considered by the Audit Committee. The timetable of these items is scheduled in accordance with the requirement of the annual audit cycle and any other requirements of the Audit Committee.

## RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Committee is responsible for, amongst other things:

- Ensuring that the financial performance of the Group is properly reported and monitored;
- Advising the Board on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable;
- Compliance with legal requirements;
- Adoption and correct implementation of accounting standards;
- Meeting the requirements of the UK Listing Authority;
- Assessing the Group's internal control processes and assurance framework;
- Reviewing any instances of fraud or whistle-blowing;
- Supervising the relationship and performance of the external and internal auditors; and
- Reviewing the nature and extent of audit and non-audit services provided to the Group by the external auditors.

The Terms of Reference of the Audit Committee are available in the Corporate Governance section of the Company's website [xppowerplc.com](http://xppowerplc.com).

## ACTIVITIES OF THE AUDIT COMMITTEE

- Examining the 31 December 2017 Annual Report and the 30 June 2018 Half Year Report to assess whether the reports, taken as a whole, were fair, balanced and understandable prior to recommending these to the Board for approval.
- Reviewing and challenging areas of significant risk and judgement and the level of disclosure. Some of these are described in the 'Significant risks and judgements in the financial reporting' below.
- Probing and recommending for approval the going concern basis of preparation, the long-term viability statement and associated risk assumptions, the accounting policies and disclosures, the financial reporting issues and the assumptions and adjustments made.
- Continuing to evolve the Group's risk and compliance framework by guiding the outsourced internal auditors, Deloitte LLP, and reviewing the work scopes of the target areas within the total audit universe.
- Reviewing the findings of the internal audit work and the follow-ups of reviews done in the previous year.
- Reviewing the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Financial Statements.
- Challenging the assumptions and analysis produced by management in relation to the Group's long-term viability statement.
- Reviewing the results of the finance functions' peer-to-peer balance sheet reviews.
- Appraising the Group's tax and treasury functions with a focus on areas prone to significant change.
- Assessing the accounting principles to be adopted in the preparation of the 2018 accounts.

The Audit Committee is satisfied that the Company has maintained appropriate risk management and internal controls throughout the year.

# AUDIT COMMITTEE REPORT

## SIGNIFICANT RISKS AND JUDGEMENTS IN THE FINANCIAL REPORTING

In relation to the 31 December 2018 Annual Financial Statements included in this report on pages 95 to 141, the Audit Committee considered the following topics:

### GOODWILL

The carrying value of goodwill is a significant item within the Group's balance sheet and is prone to further increase while the Group remains acquisitive. It has also increased in 2018 with the acquisition of Glassman HV. Impairment assessments, performed annually, require judgements in relation to discount rates and future growth forecasts to generate discounted cash flows for the cash generating units. The Committee ascertains that appropriate sensitivity analysis is conducted by the external auditor on the Company's impairment calculations. It also assesses the carrying value in the context of the Groups wider net asset value and market capitalisation. After consideration, the Committee was satisfied that there was no indication of impairment.

### CAPITALISED PRODUCT DEVELOPMENT

The Group's product development activity leads to direct costs associated with new products being capitalised and amortised over the useful life of the products. The carrying value of the product development costs is rising in line with increased product development as the business has grown. The future success and the useful lives of these products require a degree of judgement. The Committee regularly assesses the revenue streams of capitalised products that have been released for sale against their carrying value. The Committee also reviews a projection of the estimated future carrying values. The Committee was satisfied with the judgements used.

### DEFERRED TAX ON UNREMITTED EARNINGS

The Group does not currently record deferred tax on the unremitted earnings held in Group subsidiaries. The Board recognises that where there is no intention to repatriate these earnings to the parent Company, deferred tax should not be provided.

The Committee receives periodic updates on the unremitted earnings position including forward projections. The Committee determined that there is no specific requirement to move earnings currently held in subsidiaries.

### INVENTORY

The carrying value of the Group's inventory has been a focus for the Committee particularly with the increase in Group inventory as result of the prevailing market conditions. The high product mix focus on customer fulfilment and the effect of certain service level agreements with customers are recognised factors in the inventory levels. In addition, lean factory initiatives, rapid growth and an acquisition are further reasons for an overall increase in inventory during the year on top of the increase as result of the significant extension in component lead times from suppliers. Exposure to the risk of inventory obsolescence remains an area of ongoing review and wall-to-wall stock counts, witnessed by the external auditor, were performed at all key sites across the Group and appropriate provisions for loss and delinquency were made. The Company's peer-to-peer balance sheet reviews and reviews by the Group Financial Controller, which are reviewed by the Committee, includes testing of the provision. The Committee was satisfied with the provision.

### BUSINESS COMBINATION

Following the acquisition of the business and assets of Glassman HV Inc on 25 May 2018, the Company has performed an assessment of identifying and valuing the intangible assets with the help of a third-party valuer; a process that involves judgement. The Committee verified that the external auditor had independently assessed these calculations and were satisfied with the values attributed to the intangible assets.

## INTERNAL CONTROL

The Board is ultimately responsible for the Group's system of internal controls and the ongoing assessment of these further details of which are included in C.2 Risk Management and Internal Control of the Corporate Governance section on page 63.

## INTERNAL AUDIT

As the Group continues to expand in scale and complexity, the remit of the independent internal audit process by Deloitte, LLP has also increased. The committee reviewed the risk framework to ensure it remains appropriate in combination with the Board's risk monitoring process to identify areas for risk assurance work and internal audits to be carried out. These included an assessment of the Export Controls, the adequacy of the Treasury controls and function and a site visit to the Vietnam factory to assess business continuity and disaster recovery. These reviews indicated a number of areas requiring improvements, which are being addressed by management. During 2018 a Controls Self-Assessment programme has been implemented and the first results of these will be available for review early in 2019. There are a number of other reviews due to report in early 2019 including IT General Controls and Post Acquisition reviews.

Findings and control observations from the reviews are rated and presented to the Committee for comment or further action. The recommendations made by the internal auditors are assessed by management and addressed accordingly within an agreed timeline. The internal auditor regularly follows up on these actions and keeps the Committee informed on progress against the agreed timeline.

In addition to the internal audit, the Group's Financial Controllers conduct a formal process of peer-to-peer balance sheet reviews, the results of which are reported to the Audit Committee. The Committee reviews and approves the scope and schedule for these reviews as a means of providing a secondary level of comfort over the financial controls.

## EXTERNAL AUDIT

The current external auditor, PricewaterhouseCoopers LLP, was appointed in 2007. The current audit engagement partner's term began in 2014 with a maximum term of five years and he is rotating off the engagement after the 2018 audit; his successor was interviewed by the Committee and has shadowed the current partner through 2018. In line with



best practice, as recommended by the Financial Reporting Guideline, the external audit is anticipated to be retendered no later than 2021. This has been delayed from previous expected timing as the Group is upgrading and significantly increasing the scope of its ERP system during 2019 and 2020 which will improve the embedded controls and change the approach to the audit. The Committee has reported to the Board that the re-appointment of PricewaterhouseCoopers LLP should be proposed at the forthcoming Annual General Meeting.

The Audit Committee keeps under review the role and independence of the external auditor. A formal statement of independence is received each year together with a report on the safeguards that are in place to maintain their independence and the internal measures to ensure their objectivity. The Committee also discusses with the external auditor areas where they have challenged management and how any disagreements have been resolved. The Committee is satisfied that this independence has been maintained.

The Committee has formalised its policy and approved a set of procedures in relation to the appointment of external auditors to undertake audit and non-audit work. Under this policy:

- The award of audit-related services to the auditors in excess of £50,000 must first be approved by the Chairman of the Audit Committee, who in his decision to approve will take into account the aggregate of audit-related revenue already earned by the auditor in that year. Audit related services include formalities relating to borrowing, shareholder and other circulars, regulatory reports, work relating to disposals and acquisitions, tax assurance work and advice on accounting policies;

- The award of tax consulting services to the auditors in excess of £50,000, subject to compliance with the EU member state restrictions, must first be approved by the Chairman of the Audit Committee; and
- The award of other non-audit related services to the auditors in excess of £20,000 must first be approved by the Chairman of the Audit Committee.

During the year, no non-audit fees were paid to the auditor (2017: nil).



# REMUNERATION COMMITTEE REPORT



*“We seek your support for the Annual Report on Remuneration and the Remuneration Committee welcomes any further comments from Shareholders with respect to our approach to remuneration.”*

**Polly Williams**

Remuneration Committee Chair

## DEAR SHAREHOLDER

### INTRODUCTION

As Chair of the XP Power Remuneration Committee, I am pleased to present the 2018 Remuneration Committee Report on behalf of the Board. It sets out the Remuneration Policy and remuneration details for the Executive and Non-Executive Directors of the Company. It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and is split into two areas: the Remuneration Policy and the annual report on remuneration. The policy was approved by a binding Shareholder vote at the 2017 Annual General Meeting and the policy took effect from the date on which that resolution was passed. The policy section is not subject to audit. The policy will be next be put to Shareholders at the 2020 Annual General Meeting in accordance with the normal triennial cycle. The objectives of the Remuneration Policy are set out in the policy section below.

The annual report on remuneration provides details on remuneration in the period together with other information required by the Regulations. It will be subject to an advisory Shareholder vote at the 2019 Annual General Meeting. The Auditor has reviewed certain parts of the Directors' Remuneration Report and is required to report if the information is materially inconsistent with the financial statements.

As well as reviewing the Directors' remuneration packages, the Remuneration Committee also keeps under review the fixed and variable elements of remuneration of the key management personnel within the Group to ensure they comprise sufficient reward to motivate and retain whilst remaining prudent.

### PERFORMANCE AND DECISIONS ON REMUNERATION TAKEN IN 2018

The Group performed strongly during 2018 with adjusted pre-tax profits rising from £36.1 million in 2017 to £41.2 million in 2018, an increase of 14%. This followed an increase of 26% in 2017 and 13% in 2016.

During the year, the Remuneration Committee managed executive remuneration in line with the policy.

In line with the annual bonus structure detailed later in this report, annual bonuses of 71% of salary were paid to our CEO and CFO. Half of these amounts are paid in cash with half paid in shares deferred for two years.

No long-term incentive awards were due to vest in 2018.

LTIP awards under the 2017 plan were made during the year to Executive Directors and key management personnel. Following consultation with Shareholders, the Committee increased the threshold and maximum earnings per share targets in

respect of the 2018 LTIP awards.

The proposed LTIP awards for 2019 and the performance criteria have been disclosed in the remuneration report. As well as the incentive and retention benefits these awards provide, they also align rewards with the long-term nature of the Group's design-in cycles and revenue annuities.

### SHAREHOLDER CONSULTATION

At our 2018 AGM, the resolution to approve the Remuneration Report was approved by 90.6% of votes cast. The principal comments made by proxy advisers in respect of our 2018 AGM related to executive salary increases and some comments were also made on the workings of annual bonus and disclosures on long term incentives. In the light of this vote and the proxy adviser commentary, we have made changes in respect of the workings of annual bonus to harmonise stretch targets for maximum pay outs for 2019 and increased the adjusted earnings per share targets for 2018 and 2019 for long term incentives. We have also corresponded with shareholders in early 2019 in respect of any remuneration issues to seek to understand specific concerns.

We seek your support for the Annual Report on Remuneration and the Remuneration Committee welcomes any further comments from Shareholders with respect to our approach to remuneration.

**Polly Williams**

Remuneration Committee Chair



# REMUNERATION POLICY

The information in this section of the Directors' Remuneration Report is not subject to audit.

The objectives of the Remuneration Policy are as follows:

- To reward employees and Executives appropriately for the work they do (base salary);
- To provide market competitive remuneration packages to enable retention or recruitment (base salary plus benefits);
- To incentivise the employees and Executives to perform at their best consistently (bonus/Long-Term Incentive Plan);
- To align Shareholders' and senior management's interests (bonus in shares, Long-Term Incentive Plan and shareholding guidelines); and
- To retain key staff (long-term structures with delayed vesting).

The following table provides a summary of the key components of the remuneration package for:

## EXECUTIVE DIRECTORS

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
<b>Base salary</b>	To help recruit, retain and motivate high performing Executives. Reflects the individual experience, role and importance of the Executive Director to the business	Base salaries are set by the Remuneration Committee and reviewed annually and increases are effective from 1 January, although increases may be awarded at other times if the Remuneration Committee considers it appropriate.  A market benchmarking exercise will be undertaken periodically as determined by the Remuneration Committee to ensure that base salary remains around the median of the market level for roles of a similar nature and to reflect the individual's skills, experience and performance	Base salaries are reviewed annually. Increases will not normally exceed the range of increases awarded to other employees within the Group.  The Remuneration Committee may also increase a Director's salary should there be a change in the scope of their role, the scale or complexity of the business or if significant changes to market practice arise, which the Remuneration Committee believes justifies a further increase in base salary.	n/a	n/a
<b>Benefits</b>	To help recruit, retain and motivate high performing Executives. To provide market competitive benefits.	Benefits are set by the Remuneration Committee and reviewed annually.  Benefits currently received by the Directors include: <ul style="list-style-type: none"> <li>● Paid holidays</li> <li>● Life insurance</li> <li>● Private medical cover</li> <li>● Housing allowance</li> <li>● Car allowance</li> </ul>	The Company provides a range of market-benchmarked benefits. The costs of these benefits may change year-on-year due to external costs.  The Remuneration Committee has flexibility to provide benefits which would typically have been available to an Executive Director in an overseas jurisdiction when recruiting from outside of the UK.	n/a	n/a

# REMUNERATION POLICY

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
<b>Annual bonuses</b>	Align interests of Executive Directors and Shareholders in the short- and medium-terms.	The annual bonus scheme participation levels (including maximum opportunities) are determined by the Remuneration Committee following the end of the year, based on performance achieved against the performance metrics set. Awards are split equally between (i) cash and (ii) shares vesting over two years, subject to continued employment.	Up to 100% of base salary	<p>Specific targets and weightings may vary according to strategic priorities and may include:</p> <ul style="list-style-type: none"> <li>● Financial performance</li> <li>● Attainment of personal objectives</li> </ul> <p>Weighting will focus on Group financial.</p>	



Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
<b>Long-Term Incentive Plan (LTIP)</b>	<p>Align the interests of Executive Directors and Shareholders in the long-term.</p> <p>Incentivises long-term value creation.</p>	<p>The XP Power Long-Term Incentive Plan was approved at the 2017 Annual General Meeting. This replaced the Company's share option scheme for awards to Executive Directors.</p> <p>LTIP awards may be made in the form of conditional share awards, nil or nominal cost. The LTIP also provides for awards to be structured as stock appreciation or phantom rights, which may be suitable for awards granted in overseas jurisdictions.</p> <p>Performance is typically measured over three financial years starting with the year or date of grant, or any longer period as the Remuneration Committee may decide.</p> <p>50% of a vested award will be distributed at that time, with the remaining 50% distributed after a period of one year.</p> <p>Amounts equivalent to any dividends or Shareholder distributions made in respect of awards at vesting, are at the discretion of the Remuneration Committee.</p>	<p>The maximum award level under the LTIP is 100% of base salary or such higher amount as the Remuneration Committee in its absolute discretion may determine, up to a maximum of 200% of base salary. The 200% cap is restricted to exceptional circumstances only.</p>	<p>It is the Remuneration Committee's intention to set relative TSR targets for 50% of the award and absolute EPS growth targets for the other 50%, although the Remuneration Committee will set appropriate performance conditions and weightings each year prior to awards being made.</p>	<p>The Remuneration Committee has the discretion to claw back some or all of the awards granted under the LTIP by reducing unvested awards or requiring the return of the net value of vested awards to the Company in circumstances of material financial misstatement, a major environmental event, a breach of the Company's code of ethics or a serious health and safety issue.</p>
<b>Share option plan</b>	<p>Align the interests of Executive Directors and Shareholders in the long-term.</p> <p>Incentivises long-term value creation.</p>	<p>Prior to the adoption of the XP Power Long-Term Incentive Plan, market value share options were granted with 50% options vesting after three years from date of grant and 50% options vesting after four years.</p>	<p>No further options are intended to be granted to Executive Directors.</p>	<p>Vesting of outstanding options is based on total Shareholders' return relative to the FTSE 350 Electronic and Electrical Equipment Sector. Top 20th percentile: 100% vest. Between median and top 20th percentile: vest on a straight-line basis between 25% and 100%. Below median: zero vest.</p>	<p>The Remuneration Committee has the discretion to claw back unvested options or require the return of the net value of vested options in circumstances of material financial misstatement, a major environmental event or a breach of the Company's code of ethics or a serious health and safety issue.</p>

# REMUNERATION POLICY

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
<b>Pensions</b>	Provide a basic pension benefit that would be expected for the position.	Percentage of base salary paid into a defined contribution scheme.	2-8% depending on geography.	n/a	There are no provisions for recovery of pension payments contributions.
<b>Shareholding (minimum)</b>	Align the interests of Executive Directors and Shareholders in the long-term.	To build a minimum shareholding equivalent to two years' salary. Directors have a period of five years from 1 April 2016 (the date of approval) to achieve this.	n/a	n/a	n/a

The performance targets above were chosen as they are considered suitable for aligning the interests of the Executives with those of Shareholders.

## USE OF DISCRETION

The Company's incentive plans including the annual bonus scheme, share option scheme and LTIP will be operated within the rules of the relevant scheme, together with all applicable laws and regulations. The Remuneration Committee may operate the discretion contained in the relevant plan in order to facilitate its administration and operation. Discretion includes (but is not limited to) who is invited to participate or receive awards, the size and timing of awards or payments, the setting of appropriate performance measures and targets for annual bonuses and incentive schemes from year to year and any adjustment of these to take account of market conditions, the annual review of performance against targets for the determination of bonuses and awards, the determination of vesting and performance periods and the treatment of leavers, and discretion when dealing with adjustments in respect of corporate events (such as changes in control, rights issues, de-mergers, acquisitions etc).

## NON-EXECUTIVE DIRECTORS

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
<b>Fees</b>	Fees are set at a level which is sufficient to attract, motivate and retain quality Non-Executive Directors.	Fees are reviewed periodically. The Board (excluding the Non-Executive Directors) is responsible for setting Non-Executive Directors' fees.  Non-Executive Directors are not entitled to participate in the Group's incentive plans.	The total amount of Non-Executive Directors' fees shall not exceed £300,000.	n/a	n/a



## APPROACH TO EXECUTIVE RECRUITMENT

Where a new director is to be appointed, a candidate profile is developed based on a review of future business requirements against the experience and skills of existing Board members. This is used to brief external recruitment consultants appointed by the Remuneration Committee to undertake the selection process. Initial meetings with prospective candidates are held by the Chief Executive Officer. A shortlist is selected to meet other Board members and a number of executive managers. The Remuneration Committee then meets and decides which candidate, if any, will be recommended to join the Board.

Any appointment to the Board receive an induction in respect of their directorship. This will typically include meetings with senior management and our corporate advisers, presentations from key business areas, and visits to our overseas businesses.

In the event of the recruitment of a new Executive Director, the Remuneration Committee would take into consideration the structure and levels of the remuneration for existing Directors and prevailing market together with the skills and value it believed the new Director would bring to the Company. It is therefore expected that a new Director's package would include the same elements as existing Directors and the maximum level of variable remuneration for annual bonus and LTIP would also be capped as it is for existing Executive Directors.

In addition, the Remuneration Committee will have discretion to make payments or awards to buy out incentive arrangements forfeited on leaving a previous employer, i.e. over and above the approach outlined in the table above, and may exercise the discretion available under Listing Rule 9.4.2R if necessary to do so. In doing so, the Remuneration Committee will seek, to the best possible extent, to do no more than match the fair value of the awards forfeited, taking account of the applicable performance conditions, the likelihood of those conditions being met and the proportion of the applicable vesting period remaining.

Where an Executive Director appointment is an internal candidate, the Remuneration Committee will honour any pre-existing remuneration obligations or outstanding variable pay arrangements that relate to the individual's previous role.

The Remuneration Committee retains the discretion to offer appropriate remuneration outside the standard policy where an interim appointment is made to fill an Executive role on a short-term basis or where exceptional circumstances require that the Chairman or a Non-Executive Director takes on an Executive function.

## EXECUTIVE DIRECTORS' CONTRACTS

The Executive Directors' contracts run for an indefinite period, with the Company being able to terminate the contracts without cause giving 12 months' notice. When a Director is terminated without cause, the Director is entitled to a termination payment of 12 months of basic pay. Directors' service contracts are available for inspection at the Annual General Meeting of the Company. Directors are able to terminate the contracts giving 12 months' notice.

## NON-EXECUTIVE DIRECTORS' CONTRACTS

The Non-Executive Directors' contracts run for an indefinite period, with the Company being able to terminate the contracts without cause giving 12 months' notice. If the Shareholders do not re-elect a Non-Executive Director, or they are retired from office under the Articles, their appointment terminates automatically, with immediate effect and without compensation. Non-Executive Directors are not entitled to share option awards, long-term incentive plans or pensions.

## SHAREHOLDER CONSULTATION

The Remuneration Committee's policy is to consult with major Shareholders in respect of significant decisions on Executive remuneration.

## STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

Pay and conditions throughout the Group are taken into consideration when setting remuneration policy. The Remuneration Committee does not consult other employees when setting Executive Director remuneration.

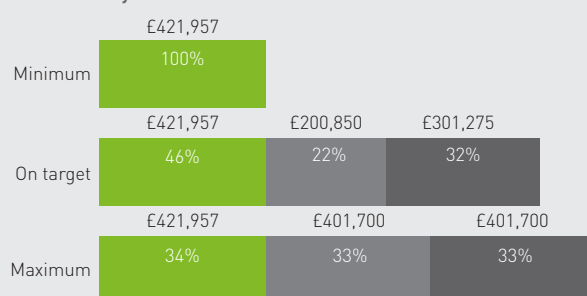
# REMUNERATION POLICY

## ILLUSTRATION OF THE APPLICATION OF THE REMUNERATION POLICY

The charts below give an indication of the level of remuneration that would be received by each Executive Director in accordance with the Directors' remuneration policy (excluding share price movement).

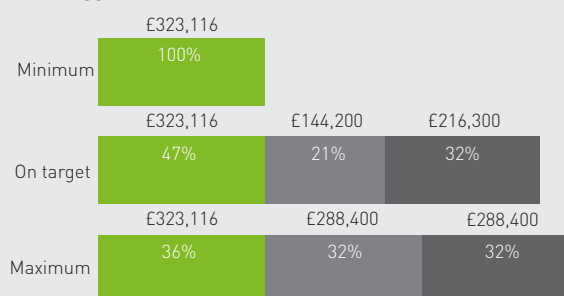
### CHIEF EXECUTIVE OFFICER

Duncan Penny



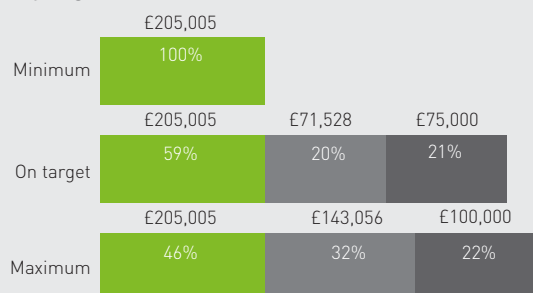
### CHIEF FINANCIAL OFFICER

Gavin Griggs



### EXECUTIVE VICE PRESIDENT, ASIA

Andy Sng



■ Fixed (£) ■ Annual variable (£) ■ LTIP

The charts provide estimates of the potential future reward opportunities for each Executive Director, and the potential split between the different elements of remuneration under three different performance scenarios: "Minimum"; "On target"; and "Maximum".

The "On target" scenario has been calculated based on the 2019 approved budget and threshold vesting of normal LTIP awards.

The "Maximum" scenario has been calculated assuming that the Directors achieve the maximum allowed variable bonus which is capped at 100% of their respective base salaries and maximum vesting of normal LTIP awards under the plan. In order for Directors to achieve the maximum bonus, adjusted profit before tax would have to reach £44.7 million in 2019.

The fixed element of remuneration includes base salary, benefits-in-kind and pension contributions. The benefits-in-kind are measured according to their taxable value as follows:

Position	Name	Base salary	Benefits	Pension	Total fixed pay
Chief Executive Officer	Duncan Penny	£401,700	£4,189	£16,068	£421,957
Chief Financial Officer	Gavin Griggs	£288,400	£23,180	£11,536	£323,116
Executive Vice President, Asia	Andy Sng	S\$257,500	S\$96,059	S\$15,450	S\$369,009

# REMUNERATION REPORT – ANNUAL REPORT

## RESPONSIBILITIES OF THE REMUNERATION COMMITTEE

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the high calibre needed to maintain the Group's position and to reward them for enhancing Shareholder value. It is the responsibility of the Remuneration Committee to consider the experience and value the individual Directors contribute to the Group; measure the performance of the Executive Directors and key members of senior management, and determine their annual remuneration package.

## MEMBERS OF THE REMUNERATION COMMITTEE

Polly Williams (Chair), Independent Non-Executive Director  
 Peter Bucher, Independent Non-Executive Director (retired 31 December 2018)  
 Terry Twigger, Independent Non-Executive Director

## MEETINGS OF THE REMUNERATION COMMITTEE

The Remuneration Committee met three times during 2018 with attendance on the dates as follows:

Date	Attendees
28 February 2018	All
5 October 2018	All
4 December 2018	All

## PERFORMANCE EVALUATION OF THE REMUNERATION COMMITTEE

During the year, the Remuneration Committee reviewed its performance as part of the Board's evaluation process. The Remuneration Committee considered it had adequate skills and experience to perform its responsibilities and, where considered appropriate, employs the services of outside remuneration consultants. The Remuneration Committee used advisory services as outlined on page 85.

Remuneration for the Executive Directors

There are five main elements of the remuneration package for Executive Directors and senior management:

- Basic annual salary;
- Benefits-in-kind;
- Pension arrangements;
- Annual bonus; and
- Long-term share incentives.

The Company's policy is that a significant proportion of the remuneration of the Executive Directors should be performance-related. As described below, Executive Directors may earn an annual bonus together with the long-term benefits of participation in share award schemes.

The Remuneration Committee makes recommendations to the Board. No Director plays a part in any discussion regarding his or her own remuneration.

## BASIC SALARY

Directors' basic salaries are reviewed by the Remuneration Committee each year and when an individual changes position or responsibility. The basic salaries of our CEO and CFO during 2018 were £390,000 and £280,000 respectively.

## BENEFITS-IN-KIND

The Executive and Non-Executive Directors receive certain benefits-in-kind, principally life assurance and private medical insurance. In addition, Gavin Griggs receives a car allowance and Andy Sng receives a housing allowance relating to his relocation to Shanghai where he spends approximately half his time.

# REMUNERATION REPORT – ANNUAL REPORT

## PENSION ARRANGEMENTS

In the UK, the Group operates a “Stakeholder Pension Scheme” and contributes 4% of base salary into this scheme on behalf of the participants including Executive Directors.

In the USA, the Group operates a defined contribution “401K Plan”. The Group matches the participants’ contribution to this plan, including Executive Directors, up to 4% of the Director’s salary.

In Singapore, the Group contributes to the Central Provident Fund “CPF” in line with local statutory requirements. The Group matches the participants’ contribution to this plan, including Executive Directors, up to 6% of the Director’s salary and bonus.

## ANNUAL BONUSES

The Remuneration Committee establishes the profit thresholds that must be met for each financial year before a cash or share bonus is to be paid. Account is also taken of the relative success of the different parts of the business for which the Executive Directors are responsible.

2018 performance targets for Executive Directors other than Andy Sng					
Target	Weighting	Threshold	Target	Stretch / max	Actual
Adjusted profit before tax	100%	£37.9m	£41.5m	£45.1m	£41.2m
Percentage of salary for Executive Directors at different levels of performance					
Executive Director					
Duncan Penny	£390,000	25%	75%	100%*	71%
Gavin Griggs	£280,000	25%	75%	100%*	71%
Mike Laver	£245,618	25%	50%	66%*	48%

2018 performance target for Andy Sng – Executive Vice President, Asia					
Target	Weighting	Threshold	Target	Stretch / max	Actual
Asia adjusted operating profit	100%	US\$6.0m	US\$6.6m	US\$7.1m*	US\$6.5m
Percentage of salary paid for Andy Sng at different levels of performance					
Andy Sng	£138,275	25%	50%	66%	46%

\* To meet the 100% bonus pay out for each of these Executive Directors, the corresponding adjusted profit before tax target are as follows: Duncan Penny and Gavin Griggs – £45.1 million, Mike Laver - £52.8 million. The remuneration committee will harmonise these stretch targets in 2019. The remuneration committee considered the adjusted profit before tax targets to be sufficiently challenging to justify pay out at 75% of maximum for the CEO and CFO. For Andy Sng to meet the 100% bonus the Asia adjusted operating profit would need to be US\$8.2 million. For 2019, annual bonus operation has been amended to align the stretch target across the executive team excluding our VP Asia.

The 2018 annual bonus for Duncan Penny, Gavin Griggs and Mike Laver was based solely on the Group’s adjusted profit before tax. The threshold for bonuses to start was £37.9 million, 5% ahead of the adjusted profit before tax achieved in 2017. On-target performance set at £41.5 million, 15% ahead of adjusted profit before tax achieved in 2017. The bonus was structured on a linear pro rata basis.

In line with the Remuneration Policy, 50% of annual bonuses will be paid in cash and the remaining 50% will be awarded in shares vesting over two years from 31 December 2018. The details of each Executive Director are shown in the table on page 81.



## LONG-TERM SHARE INCENTIVES

Details of all outstanding long-term incentive awards and deferred bonus awards held by Executive Directors are laid out later in this report. Details of the terms and performance conditions applied to each round of awards are set out below.

### LONG-TERM INCENTIVE PLAN

LTIP awards may be made in the form of conditional share awards, nil or nominal cost or deferred cash. The LTIP will also provide for awards to be structured as stock appreciation or phantom rights, which may be suitable for awards granted in overseas jurisdictions.

The vesting of these awards depends on two separate performance conditions over a three-year period as outlined below. 50% of the award will vest three years after the grant date with the remaining 50% vesting 12 months later. Vesting at threshold performance levels is 25% of the maximum.

Up to 50% of the total Shares subject to the Award will vest dependent upon compound annual growth rates of adjusted Earnings Per Share (EPS) over a three-year period.

Adjusted EPS performance 2017 award	Adjusted EPS performance 2018 award	Vesting
10% compound annual growth	12% compound annual growth	100%
5% compound annual growth	6% compound annual growth	25%
Below 5% compound annual growth	Below 6% compound annual growth	No vesting

Vesting between the adjusted EPS targets will be measured on a straight-line basis.

Up to 50% of the total Shares subject to the Award will vest dependent upon the achievement of the Company's Total Shareholder Return ("TSR") measured against that of the FTSE 250 over the same three-year period.

TSR performance	Vesting
80th percentile	100%
Median (50th percentile)	25%
Below the median	No vesting

Vesting between the median and the 75th percentile will be measured on a straight-line basis.

On 16 May 2018, 54,199 nominal-priced options were awarded under this plan and with the performance condition specified above, including to Executive Directors. The performance period for the EPS and TSR condition is measured from 1 January 2018 to 31 December 2020.

On 4 September 2018, 800 nominal-priced options were awarded under this plan and with the performance condition specified above. The performance period for the EPS and TSR condition is measured from 1 January 2018 to 31 December 2020.

The detail of the LTIP awards by Executive Director is shown in the table on page 83.

### SHARE OPTION PLANS

The Group operated The XP Power Share Option Plan (the "Plan") as approved by the Shareholders on 2 April 2012. This Plan allowed the Company to grant options up to 1,924,229 shares, representing 10% of the issued share capital at the time the Plan was set up.

The share options granted in February 2016 under this plan vested in February 2019 as described below. Vesting of these outstanding options is based on Total Shareholder Return relative to the FTSE 350 Electronic and Electrical Equipment Sector.

No awards were due to vest in 2018.

At 31 December 2018, the total number of unvested share options in this scheme was 381,000 of which 85,000 were awarded to Executive Directors. Their potential value, assuming 100% of the awards vest using the closing share price of £21.05 on 31 December 2018, was £2,160,000. The first 50% tranche of awards made to Executive Directors under this plan vested 79% in February 2019. The remaining 50% tranche is due to vest in February 2020.

Following approval of the 2017 LTIP, no further options are intended to be granted to Executive Directors under this Plan.

# REMUNERATION REPORT – ANNUAL REPORT

The detail of historic Share Option Plan awards by Executive Director is shown in the table on page 83.



## CHIEF EXECUTIVE OFFICER REMUNERATION

The table below sets out the details of the Director undertaking the role of Chief Executive Officer.

£ Thousands	Base salary	Pension	Benefits	Annual bonus	Total CEO remuneration
2013	260	8	3	–	271
2014	260	8	3	–	271
2015	260	8	3	39	310
2016	260	8	3	71	342
2017	260	8	3	260	531
<b>2018</b>	<b>390</b>	<b>14</b>	<b>4</b>	<b>276</b>	<b>684</b>

The table below shows the percentage change in remuneration of the Director undertaking the role of Chief Executive Officer and the Company's employees as a whole in 2018.

Percentage increase in remuneration in 2018 compared with 2017

	CEO	Chosen employee group Note 1
Base salary	50%	3%
All taxable benefits	33%	3%
Annual bonus	6%	5%
<b>Total</b>	<b>28%</b>	<b>4%</b>

Note 1 - The chosen employee group for this comparison excludes Chinese employees where there has been significant salary inflation.

All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association. The annual fee for each Non-Executive Director is set out below:

Non-Executive	Fee	Date of last review	Effective date of last change
James Peters	£50,000	25 November 2016	25 July 2014
Peter Bucher (retired 31 December 2018)	£40,000	25 November 2016	1 January 2015
Terry Twigger	£45,000	25 November 2016	1 March 2016
Polly Williams	£40,000	25 November 2016	1 January 2016

James Peters is the Chairman of the Board. Terry Twigger is the Senior Independent Non-Executive Director.

## AGGREGATE DIRECTORS' REMUNERATION

The total amounts for Directors' remuneration were as follows:

£	2018	2017
Basic salaries	<b>1,053,893</b>	831,624
Benefits-in-kind	<b>113,665</b>	66,234
Annual bonus	<b>655,633</b>	561,706
Money purchase pension contributions	<b>39,662</b>	29,383
Non-Executive Director fees	<b>177,595</b>	177,393
Total remuneration	<b>2,040,448</b>	1,666,340

## DIRECTORS' REMUNERATION FOR 2018

Name of Director	Salary and fees	Annual bonus	Pension	Benefits	2018 Total
<b>£</b>					
<b>Executive</b>					
Duncan Penny	<b>390,000</b>	<b>276,237</b>	<b>13,650</b>	<b>4,189</b>	<b>684,076</b>
Gavin Griggs	<b>280,000</b>	<b>198,324</b>	<b>10,801</b>	<b>23,180</b>	<b>512,305</b>
Mike Laver	<b>245,618</b>	<b>117,700</b>	<b>6,140</b>	<b>33,167</b>	<b>402,625</b>
Andy Sng	<b>138,275</b>	<b>63,371</b>	<b>9,071</b>	<b>53,129</b>	<b>263,846</b>
<b>Non-Executive</b>					
Peter Bucher (resigned from Board 31 December 2018)	<b>40,000</b>	–	–	–	<b>40,000</b>
James Peters	<b>50,000</b>	–	–	<b>2,595</b>	<b>52,595</b>
Terry Twigger	<b>45,000</b>	–	–	–	<b>45,000</b>
Polly Williams	<b>40,000</b>	–	–	–	<b>40,000</b>

# REMUNERATION REPORT – ANNUAL REPORT

## DIRECTORS' REMUNERATION FOR 2017

Name of Director	Salary and fees	Annual bonus	Pension	Benefits	2017 Total
<b>£</b>					
<b>Executive</b>					
Duncan Penny	260,000	260,000	7,800	3,322	531,122
Gavin Griggs (appointed 31 October 2017)	47,744	33,704	1,400	3,631	86,479
Mike Laver	257,272	139,356	6,315	13,754	416,697
Andy Sng	126,608	27,535	9,668	43,104	206,915
Jonathan Rhodes (resigned from Board 31 October 2017)	140,000	101,111	4,200	2,423	247,734
<b>Non-Executive</b>					
Peter Bucher	40,000	–	–	–	40,000
James Peters	50,000	–	–	2,393	52,393
Terry Twigger	45,000	–	–	–	45,000
Polly Williams	40,000	–	–	–	40,000

No share options or Long Term Incentive Plan awards vested in either 2017 or 2018.

In the year under review, the base salary of the Chief Executive Officer, Duncan Penny, and Andy Sng, Executive Vice President, Asia were increased as described on page 84. There were no increases to the base salaries of the other Executive Directors. For all other staff (excluding Chinese and Vietnamese manufacturing staff) the average increase was approximately 3%.

## DIRECTORS' INTERESTS IN ORDINARY SHARES OF XP POWER LIMITED

The Directors' interests shown below do not include deferred bonus shares.

	At 31 December 2018	At 1 January 2018
<b>Executive</b>		
Mike Laver	39,500	39,500
Duncan Penny	206,990	206,990
Andy Sng <sup>(a)</sup>	25,000	30,000
<b>Non-Executive</b>		
James Peters	1,529,279	1,529,279

<sup>(a)</sup> - Andy Sng sold 4,300 shares at a price of £34.10 and 700 shares at a price of £35.40 on 15 June 2018.

Executive Directors have a period of five years from 1 April 2016 (the date of approval) or from when they join the Board to build a minimum shareholding equivalent to two years' salary. Restricted shares awarded under the annual bonus plan can be included in this measure.



In addition to the Directors' interests in the ordinary shares of the Company, the following Directors have interests in share options, nominal-priced options and deferred bonus shares:

					At 31 December 2018	At 1 January 2018
Executive	Plan	Date of grant	Exercise price	Expiry date of option	No. of shares	No. of shares
Duncan Penny	Share option plan 2012	10 October 2012	£9.46	10 October 2022	<b>60,750</b>	60,750
	Share option plan 2012	23 February 2016	£15.425	23 February 2026	<b>50,000</b>	50,000
	Deferred bonus plan 2016	17 March 2017	–	–	<b>1,776</b>	1,776
	Deferred bonus plan 2017	2 March 2018	–	–	<b>3,975</b>	–
	LTIP 2017	30 May 2017	£0.010	30 May 2022	<b>6,000</b>	6,000
	LTIP 2018	16 May 2018	£0.010	16 May 2023	<b>11,200</b>	–
Gavin Griggs	Deferred bonus plan 2017	2 March 2018	–	–	<b>515</b>	–
	LTIP 2017	1 November 2017	£0.010	1 November 2022	<b>8,000</b>	8,000
Mike Laver	Share option plan 2012	10 October 2012	£9.46	10 October 2022	<b>30,000</b>	60,750
	Share option plan 2012	23 February 2016	£15.425	23 February 2026	<b>25,000</b>	25,000
	Deferred bonus plan 2016	17 March 2017	–	–	<b>1,191</b>	1,191
	Deferred bonus plan 2017	2 March 2018	–	–	<b>2,130</b>	–
	LTIP 2017	30 May 2017	£0.010	30 May 2022	<b>3,000</b>	3,000
	LTIP 2018	16 May 2018	£0.010	16 May 2023	<b>3,000</b>	–
Andy Sng	Share option plan 2012	23 February 2016	£15.425	23 February 2026	<b>10,000</b>	10,000
	Deferred bonus plan 2016	17 March 2017	–	–	<b>514</b>	514
	Deferred bonus plan 2017	2 March 2018	–	–	<b>420</b>	–
	LTIP 2017	30 May 2017	£0.010	30 May 2022	<b>2,000</b>	2,000
	LTIP 2018	16 May 2018	£0.010	16 May 2023	<b>2,857</b>	–

The share options granted on 10 October 2012 vested four years after the award date.

The share options granted on 23 February 2016 vest 50% after three years and 50% after four years and are subject to the performance criteria outlined in the Remuneration Policy on page 73.

The awards granted on 17 March 2017 relate to 50% of the bonus earned in the financial year 2016 and are deferred for two years after 31 December 2016. These awards have now vested.

The awards granted on 16 May 2018 relate to 50% of the bonus earned in the financial year 2017 and are deferred for two years after 31 December 2017.

The nominal-priced options awarded on 30 May 2017, 1 November 2017 and on 16 May 2018 vest 50% after three years and 50% after four years and are subject to the performance criteria outlined in the Remuneration Policy on page 73.

The highest and lowest closing mid-market prices of the shares of XP Power Limited during 2018 were £37.40 and £20.90 per share respectively. The closing mid-market price on 31 December 2018 was £21.05 per share.

# REMUNERATION REPORT – ANNUAL REPORT

## RELATIVE IMPORTANCE OF SPEND ON PAY

£ Millions	2018	2017	Change %
Distribution to Shareholders			
Dividends <sup>1</sup>	15.3	14.0	9%
Share buyback <sup>2</sup>	–	1.6	100%
Group employment costs <sup>3</sup>	55.2	43.4	27%

<sup>1</sup> Refer to Financial Statements – Note 9 for more details.

<sup>2</sup> Refer to Financial Statements – Note 24 for more details.

<sup>3</sup> Group employment costs includes Directors' remunerations. Refer to Financial Statements – Note 5 for more details.

## REMUNERATION IN 2019 SALARY

Basic salaries for all Directors were reviewed against a benchmarking study that had been commissioned by the Remuneration Committee at the end of 2018. The companies used in the study were assessed for their suitability and relevance to the Company. Executive Directors will receive a basic pay increase of 3% with effect from 1 April 2019 which is in line with general increases across the Group as a whole in Europe and North America.

Executive	Base salary	Date of last review	Effective date of last increase
Duncan Penny	£401,700	28 February 2019	1 January 2018
Gavin Griggs	£288,400	28 February 2019	31 October 2017
Andy Sng	\$257,500	28 February 2019	1 January 2018

Executive Directors' contracts of service, which include details of remuneration, will be available for inspection at the Annual General Meeting.

## ANNUAL BONUS

For 2019, the maximum bonus opportunity of the Executive Directors will again be capped at 100% of salary with on target pay-outs at 75% for the CEO, 75% for CFO, 50% for the President, Corporate Development, and 50% for the Executive Vice President, Asia. Bonuses are based 80% on the Group's adjusted profit before tax and 20% on free cash flow generation in respect of the CEO, CFO and President, Corporate Development. In respect of the Executive Vice President, Asia the bonus is based 80% on the operating profit of the Asia sales business and 20% on free cash flow generation. The Company's targets are deemed sufficiently stretching to justify a pay-out at 75% of maximum for the CEO and CFO for on target performance. Following input from shareholder communication stretch targets have been aligned for all Executive Directors with the exception of Andy Sng whose variable bonus is based on the adjusted operating profit of the Asia sales business.

The Remuneration Committee is of the opinion that given the commercial sensitivity arising in relation to the financial targets used for the annual bonus, disclosing precise targets for the bonus plan in advance would not be in Shareholders' interests. The threshold targets for bonus pay-outs in 2019 will not be set at a level lower than the performance in 2018. Actual targets, performance achieved and awards made will be published at the end of the performance periods so Shareholders can fully assess the basis of any pay-outs.

## LONG-TERM INCENTIVE AWARDS

### 2019

The Remuneration Committee expects to make further awards to Executive Directors under the 2017 LTIP during 2019. The Remuneration Committee currently intends to make performance share awards to each of the CEO and the CFO at 100% of salary in line with the Company's remuneration policy and within the exceptional maximum of 200% of salary. Performance conditions will be the same as those used for the 2018 LTIP award except that the performance conditions will be weighted as to one third Total Shareholder Return versus the FTSE250 and two thirds as to adjusted earnings per share growth with threshold vesting at 25% compound annual growth and full vesting at 100%.

## NON-EXECUTIVE REMUNERATION

No change to the fees of the Non-Executive Directors will be made for 2019. The Board will review Non-Executive fee levels as part of the 2020 remuneration policy review.

## REVIEW OF POLICY

The policy will be next be put to Shareholders at the 2020 Annual General Meeting in accordance with the normal triennial cycle. The Remuneration Committee will review the Remuneration Policy during 2019 in advance of this. As noted above, the Committee has already contacted the Company's major shareholders inviting them to express any views and will consult further as it sees effective and appropriate.

## ADVICE ON REMUNERATION

During the year, h2glenfern Remuneration Advisory provided advice to the Company with respect to the Executive Directors' remuneration. Fees were charged on a cost incurred basis and totalled £13,500 in the year to 31 December 2018. h2glenfern Remuneration Advisory had previously provided advice to the Company on remuneration and has no other connection with the Company.

h2glenfern Remuneration Advisory has confirmed that it has operated in accordance with the Code of Conduct of the Remuneration Consultants' Group in relation to Executive remuneration consulting in the United Kingdom. The Remuneration Committee has therefore satisfied itself that all advice provided by h2glenfern was objective and independent.

Statement of Voting at the Annual General Meeting

The following table sets out actual voting in respect of the approval of the 2017 Remuneration Policy, the remuneration report and the Long-Term Incentive Plan:

	Number of votes cast in favour	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Number of votes withheld
Approval of remuneration report	9,637,881	90.56%	1,005,189	9.44%	1,413,144

As reflected earlier in this report, the Group is committed to ongoing Shareholders dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed.

## STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

The Remuneration Committee takes account of the pay and employment conditions of employees elsewhere in the Company when setting the remuneration of Executive Directors. However, it does not consult other employees when setting Executive Directors' remuneration.

## STATEMENT OF SHAREHOLDER VIEWS

The Company has received views from Shareholders that James Peters was not considered independent by virtue of him previously holding an executive position within the Company. James Peters is a major Shareholder and the Board considers that his interests would therefore be strongly aligned with all Shareholders.

## APPROVAL

This report was approved by the Board of Directors on 5 March 2019.

# OTHER GOVERNANCE AND STATUTORY DISCLOSURES

## DIRECTORS

The Directors of the Company in office at the date of this report are as follows:

Mike Laver	Gavin Griggs
James Peters	Duncan Penny
Terry Twigger	Andy Sng
Polly Williams	

With the exception of Mike Laver, all Directors will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting on 16 April 2019.

## DIRECTORS' INTERESTS IN SHARES OR SHARE OPTIONS

The present membership of the Board and the interests of the Directors in the shares of XP Power Limited are set out in the Directors' Remuneration Report.

## SUBSTANTIAL INTERESTS

Other than the Directors' interests, as at 31 December 2018 the Company was aware of the following interests in 3% or more of the issued ordinary share capital of the Company:

	Number of shares	Percentage of shares in issue
Standard Life Aberdeen plc	3,013,797	15.7%
Mawer Investment Management	1,644,966	8.6%
Canaccord Genuity Group Inc	1,448,424	7.5%
Capital Research Global Investors	1,165,000	6.1%
Chelverton Asset Management	580,930	3.0%

During the period between 31 December 2018 and 5 March 2019, the Company had received notice, under the Financial Conduct Authority's Disclosure Guidance & Transparency Rules, in respect of the following holdings of shares:

	Date of notification	Number of shares	Percentage of shares in issue
Capital Research Global Investors	4 March 2019	861,669	4.5%
Montanaro Asset Management Limited	4 March 2019	590,000	3.1%



## DIVIDENDS

Interim dividends were paid and are proposed as follows:

Period	Payment date	Amount	2017 Comparative
First Quarter	11 July 2018	16.0 pence	15.0 pence
Second Quarter	11 October 2018	17.0 pence	16.0 pence
Third Quarter	10 January 2019	19.0 pence	18.0 pence
Fourth Quarter (proposed)	23 April 2019	33.0 pence	29.0 pence
<b>Total</b>		<b>85.0 pence</b>	<b>78.0 pence</b>

We are proposing a final dividend of 33.0 pence per share which would be payable to members on the register on 22 March 2019 and will be paid on 23 April 2019. This would make the total dividend for the year 85.0 pence (2017: 78.0 pence) which is an increase of 9%.

## AUDIT COMMITTEE

The members of the Audit Committee at the end of the financial year were as follows:

Terry Twigger (Chair)  
Polly Williams

All members of the Audit Committee were Non-Executive Directors.

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act. In performing those functions, the Audit Committee reviewed:

- The audit plan of the Company's independent Auditor and its report on internal accounting controls arising from the statutory audit;
- The assistance given by the Company's management to the independent Auditor; and
- The balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2018 before their submission to the Board of Directors, as well as the independent Auditor's report on the balance sheet of the Company and the consolidated financial statements of the Group

The Audit Committee has recommended to the Board that the independent Auditor, PricewaterhouseCoopers LLP, be nominated for reappointment at the forthcoming Annual General Meeting of the Company.

## INDEPENDENT AUDITOR

The independent Auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept reappointment.

On behalf of the Directors

**James Peters**  
Chairman  
5 March 2019

**Duncan Penny**  
Chief Executive Officer

# STATEMENT BY DIRECTORS

## IN THE OPINION OF THE DIRECTORS,

- a. the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 95 to 155 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2018 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- b. at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors



**James Peters**  
Non-Executive Chairman  
5 March 2019



**Duncan Penny**  
Chief Executive Officer



# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF XP POWER LIMITED

## REPORT ON THE FINANCIAL STATEMENTS

### OUR OPINION

In our opinion, the accompanying consolidated financial statements of XP Power Limited (the "Company") and its subsidiary corporations (the "Group") and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and International Financial Reporting Standards ("IFRS") as adopted by the European Union, so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

### WHAT WE HAVE AUDITED

The financial statements of the Company and the Group comprise:

- the consolidated statement of comprehensive income of the Group for the year ended 31 December 2018;
- the consolidated balance sheet of the Group as at 31 December 2018;
- the balance sheet of the Company as at 31 December 2018;
- the consolidated statement of changes in equity of the Group for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant policies.

### OUR AUDIT APPROACH – OVERVIEW



#### MATERIALITY

The overall materiality which we have used to plan our work for the Group amounted to £1.77 million, which represented 4.7% of profit before taxation. The overall materiality applied to the audit of the Company balance sheet amounted to £1.15 million.

#### AUDIT SCOPE

We performed an audit of the complete financial information and of significant financial statement line items for significant reporting units which included operations based in North America, Europe and Asia. This accounted for approximately 91% of Group revenues and 95% of Group assets.

#### KEY AUDIT MATTERS

We identified the following key audit matters:

- Goodwill;
- Capitalised product development; and
- Business combination.

### THE BASIS FOR OUR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *What are we responsible for* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### INDEPENDENCE

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority's Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF XP POWER LIMITED

## HOW WE DETERMINED MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £0.35 million – £1.6 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

Based on our professional judgement, we determined that the benchmark of profit before taxation is appropriate as it reflects the Group's growth and investment plans. We believe this is a key measure used by shareholders in assessing the performance of the Group.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £177,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## HOW WE TAILORED THE AUDIT SCOPE

The Group operates across North America, Europe and Asia. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the local operations by us, as the Group engagement team, or component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those local operations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. In the current year, the Group engagement team visited the Group's operations in North America.

We designed our audit of the Group by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where management made subjective judgements, for example in respect of significant accounting estimates, that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Having obtained sufficient appropriate audit evidence of the local operations, we performed audit procedures at the Group level over the consolidation process, goodwill, capitalised product development, taxation and business combination.

## WHAT ARE THE KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and the directing of the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.



Key audit matters	How did our audit address these
<p><b>Goodwill</b></p> <p><i>Refer to page 68 (Report from the Chair of the Audit Committee), page 111 (Critical accounting judgements and key sources of estimation uncertainty – Impairment of Goodwill) and page 121 (Note 11 – Goodwill).</i></p> <p>The Group has goodwill of £54.1 million at 31 December 2018 contained within three cash-generating units (“CGUs”) defined by its geographical split – North America, Europe and Asia.</p> <p>We focused on this area due to the relative size of the carrying amount of goodwill, which represented 23% of total assets, and because management’s assessment of the “value-in-use” of the Group’s CGUs involves significant judgements and assumptions about the future results of the business and the discount rates applied to future cash flow forecasts.</p> <p>Key judgements and assumptions about the future results of the business include: revenue and profit growth rates, expected changes to overhead costs as well as risks specific to the three CGUs.</p>	<p>We assessed the appropriateness of management’s identification of the Group’s CGUs and the process to test for goodwill impairment. There were no significant issues noted.</p> <p>We evaluated the suitability and appropriateness of the impairment model as prepared by management and noted no significant exceptions.</p> <p>We assessed the reasonableness of the inputs used in the derivation of the discount rates. We also focused on understanding and challenging management’s plans for future growth for each of the three CGUs. Forecasted growth in revenue and profits are driven by constant innovation in the development of new product families as well as the broadening of the customer base in the three CGUs. We benchmarked key market-related assumptions in management’s forecasts such as revenue and profit growth rates and changes in the overhead costs with relevant economic and industry indicators and considered that such targets as set by management were achievable. Sensitivity analyses were also performed on the discount rates and growth rates. We agreed with management that no impairment was required.</p>
<p><b>Capitalised product development</b></p> <p><i>Refer to page 68 (Report from the Chair of the Audit Committee), page 111 (Critical accounting judgements and key sources of estimation uncertainty – Recoverability of Capitalised R&amp;D) and page 122 (Note 12 – Intangible assets).</i></p> <p>Part of the Group’s strategy is to invest in research and development to create new products. As at 31 December 2018, the carrying value of product development costs capitalised as an intangible asset is £20.1 million, of which £6.2 million was capitalised in the current financial year.</p> <p>We focused on the appropriateness of capitalisation of product development costs due to the relative size of the carrying amount of this intangible asset, which represented 9% of total assets, and because significant judgement is involved in determining whether the criteria to capitalise such product development costs, as set out in IAS 38, have been fulfilled and that the capitalised amounts are recoverable.</p> <p>We also identified the useful lives of the capitalised product development costs as an area involving significant judgement. The carrying value of the capitalised product development costs is heavily dependent on the useful lives of the developed products. Management determined the useful lives of the developed products based on the expected life cycle of these products, taking into consideration expected customer demand and technological innovation.</p>	<p>We assessed the appropriateness of capitalisation of product development costs by ensuring compliance with the criteria to capitalise product development costs as set out in IAS 38, and challenged management through discussions and qualitative reviews of the products’ feasibility. We also tested the accuracy and allocation of capitalised material costs and labour costs. Management was able to support the capitalisation of product development costs.</p> <p>For selected samples of developed products, we reviewed the actual sales during the year along with projected sales to ensure that the capitalised development costs are supported by demand and are recoverable. For selected samples of products in development, we reviewed the project business case, forecasted demand, and other supporting analysis to support the recoverability of these products.</p> <p>In the assessment of the useful lives of the capitalised product development costs, we performed a benchmarking exercise to compare the useful lives of the capitalised product development costs against other companies within the same industry. The useful lives as determined by management are in line with that of the industry and consistent with our understanding of the life cycle of the products.</p>

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF XP POWER LIMITED

Key audit matters	How did our audit address these
<p><b>Business combination</b></p> <p><i>Refer to page 68 (Report from the Chair of the Audit Committee), page 122 (Note 12 – Intangible assets) and page 140 (Note 31 – Business combination)</i></p> <p>On 25 May 2018, the Group acquired the assets and business of Glassman High Voltage (“Glassman”), a US-based designer and manufacturer of High Voltage High Power conversion products. The final purchase consideration was US\$47.5 million (£35.7 million). Management assessed that the acquisition of Glassman qualifies as a business combination by applying the definition in IFRS 3.</p> <p>Management determined that the fair value of the net identifiable assets acquired was US\$30.8 million (£23.2 million) with US\$20.8 million (£15.7 million) relating to intangible assets that arose from the business combination. The valuation of the intangible assets was performed as part of the Purchase Price Allocation.</p> <p>We focused on the intangible assets arising from the business combination as a significant area of judgement. The valuation methodology, as well as the inputs and assumptions in the model, will affect the fair value of the intangible assets.</p> <p>The goodwill arising from the acquisition of Glassman of US\$16.6 million (£12.5 million) is also highly dependent on the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date.</p>	<p>We reviewed management’s assessment that the acquisition of Glassman should be accounted for as a business combination and determined that it was appropriately performed in accordance with the definition set out in IFRS 3.</p> <p>We assessed the appropriateness of the identifiable assets acquired and the liabilities assumed at the acquisition date by reviewing the clauses laid out in the purchase agreement. We also reviewed management’s procedure for determining the fair value of the net identifiable assets acquired and noted no significant exceptions.</p> <p>We reviewed the appropriateness of recognition of the identified intangible assets in accordance with IAS 38. We agreed with management’s assessment that the intangible assets are separately identifiable and the Group has control over the future economic benefits flowing from the intangible assets.</p> <p>We reviewed the useful lives of the identified intangible assets as determined by management and consider these to be reasonable.</p> <p>The valuation methodologies used for determining the fair values of the identified intangible assets were also assessed to be appropriate.</p> <p>We involved valuation specialists to assist in the assessment of the models and key assumptions including discount rate, attrition rates, royalty rates and others. We focused on understanding and challenging management’s inputs into the valuation model, which will have an impact on the fair value of the intangible assets. We assessed the projected future revenue growth and margins based not only on the historical performance of Glassman, but also relevant economic and industry indicators and considered such projections, as set by management, to be reasonable.</p> <p>We tested the calculation of the goodwill arising from the acquisition of Glassman, being the difference between the total purchase consideration and the fair value of the net identifiable assets and noted that management’s computation was in line with IFRS 3.</p> <p>Also, the goodwill arising from the acquisition has been determined by management to be part of the North American CGU (please see key audit matter “Goodwill” on page 91). We have assessed management’s determination of the CGU and noted no significant exceptions.</p>

## INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

### GOING CONCERN

Under the UK Listing Rules ("Listing Rules") we are required to review the Directors' statement, set out on page 88, in relation to going concern. We have nothing to report having performed our review.

### THE DIRECTORS' ASSESSMENT OF THE PROSPECTS OF THE GROUP

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group, set out on page 40. Our review was substantially less in scope than an audit and only consisted of making enquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

### CORPORATE GOVERNANCE STATEMENT

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to 11 further provisions of the UK Corporate Governance Code, set out in the "Accountability" section on pages 63 to 64. We have nothing to report having performed our review.

### OTHER INFORMATION

Management is responsible for the other information. The other information comprises the "Overview" section set out on pages 1 to 9, "Strategic Report" set out on pages 10 to 53, "Governance Report" set out on pages 54 to 88, and the "Financials" section on page 156 of the Annual Report. Other information, as defined in this section, does not include matters that we are required to review and report on under the Listing Rules, as described above.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### WHAT ARE MANAGEMENT AND DIRECTORS RESPONSIBLE FOR

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRSs as adopted by the European Union, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Directors are responsible for overseeing the Group's financial reporting process.

### WHAT ARE WE RESPONSIBLE FOR

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF XP POWER LIMITED

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditor, have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Hans Koopmans.



**PricewaterhouseCoopers LLP**

Public Accountants and Chartered Accountants  
Singapore

5 March 2019



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

£ Millions	Note	2018	2017
<b>Revenue</b>	4	<b>195.1</b>	166.8
Cost of sales		<b>(102.8)</b>	(89.2)
<b>Gross profit</b>		<b>92.3</b>	77.6
Expenses			
Distribution and marketing		<b>(38.7)</b>	(31.7)
Administrative		<b>(2.9)</b>	(4.6)
Research and development	7	<b>(11.4)</b>	(8.8)
<b>Operating profit</b>		<b>39.3</b>	32.5
Finance charge	6	<b>(1.7)</b>	(0.3)
<b>Profit before income tax</b>		<b>37.6</b>	32.2
Income tax expense	8	<b>(7.2)</b>	(3.6)
<b>Profit after tax</b>		<b>30.4</b>	28.6
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Cash flow hedges	24	<b>0.3</b>	(0.5)
Exchange differences on translation of foreign operations	24	<b>4.4</b>	(3.9)
		<b>4.7</b>	(4.4)
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Currency translation differences arising from consolidation	24	<b>0.2</b>	*
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>4.9</b>	(4.4)
<b>Total comprehensive income for the year</b>		<b>35.3</b>	24.2
<b>Profit attributable to:</b>			
Equity holders of the Company	24	<b>30.2</b>	28.3
Non-controlling interests		<b>0.2</b>	0.3
		<b>30.4</b>	28.6
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		<b>34.9</b>	23.9
Non-controlling interests		<b>0.4</b>	0.3
		<b>35.3</b>	24.2
<b>Earnings per share attributable to equity holders of the Company (pence per share)</b>			
– Basic earnings per share	10	<b>157.8</b>	148.3
– Diluted earnings per share	10	<b>154.9</b>	146.0

\* Balance is less than £100,000.

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

# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

£ Millions	Note	2018	2017
<b>ASSETS</b>			
<b>Current assets</b>			
Corporate tax recoverable	8	0.8	2.9
Cash and cash equivalents	15	11.5	15.0
Inventories	16	56.5	37.8
Trade receivables	17	33.0	23.8
Other current assets	18	3.3	3.8
Derivative financial instruments	22	*	0.2
<b>Total current assets</b>		<b>105.1</b>	83.5
<b>Non-current assets</b>			
Goodwill	11	54.1	40.4
Intangible assets	12	43.6	23.5
Property, plant and equipment	13	30.7	22.5
Deferred income tax assets	23	0.6	1.4
ESOP loan to employees	26	0.2	0.3
<b>Total non-current assets</b>		<b>129.2</b>	88.1
<b>Total assets</b>		<b>234.3</b>	171.6
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Current income tax liabilities	8	4.2	3.5
Trade and other payables	19	22.4	21.4
Derivative financial instruments	22	0.2	0.2
<b>Total current liabilities</b>		<b>26.8</b>	25.1
<b>Non-current liabilities</b>			
Accrued consideration	20	1.4	1.4
Borrowings	21	63.5	24.0
Deferred income tax liabilities	23	4.7	4.2
Provisions		0.5	–
<b>Total non-current liabilities</b>		<b>70.1</b>	29.6
<b>Total liabilities</b>		<b>96.9</b>	54.7
<b>NET ASSETS</b>		<b>137.4</b>	116.9
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	24	27.2	27.2
Merger reserve	24	0.2	0.2
Treasury shares and share option reserve	24	1.1	0.4
Hedging reserve	24	0.1	(0.2)
Translation reserve	24	4.0	(0.4)
Other reserve	24	(0.8)	(0.8)
Retained earnings	24	104.6	89.6
		<b>136.4</b>	116.0
<b>Non-controlling interests</b>		<b>1.0</b>	0.9
<b>TOTAL EQUITY</b>		<b>137.4</b>	116.9

\* Balance is less than £100,000.

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

£ Millions	Note	Attributable to equity holders of the Company							Total	Non-controlling interests	Total equity
		Share capital	Treasury shares and share option reserve	Merger reserve	Hedging reserve	Translation reserve	Other reserve	Retained earnings			
<b>Balance at 1 January 2017</b>		27.2	(0.5)	0.2	0.3	3.5	–	75.4	106.1	0.8	106.9
Sale of treasury shares	24	–	1.0	–	–	–	–	(0.1)	0.9	–	0.9
Purchase of treasury shares	24	–	(1.6)	–	–	–	–	–	(1.6)	–	(1.6)
Employee share option plan expenses, net of tax	24	–	1.5	–	–	–	–	–	1.5	–	1.5
Dividends paid	9	–	–	–	–	–	–	(14.0)	(14.0)	(0.2)	(14.2)
Future acquisition of non-controlling interest	24	–	–	–	–	–	(0.8)	–	(0.8)	–	(0.8)
Exchange difference arising from translation of financial statements of foreign operations		–	–	–	–	(3.9)	–	–	(3.9)	*	(3.9)
Net change in cash flow hedges		–	–	–	(0.5)	–	–	–	(0.5)	–	(0.5)
Profit for the year		–	–	–	–	–	–	28.3	28.3	0.3	28.6
Total comprehensive income for the year	24	–	–	–	(0.5)	(3.9)	–	28.3	23.9	0.3	24.2
<b>Balance at 31 December 2017</b>		27.2	0.4	0.2	(0.2)	(0.4)	(0.8)	89.6	116.0	0.9	116.9
Changes in accounting policy	2.1 (b)	–	–	–	–	–	–	0.4	0.4	–	0.4
<b>Restated total equity as at 1 January 2018</b>		<b>27.2</b>	<b>0.4</b>	<b>0.2</b>	<b>(0.2)</b>	<b>(0.4)</b>	<b>(0.8)</b>	<b>90.0</b>	<b>116.4</b>	<b>0.9</b>	<b>117.3</b>
Sale of treasury shares	24	–	0.8	–	–	–	–	(0.3)	0.5	–	0.5
Employee share option plan expenses, net of tax	24	–	(0.1)	–	–	–	–	–	(0.1)	–	(0.1)
Dividends paid	9	–	–	–	–	–	–	(15.3)	(15.3)	(0.3)	(15.6)
Exchange difference arising from translation of financial statements of foreign operations		–	–	–	–	4.4	–	–	4.4	0.2	4.6
Net change in cash flow hedges		–	–	–	0.3	–	–	–	0.3	–	0.3
Profit for the year		–	–	–	–	–	–	30.2	30.2	0.2	30.4
Total comprehensive income for the year	24	–	–	–	0.3	4.4	–	30.2	34.9	0.4	35.3
<b>Balance at 31 December 2018</b>		<b>27.2</b>	<b>1.1</b>	<b>0.2</b>	<b>0.1</b>	<b>4.0</b>	<b>(0.8)</b>	<b>104.6</b>	<b>136.4</b>	<b>1.0</b>	<b>137.4</b>

\* Balance is less than £100,000.

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

£ Millions	Note	2018	2017
<b>Cash flows from operating activities</b>			
Profit after tax		30.4	28.6
Adjustments for:			
– Income tax expense	8	7.2	3.6
– Amortisation and depreciation	7	9.1	5.9
– Finance charge	6	1.7	0.3
– Equity award charges	5	0.8	0.4
– Fair value loss/(gain) on derivative financial instruments		0.5	(0.5)
– Unrealised currency translation loss/(gain)		2.7	(2.9)
Change in working capital, net of effects from acquisitions:			
– Inventories		(16.4)	(2.5)
– Trade and other receivables		(5.6)	(1.6)
– Trade and other payables		(0.1)	5.3
– Provision for liabilities and other charges		0.5	(0.8)
<b>Cash generated from operations</b>		<b>30.8</b>	<b>35.8</b>
Income tax paid, net of refund	8	(4.1)	(6.1)
<b>Net cash provided by operating activities</b>		<b>26.7</b>	<b>29.7</b>
<b>Cash flows from investing activities</b>			
Acquisition of a business, net of cash acquired	31	(35.5)	(18.2)
Purchases and construction of property, plant and equipment	13	(7.9)	(4.9)
Capitalisation of research and development expenditure	12	(6.2)	(5.2)
Capitalisation of intangible software and software under development		(0.9)	–
Proceeds from disposal of property, plant and equipment		0.1	0.4
Repayment of ESOP loans		0.1	0.4
Payment of accrued consideration		–	(0.5)
<b>Net cash used in investing activities</b>		<b>(50.3)</b>	<b>(28.0)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		39.4	25.2
Repayment of borrowings		(3.4)	(5.4)
Sale of treasury shares		0.5	1.0
Purchase of treasury shares by ESOP		–	(1.6)
Interest paid		(1.5)	(0.2)
Dividend paid to equity holders of the Company	9	(15.3)	(14.0)
Dividend paid to non-controlling interests		(0.3)	(0.2)
<b>Net cash provided by financing activities</b>		<b>19.4</b>	<b>4.8</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4.2)</b>	<b>6.5</b>
Cash and cash equivalents at beginning of financial year		15.0	9.2
Effects of currency translation on cash and cash equivalents		0.7	(0.7)
<b>Cash and cash equivalents at end of financial year</b>	15	<b>11.5</b>	<b>15.0</b>
<b>Reconciliation of liabilities arising from financing activities:</b>			
<b>Bank borrowings</b>			
At 1 January		24.0	5.5
Principal and interest payments		(4.9)	(5.6)
Proceeds from borrowings		39.4	25.2
Non-cash changes:			
– Accrued interest expenses		1.5	0.2
– Foreign exchange movement		3.5	(1.3)
<b>At 31 December</b>		<b>63.5</b>	<b>24.0</b>

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 1. GENERAL 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 401 Commonwealth Drive, Lobby B, #02-02, Haw Par Technocentre, Singapore 149598.

The nature of XP Power Limited and its subsidiaries' operations and its principal activities are set out in the Markets and Products sections of the Annual Report on pages 10 to 11.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 BASIS OF PREPARATION

The consolidated financial statements of XP Power Limited and its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (IFRS as adopted by the EU).

The consolidated financial statements have been prepared on the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS and IFRIC requires management to make judgements, estimates and assumptions that affect the application of these accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which forms the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

#### (a) Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

#### (b) Changes in accounting policy and disclosures

##### i. New and amended standards adopted by the Group

On 1 January 2018, the Group adopted the new or amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and IFRIC.

The adoption of these new or amended IFRS did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current or previous financial years except for the following:

#### IMPACT ON THE FINANCIAL STATEMENTS

The Group has adopted IFRS 9 and IFRS 15 using the modified retrospective approach with the cumulative impact of the adoption recognised in the opening retained earnings as at 1 January 2018. The following table shows the adjustments recognised for each individual line item.

£ Millions	At 31 December 2017	Effects of IFRS 9	Effects of IFRS 15	At 1 January 2018 Restated
<b>ASSETS</b>				
Trade receivables	23.8	0.4	*	<b>24.2</b>
<b>EQUITY</b>				
Retained earnings	89.6	0.4	*	<b>90.0</b>

\*Balances less than £100,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 BASIS OF PREPARATION (CONTINUED)

#### (b) Changes in accounting policy and disclosures (CONTINUED)

##### i. New and amended standards adopted by the Group (CONTINUED)

#### IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 replaces the provisions of IAS 39 that relate to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 *Financial Instruments* from 1 January 2018 resulted in changes to accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in notes 2.10 and 2.15. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

##### (i) Classification and measurement

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

£ Millions	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
<b>Financial assets</b>				
Cash and cash equivalents	Loans and receivables	Amortised cost	15.0	15.0
Trade receivables	Loans and receivables	Amortised cost	23.8	24.2
Other current assets (excluding prepayments and VAT receivables)	Loans and receivables	Amortised cost	1.0	1.0
Derivative financial instruments	Held for trading	Mandatorily at Fair Value through Profit or Loss ("FVTPL")	0.2	0.2
ESOP Loan to employees	Loans and receivables	Amortised cost	0.3	0.3

- Cash and cash equivalents, trade receivables, other current assets (excluding prepayments and VAT receivables) and ESOP Loan to employees were classified as loans and receivables under IAS 39 and are now classified at amortised cost. There was no impact on the amounts recognised in relation to these assets except for trade receivables from the adoption of IFRS 9.
- Derivative financial instruments that were previously held for trading are required to be held as FVTPL under IFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of IFRS 9.

##### (ii) Derivatives and hedging activities

Foreign currency forward contracts in place as at 31 December 2017 were entered into hedge exchange rate movements of highly probable future sales and qualify as cash flow hedges under IFRS 9.

The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

There have been no changes to the recognition and measurement of derivatives and hedging activities under IFRS 9.

##### (iii) Impairment of financial assets

The Group's financial assets that are subject to IFRS 9's new expected credit loss model includes trade receivables, ESOP Loan to employees and other current assets (excluding prepayments and VAT receivables).

The Group revised its impairment methodology under IFRS 9 for trade receivables. The impact of the change resulted in an increase of £0.4 million to trade receivables.

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

£ Millions	Loss allowance
At 31 December 2017 – calculated under IAS 39	0.5
Amounts restated through opening retained earnings	(0.4)
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	0.1

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 BASIS OF PREPARATION (CONTINUED)

#### (b) Changes in accounting policy and disclosures (CONTINUED)

##### i. New and amended standards adopted by the Group (CONTINUED)

#### IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the modified retrospective approach with the cumulative impact of the adoption recognised in the opening retained earnings at 1 January 2018. Comparative information for 2017 are not restated.

The impact of adoption on the consolidated income statement and balance sheet was less than £0.1 million as at 1 January 2018.

The accounting policies for revenue from contracts with customers under IFRS 15 are disclosed in Note 2.3.

The effects on adoption of IFRS 15 are as follows:

##### (i) Accounting for early payment discounts

When there is a sale of goods, certain customers will be entitled to early repayment discounts which are based on the agreed discount rate and early repayment terms. The Group previously recognised the early payment discounts when the customers made the payment under IAS 18.

Under IFRS 15, if the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

The Group uses the most likely amount approach as there will be only two possible outcomes: either the customers make the payment and receive the discount or pay after the early payment date and don't receive the discount. The Group recognised the sales discounts assuming all customers eligible for the discount make payment by the early payment date. The impact is less than £0.1 million for the financial year ended 31 December 2017.

##### (ii) Accounting for sales volume rebates

When there is a sale of goods, certain customers will be entitled to sales volume rebates which are based on total spending multiplied by the agreed rebates percentage. The Group previously recognised the sales rebates based on billings to date based on IAS 18.

Under IFRS 15, the Group uses the expected value approach as there is a range of possible consideration amounts depending on the sales volume which in turn will affect the amount of rebates. The Group estimates the rebate percentage that the participating customers will be eligible for by the end of the rebate programme year and applies that rebate percentage to the billings to date. £0.1 million of accrual rebates has been accounted for in the financial year ended 31 December 2017.

Had the Group applied IAS18 and its interpretation during 2018, the revenue and retained earnings would not have increased/decreased by more than £100,000.

##### ii. New standards and interpretations issued but not yet adopted

#### IFRS 16 LEASES (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exception are short-term and low-value assets. The accounting for lessors will not change significantly.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to its first adoption. Right-of-use assets for property leases and other leases will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at 31 December 2018, the Group has non-cancellable operating lease commitments of £7.8 million. Of these commitments, approximately £0.2 million relate to short-term leases and £0.2 million to low-value assets which will both be recognised on a straight-line basis as an expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately £6.3 million on 1 January 2019 and lease liabilities of £6.3 million. Overall net current assets will be £1.5 million lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately £0.2 million for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately £1.5 million as repayment of the principal portion of the lease liabilities will be reclassified as cash flows from financing activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 FOREIGN CURRENCY TRANSLATION

#### (a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The consolidated financial statements are presented in Pounds Sterling, which is different from the Company’s functional currency. The Company’s functional currency is the United States Dollar.

The financial statements are presented in Pounds Sterling, as the majority of the Company’s Shareholders are based in the UK and the Company is listed on the London Stock Exchange. It is the currency that the Directors of the Group use when controlling and monitoring the performance and financial position of the Group.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other currency translation reserve as qualifying cash flow hedges.

Non-monetary items measured at fair value in foreign currencies are translated using exchange rates at the date when the fair values are determined. Currency translation differences on these items are included in other comprehensive income.

#### (c) Translation of Group entities’ financial statements

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i. assets and liabilities of the Group’s foreign operations are translated at exchange rates prevailing on the balance sheet date;
- ii. income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly, and the average rate is not considered a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated using the exchange rates at the dates of the transactions;
- iii. exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal of the entity giving rise to such reserve; and
- iv. goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the date of the balance sheet. The Group has elected to treat goodwill and fair value adjustments arising on the acquisitions before the date of transition to IFRS as Pound Sterling denominated assets and liabilities converted using the exchange rates at the dates of acquisition.

### 2.3 REVENUE RECOGNITION

#### (a) Sales of goods

The Group manufactures and sells a range of power products. Sales are recognised when control of the products has transferred to its customer, being when the products are delivered to the buyer, the buyer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the buyer’s acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the buyer, and either the buyer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Power products are sometimes sold with volume discounts based on aggregate sales over a 12-month period or early payment discounts if the customers make early repayment. Revenue from these sales is recognised based on the price specified in the contract, net of the discounts. Accumulated experience is used to estimate and provide for the volume discounts, using the expected value method, and early payment discounts, using the most likely approach. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice. The Group will usually issue a credit note for refund for faulty products.

A receivable (financial asset) is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 REVENUE RECOGNITION (CONTINUED)

Volume rebates and early payment discounts are recognised when the goods are delivered and is presented as a reduction in trade and other receivables.

The Group has elected to apply the practical expedient not to adjust the transaction price for the existence of significant financing components when the period between the transfer of control of good or service to a customer and the payment date is one year or less.

Prior to 1 January 2018, revenue comprises the fair value of the consideration received or receivable for goods provided in the ordinary course of the Group's business, net of discounts, Value Added Tax/Goods and Services Tax, returns and rebates, and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met.

Sales of goods are recognised when a Group entity has shipped the goods to locations specified by its customers in accordance with the sales contract and the collectability of the related receivables is reasonably assured.

#### (b) Interest income

Interest income is recognised using the effective interest method.

### 2.4 GROUP ACCOUNTING

#### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment in the separate financial statements. This cost of investment is subsequently adjusted to reflect changes in contingent consideration, if any. In the separate financial statements, cost of investment in subsidiaries also includes directly attributable acquisition costs.

#### (b) Transactions with non-controlling interests

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity, and balance sheet.

Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 GROUP ACCOUNTING (CONTINUED)

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of shares from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary, is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the statement of comprehensive income.

### 2.5 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### 2.6 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment, including land and buildings, are stated at historical cost less accumulated depreciation and any recognised impairment losses.

The historical cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Freehold land and property under development are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

Plant and equipment	–	10	–	33%
Motor vehicles	–	20	–	25%
Building improvements	–	10	–	33%
Buildings	–	2	–	5%
Leasehold land and buildings	–	2	–	5%

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the statement of comprehensive income when the changes arise.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising on the disposal or retirement of an asset are determined as the difference between the sale proceeds less cost to sell and the carrying amount of the asset, and are recognised in the statement of comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 INTANGIBLE ASSETS

#### (a) Goodwill

The excess of the consideration transferred, the amount of non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of identifiable net assets acquired, is recorded as goodwill.

Goodwill is tested annually for impairment and whenever there is an indication that the goodwill may be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

#### (b) Internally generated intangible assets – research and development expenditure

The cost of an item of internally generated intangible assets initially recognised includes materials used, direct labour and other directly attributable costs to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Expenditure on research activities is recognised as an expense as incurred.

An internally generated intangible asset arising from the Group's product development is recognised only if all of the following criteria are met:

- There is an ability to use or sell the asset;
- Management intends to complete the asset and use or sell it;
- It can be demonstrated the asset will generate probable future economic benefits;
- It is technically feasible to complete the asset so that it will be available for use;
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- The expenditure attributable to the asset during its development can be reliably measured.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives, which vary between three and seven years depending on the exact nature of the project undertaken. Amortisation commences when the product is ready and available for use.

#### (c) Acquired computer software licences

Acquired computer software licences are initially capitalised at cost which includes the purchase prices (net of any discounts and rebates) and other directly attributable costs of preparing the asset for its intended use. Direct expenditures including employee costs, which enhance or extend the performance of computer software beyond its specifications and which can be reliably measured, are added to the original cost of the software. Costs associated with maintaining the computer software are expensed off when incurred.

Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of 7 years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

#### (d) Other intangible assets

Other intangible assets that are acquired by the Group are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation. Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives as follows:

Brand	–	10%	–	50%
Technology	–	10%	–	20%
Customer relationships	–	10%	–	20%
Customer contracts	–	90%	–	100%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

#### (a) Goodwill

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised as an expense and is not reversed in a subsequent period.

#### (b) Intangible assets

##### Property, plant and equipment

##### Investments in subsidiaries

Intangible assets, property, plant and equipment and investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.9 FAIR VALUE ESTIMATION OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices used for financial liabilities are the current asking prices.

The fair values of currency forwards are determined using actively quoted forward exchange rates.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

### 2.10 FINANCIAL ASSETS

Beginning 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost; and
- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss).

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets.

For assets measured at fair values, gains or losses will either be recorded in profit or loss or other comprehensive income.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.10 FINANCIAL ASSETS (CONTINUED)

#### AT SUBSEQUENT MEASUREMENT

##### Debt instruments

Debt instruments mainly comprise of “trade receivables”, “other current assets (excluding prepayments and VAT receivables)”, “cash and cash equivalents” and “ESOP loans to employees” in the balance sheet.

There are three subsequent measurement categories, depending on the Group’s business model for managing the asset and the cash flow characteristics of the asset:

- **Amortised cost:** Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through other comprehensive income (“FVOCI”):** Debt instruments that are held for collection of contractual cash flows and for sale, and where the assets’ cash flows represent solely payments of principal and interest, are classified as FVOCI. Movements in fair values are recognised in Other Comprehensive Income (“OCI”) and accumulated in fair value reserve, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and presented in “other gains/(losses)”. Interest income from these financial assets is recognised using the effective interest rate and presented in “interest income”.
- **FVTPL:** Debt instruments that are held for trading as well as those that do not meet the criteria for classification as amortised cost or FVOCI are classified as FVTPL. Movement in fair values and interest income that is not part of a hedging relationship is recognised in profit or loss in the period in which it arises and presented in “other gains/(losses)”.

The Group applies the IFRS 9 simplified approach and uses a provision matrix to measure expected credit loss which uses a lifetime expected loss allowance for all trade receivables.

Expected credit loss is assessed separately for each of the Group’s key regions and is based on each region’s two-year historical credit loss experience.

Prior to 1 January 2018, the Group classified its financial assets depending on the nature of the asset and the purpose for which the assets were acquired. Management determined the classification of its financial assets at initial recognition. The Group’s financial assets comprise of loans and receivables.

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were presented as current assets, except for those maturing later than 12 months after the balance sheet date, which were presented as non-current assets. Loans and receivables were presented as “trade receivables”, “other current assets (excluding prepayments and VAT receivables)”, “cash and cash equivalents” and “ESOP loans to employees” in the balance sheet.

Regular purchases and sales of financial assets were recognised on the trade-date – the date on which the Group committed to purchase or sell the asset. Financial assets were derecognised when the rights to receive cash flows from the financial assets had expired or have been transferred and the Group had transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sales proceeds was recognised in the statement of comprehensive income. Loans and receivables were initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

The Group assessed at the end of each reporting period, whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

The amount of the loss was measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss was recognised in the statement of comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.10 FINANCIAL ASSETS (CONTINUED)

#### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and the liability simultaneously.

### 2.11 TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

### 2.12 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance expense. Changes in the estimated timing or amount of the expenditure or discount rate are recognised in the statement of comprehensive income when the changes arise.

### 2.13 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

Borrowing costs are recognised in profit or loss using the effective interest method.

### 2.14 LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

### 2.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, on whether the derivatives designated as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group periodically uses foreign exchange forward contracts to hedge the foreign currency exposures.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

#### CASH FLOW HEDGES THAT QUALIFY FOR HEDGE ACCOUNTING

##### (i) Currency forwards

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

When currency forwards are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item (aligned forward element) is recognised within OCI in the hedging reserve within equity. In some cases, the Group may designate the full change in fair value of the forward contract (including forward points) as the hedging instruments. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Amounts accumulated in equity are reclassified to the statement of comprehensive income in the periods when the hedged item affects profit or loss.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 22. Movements on the hedging reserve in other comprehensive income are shown in Note 24. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining expected life/or maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

### 2.16 CURRENT AND DEFERRED INCOME TAX

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.16 CURRENT AND DEFERRED INCOME TAX (CONTINUED)

As the timing of the tax deduction and the recognition of the employee share option expense differs, IAS 12 requires the recognition of the related deferred tax asset if the deferred tax asset recognition criteria are met. For an equity-settled share-based payment, if the cumulative amount of tax deduction exceeds the tax effect of the related cumulative remuneration expense at the reporting date, the excess of the associated deferred tax shall be recognised directly in equity. All taxes related to cash-settled share-based payments shall be recognised in profit or loss.

### 2.17 CASH AND CASH EQUIVALENTS

For the purpose of presentation in the consolidated cash flow statement, cash and cash equivalents include cash on hand and deposits with financial institutions.

### 2.18 SHARE-BASED PAYMENTS

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The vesting conditions are service conditions and performance conditions only. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in the statement of comprehensive income, with a corresponding adjustment to the treasury share reserve over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital account, when new ordinary shares are issued, or to the "treasury shares" account, when treasury shares are reissued to the employees.

### 2.19 DEFINED CONTRIBUTION PLANS

The Group operates several defined contribution plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities on a mandatory, contracted or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

### 2.20 EMPLOYEE LEAVE ENTITLEMENTS

Employee entitlements to annual leave are recognised in the statement of comprehensive income when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to the balance sheet date.

### 2.21 SHARE CAPITAL AND TREASURY SHARES

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity, net of tax, from the proceeds.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid, including any directly attributable incremental cost (net of income taxes), is deducted from equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share reserve and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the retained earnings of the Company.

Other reserve comprises future transactions with the non-controlling interest. The amount that may become payable under the agreement is initially recognised at the present value of the redemption amount within liabilities with a corresponding charge directly to equity. The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the agreement first becomes exercisable.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.22 DIVIDEND DISTRIBUTION

Dividend distributions to the Company's Shareholders are recognised when the dividends are approved for payment or, in the case of interim dividends, when paid.

### 2.23 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Makers who are responsible for allocating resources and assessing performance of the operating segments. Segment reporting is disclosed in Note 4.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, as described in Note 2, management has made the following judgements and estimations that have the most significant effect on the amounts recognised in the financial statements.

### (a) Recoverability of capitalised R&D

During the year £6.2 million (2017: £5.2 million) of development costs were capitalised, bringing the total amount of development costs capitalised as intangible assets as at 31 December 2018 to £20.1 million (2017: £16.0 million), net of amortisation. Management has reviewed the balances by project, compared the carrying amount to expected future revenues and profits and is satisfied that no impairment exists and that the costs capitalised will be fully recovered as the products are launched to market. New product projects are monitored regularly and should the technical or market feasibility of a new product be in question, the project would be cancelled and capitalised costs to date will be removed from the balance sheet and charged to the statement of comprehensive income.

### (b) Impairment of goodwill

The Group tests annually for impairment of goodwill, or more frequently if there are indications that goodwill might be impaired.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The recoverable amount of the goodwill is determined from value-in-use calculations. The key assumptions and estimates for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to sales and overheads during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash-generating units.

The Group prepares cash flow forecasts derived from the most recent financial results and takes into account industry growth forecasts for the next five years and extrapolates cash flows for the following five years assuming no growth from that date. The carrying amount of goodwill as at 31 December 2018 was £54.1 million (2017: £40.4 million) with no impairment adjustment required for 2018.

Management assessed that there are no realistic foreseeable changes that will result in impairment loss on the goodwill allocated to the North America, Europe and Asia operating segments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 4. SEGMENTED AND REVENUE INFORMATION

Management has determined the operating segments based on the reports reviewed by the Chief Operating Decision Makers (CODM) that are used to make strategic decisions. The Chief Operating Decision Makers are the Executive Board of Directors who will review the operating results and forecasts to make decisions about resources to be allocated to the segments and assess their performance.

The Executive Board of Directors considers and manages the business on a geographic basis. Management manages and monitors the business based on the three primary geographic areas: North America, Europe and Asia. All geographic locations market the same class of products to their respective customer base.

The Executive Board of Directors assesses the performance of the operating segments based on net sales and operating income. Net sales for geographic segments are based on the location of the design win rather than where the end sale is made. The operating income for each segment includes net sales to third parties, related cost of sales, operating expenses directly attributable to the segment, and a portion of corporate expenses. Costs excluded from segment operating income include stock-based compensation expense, income taxes, various non-operating charges, and other separately managed general and administrative costs.

Segment assets consist primarily of property, plant and equipment, goodwill, intangible assets, inventories, trade receivables, cash and cash equivalents, derivative financial instruments and exclude tax assets.

Segment liabilities comprise trade and other current liabilities, derivative financial instruments, borrowings, accrued contingent consideration and exclude tax liabilities.

### (i) Revenue

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions.

#### ANALYSIS BY CLASS OF CUSTOMER

The revenue by class of customer is as follows:

£ Millions	Year to 31 December 2018				Year to 31 December 2017			
	Europe	North America	Asia	Total	Europe	North America	Asia	Total
Semiconductor Manufacturing	0.5	46.2	0.7	47.4	0.3	28.1	1.3	29.7
Technology	6.2	13.0	1.2	20.4	5.9	8.6	2.7	17.2
Industrial	43.2	30.6	9.9	83.7	42.1	29.8	6.2	78.1
Healthcare	11.2	29.3	3.1	43.6	9.2	27.9	4.7	41.8
<b>Total</b>	<b>61.1</b>	<b>119.1</b>	<b>14.9</b>	<b>195.1</b>	<b>57.5</b>	<b>94.4</b>	<b>14.9</b>	<b>166.8</b>

## 4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

### (i) Revenue (CONTINUED)

Revenues of £27.9 million (2017: £17.0 million) are derived from a single external customer. These revenues are attributable to the semiconductor manufacturing sector.

The Group operates in the following regions and countries:

£ Millions	2018	2017
North America	110.0	84.2
United Kingdom	28.3	28.8
Singapore	24.9	23.4
Germany	14.9	13.4
Switzerland	2.6	2.8
France	3.7	3.5
Other countries	10.7	10.7
<b>Total revenue</b>	<b>195.1</b>	166.8

The majority of North America's revenue is generated from the United States of America.

Revenue is based on sales generated in each region or country.

### (ii) Segment

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2018 and prior year comparatives is as follows.

Reconciliation of segment results to profit after tax:

£ Millions	2018	2017
Europe	15.9	14.6
North America	40.8	35.4
Asia	4.9	4.5
<b>Segment results</b>	<b>61.6</b>	54.5
Research and development	(8.7)	(7.1)
Manufacturing	(2.7)	(1.9)
Corporate cost from operating segment	(7.3)	(9.1)
<b>Adjusted Operating Profit</b>	<b>42.9</b>	36.4
Finance charge	(1.7)	(0.3)
Specific items	(3.6)	(3.9)
<b>Profit before income tax</b>	<b>37.6</b>	32.2
Income tax expense	(7.2)	(3.6)
<b>Profit after tax</b>	<b>30.4</b>	28.6

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

### (ii) Segment (CONTINUED)

Capital additions comprises additions to property, plant and equipment.

£ Millions	Year to 31 December 2018				Year to 31 December 2017			
	Europe	North America	Asia	Total	Europe	North America	Asia	Total
<b>Other information</b>								
Capital additions	0.5	4.7	5.7	10.9	0.7	4.0	3.0	7.7
Depreciation	0.6	1.1	1.7	3.4	0.6	0.7	1.5	2.8
Intangible assets additions	0.4	18.1	4.7	23.2	0.4	8.6	3.1	12.1
Amortisation	–	4.1	1.6	5.7	–	1.8	1.3	3.1
<b>Balance sheet</b>								
Goodwill	9.7	42.8	1.6	54.1	9.8	29.0	1.6	40.4
Other non-current assets	3.8	40.5	30.2	74.5	3.6	21.0	21.7	46.3
Inventories	1.6	23.9	31.0	56.5	1.5	12.9	23.4	37.8
Trade receivables	9.3	19.1	4.6	33.0	7.6	13.4	2.8	23.8
Cash and cash equivalents	3.3	1.6	6.6	11.5	3.3	5.2	6.5	15.0
Other current assets	1.1	0.8	1.4	3.3	0.8	0.5	2.5	3.8
Derivative financial instruments	–	–	*	*	–	–	0.2	0.2
<b>Segment assets</b>	<b>28.8</b>	<b>128.7</b>	<b>75.4</b>	<b>232.9</b>	<b>26.6</b>	<b>82.0</b>	<b>58.7</b>	<b>167.3</b>
Unallocated deferred income tax and current income tax	–	–	–	1.4	–	–	–	4.3
<b>Consolidated total assets</b>				<b>234.3</b>				<b>171.6</b>
Trade and other payables	(3.1)	(7.1)	(12.2)	(22.4)	(2.7)	(5.3)	(13.4)	(21.4)
Borrowings	–	(63.5)	–	(63.5)	–	(24.0)	–	(24.0)
Derivative financial instruments	–	–	(0.2)	(0.2)	–	–	(0.2)	(0.2)
Provisions	–	(0.4)	(0.1)	(0.5)	–	–	–	–
Accrued consideration	(0.6)	–	(0.8)	(1.4)	(0.6)	–	(0.8)	(1.4)
<b>Segment liabilities</b>	<b>(3.7)</b>	<b>(71.0)</b>	<b>(13.3)</b>	<b>(88.0)</b>	<b>(3.3)</b>	<b>(29.3)</b>	<b>(14.4)</b>	<b>(47.0)</b>
Unallocated deferred and current income tax	–	–	–	(8.9)	–	–	–	(7.7)
<b>Consolidated total liabilities</b>				<b>(96.9)</b>				<b>(54.7)</b>

\* Balance is less than £100,000.

### NON-CURRENT ASSETS, OTHER THAN DEFERRED INCOME TAX ASSETS, BY COUNTRIES:

£ Millions	2018	2017
North America	83.3	50.0
United Kingdom	4.8	4.7
Singapore	16.8	12.0
Germany	0.3	0.3
Switzerland	3.6	3.6
France	0.2	0.2
Other countries	19.6	15.9
<b>Total non-current assets</b>	<b>128.6</b>	<b>86.7</b>



## 4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

### RECONCILIATION OF ADJUSTED MEASURES

The Group presents adjusted operating profit, adjusted EBITDA and adjusted profit before tax by making adjustments 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, exceptional operating costs, and amortisation of intangible assets arising on business combinations. Exceptional operating costs include reorganisation costs, acquisition-related charges and similar items of a significant and a non-recurring nature.

The Group discloses adjusted EBITDA, being adjusted operating profit before depreciation of property, plant and equipment and amortisation of intangible assets. Adjusted EBITDA is broadly used by analysts, rating agencies, investors and the Group's banks as part of their assessment of the Group's performance. A reconciliation of adjusted EBITDA from operating profit is shown below.

In addition, the Group presents an adjusted profit after tax measure by making adjustments for certain tax charges and credits which management believes 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 EBITDA and adjusted operating profit, a reconciliation of profit before tax to adjusted profit before tax and a reconciliation of profit after tax to adjusted profit after tax.

#### (i) A reconciliation of operating profit to adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") is as follows:

£ Millions	2018	2017
Operating profit	39.3	32.5
Amortisation of intangible assets	5.7	3.1
Depreciation	3.4	2.8
<b>EBITDA</b>	<b>48.4</b>	<b>38.4</b>
Adjusted for:		
Acquisition costs	0.6	3.3
Costs related to ERP implementation	0.2	–
<b>Adjusted EBITDA</b>	<b>49.2</b>	<b>41.7</b>

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

£ Millions	2018	2017
Operating profit	39.3	32.5
Adjusted for:		
Acquisition costs	0.6	3.3
Costs related to ERP implementation	0.2	–
Amortisation of intangible assets due to business combination	2.8	0.6
	3.6	3.9
<b>Adjusted operating profit</b>	<b>42.9</b>	<b>36.4</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

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

£ Millions	2018	2017
Profit before income tax ("PBT")	37.6	32.2
Adjusted for:		
Acquisition costs	0.6	3.3
Costs related to ERP implementation	0.2	–
Amortisation of intangible assets due to business combination	2.8	0.6
	3.6	3.9
<b>Adjusted PBT</b>	<b>41.2</b>	<b>36.1</b>

(iv) A reconciliation of profit after tax to adjusted profit after tax is as follows:

£ Millions	2018	2017
Profit after tax ("PAT")	30.4	28.6
Adjusted for:		
Acquisition costs	0.6	3.3
Costs related to ERP implementation	0.2	–
Amortisation of intangible assets due to business combination	2.8	0.6
Non-recurring tax benefits <sup>1</sup>	(0.1)	(3.7)
	3.5	0.2
<b>Adjusted PAT</b>	<b>33.9</b>	<b>28.8</b>

1. Adjusted for tax on exceptional expense for both completed and aborted acquisitions of £0.1 million (2017: £1.1 million), one-off tax adjustment of £nil (2017: £1.3 million) and tax effect of change in US federal tax of £nil (2017: £1.3 million).

## 5. EMPLOYEE COMPENSATION (INCLUDING DIRECTORS)

£ Millions	2018	2017
Wages and salaries	47.6	36.8
Employers' contribution to defined contribution plans	6.8	6.2
Share option expense	0.8	0.4
<b>Total</b>	<b>55.2</b>	<b>43.4</b>

For further information regarding Directors' remuneration, refer to the Directors' Remuneration Report.

## 6. FINANCE CHARGE

£ Millions	2018	2017
Interest expense on bank loans and overdrafts	1.5	0.2
Amortisation of financing cost	0.1	–
Others	0.1	0.1
<b>Total</b>	<b>1.7</b>	<b>0.3</b>

## 7. EXPENSES BY NATURE

£ Millions	2018	2017
<b>Profit after tax is after charging:</b>		
Amortisation of intangible assets	5.7	3.1
Depreciation of property, plant and equipment	3.4	2.8
Employee compensation (Note 5)	55.2	43.4
Foreign exchange loss	0.4	–
(Gain)/loss on foreign exchange forwards	(0.3)	0.2
Purchases of inventories	102.4	80.3
Changes in inventories	(18.7)	(5.5)
Fees payable to the Group's Auditor for the audit of the Group's accounts	0.5	0.4
Tax fees payable to other firms for services provided to the Group	*	0.2
Rent/lease expense	1.6	1.6
Finance charge (Note 6)	1.7	0.3
Net capitalised software development expenditure	(1.1)	–
Other charges	6.7	7.8
<b>Total</b>	<b>157.5</b>	<b>134.6</b>

\* Balance is less than £100,000.

Fees payable to the Group's Auditor for non-audit services is £nil (2017: £nil) of their total audit fees.

Included in the above is net research and development expenditure as follows:

£ Millions	2018	2017
Gross research and development expenditure	14.7	11.5
Development expenditure capitalised	(6.2)	(5.2)
Amortisation of development expenditure capitalised	2.9	2.5
<b>Net research and development expenditure</b>	<b>11.4</b>	<b>8.8</b>

Included in the above is net capitalised software development expenditure as follows:

£ Millions	2018	2017
Gross spending on software development expenditure	1.3	–
Costs related to ERP implementation	(0.2)	–
<b>Net capitalised software development expenditure</b>	<b>1.1</b>	<b>–</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 8. INCOME TAXES

£ Millions	2018	2017
Singapore corporation tax:		
– current year	3.5	3.1
– over-provision in prior financial year	(0.2)	(1.5)
Overseas corporation tax:		
– current year	3.3	2.6
– under/(over)-provision in prior financial year	0.3	(0.4)
<b>Current income tax</b>	<b>6.9</b>	<b>3.8</b>
<b>Deferred income tax</b>		
– current year	0.3	1.1
– change in tax rate	–	(1.3)
<b>Income tax expense</b>	<b>7.2</b>	<b>3.6</b>

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

In 2017, the United States of America (“USA”) Government announced changes to the USA tax laws, which reduces the federal tax rate from 35% to 21% with effect from financial year 2018. The deferred tax expense for the financial year ended 31 December 2017 had taken into consideration the change in the federal tax rate which resulted in a reduction of deferred tax liability by £1.3 million.

In 2017, the financial year 2014, 2015 and 2016 Singapore tax assessment was finalised, there was an approximate tax credit of £1.3 million to be recoverable from the Singapore tax authority. In 2018, £1.7 million was refunded by the Singapore tax authority.

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	2018	2017
<b>Profit before income tax</b>	<b>37.6</b>	<b>32.2</b>
Tax on profit at standard Singapore tax rate of 17% (2017: 17%)	6.4	5.5
Tax incentives	(0.5)	(0.9)
Higher rates of overseas corporation tax	1.1	2.0
Deduction for employee share options	(0.2)	0.2
Non-deductible expenditure	0.3	–
Adjustment in respect of prior year	0.1	(1.9)
Change in tax rate	–	(1.3)
<b>Income tax expense</b>	<b>7.2</b>	<b>3.6</b>

Movement in corporate tax recoverable:

£ Millions	2018	2017
At 1 January	2.9	–
Currency translation differences	0.2	–
Income tax payable		
– current year	(2.5)	–
– (under)/over-provision in prior financial year	(0.1)	1.5
Income tax paid	2.0	1.4
Refund received	(1.7)	–
<b>At 31 December</b>	<b>0.8</b>	<b>2.9</b>

## 8. INCOME TAXES (CONTINUED)

Movement in current income tax liabilities:

£ Millions	2018	2017
At 1 January	(3.5)	(3.3)
Currency translation differences	(0.2)	0.4
Income tax paid	3.8	4.7
Income tax payable		
– current year	(4.3)	(5.7)
– over-provision in prior financial year	–	0.4
<b>At 31 December</b>	<b>(4.2)</b>	<b>(3.5)</b>

There is no (2017: £nil) tax (charge)/credit relating to components of other comprehensive income.

Aggregate deferred tax asset arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly (debited) or credited to equity:

£ Millions	2018	2017
Deferred tax asset – share option plan expenses	(0.9)	1.1
<b>Total</b>	<b>(0.9)</b>	<b>1.1</b>

## 9. DIVIDENDS

Amounts recognised as distributions to equity holders in the period:

	2018		2017	
	Pence per share	£ Millions	Pence per share	£ Millions
Prior year third quarter dividend paid	18.0*	3.4	16.0	3.0
Prior year final dividend paid	29.0*	5.5	26.0	5.0
First quarter dividend paid	16.0^	3.1	15.0*	2.9
Second quarter dividend paid	17.0^	3.3	16.0*	3.1
<b>Total</b>	<b>80.0</b>	<b>15.3</b>	<b>73.0</b>	<b>14.0</b>

\* Dividends in respect of 2017 (78.0p).

^ Dividends in respect of 2018 (85.0p).

The third quarter dividend of 19.0 pence per share was paid on 9 January 2019. The proposed final dividend of 33.0 pence per share for the year ended 31 December 2018 is subject to approval by Shareholders at the Annual General Meeting scheduled for 16 April 2019 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 23 April 2019 to members on the register as at 22 March 2019.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 10. 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	2018	2017
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	<b>30.2</b>	28.3
<b>Earnings for earnings per share</b>	<b>30.2</b>	28.3
<b>Number of shares</b>		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	<b>19,134</b>	19,082
Effect of potentially dilutive share options (thousands)	<b>366</b>	306
<b>Weighted average number of shares for the purposes of dilutive earnings per share (thousands)</b>	<b>19,500</b>	19,388
<b>Earnings per share from operations</b>		
<b>Basic</b>	<b>157.8p</b>	148.3p
<b>Basic adjusted*</b>	<b>176.1p</b>	149.4p
<b>Diluted</b>	<b>154.9p</b>	146.0p
<b>Diluted adjusted*</b>	<b>172.8p</b>	147.0p

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

£ Millions	2018	2017
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	<b>30.2</b>	28.3
Amortisation of intangible assets due to business combination	<b>2.8</b>	0.6
Acquisition costs	<b>0.6</b>	3.3
Non-recurring tax benefits	<b>(0.1)</b>	(3.7)
Costs related to ERP implementation	<b>0.2</b>	–
<b>Adjusted earnings</b>	<b>33.7</b>	28.5

## 11. GOODWILL

£ Millions	2018	2017
<b>Cost</b>		
At 1 January	40.4	37.7
Accrued consideration (Note 20)	–	(0.2)
Recognised on acquisition of business	12.5	3.9
Foreign currency translation	1.2	(1.0)
<b>At 31 December</b>	<b>54.1</b>	40.4
<b>Accumulated impairment loss</b>		
<b>At 31 December</b>	–	–
<b>Carrying amount</b>		
<b>At 31 December</b>	<b>54.1</b>	40.4

Goodwill arises on the consolidation of business/subsidiary undertakings.

As at the balance sheet date, the Group has recorded an estimated future payment related to the acquisition of the final 10.1% of Powersolve Electronics Limited. The Group will acquire the remaining 10.1% of Powersolve Electronics Limited in early 2022. When discounted to present value, the total of this payment is estimated at £0.6 million and that amount is reflected on the balance sheet. Since the final payment will be dependent on the actual financial performance of the business, an estimate is required to approximate future business conditions. There is no change in accrued consideration in 2018.

For the purpose of impairment testing, goodwill has been allocated to the cash-generating units according to operating segments identified in Note 4.

The recoverable amount of the goodwill is determined from value-in-use calculations. The key assumptions and estimates for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to sales and overheads during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash-generating units. The rate used in 2018 was 10.8% for Europe, 7.1% for North America and 7.9% for Asia. For 2017, a rate of 5.5% was used for Europe, North America and Asia.

The Group prepares cash flow forecasts derived from the most recent financial results and takes into account industry growth forecasts for five years and estimates cash flows based on these forecasts assuming no growth after five years. Management has forecast year-on-year increases in sales and overheads averages of 5.0% and 3.0% respectively. The carrying amount of goodwill as at 31 December 2018 was £54.1 million (2017: £40.4 million) with no impairment adjustment required for 2018 (2017: no impairment).

For the purpose of the impairment test, the Group has adopted what it believes to be reasonable Earnings Before Interest, Tax, Depreciation, Amortisation assumptions for the period from 1 January 2019 to 31 December 2023. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill to exceed its recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 12. INTANGIBLE ASSETS

£ Millions	Development costs	Brand	Trademarks	Technology	Customer relationships	Customer contracts	Intangible software	Intangible software under development	Total
<b>Cost</b>									
At 1 January 2017	25.0	–	1.0	0.7	0.7	0.1	–	–	27.5
Additions	5.2	0.1	–	1.6	–	–	–	–	6.9
Acquisition of business	–	–	–	–	4.9	0.3	–	–	5.2
Foreign currency translation	(1.2)	–	–	–	(0.1)	–	–	–	(1.3)
<b>At 31 December 2017</b>	<b>29.0</b>	<b>0.1</b>	<b>1.0</b>	<b>2.3</b>	<b>5.5</b>	<b>0.4</b>	<b>–</b>	<b>–</b>	<b>38.3</b>
Additions	6.2	–	–	–	–	–	0.2	1.1	7.5
Reclassification from property, plant and equipment	–	–	–	–	–	–	–	0.5	0.5
Acquisition of business	–	0.8	–	2.6	12.1	0.2	–	–	15.7
Foreign currency translation	1.2	0.1	–	0.3	1.0	–	–	0.1	2.7
<b>At 31 December 2018</b>	<b>36.4</b>	<b>1.0</b>	<b>1.0</b>	<b>5.2</b>	<b>18.6</b>	<b>0.6</b>	<b>0.2</b>	<b>1.7</b>	<b>64.7</b>
<b>Amortisation</b>									
At 1 January 2017	10.8	–	1.0	0.1	0.2	0.1	–	–	12.2
Charge for the year	2.5	–	–	0.1	0.4	0.1	–	–	3.1
Foreign currency translation	(0.3)	–	(0.1)	–	(0.1)	–	–	–	(0.5)
<b>At 31 December 2017</b>	<b>13.0</b>	<b>–</b>	<b>0.9</b>	<b>0.2</b>	<b>0.5</b>	<b>0.2</b>	<b>–</b>	<b>–</b>	<b>14.8</b>
Charge for the year	2.9	0.1	–	0.5	1.8	0.4	*	–	5.7
Foreign currency translation	0.4	–	–	0.1	0.1	–	–	–	0.6
<b>At 31 December 2018</b>	<b>16.3</b>	<b>0.1</b>	<b>0.9</b>	<b>0.8</b>	<b>2.4</b>	<b>0.6</b>	<b>*</b>	<b>–</b>	<b>21.1</b>
<b>Carrying amount</b>									
<b>At 31 December 2018</b>	<b>20.1</b>	<b>0.9</b>	<b>0.1</b>	<b>4.4</b>	<b>16.2</b>	<b>–</b>	<b>0.2</b>	<b>1.7</b>	<b>43.6</b>
At 31 December 2017	16.0	0.1	0.1	2.1	5.0	0.2	–	–	23.5

\* Balances are less than £100,000.

The amortisation period for development costs incurred on the Group's products varies between three and seven years according to the expected useful life of the products being developed.

Amortisation commences when the product is ready and available for use.

The remaining amortisation period for customer relationships ranges from three to nine years.

### 13. PROPERTY, PLANT AND EQUIPMENT

£ Millions	Freehold land	Leasehold land and buildings	Buildings	Plant and equipment	Motor vehicles	Building improvements	Projects under development	Total
<b>Cost</b>								
At 1 January 2017	0.6	10.5	2.2	19.7	0.6	2.7	0.1	36.4
Acquisition of business	0.2	–	0.3	0.3	–	2.0	–	2.8
Additions	–	–	–	3.5	0.1	0.5	0.8	4.9
Disposals	(0.2)	–	(0.2)	(0.3)	–	–	–	(0.7)
Transfer	–	–	–	0.7	–	–	(0.7)	–
Foreign currency translation	–	(0.4)	–	(1.2)	(0.1)	(0.3)	–	(2.0)
<b>At 31 December 2017</b>	<b>0.6</b>	<b>10.1</b>	<b>2.3</b>	<b>22.7</b>	<b>0.6</b>	<b>4.9</b>	<b>0.2</b>	<b>41.4</b>
Acquisition of business	0.9	2.1	–	–	–	–	–	3.0
Additions	–	0.1	–	2.2	0.1	0.7	4.8	7.9
Disposals	–	–	–	(1.4)	(0.2)	(0.5)	–	(2.1)
Transfer	–	–	–	2.0	–	–	(2.0)	–
Reclassification to intangible assets	–	–	–	(0.5)	–	–	–	(0.5)
Foreign currency translation	0.1	0.5	0.1	1.1	–	0.2	0.2	2.2
<b>At 31 December 2018</b>	<b>1.6</b>	<b>12.8</b>	<b>2.4</b>	<b>26.1</b>	<b>0.5</b>	<b>5.3</b>	<b>3.2</b>	<b>51.9</b>
<b>Depreciation</b>								
At 1 January 2017	–	1.7	0.4	12.9	0.2	2.1	–	17.3
Charge for the year	–	0.3	0.1	2.0	0.1	0.3	–	2.8
Disposals	–	–	–	(0.3)	–	–	–	(0.3)
Foreign currency translation	–	0.1	–	(0.7)	–	(0.3)	–	(0.9)
<b>At 31 December 2017</b>	<b>–</b>	<b>2.1</b>	<b>0.5</b>	<b>13.9</b>	<b>0.3</b>	<b>2.1</b>	<b>–</b>	<b>18.9</b>
Charge for the year	–	0.3	0.1	2.4	0.1	0.5	–	3.4
Disposals	–	–	–	(1.3)	(0.1)	(0.4)	–	(1.8)
Foreign currency translation	–	–	–	0.7	–	–	–	0.7
<b>At 31 December 2018</b>	<b>–</b>	<b>2.4</b>	<b>0.6</b>	<b>15.7</b>	<b>0.3</b>	<b>2.2</b>	<b>–</b>	<b>21.2</b>
<b>Carrying amount</b>								
<b>At 31 December 2018</b>	<b>1.6</b>	<b>10.4</b>	<b>1.8</b>	<b>10.4</b>	<b>0.2</b>	<b>3.1</b>	<b>3.2</b>	<b>30.7</b>
At 31 December 2017	0.6	8.0	1.8	8.8	0.3	2.8	0.2	22.5

The Group has entered into agreements to lease land and buildings ranging from 34 years to 999 years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 14. SUBSIDIARIES

Details of principal subsidiaries as at 31 December 2018, all of which are consolidated, are as follows:

Name of subsidiary	Place of incorporation/ ownership (or registration) and operation	Proportion of Ownership 2018 (%)	Proportion of Ownership 2017 (%)	Statutory Auditor of subsidiaries
XP Power Plc	UK	100	100	PricewaterhouseCoopers LLP
XP PLC	UK	100	100	PricewaterhouseCoopers LLP
XP Power Holdings Limited	UK	100	100	PricewaterhouseCoopers LLP
XP Power AG	Switzerland	100	100	Karpf Treuhand & Revisions AG
Powersolve Electronics Limited*	UK	89.9	89.9	PricewaterhouseCoopers LLP
XP Power Srl	Italy	100	100	Exempted to be audited by local statutory law
XP Power ApS	Denmark	100	100	Bierholm
XP Power Sweden AB	Sweden	100	100	Rodl & Partner Nordic AB
XP Power BV	Holland	100	100	Exempted to be audited by local statutory law
XP Power GmbH	Germany	100	100	Exempted to be audited by local statutory law
XP Power SA	France	100	100	Deloitte
XP Power Norway AS	Norway	100	100	BDO AS
XP Power International Limited	UK	100	100	Exempted to be audited by local statutory law
Forx, Inc.	Delaware	100	100	Exempted to be audited by local statutory law
XP Power LLC	USA	100	100	Exempted to be audited by local statutory law
XP Power (Shanghai) Co., Limited	China	100	100	Shanghai Jahwa CPAs
XP Power (Hong Kong) Limited	HK	100	100	PricewaterhouseCoopers Limited
XP Power Singapore Holdings Pte Limited	Singapore	100	100	PricewaterhouseCoopers LLP
XP Power (Vietnam) Co., Limited	Vietnam	100	100	PricewaterhouseCoopers (Vietnam) Limited
XP Power Singapore Manufacturing Pte. Ltd.	Singapore	100	100	PricewaterhouseCoopers LLP
XP Power (Israel) Ltd	Israel	100	100	Ernst and Young Solutions LLP
XP Power Japan K.K.	Japan	100	100	Exempted to be audited by local statutory law
Hanpower Co., Ltd	South Korea	51	51	Exempted to be audited by local statutory law

\* Refer to Note 20.



## 15. CASH AND CASH EQUIVALENTS

£ Millions	2018	2017
Cash at bank and on hand	10.9	14.4
Short-term bank deposits	0.6	0.6
<b>Total</b>	<b>11.5</b>	15.0

For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

£ Millions	2018	2017
Cash at bank and on hand (as above)	11.5	15.0
<b>Cash and cash equivalents per consolidated cash flow statement</b>	<b>11.5</b>	15.0

## 16. INVENTORIES

£ Millions	2018	2017
Goods for resale	25.2	16.7
Raw materials	27.2	18.9
Work-in-progress	4.1	2.2
<b>Total</b>	<b>56.5</b>	37.8

The cost of inventories recognised as an expense and included in "cost of sales" amounts to £102.8 million (2017: £89.2 million).

## 17. TRADE RECEIVABLES

£ Millions	2018	2017
Trade receivables	33.0	23.8
<b>Total</b>	<b>33.0</b>	23.8

The average credit period taken on sales of goods is 62 days (2017: 52 days). No interest is charged on the outstanding receivables balance. The carrying amounts of trade receivables approximate their fair values.

## 18. OTHER CURRENT ASSETS

£ Millions	2018	2017
Prepayments	2.2	1.9
Deposits	0.3	0.3
VAT receivables	0.4	0.9
Other receivables	0.4	0.7
<b>Total</b>	<b>3.3</b>	3.8

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 19. TRADE AND OTHER PAYABLES

£ Millions	2018	2017
Trade payables	11.5	11.7
Other taxes	1.4	1.8
Other creditors and accruals	9.5	7.9
<b>Total</b>	<b>22.4</b>	<b>21.4</b>

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The carrying amounts of trade and other payables approximate their fair values.

## 20. ACCRUED CONSIDERATION

£ Millions	2018	2017
At 1 January	1.4	2.0
Movement in provision during the year	–	(0.1)
Payment	–	(0.5)
<b>At 31 December</b>	<b>1.4</b>	<b>1.4</b>

The Group owns 89.9% (2017: 89.9%) of the shares of Powersolve Electronics Limited (“Powersolve”) and entered into an amended agreement on 29 October 2016 to purchase the remaining 10.1% of the shares in 2022. The Group owns 51% (2017: 51%) of the shares of Hanpower Co., Ltd (“Hanpower”) and entered into an agreement on 20 May 2015 to purchase an additional 15.0% of the shares in 2020 and another 15.0% of the shares in 2025.

The commitment to purchase the remaining ownership interests has been accounted for as accrued consideration and is calculated based on the expected future payment which will be based on a predefined multiple of the average earnings for three years.

The future payment is discounted to the present value, with the discount amortised to interest expense each period as the payment draws nearer. At each reporting period, the anticipated future payment is recalculated and an adjustment made accordingly, with a corresponding adjustment to goodwill for Powersolve. For Hanpower, the amount that is payable under the agreement is initially recognised at the present value of the redemption amount within liabilities with a corresponding charge directly to equity. The liability is subsequently accreted through equity up to the redemption amount that is payable in 2020 and 2025.

## 21. BORROWINGS

The borrowings are repayable as follows:

£ Millions	2018	2017
On demand or within one year	-	-
In the second year	-	-
In the third year	63.5	-
In the fourth year	-	24.0
<b>Total</b>	<b>63.5</b>	<b>24.0</b>

The carrying amounts of the Group's borrowings are denominated in the following currency:

£ Millions	2018	2017
Bank loans (in USD)	63.5	24.0
<b>Total</b>	<b>63.5</b>	<b>24.0</b>

### UNDRAWN BORROWING FACILITIES

£ Millions	2018	2017
Expiring beyond one year	19.0	5.4
<b>Total</b>	<b>19.0</b>	<b>5.4</b>

The average interest rates paid were as follows:

£ Millions	2018	2017
Bank overdrafts	-	1.8%
Bank loans	3.3%	2.1%

There is no drawdown on bank overdrafts (2017: £1.3 million) during the year.

The fair value of the Group's bank loans and overdrafts approximates their book value.

The other principal features of the Group's borrowings are as follows:

- On 27 September 2017, the Group entered into a revolving credit facility of US\$40.0 million with a US\$20.0 million additional accordion option with HSBC and Fifth Third Bank. In May 2018, the Group increased the revolving credit facility to US\$85.0 million with a US\$20.0 million additional accordion option. In November 2018, the Group has fully exercised the US\$20.0 million additional accordion option and the revolving credit facility has increased to US\$105.0 million. The facility has no fixed repayment terms until maturity. The revolving loan is priced at LIBOR plus a margin of 1.2% for the utilisation facility and a margin of 0.4% to 0.5% for the unutilised facility.
- Management assessed that all loan covenants have been complied with as at 31 December 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

### FORWARD FOREIGN EXCHANGE CONTRACTS

The Group utilises currency derivatives to hedge highly probable forecast transactions. The instruments purchased are denominated in the currencies of the Group's principal markets.

#### (a) Instruments applying hedge accounting

In 2018, the total notional amount of outstanding currency forward contracts that the Group has committed is £10.8 million (2017: £7.3 million). These contracts are to hedge against exchange rate movements on future sales and hedge accounting has been applied.

31 December 2018 £ Millions	Contract notional amount	Fair value asset
Forward foreign exchange contracts		
Current portion	10.8	*
<b>Total</b>	<b>10.8</b>	<b>*</b>

\* Balances are less than £100,000.

31 December 2017 £ Millions	Contract notional amount	Fair value (liability)
Forward foreign exchange contracts		
Current portion	7.3	(0.2)
<b>Total</b>	<b>7.3</b>	<b>(0.2)</b>

#### HEDGING INSTRUMENTS USED IN THE GROUP'S HEDGING STRATEGY IN 2018

£ Millions	Carrying amount		Changes in fair value used for calculating hedge ineffectiveness				Weighted average hedged rate	Maturity date
	Contractual notional amount	Assets/ (Liabilities)	Financial statement line item	Hedging instrument	Hedged item	Hedged ineffectiveness recognised in P&L#		
<b>Cash flow hedge</b>								
<i>Foreign exchange risk</i>								
Forward contracts to hedge highly probable transactions	10.8	*	Derivative Financial Instruments	*	*	–	EUR1: US\$1.1673	January 2019 – December 2019

\* Balances are less than £100,000.

# All hedge ineffectiveness and costs of hedging are recognised in profit and loss within "exchange gains/loss".

## 22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Instruments not applying hedge accounting

Certain currency forward contracts were taken up to protect against exchange rate movements on future purchases of goods. Hedge accounting has not been applied to these contracts.

The total notional amount and fair value asset/(liability) of these forward contracts are as follows:

December 2018 £ Millions	Assets		Liabilities	
	Contract notional amount	Fair value asset	Contract notional amount	Fair value (liability)
Forward foreign exchange contracts				
Current portion	–	–	15.0	(0.2)
<b>Total</b>	<b>–</b>	<b>–</b>	<b>15.0</b>	<b>(0.2)</b>

December 2017 £ Millions	Assets		Liabilities	
	Contract notional amount	Fair value asset	Contract notional amount	Fair value (liability)
Forward foreign exchange contracts				
Current portion	5.9	0.2	0.5	–
<b>Total</b>	<b>5.9</b>	<b>0.2</b>	<b>0.5</b>	<b>–</b>

## 23. DEFERRED INCOME TAXES

The following are the major deferred tax assets and (liabilities) recognised by the Group and movements thereon during the current and prior reporting period.

£ Millions	Accelerated tax depreciation	Intangible assets amortisation	Share-based payment	Capitalised development costs	Other temporary differences	Total
At 1 January 2017	(0.7)	(1.5)	0.4	(3.7)	1.2	(4.3)
Charge/(credit) to statement of comprehensive income	–	0.6	(0.1)	0.1	(0.4)	0.2
Charge to equity	–	–	1.1	–	–	1.1
Foreign currency translation	–	0.1	–	0.2	(0.1)	0.2
<b>At 31 December 2017</b>	<b>(0.7)</b>	<b>(0.8)</b>	<b>1.4</b>	<b>(3.4)</b>	<b>0.7</b>	<b>(2.8)</b>
Charge/(credit) to statement of comprehensive income	–	–	0.1	(0.8)	0.4	(0.3)
Charge to equity	–	–	(0.9)	–	–	(0.9)
Foreign currency translation	0.1	(0.1)	–	(0.2)	0.1	(0.1)
<b>At 31 December 2018</b>	<b>(0.6)</b>	<b>(0.9)</b>	<b>0.6</b>	<b>(4.4)</b>	<b>1.2</b>	<b>(4.1)</b>

£ Millions	2018	2017
<b>Deferred tax assets</b>		
– To be recovered after more than 12 months	0.6	1.4
	0.6	1.4
<b>Deferred tax liabilities</b>		
– To be settled after more than 12 months	(4.7)	(4.2)
	(4.7)	(4.2)
<b>Deferred tax liabilities (net)</b>	<b>(4.1)</b>	<b>(2.8)</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 24. SHARE CAPITAL AND RESERVES

### CALLED UP SHARE CAPITAL

£ Millions	2018	2017
Allotted and fully paid 19,242,296 ordinary shares (2017: 19,242,296)	27.2	27.2

As at 31 December 2018, the Group's Employee Share Ownership Plan (ESOP) held 79,740 (2017: 134,540) shares carrying a value of £960,084 (2017: £1,788,783) owned by the Trust.

### MERGER RESERVE

£ Millions	2018	2017
Balance at 31 December	0.2	0.2

### TREASURY SHARES AND SHARE OPTION RESERVE

£ Millions	2018	2017
Balance at 1 January	0.4	(0.5)
Sale of treasury shares	0.8	1.0
Purchase of treasury shares	–	(1.6)
(Reversal)/addition of deferred tax assets – share option plan expenses	(0.9)	1.1
Employee share option plan expenses	0.8	0.4
<b>Balance at 31 December</b>	<b>1.1</b>	<b>0.4</b>

### HEDGING RESERVE

£ Millions	2018	2017
Balance at 1 January	(0.2)	0.3
Fair value gains/(losses)	0.3	(0.5)
<b>Balance at 31 December</b>	<b>0.1</b>	<b>(0.2)</b>

### TRANSLATION RESERVE

£ Millions	2018	2017
Balance at 1 January	(0.4)	3.5
Exchange differences on translation of foreign operations	4.6	(3.9)
Less: Non-controlling interests	(0.2)	*
<b>Balance at 31 December</b>	<b>4.0</b>	<b>(0.4)</b>

\* Balance is less than £100,000.

## 24. SHARE CAPITAL AND RESERVES (CONTINUED)

### OTHER RESERVE

£ Millions	2018	2017
<b>Balance at 31 December</b>	<b>(0.8)</b>	(0.8)

The Group has an agreement with the non-controlling shareholders of its Hanpower Co. Ltd (“Hanpower”) subsidiary to purchase an additional 15.0% of the shares in 2020 and another 15.0% of the shares in 2025.

### RETAINED EARNINGS

£ Millions	2018	2017
Balance at 1 January	89.6	75.4
Changes in accounting policy	0.4	–
Dividend paid	(15.3)	(14.0)
Profit for the year	30.2	28.3
Loss on treasury shares	(0.3)	(0.1)
<b>Balance at 31 December</b>	<b>104.6</b>	89.6

## 25. OPERATING LEASES AND OTHER COMMITMENTS

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under operating leases which fall due as follows:

£ Millions	2018	2017
Within one year	2.1	1.6
In the second to fifth years inclusive	5.2	5.2
After five years	0.5	0.9
<b>Total</b>	<b>7.8</b>	7.7

Operating lease payments represent rentals payable by the Group for certain of its office properties and warehouses.

The Group has remaining £0.1 million commitments (2017: £2.7 million) on the contract for the construction of a factory in Vietnam.

## 26. ESOP LOAN TO EMPLOYEES

£ Millions	2018	2017
ESOP loan to employees	0.2	0.3
<b>Total</b>	<b>0.2</b>	0.3

The Group offers interest free loans to employees to purchase company shares under a deferred payment scheme managed through the XP Employees’ Share Ownership Plan Trust (ESOP). Under this scheme, payment is deferred until the shares are sold. The shares cannot be sold until four years from the date of acquisition. However, the loan becomes interest bearing after ten years. The Group does not classify a portion of this loan under current assets as the Company cannot predict when the employees will repay their loans.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 27. DEFINED CONTRIBUTION PLANS

The total cost recognised is £6.8 million (2017: £6.2 million) for the Group.

In the USA the total cost charged to the statement of comprehensive income of £3.7 million (2017: £3.6 million) represents the Group's defined contribution.

In the United Kingdom and Europe, the Group operates defined contribution pension schemes for its employees with contributions amounting to £1.8 million (2017: £1.5 million).

In Asia, the Group contributes to the defined contribution plans regulated and managed by the governments of the countries in which the Group operates. The Group's contribution to the defined contribution plans is charged to the statement of comprehensive income in the period to which the contributions relate. The total cost charged to the statement of comprehensive income was £1.3 million (2017: £1.1 million).

## 28. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

As at 31 December 2018, the Company's Employee Share Ownership Plan provided nil (2017: nil) interest-free loans to Directors for the deferred payment share scheme. The detailed information is provided for in the Directors' Remuneration Report on pages 80 to 85.

The remuneration of the Directors of the Group who are considered to be key management is set out below for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of the individual Directors is provided in the Directors' Remuneration Report on pages 80 to 85.

£ Millions	2018	2017
Short-term employee benefits	2.0	1.7
Post-employment benefits	*	*
<b>Total Directors' remuneration</b>	<b>2.0</b>	<b>1.7</b>

\* Balances are less than £100,000.

## 29. SHARE-BASED PAYMENTS

### SHARE OPTION PLANS

Options have been granted under the Company's Approved Share Option Schemes. The number of shares outstanding, subscription prices and exercise periods are as follows:

Number of shares	Exercise Price (pence)	Grant Date	Expiry Date
129,750	946	10 October 2012*	10 October 2022
381,000	1,543	23 February 2016#	23 February 2026
<b>510,750</b>			

\* 2012 Approved option scheme has been fully vested.

# 50% of 2016 Approved option scheme will vest in 2019 and 50% will vest in 2020.

	2018		2017	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of the year	568,550	1,350	687,650	1,278
Granted during the year	-	-	-	-
Forfeited during the year	(3,000)	-	(9,000)	1,543
Exercised during the year	(54,800)	957	(110,100)	883
<b>Outstanding at the end of the year</b>	<b>510,750</b>	<b>1,391</b>	568,550	1,350
Exercisable at the end of the year	129,750	946	183,550	946

The weighted average share price at the date of exercise for the share options exercised during the period was £34.89 (2017: £25.68). The options outstanding at 31 December 2018 had a weighted average exercise price of £13.91 (2017: £13.50), and a weighted average remaining contractual life of 6.3 years.

For options granted in 2016, the Group has taken a charge of £0.2 million (2017: £0.2 million). The fair value of options was determined using the Black-Scholes Model with a share price of £15.425 and a weighted average exercise price of £15.425, standard deviation of expected share returns of 0.292, and an annual risk free interest rate of 0.28%.

The volatility measured as the standard deviation of expected share price returns was based on statistical analysis of the Company's share price over the last year.

### LONG-TERM INCENTIVE PLAN ("LTIP")

The Group has introduced a LTIP scheme to replace the Share Option Plan. Under the scheme, conditional awards of share options are made to the scheme participants at nil or nominal cost or deferred cash.

Number of shares	Exercise Price (pence)	Grant Date	Expiry Date
39,400	1	30 May 2017	30 May 2022
2,250	1	12 October 2017	12 October 2022
8,000	1	1 November 2017	1 November 2022
54,199	1	16 May 2018	16 May 2023
800	1	4 September 2018	4 September 2023
<b>104,649</b>			

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 29. SHARE-BASED PAYMENTS (CONTINUED)

At the vesting date, the share award will either vest, in full or in part, or lapse depending on the outcome of the performance conditions. The performance conditions of the awards made in 2018 are based on the growth in Earnings Per Share (“EPS”) and the Total Shareholder Return (“TSR”) of the Group measured against that of the FTSE 250 over the Performance Period. For LTIP granted in 2018, the Group has taken a charge of £0.2 million. For LTIP granted in 2017, the Group has taken a charge of £0.2 million (2017: £0.1 million). The fair value of the equity-settled LTIP options was calculated at the grant date using the Monte Carlo model and the Black–Scholes model based on the assumptions below.

	LTIP	
	2018	2017
Options granted	<b>54,999</b>	49,650
Fair value at grant date	<b>£24.84</b>	£17.13
Assumption used:		
Share price	<b>£35.50</b>	£26.77
Exercise price	<b>£0.01</b>	£0.01
Expected volatility	<b>27.66%</b>	27.69%
Expected option life	<b>3 years</b>	3 years
Expected dividend yield	<b>2.59%</b>	3.75%
Risk free interest rate	<b>1.50%</b>	0.99%

Volatility was estimated based on the historical volatility of the shares over a three year period prior to grant date.

	2018		2017	
	Number of LTIP options	Weighted average exercise price (pence)	Number of LTIP options	Weighted average exercise price (pence)
Outstanding at beginning of the year	49,650	1	–	–
Granted during the year	54,999	1	49,650	1
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
<b>Outstanding at the end of the year</b>	<b>104,649</b>	<b>1</b>	49,650	1
Exercisable at the end of the year	–	–	–	–

50% of the share awards will vest after the third year and the remaining 50% of the share awards will vest after the fourth year. Upon vesting, employees will receive one share for each vested share award.



## 30. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to capital risk, currency risk (including both transactional and translational currency risk), interest rate risk, credit risk and liquidity risk. The Group seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

### (a) Capital risk

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 21, cash and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 24.

The Board reviews the capital structure of the business and considers the cost of capital and risks associated with each class of capital. The Group aims to balance its overall capital structure through the payment of dividends, new share issues and share buyback as well as the issue of new debt or the redemption of existing debt.

### (b) Currency risk

The Group operates in North America, Europe and Asia and its activities expose it to transactional risks resulting from changes in foreign currency exchange rates. The Group monitors and manages these transactional foreign exchange risks relating to the operations of the Group through internal reports analysing major currency exposures. Where possible, the Group seeks to offset exposures by matching monetary asset and liability exposures in like currencies against each other, often using its bank facilities to square off or reduce exposures. To manage the currency risk, the Group manages the overall currency exposure mainly through currency forwards.

The Group's risk management policy is to hedge 100% of highly probable forecast transactions for Europe sales in the next 12 months.

The risk is measured through a forecast of highly probable EUR sales and tracking of firm commitment in EUR. The objective of the hedges is to minimise the volatility of the Group's currency cost of highly probable transactions and firm commitment. In order to achieve these objectives, the Group entered into cash flow hedges for highly probable sale transactions. The foreign exchange forwards are denominated in the same currency as the highly probable sale transactions, therefore the hedge ratio is 1:1.

#### *Hedge effectiveness*

Hedge effectiveness is determined at the inception of the hedging relationship, and through periodic prospective effective assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness may occur due to changes in the credit risk of the derivative counterparty or the Group. There was no ineffectiveness during 2018 in relation to the revenue hedge.

In addition, the Group is exposed to translation risk when the results of its various operations are translated from their local functional currencies to Sterling, the Group's reporting currency. In particular a significant proportion of the Group's revenues and earnings are derived in US Dollars. The Group is therefore exposed to risk when these US Dollar revenue streams are translated into Sterling for Group reporting purposes. The Group regards this as a fundamental consequence of operating in markets which are dominated by US Dollar transactions. The Group does not hedge this translational risk as there is no underlying mismatch of foreign currencies as the translation is merely performed for reporting the Group's results in Sterling.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Currency risk (CONTINUED)

The Group's transactional currency exposure based on the information provided to key management is as follows:

£ Millions	GBP	EUR	USD	Others	TOTAL
<b>At 31 December 2018</b>					
<b>Financial assets</b>					
Cash and cash equivalents	1.1	1.0	6.9	2.5	11.5
Trade receivables	2.4	2.4	27.8	0.4	33.0
Other current assets	0.1	–	0.5	0.1	0.7
ESOP loan to employees	0.2	–	–	–	0.2
<b>Subtotal</b>	<b>3.8</b>	<b>3.4</b>	<b>35.2</b>	<b>3.0</b>	<b>45.4</b>
<b>Financial liabilities</b>					
Borrowings	–	–	(63.5)	–	(63.5)
Trade and other payables	(2.3)	(0.6)	(18.7)	(0.5)	(22.1)
Other financial liabilities	(0.6)	–	–	(0.8)	(1.4)
<b>Subtotal</b>	<b>(2.9)</b>	<b>(0.6)</b>	<b>(82.2)</b>	<b>(1.3)</b>	<b>(87.0)</b>
<b>Net financial assets/(liabilities)</b>	<b>0.9</b>	<b>2.8</b>	<b>(47.0)</b>	<b>1.7</b>	<b>(41.6)</b>
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	12.6	–	–	12.6
Currency forwards	15.0	(10.8)	–	–	4.2
<b>Currency profile excluding non-financial assets and liabilities</b>	<b>15.9</b>	<b>4.6</b>	<b>(47.0)</b>	<b>1.7</b>	<b>(24.8)</b>
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	1.4	2.0	(53.6)	1.4	(48.8)
<b>Currency exposure of financial assets</b>	<b>14.5</b>	<b>2.6</b>	<b>6.6</b>	<b>0.3</b>	<b>24.0</b>
<b>At 31 December 2017</b>					
<b>Financial assets</b>					
Cash and cash equivalents	0.8	0.8	11.5	1.9	15.0
Trade receivables	1.6	2.3	19.6	0.3	23.8
Other current assets	0.1	–	0.8	0.1	1.0
ESOP loan to employees	0.3	–	–	–	0.3
<b>Subtotal</b>	<b>2.8</b>	<b>3.1</b>	<b>31.9</b>	<b>2.3</b>	<b>40.1</b>
<b>Financial liabilities</b>					
Borrowings	–	–	(24.0)	–	(24.0)
Trade and other payables	(2.4)	(0.7)	(17.7)	(0.6)	(21.4)
Other financial liabilities	(0.6)	–	–	(0.8)	(1.4)
<b>Subtotal</b>	<b>(3.0)</b>	<b>(0.7)</b>	<b>(41.7)</b>	<b>(1.4)</b>	<b>(46.8)</b>
<b>Net financial assets/(liabilities)</b>	<b>(0.2)</b>	<b>2.4</b>	<b>(9.8)</b>	<b>0.9</b>	<b>(6.7)</b>
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	10.9	–	–	10.9
Currency forwards	5.9	(7.8)	–	–	(1.9)
<b>Currency profile excluding non-financial assets and liabilities</b>	<b>5.7</b>	<b>5.5</b>	<b>(9.8)</b>	<b>0.9</b>	<b>2.3</b>
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	1.0	1.9	(15.0)	1.4	(10.7)
<b>Currency exposure of financial assets</b>	<b>4.7</b>	<b>3.6</b>	<b>5.2</b>	<b>(0.5)</b>	<b>13.0</b>

### 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Currency risk (CONTINUED)

If the US Dollar and Euro change against Sterling by 5% and 1% respectively (2017: US Dollar 7%, Euro 8%) with all other variables, including tax rates, being held constant, the effects arising from the net financial asset/(liability) position will be as follows:

£ Millions	2018 Profit after tax	2017 Profit after tax
<b>Group</b>		
EUR against GBP		
– strengthened	*	0.3
– weakened	*	(0.3)
USD against GBP		
– strengthened	<b>0.3</b>	0.3
– weakened	<b>(0.3)</b>	(0.3)

\* Balances are less than £100,000.

The impact of the currency risk on the other comprehensive income is not significant.

#### (c) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income is substantially independent of changes in the market interest rates.

All of the Group's borrowings are at variable interest rates and are denominated in US Dollars. If the average interest rates on these borrowings increased/decreased by 0.5% (2017: 0.5%) with all other variables, including tax rates, being held constant, the profit tax will be lower/higher by £317,000 (2017: £123,000) as a result of higher/lower interest expense on these borrowings.

#### (d) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. For trade receivables the Group adopts a policy of only dealing with customers of appropriate credit history or rating. For other financial assets, the Group adopts the policy of only dealing with high credit quality counterparties.

The Group uses a provision matrix to measure the lifetime expected credit loss allowance for trade receivables. In measuring the expected credit loss, trade receivables are grouped based on shared credit risk characteristics and days past due.

In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers and adjusts to reflect current and forward macro-economic factors affecting the ability of the customers to settle the receivables. The Group has identified gross domestic product (GDP) and the public policy of the countries in which it sells goods as the most relevant factors.

Trade receivables are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group considers a financial asset as in default if the counterparty fails to make contractual payments within 90 days when they fall due and writes off the financial asset when a debtor is in significant financial difficulties and have defaulted on payment which is usually greater than 120 days past due. Where receivables are written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Credit risk (CONTINUED)

The Group's credit risk exposure in relation to trade receivables under IFRS 9 are set out in the provision matrix as follows:

£ Millions	Past due						Total
	Current	1 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	> 120 days	
<b>At 31 December 2018</b>							
<b>North America region</b>							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	21.8%	
Trade receivables	13.6	4.1	2.1	0.3	0.1	0.1	20.3
Loss allowance	-	*	*	*	*	*	#
<b>Europe region</b>							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	36.9%	
Trade receivables	5.8	1.5	0.5	0.3	0.1	*	8.2
Loss allowance	-	*	*	*	*	*	#
<b>Asia region</b>							
Expected loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Trade receivables	2.8	1.5	0.2	-	-	0.1	4.6
Loss allowance	-	-	-	-	-	-	-
£ Millions	Past due						Total
	Current	1 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	> 120 days	
<b>At 1 January 2018</b>							
<b>North America region</b>							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	21.8%	
Trade receivables	9.7	2.9	0.5	0.3	0.2	0.1	13.7
Loss allowance	-	*	*	*	*	*	#
<b>Europe region</b>							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	36.9%	
Trade receivables	5.7	1.6	0.5	-	*	*	7.8
Loss allowance	-	*	*	-	*	*	#
<b>Asia region</b>							
Expected loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Trade receivables	1.7	0.5	0.4	0.1	0.1	-	2.8
Loss allowance	-	-	-	-	-	-	-

\* Balances are less than £100,000.  
Total # approximates £100,000.

The movement in the allowance for impairment of trade receivables is as follows:

£ Millions	2018	2017
Beginning of financial year	(0.5)	(0.4)
Application of IFRS 9	0.4	-
Restated allowance for impairment under IFRS 9	(0.1)	(0.4)
Loss allowance <sup>(a)</sup> recognised in profit or loss during the year on:		
- Assets acquired/originated	(0.1)	(0.2)
Receivables written off as uncollectible	0.1	-
Foreign currency translation	-	0.1
End of the financial year	(0.1)	(0.5)

<sup>(a)</sup> Loss allowance measured at lifetime ECL.

### 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (d) Credit risk (CONTINUED)

##### Previous accounting policy for impairment of trade receivables

Prior to 1 January 2018, the impairment of financial assets was assessed based on the incurred loss impairment model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet identified.

The Group's business is highly fragmented, reducing the credit exposure to any one customer. At 31 December 2017, no individual trade receivable represented more than 11% of the total trade receivables balance.

The credit risk for trade receivables, which are all with non-related parties, by geographical area is as follows:

£ Millions	2017
<b>By geographical areas</b>	
Europe	7.6
North America	13.4
Asia	2.8
	<b>23.8</b>

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially with companies with a good collection track record with the Group.

The age analysis of trade receivables past due and/or impaired is as follows:

£ Millions	2017
Past due 0 – 2 months	6.5
Past due 3 – 4 months	0.6
Past due over 4 months	0.3
	<b>7.4</b>

#### (e) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (Note 21) and the ability to close out market positions at a short notice. At the balance sheet date, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 15.

The table below analyses the maturity profile of the Group's non-derivative financial liabilities at the balance sheet date based on contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

£ Millions	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
<b>Group</b>					
<b>At 31 December 2018</b>					
Trade and other payables	22.4	–	–	–	22.4
Accrued consideration	–	0.5	0.6	0.3	1.4
Borrowings, including interest	2.8	2.6	65.5	–	70.9
<b>Total</b>	<b>25.2</b>	<b>3.1</b>	<b>66.1</b>	<b>0.3</b>	<b>94.7</b>
<b>At 31 December 2017</b>					
Trade and other payables	21.4	–	–	–	21.4
Accrued consideration	–	–	1.0	0.4	1.4
Borrowings, including interest	0.7	0.6	25.1	–	26.4
<b>Total</b>	<b>22.1</b>	<b>0.6</b>	<b>26.1</b>	<b>0.4</b>	<b>49.2</b>

The Group manages the liquidity risk by maintaining sufficient cash and bank facilities to enable it to meet its normal operating commitments.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (f) Fair value measurements

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- i. Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- ii. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- iii. Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at 31 December 2018.

2018 £ Millions	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivative financial instruments	–	*	–	*
<b>Liabilities</b>				
Derivative financial instruments	–	(0.2)	–	(0.2)
2017				
<b>Assets</b>				
Derivative financial instruments	–	0.2	–	0.2
<b>Liabilities</b>				
Derivative financial instruments	–	(0.2)	–	(0.2)

\*Balances are less than £100,000.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. These derivative financial instruments are included in Level 2.

### (g) Offsetting financial assets and financial liabilities

The Group has no financial instruments subject to enforceable master netting arrangements.

## 31. BUSINESS COMBINATION

On 25 May 2018, the Group acquired the business of Glassman High Voltage Inc. The principal activity of Glassman High Voltage Inc. is that of a designer and manufacturer of high voltage, high power, power supplies. In addition, the acquisition also includes the purchase of Glassman's small European sales business (XP Glassman Europe Limited formerly known as Glassman Europe Limited). The Group made the acquisition because Glassman and the Group share several customers, and while there is no direct overlap in product lines, the power supply solutions of the two companies are highly complementary. Glassman's products and engineering capabilities will enhance the Group's ability to implement its strategy of winning a greater share of business from its largest customers by achieving wider vertical penetration of key accounts. As well as a product offering suitable for an array of applications used by some of the Group's existing customer base, Glassman will also bring a number of new customers to the Group.

Details of the consideration paid, the assets acquired and liabilities assumed, the effects on the cash flows of the Group, at the acquisition date, are as follows:

	£ Millions
<b>(a) Purchase consideration</b>	
Cash paid	35.7
Total purchase consideration	35.7
<b>Consideration transferred for the business</b>	<b>35.7</b>
<b>(b) Effect on cash flows of the Group</b>	
Cash paid (as above)	35.7
Less: cash and cash equivalents in subsidiary acquired	(0.2)
<b>Cash outflow on acquisition</b>	<b>35.5</b>

## 31. BUSINESS COMBINATION (CONTINUED)

### (c) Identifiable assets acquired and liabilities assumed

	Provisional fair values recognised on acquisition 2018 £ Millions
Cash	0.2
Property, plant and equipment (Note 13)	3.0
Technology, Customers' Relationships, Contracts and Brand (included in intangibles – Note 12)	15.7
Inventories	2.3
Trade receivables	2.7
Total assets	23.9
Trade and other payables	(0.7)
Total liabilities	(0.7)
<b>Total identifiable net assets</b>	<b>23.2</b>
Add: Goodwill (Note 11)	<b>12.5</b>
<b>Consideration transferred for the business</b>	<b>35.7</b>

### (d) Acquisition-related costs

Acquisition-related costs of £0.4 million are included in "administrative expenses" in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows for the year ended 31 December 2018.

### (e) Acquired receivables

The fair value of trade receivables is £2.7 million and all of which is expected to be collected.

### (f) Provisional fair values

The fair value of the acquired identifiable intangible assets of £15.7 million (Brand, Technology, Customers' Relationships and Contracts) has been provisionally determined pending final valuations for those assets.

### (g) Goodwill

The goodwill of £12.5 million arising from the acquisition is attributable to the distribution network in America and Europe and the synergies expected to arise from the economies of scale in combining the operations of the Group with those of Glassman High Voltage Inc. and XP Glassman Europe Limited.

### (h) Revenue and profit contribution

The acquired business contributed revenue of £6.9 million and net profit of £1.4 million to the Group from the period from 25 May 2018 to 31 December 2018. Had Glassman High Voltage Inc. and XP Glassman Europe Limited been consolidated from 1 January 2018, consolidated revenue and consolidated profit before tax for the year ended 31 December 2018 for the Group would have been £201.5 million and £38.7 million respectively.

## 32. OTHER INFORMATION

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of XP Power Limited on 5 March 2019.

# COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2018

€'000	Note	2018	2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	4,865	4,633
Trade and other receivables	5	16,719	9,181
Other current assets	6	660	1,092
Derivative financial instruments	7	42	154
Inventories	8	12,327	10,434
Corporation tax recoverable	14	–	1,291
<b>Total current assets</b>		<b>34,613</b>	26,785
<b>Non-current assets</b>			
Investments in subsidiaries	3	29,786	29,786
Property, plant and equipment	9	1,821	2,299
Intangible assets	10	12,220	7,564
Long-term receivable	13	28,171	18,495
<b>Total non-current assets</b>		<b>71,998</b>	58,144
<b>Total assets</b>		<b>106,611</b>	84,929
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	34,190	21,210
Current income tax liabilities	14	3,784	3,146
Derivative financial instruments	7	229	248
<b>Total current liabilities</b>		<b>38,203</b>	24,604
<b>Non-current liability</b>			
Deferred income tax liabilities	11	1,738	1,419
<b>Total non-current liability</b>		<b>1,738</b>	1,419
<b>Total liabilities</b>		<b>39,941</b>	26,023
<b>NET ASSETS</b>		<b>66,670</b>	58,906
<b>EQUITY</b>			
Share capital	15	29,786	29,786
Share option reserve	15	179	5
Hedging reserve	15	42	(239)
Translation reserve	15	5,337	3,364
Retained earnings	15	31,326	25,990
<b>TOTAL EQUITY</b>		<b>66,670</b>	58,906

# NOTES TO THE COMPANY

## BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### 1. GENERAL 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 401 Commonwealth Drive, Lobby B, #02-02, Haw Par Technocentre, Singapore 149598.

The nature of the Company's operations and its principal activities are providing power supply solutions and acting as an investment holding company.

### 2. BASIS OF ACCOUNTING POLICIES

The Company applies the same principal accounting policies as the Group as set out in Note 2 under the Group Consolidated Financial Statements.

On 1 January 2018, the Company adopted the new or amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and IFRIC.

The adoption of these new or amended IFRS and IFRIC did not result in substantial changes to the Company's accounting policies and had no material effect on the amounts reported for the current or previous financial years except for the following:

#### IFRS 9 FINANCIAL INSTRUMENTS

The Company has adopted the new standard retrospectively from 1 January 2018, in line with the transition provision permitted under the standards. Comparatives for financial year ended 2017 are not restated and the Company has recognised any difference between the carrying amounts at 31 December 2017 and 1 January 2018 in the opening retained earnings.

The effects on adoption of IFRS 9 are as follows:

£'000	Financial assets at amortised costs	Retained earnings
Balances at 31 December 2017 before adoption of IFRS 9	32,372	25,990
Impairment allowances on trade receivables and intercompany loan receivables	9	9
Balances at 1 January 2018 after adoption of IFRS 9	32,381	25,999

#### (i) CLASSIFICATION AND MEASUREMENT

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at 1 January 2018.

£'000	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost	4,633	4,633
Trade receivables	Loans and receivables	Amortised cost	8,766	8,796
Intercompany loan receivables	Loans and receivables	Amortised cost	18,910	18,889
Other current assets (excluding prepayments and VAT receivables)	Loans and receivables	Amortised cost	63	63
Derivative financial instruments	Held-for-trading	Mandatorily at Fair Value through Profit or Loss ("FVTPL")	154	154

- Cash and cash equivalents, trade receivables, intercompany loan receivables and other current assets (excluding prepayments and VAT receivables) were classified as loans and receivables under IAS 39 are now classified at amortised cost. There was no impact on the amounts recognised in relation to these assets except for trade and intercompany loan receivables from the adoption of IFRS 9.
- Derivative financial instruments that were previously held for trading are required to be held as FVTPL under IFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of IFRS 9.

# NOTES TO THE COMPANY

## BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### 2. BASIS OF ACCOUNTING POLICIES (CONTINUED)

#### (ii) DERIVATIVES AND HEDGING ACTIVITIES

Foreign currency forward contracts in place as at 31 December 2017 were entered to hedge exchange rate movements of highly probable future sales and qualify as cash flow hedges under IFRS 9.

The Company's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

There have been no changes to the recognition and measurement of derivatives and hedging activities under IFRS 9.

#### (iii) IMPAIRMENT OF FINANCIAL ASSETS

The Company's financial assets that are subject to IFRS 9's new expected credit loss model includes trade receivables, intercompany receivables and other current assets (excluding prepayments and VAT receivables).

The Company revised its impairment methodology under IFRS 9 for trade and intercompany loan receivables. The impact of the change in impairment methodology is disclosed in the table above.

#### FINANCIAL GUARANTEES

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings. Intra-Group transactions are eliminated on consolidation.

Financial guarantee contracts are initially measured at fair values plus transaction costs and subsequently measured at the higher of:

- premium received on initial recognition less the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- the amount of expected loss computed using the impairment methodology under IFRS 9.

Prior to 1 January 2018, financial guarantees were subsequently measured at the higher of (a) and the expected amount of payable to the banks in the event it is probable that the Company will reimburse the bank.

#### CLASSIFICATION

Certain amounts in 2017 under trade receivables from related parties has been reclassified to form the current year presentation. The reclassification relates to intercompany loans that are repayable on demand, which the Company does not intend for repayment to be made in the next 12 months. Therefore, the Company considers non-current presentation to be more appropriate.

### 3. INVESTMENTS IN SUBSIDIARIES

£'000	2018	2017
<b>Cost at carrying value</b>		
At 1 January	29,786	29,786
<b>At 31 December</b>	<b>29,786</b>	29,786

Name of Subsidiary	Place of incorporation/ Ownership (or registration) and operation	Proportion of Ownership % 2018	Proportion of Ownership % 2017	Auditor of Subsidiaries
XP Power Plc	UK	100	100	PricewaterhouseCoopers LLP
XP Power Singapore Holdings Pte Limited	Singapore	100	100	PricewaterhouseCoopers LLP

### 4. CASH AND CASH EQUIVALENTS

£'000	2018	2017
Cash at bank	4,865	4,633
<b>Total</b>	<b>4,865</b>	4,633



#### 4. CASH AND CASH EQUIVALENTS (CONTINUED)

The Company's cash at bank is denominated in the following currencies:

	GBP £'000	USD £'000	EUR £'000	SGD £'000	JPY £'000	SEK £'000	DKK £'000	TOTAL £'000
<b>At 31 December 2018</b>								
Cash at bank	17	3,495	352	946	4	1	50	4,865
	GBP £'000	USD £'000	EUR £'000	SGD £'000	JPY £'000	SEK £'000	DKK £'000	TOTAL £'000
At 31 December 2017								
Cash at bank	81	4,079	208	253	–	–	12	4,633

#### 5. TRADE AND OTHER RECEIVABLES

£'000	2018	2017
Trade receivables	4,236	2,520
Trade receivables from related parties	12,168	6,246
Other receivables from related parties	258	–
Loan receivables from a related party	57	415
<b>Total</b>	<b>16,719</b>	<b>9,181</b>

The average credit period taken on sales of goods is 59 days (2017: 41 days). No interest is charged on the outstanding receivables balance.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Loan from a related party is unsecured and bears interest at LIBOR plus 1.5% per annum.

#### 6. OTHER CURRENT ASSETS

£'000	2018	2017
Deposit	68	63
Prepayments	230	568
VAT receivables	362	461
<b>Total</b>	<b>660</b>	<b>1,092</b>

#### 7. DERIVATIVE FINANCIAL INSTRUMENTS

The total notional amount of outstanding currency forward contracts that the Company has committed is £10.8 million (2017: £7.3 million). These contracts are to hedge against exchange movements on future sales and hedge accounting has been applied.

As at 31 December 2018, the fair value asset/(liability) of the currency forward contracts recognised under a hedging reserve is £42,000 (2017: (£239,000)) (Note 15).

December 2018 £'000	Contract notional amount	Fair value asset
Current portion	10,841	42
<b>Total</b>	<b>10,841</b>	<b>42</b>
December 2017 £'000	Contract notional amount	Fair value (liability)
Current portion	7,313	(239)
<b>Total</b>	<b>7,313</b>	<b>(239)</b>

# NOTES TO THE COMPANY

# BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Certain currency forward contracts were taken up to protect against exchange movements on future sales. Hedge accounting has not been applied to these contracts.

December 2018 €'000	Assets		Liabilities	
	Contract notional amount	Fair value asset	Contract notional amount	Fair value (liability)
Current portion	–	–	14,975	(229)
<b>Total</b>	<b>–</b>	<b>–</b>	<b>14,975</b>	<b>(229)</b>

December 2017 €'000	Assets		Liabilities	
	Contract notional amount	Fair value asset	Contract notional amount	Fair value (liability)
Current portion	5,900	154	532	(9)
<b>Total</b>	<b>5,900</b>	<b>154</b>	<b>532</b>	<b>(9)</b>

### HEDGING INSTRUMENTS USED IN COMPANY'S HEDGING STRATEGY IN 2018

€'000	Contractual notional amount	Carrying amount	Assets/ (Liabilities)	Financial statement line item	Hedging instrument	Changes in fair value used for calculating hedge ineffectiveness	Hedged item	Hedged ineffectiveness recognised in P&L*	Weighted average hedged rate	Maturity date
<b>Cash flow hedge</b>										
<i>Foreign exchange risk</i>										
Forward contracts to hedge highly probable transactions	10,841	42		Derivative Financial Instruments	42	(42)		–	EUR1: US\$1.1673	January 2019 to December 2019

\* All hedge ineffectiveness and costs of hedging are recognised in profit and loss within "exchange gains/loss".

## 8. INVENTORIES

€'000	2018	2017
Goods for resale	12,327	10,434

## 9. PROPERTY, PLANT AND EQUIPMENT

£'000	Freehold land	Building	Plant and equipment	Motor vehicles	Building improvements	Total
<b>Cost</b>						
At 1 January 2017	236	1,889	1,522	57	454	4,158
Additions	–	–	557	–	55	612
Disposals	–	–	(45)	(12)	–	(57)
Foreign currency translation	(19)	(146)	(139)	(4)	(38)	(346)
<b>At 31 December 2017</b>	<b>217</b>	<b>1,743</b>	<b>1,895</b>	<b>41</b>	<b>471</b>	<b>4,367</b>
Additions	–	–	90	–	–	90
Reclassification to intangible assets (Note 10)	–	–	(458)	–	–	(458)
Disposals	–	–	(30)	–	–	(30)
Foreign currency translation	13	105	89	2	29	238
<b>At 31 December 2018</b>	<b>230</b>	<b>1,848</b>	<b>1,586</b>	<b>43</b>	<b>500</b>	<b>4,207</b>
<b>Depreciation</b>						
At 1 January 2017	–	462	1,169	13	442	2,086
Additions	–	55	132	9	11	207
Disposals	–	–	(45)	(12)	–	(57)
Foreign currency translation	–	(38)	(94)	(1)	(35)	(168)
<b>At 31 December 2017</b>	<b>–</b>	<b>479</b>	<b>1,162</b>	<b>9</b>	<b>418</b>	<b>2,068</b>
Additions	–	52	137	8	15	212
Disposals	–	–	(30)	–	–	(30)
Foreign currency translation	–	32	77	1	26	136
<b>At 31 December 2018</b>	<b>–</b>	<b>563</b>	<b>1,346</b>	<b>18</b>	<b>459</b>	<b>2,386</b>
<b>Carrying amount</b>						
<b>At 31 December 2018</b>	<b>230</b>	<b>1,285</b>	<b>240</b>	<b>25</b>	<b>41</b>	<b>1,821</b>
At 31 December 2017	217	1,264	733	32	53	2,299

# NOTES TO THE COMPANY

## BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### 10. INTANGIBLE ASSETS

£'000	Development costs	Intangible software	Intangible software under development	Total
<b>Cost</b>				
At 1 January 2017	9,139	–	–	9,139
Additions	3,491	–	–	3,491
Foreign currency translation	(861)	–	–	(861)
<b>At 31 December 2017</b>	<b>11,769</b>	<b>–</b>	<b>–</b>	<b>11,769</b>
<b>Additions</b>	<b>3,806</b>	<b>239</b>	<b>1,141</b>	<b>5,186</b>
<b>Reclassification from Property, plant and equipment (Note 9)</b>	<b>–</b>	<b>–</b>	<b>458</b>	<b>458</b>
<b>Foreign currency translation</b>	<b>949</b>	<b>15</b>	<b>100</b>	<b>1,064</b>
<b>At 31 December 2018</b>	<b>16,524</b>	<b>254</b>	<b>1,699</b>	<b>18,477</b>
<b>Amortisation</b>				
At 1 January 2017	3,193	–	–	3,193
Charge for the year	1,321	–	–	1,321
Foreign currency translation	(309)	–	–	(309)
<b>At 31 December 2017</b>	<b>4,205</b>	<b>–</b>	<b>–</b>	<b>4,205</b>
Charge for the year	1,656	36	–	1,692
Foreign currency translation	358	2	–	360
<b>At 31 December 2018</b>	<b>6,219</b>	<b>38</b>	<b>–</b>	<b>6,257</b>
<b>Carrying amount</b>				
<b>At 31 December 2018</b>	<b>10,305</b>	<b>216</b>	<b>1,699</b>	<b>12,220</b>
At 31 December 2017	7,564	–	–	7,564

The amortisation period for development costs incurred varies between three and seven years according to the expected useful life of the products being developed.

Amortisation commences when the products are ready for sale.

### 11. DEFERRED INCOME TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Company and movements thereon during the current and prior reporting period.

£'000	Accelerated tax depreciation	Capitalised development costs	Other temporary differences	Total
At 1 January 2017	(75)	(996)	(65)	(1,136)
Charge to statement of comprehensive income	(71)	(343)	53	(361)
Exchange difference	4	67	7	78
<b>At 31 December 2017</b>	<b>(142)</b>	<b>(1,272)</b>	<b>(5)</b>	<b>(1,419)</b>
Charge to statement of comprehensive income	226	(399)	(46)	(219)
Exchange difference	6	(102)	(4)	(100)
<b>At 31 December 2018</b>	<b>90</b>	<b>(1,773)</b>	<b>(55)</b>	<b>(1,738)</b>

## 12. TRADE AND OTHER PAYABLES

€'000	2018	2017
Trade payables and other creditors	4,594	5,579
Amount payable to related parties	29,596	15,631
<b>Total</b>	<b>34,190</b>	21,210

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. Amount payable to related parties includes borrowings from related parties and trade and other payables to related parties. The Directors consider that the carrying amount approximates their fair value.

The Company borrows from subsidiaries at an interest rate of 1.5% – 2.0% above LIBOR. The borrowing is repayable upon demand.

## 13. LONG-TERM RECEIVABLE

€'000	2018	2017
Loans to related parties	28,171	18,495
<b>Total</b>	<b>28,171</b>	18,495

Loans to related parties bear interest at LIBOR plus 1.5% – 2.0% per annum. The loans to related parties are unsecured. The Directors consider the carrying amount approximates their fair value.

## 14. CORPORATE TAX RECOVERABLE/CURRENT INCOME TAX LIABILITIES

Movement in corporate tax recoverable:

€'000	2018	2017
<b>At 1 January</b>	<b>1,291</b>	–
Currency translation differences	53	–
Under-provision in prior financial year	(2)	–
Income tax paid in excess	–	1,291
Refund received	(1,342)	–
<b>At 31 December</b>	<b>–</b>	1,291

Movement in current income tax liabilities:

€'000	2018	2017
<b>At 1 January</b>	<b>3,146</b>	3,060
Currency translation differences	241	(315)
Income tax paid (net of refund)	(2,828)	(2,552)
Current year tax expense	3,396	3,085
Over-provision in prior financial year	(171)	(132)
<b>At 31 December</b>	<b>3,784</b>	3,146



# NOTES TO THE COMPANY

## BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### 15. SHARE CAPITAL AND RESERVES

Share capital £'000	<b>2018</b>	2017
Allotted and fully paid 19,242,296 ordinary shares	<b>29,786</b>	29,786
Share option reserve £'000	<b>2018</b>	2017
Balance at 1 January	<b>5</b>	–
Share option expense	<b>174</b>	5
<b>Balance at 31 December</b>	<b>179</b>	5
Hedging reserve £'000	<b>2018</b>	2017
<b>Foreign exchange risk</b>		
Balance at 1 January	<b>(239)</b>	332
Fair value gains/(losses)	<b>281</b>	(571)
<b>Balance at 31 December</b>	<b>42</b>	(239)
Translation reserve £'000	<b>2018</b>	2017
Balance at 1 January	<b>3,364</b>	5,442
Exchange differences on translation	<b>1,973</b>	(2,078)
<b>Balance at 31 December</b>	<b>5,337</b>	3,364
Retained earnings £'000	<b>2018</b>	2017
Balance at 1 January	<b>25,990</b>	21,121
Changes in accounting policy	<b>9</b>	–
Dividends paid	<b>(15,284)</b>	(13,921)
Profit for the year	<b>20,611</b>	18,790
<b>Balance at 31 December</b>	<b>31,326</b>	25,990

## 16. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to capital risk, currency risk (including both transactional and translational currency risk), interest rate risk, credit risk and liquidity risk. The Company seeks to minimise adverse effects from the unpredictability of financial markets on the Company's financial performance.

### (a) Capital risk

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt, cash and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 15.

### (b) Currency risk

The Company transacts in North America, Europe and Asia and its activities expose it to transactional risks resulting from changes in foreign currency exchange rates. The Company monitors and manages these transactional foreign exchange risks relating to the operations of the Company through internal reports analysing major currency exposures. Where possible the Company seeks to offset exposures by matching monetary asset and liability exposures in like currencies against each other often using its bank facilities to square off or reduce exposures. To manage the currency risk, the Company manages the overall currency exposure mainly through currency forwards.

The Company's risk management policy is to hedge 100% of highly probable forecast transactions for Europe sales in the next 12 months.

The risk is measured through a forecast of highly probable EUR sales and tracking of firm commitment in EUR. The objective of the hedges is to minimise the volatility of the Company's currency cost of highly probable transactions and firm commitment. In order to achieve these objectives, the Company entered into cash flow hedges for highly probable sale transactions. The foreign exchange forwards are denominated in the same currency as the highly probable sale transactions, therefore the hedge ratio is 1:1.

#### *Hedge effectiveness*

Hedge effectiveness is determined at the inception of the hedging relationship, and through periodic prospective effective assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Company enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness may occur due to changes in the credit risk of the derivative counterparty or the Company. There was no ineffectiveness during 2018 in relation to the revenue hedge.

In addition, the Company is exposed to translation risk when the results of its operations and balance sheet are converted from its functional currency to Sterling, the Group's reporting currency. In particular a significant proportion of the Company's revenues and earnings are derived in US Dollars. The Company regards this as a fundamental consequence of operating in markets which are dominated by US Dollar transactions. The Company does not hedge this translational risk as there is no underlying mismatch of foreign currencies as the translation is merely performed for reporting the Company's results in Sterling.

# NOTES TO THE COMPANY

## BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### 16. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Currency risk (CONTINUED)

The Company's currency exposure based on the information provided to key management is as follows:

At 31 December 2018		GBP	EUR	USD	Others	Total
£'000						
<b>Financial assets</b>						
Cash and cash equivalents		17	352	3,495	1,001	4,865
Trade and other receivables		72	1,369	14,962	316	16,719
Other current assets		–	–	68	–	68
Long-term receivables		–	–	28,171	–	28,171
<b>Subtotal</b>		<b>89</b>	<b>1,721</b>	<b>46,696</b>	<b>1,317</b>	<b>49,823</b>
<b>Financial liabilities</b>						
Trade and other payables		(6,014)	(196)	(27,849)	(131)	(34,190)
<b>Subtotal</b>		<b>(6,014)</b>	<b>(196)</b>	<b>(27,849)</b>	<b>(131)</b>	<b>(34,190)</b>
<b>Net financial (liabilities)/assets</b>		<b>(5,925)</b>	<b>1,525</b>	<b>18,847</b>	<b>1,186</b>	<b>15,633</b>
Add: Firm commitments and highly probable forecast transactions in foreign currency		–	12,604	–	–	12,604
Currency forwards		14,975	(10,841)	–	–	4,134
<b>Currency profile excluding non-financial assets and liabilities</b>		<b>9,050</b>	<b>3,288</b>	<b>18,847</b>	<b>1,186</b>	<b>32,371</b>
Less: Financial assets denominated in the entity's functional currency		–	–	18,847	–	18,847
<b>Currency exposure of financial assets</b>		<b>9,050</b>	<b>3,288</b>	<b>–</b>	<b>1,186</b>	<b>13,524</b>
At 31 December 2017						
£'000						
<b>Financial assets</b>						
Cash and cash equivalents		81	208	4,079	265	4,633
Trade and other receivables		393	964	7,677	147	9,181
Other current assets		–	–	63	–	63
Long-term receivables		–	–	18,495	–	18,495
<b>Subtotal</b>		<b>474</b>	<b>1,172</b>	<b>30,314</b>	<b>412</b>	<b>32,372</b>
<b>Financial liabilities</b>						
Trade and other payables		(6,311)	14	(14,729)	(184)	(21,210)
<b>Subtotal</b>		<b>(6,311)</b>	<b>14</b>	<b>(14,729)</b>	<b>(184)</b>	<b>(21,210)</b>
<b>Net financial (liabilities)/assets</b>		<b>(5,837)</b>	<b>1,186</b>	<b>15,585</b>	<b>228</b>	<b>11,162</b>
Add: Firm commitments and highly probable forecast transactions in foreign currency		–	10,935	–	–	10,935
Currency forwards		5,900	(7,844)	–	–	(1,944)
<b>Currency profile excluding non-financial assets and liabilities</b>		<b>63</b>	<b>4,277</b>	<b>15,585</b>	<b>228</b>	<b>20,153</b>
Less: Financial assets denominated in the entity's functional currency		–	–	15,585	–	15,585
<b>Currency exposure of financial assets</b>		<b>63</b>	<b>4,277</b>	<b>–</b>	<b>228</b>	<b>4,568</b>

## 16. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income is substantially independent of changes in the market interest rates.

The Company borrows from subsidiaries at an interest rate of 1.5% – 2.0% above LIBOR. If the average interest rates on these borrowings increased/decreased by 0.75% (2017: 0.5%) with all other variables, including tax rates, being held constant, the profit before tax will be lower/higher by £102,844 (2017: £20,183) as a result of higher/lower interest expense on these borrowings.

### (d) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Company. For trade receivables the Company adopts a policy of only dealing with customers of appropriate credit history or rating. For other financial assets, the Company adopts the policy of only dealing with high credit quality counterparties.

The Company is not exposed to significant credit risk as a majority of the sales are made to the subsidiaries. Trade receivables are neither past due nor impaired are substantially companies with a good collection track record with the Company.

The Company does not hold any collateral and the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments on the balance sheet.

The Company applies the IFRS 9 simplified approach to measuring expected credit loss which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, it is based on the Company's two-year historical credit loss experience and a provision matrix has been set up using the amount of bad debt incurred over the carrying value of the trade receivables per ageing brackets at each financial year end.

The Company's credit risk exposure in relation to trade receivables under IFRS 9 are set out in the provision matrix as follows:

£ '000	Past due						Total
	Current	1 -30 days	31 – 60 days	61 – 90 days	91 – 120 days	> 120 days	
<b>At 31 December 2018</b>							
Expected loss rate	0%	0%	0%	0%	0%	0%	
Trade receivables	12,567	3,072	275	56	4	430	16,404
Loss allowance	–	–	–	–	–	–	–
<b>At 1 January 2018</b>							
Expected loss rate	0%	0%	0%	0%	0%	0%	
Trade receivables	6,884	956	409	281	93	173	8,796
Loss allowance	–	–	–	–	–	–	–

The Company assessed the credit risk of each intercompany loan by considering the terms of the loans, whether the loan is past due, borrower's cash position, revenue, profit before tax and net assets. Based on these, it was concluded that the credit risk is low and hence, the Company computes the expected credit loss on a 12-month basis instead of a lifetime approach.

# NOTES TO THE COMPANY

## BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### 16. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (d) Credit risk (CONTINUED)

##### FINANCIAL ASSETS AT AMORTISED COSTS

Category of internal credit rating	Performing	Under-performing	Non-performing	Write-off
Definition of category	Issuers have a low risk of default and a strong capacity to meet contractual cash flows	Issuers for which there is a significant increase in credit risk; as significant in credit risk is presumed if interest and/or principal repayment are 30 days past due	Interest and/or principal payments are 90 days past due	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery
Basis of recognition of expected credit loss	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Asset is written off

#### (e) Liquidity risk

The table below analyses the maturity profile of the Company's financial liabilities at the balance sheet date based on contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

£'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
<b>At 31 December 2018</b>					
Trade and other payables	34,190	–	–	–	34,190
<b>Total</b>	<b>34,190</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>34,190</b>

£'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2017					
Trade and other payables	21,210	–	–	–	21,210
<b>Total</b>	<b>21,210</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>21,210</b>

The Company manages the liquidity risk by maintaining sufficient cash and bank facilities to enable it to meet its normal operating commitments.

The Company has issued a multilateral guarantee to HSBC and Fifth Third Bank for the revolving credit facility entered into by the Group. On 27 September 2017, the Group entered into a revolving credit facility amounts of US\$40 million with a US\$20 million additional accordion option and have a tenure of four years from the loan agreement date with a potential one year extension. In May 2018, the Group increased the revolving credit facility to US\$85.0 million with a US\$20.0 million additional accordion option. In November 2018, the Group has fully exercised US\$20.0 million additional accordion option and the revolving credit facility has increased to US\$105.0 million. The facility has no fixed repayment terms until maturity. The revolving loan is priced at LIBOR plus a margin of 1% for the utilisation facility and a margin of 0.4% to 5.0% for the unutilised facility.

#### (f) Fair value measurements

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).



## 16. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (f) Fair value measurements (CONTINUED)

The following table presents the assets measured at fair value at 31 December 2018:

£'000 2018	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivative financial instruments	–	42	–	42
<b>Liabilities</b>				
Derivative financial instruments	–	(229)	–	(229)
2017				
<b>Assets</b>				
Derivative financial instruments	–	154	–	154
<b>Liabilities</b>				
Derivative financial instruments	–	(248)	–	(248)

### (g) Offsetting financial assets and financial liabilities

#### i. Financial assets

The Company has the following financial instruments subject to enforceable master netting arrangements or similar agreements as follows:

£'000	Related amounts set off in the balance sheet			Related amounts not set off in the balance sheet		
	Gross amounts – financial assets	Gross amounts – financial liabilities	Net amounts – financial assets presented in the balance sheet	Financial assets / liabilities	Financial collateral received	Net amount
<b>At 31 December 2018</b>						
Trade receivables	–	–	–	12,168	–	12,168
<b>Total</b>	–	–	–	12,168	–	12,168
At 31 December 2017						
Trade receivables	1,592	(168)	1,424	4,822	–	6,246
<b>Total</b>	1,592	(168)	1,424	4,822	–	6,246

#### ii. Financial liabilities

The Company has the following financial instruments subject to enforceable master netting arrangements or similar agreements as follows:

£'000	Related amounts set off in the balance sheet			Related amounts not set off in the balance sheet		
	Gross amounts – financial liabilities	Gross amounts – financial assets	Net amounts – financial liabilities presented in the balance sheet	Financial assets / liabilities	Financial collateral pledged	Net amount
<b>At 31 December 2018</b>						
Trade receivables	–	–	–	(29,596)	–	(29,596)
<b>Total</b>	–	–	–	(29,596)	–	(29,596)
At 31 December 2017						
Trade receivables	(168)	168	–	(15,631)	–	(15,631)
<b>Total</b>	(168)	168	–	(15,631)	–	(15,631)

# FIVE YEAR REVIEW

## CONSOLIDATED INFORMATION

	2018 £ Millions	2017 £ Millions	2016 £ Millions	2015 £ Millions	2014 £ Millions
<b>Results</b>					
Revenue	195.1	166.8	129.8	109.7	101.1
<b>Profit from operations</b>	<b>39.3</b>	32.5	28.0	25.6	24.5
<b>Profit before tax</b>	<b>37.6</b>	32.2	27.8	25.4	24.3
<b>Assets employed</b>					
Non-current assets	129.2	88.1	73.2	65.4	56.1
Current assets	105.1	83.5	65.7	53.5	47.0
Current liabilities	(26.8)	(25.1)	(25.8)	(19.8)	(18.6)
Non-current liabilities	(70.1)	(29.6)	(6.2)	(10.0)	(4.2)
<b>Net assets</b>	<b>137.4</b>	116.9	106.9	89.1	80.3
<b>Financed by</b>					
Equity	136.4	116.0	106.1	88.3	80.2
Non-controlling interests	1.0	0.9	0.8	0.8	0.1
	<b>137.4</b>	116.9	106.9	89.1	80.3
<b>Key statistics (pence)</b>					
Earnings per share	157.8	148.3	112.0	103.7	102.1
Adjusted earnings per share	176.1	149.4	116.2	105.3	102.1
Diluted earnings per share	154.9	146.0	111.2	102.8	101.1
Diluted adjusted earnings per share	172.8	147.0	115.3	104.3	101.1
<b>Share price in the year (pence)</b>					
High	3,740.0	3,626.0	1,845.0	1,750.0	1,798.0
Low	2,090.0	1,725.0	1,410.0	1,375.0	1,340.0
Dividends per share (pence)	85.0	78.0	71.0	66.0	61.0

# XP POWER LIMITED ADVISERS

## COMPANY BROKERS

Investec  
2 Gresham Street  
London  
EC2V 7QP  
United Kingdom

## PRINCIPAL BANKERS

HSBC Bank plc  
Level 7  
Thames Tower  
Station Road  
Reading

## SOLICITORS

Osborne Clarke  
2 Temple Back East  
Temple Quay  
Bristol  
BS1 6EG  
United Kingdom

## REGISTRARS

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU  
United Kingdom

## COMPANY SECRETARY

M & C Services Private Limited  
112 Robinson Road #05-01  
The Corporate Office  
Singapore 068902

## AUDITORS

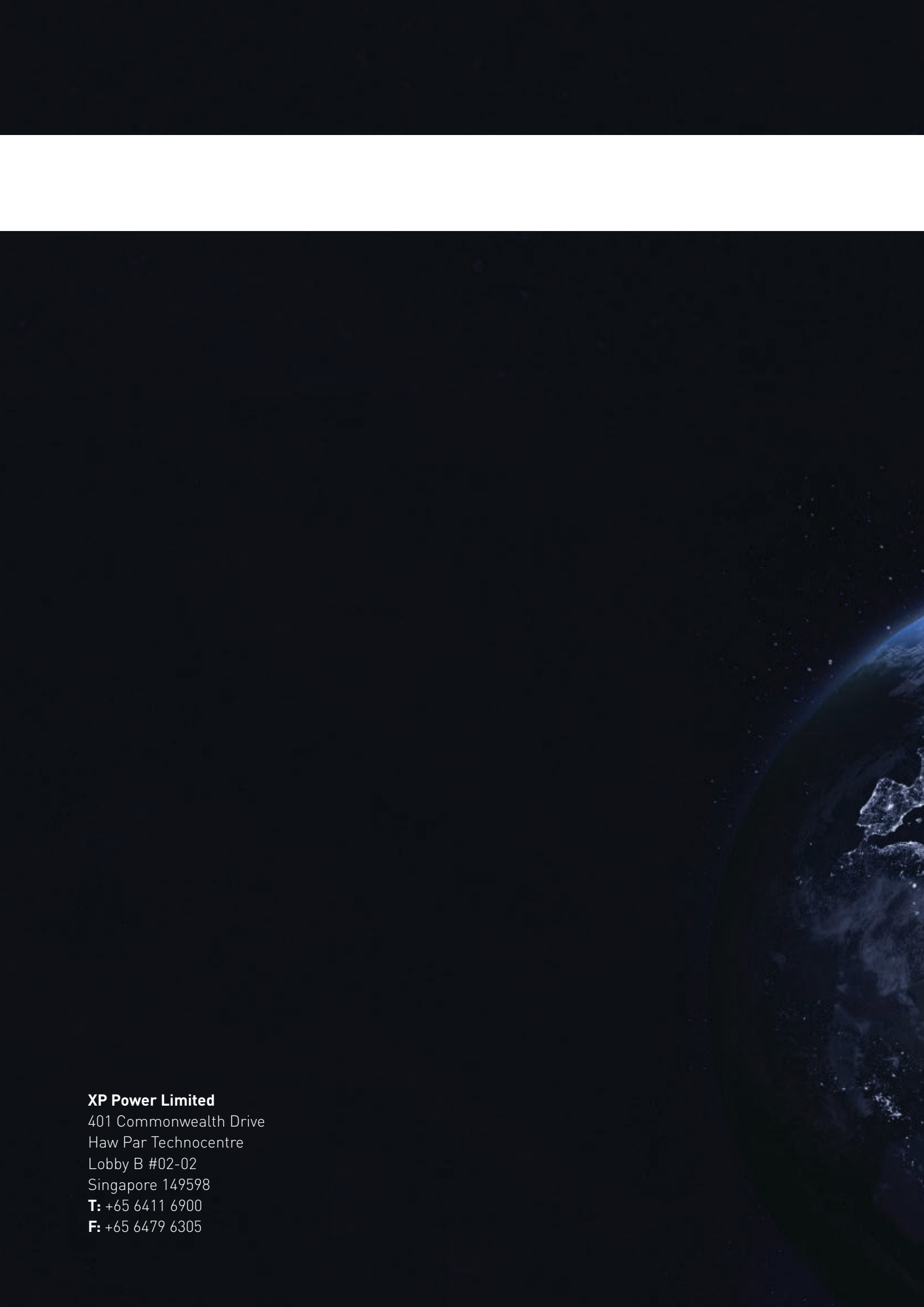
PricewaterhouseCoopers LLP  
7 Straits View  
Marina One, East Tower, Level 12  
Singapore 018936





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**XP Power Limited**

401 Commonwealth Drive

Haw Par Technocentre

Lobby B #02-02

Singapore 149598

**T:** +65 6411 6900

**F:** +65 6479 6305