XP Power

ANNUAL REPORT & ACCOUNTS

for the year ended
31 December 2019

POWERING THE WORLD'S CRITICAL SYSTEMS

INTRODUCTION

WHAT WE DO

We provide our customers in the Healthcare, Industrial Electronics, Semiconductor Equipment Manufacturing and Technology, sectors with solutions to power their critical systems and get their products to market in the shortest possible time. We have moved steadily up the value chain from a specialist distributor, to designer, to design manufacturer.

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 a stable, direct current in order to operate. In addition, we provide power converters that produce radio frequency alternating current (RF Power) used in various processes requiring plasma generation, dielectric or induction heating.

Our electronic power converters are designed into our customers' end equipment, often with the aid of our engineering services expertise, and once designed, we enjoy a long revenue annuity for the life of the customer's programme.

Our power solutions also provide the vital safety barrier between the potentially lethal mains supply and the user of the end equipment, and cannot be easily designed out.

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 CULTURE

Our organisational culture underpins our business decisions. This is supported by our core values.

OUR CORE VALUES

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

INTEGRITY

KNOWLEDGE

FLEXIBILITY

SPEED

CUSTOMER FOCUS

FOR MORE INFORMATION ON OUR CORE VALUES PLEASE SEE PAGES 52 AND 53.

XP Power has made good strategic progress in a challenging year where one of our end markets has been in a cyclical trough and we have had to deal with the effects of Section 301 tariffs in the USA. Against this background we have continued to bring new products to market and win new design wins. We have also made significant steps to develop our supply chain and systems with the implementation of a new Enterprise Resource Planning system in our sales entities. 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 2019, 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 enter 2020 with optimism.

DUNCAN PENNY
Chief Executive Officer

3 March 2020

FOR MORE INFORMATION WITHIN THE REPORT VISIT US ONLINE AT: WWW.XPPOWERPLC.COM

CONTENTS

HIGHLIGHTS IN 2019

ORDER INTAKE
(£ millions)

+8%

(+4% in constant currency)

2019	214.9
2018	198.4
2017	184.3
2016	133.5
2015	110.5

ADJUSTED OPERATING PROFIT
(£ millions)

-16%

2019	35.9
2018	42.9
2017	36.4
2016	28.8
2015	25.7

DIVIDEND PER SHARE
(Pence)

+7%

2019	91
2018	85
2017	78
2016	71
2015	66

REVENUE
(£ millions)

+2%

(-2% in constant currency)

2019	199.9
2018	195.1
2017	166.8
2016	129.8
2015	109.7

ADJUSTED DILUTED EARNINGS PER SHARE
(Pence)

-16%

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

2019	145.5
2018	172.8
2017	147.0
2016	115.3
2015	104.3

OPERATIONAL HIGHLIGHTS

- Robust order intake and revenues in Technology, Industrial Electronics and Healthcare sectors offset cyclical weakness in the Semiconductor Equipment Manufacturing sector
- Strong free cash flow driven by improved working capital
- Expansion of Vietnamese manufacturing facility completed in Q1 2019 more than doubling our Vietnamese capacity. The Group now has the capability to manufacture more than 2,000 different products in Vietnam, up from less than 300 at the beginning of 2018
- Good progress made with restructuring of low-power, high-voltage DC-DC manufacturing, with transfer of production from Nevada to Vietnam

FOR MORE INFORMATION ON OUR PERFORMANCE PLEASE SEE PAGES 30 TO 35

OUR INVESTMENT PROPOSITION

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

FOR MORE INFORMATION ON OUR MARKETPLACE PLEASE SEE PAGES 12 TO 15

A diverse customer base of over 4,500 active customers, with no one customer accounting for more than 10% of revenue.

FOR MORE INFORMATION ON OUR MARKETPLACE DRIVERS PLEASE SEE PAGES 12 TO 15

A growing penetration of a global, blue-chip customer base.

FOR MORE INFORMATION ON OUR GROWTH DRIVERS PLEASE SEE PAGES 16 AND 17

Powerful customer relationship management tools that allow the efficient management of our customer base, identification of pricing and product trends that enable the development of appropriate, innovative new products.

FOR MORE INFORMATION ON OUR BUSINESS MODEL PLEASE SEE PAGES 18 TO 20

An established broad portfolio of leading "Green" products that operate at high efficiency.

FOR MORE INFORMATION ON OUR COMMITMENTS TO SUSTAINABILITY PLEASE SEE PAGES 48 AND 49

Revenue annuity – although design-in cycles are often long, once our power converters are approved for use in our customers' end equipment, XP Power enjoys a revenue annuity for the lifetime of the customers' equipment, which is typically seven years.

FOR MORE INFORMATION ON OUR REVENUE PLEASE SEE PAGE 19

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 30 TO 35

Progressive Dividend – the business model allows for a progressive dividend, which is paid quarterly.

FOR MORE INFORMATION ON OUR DIVIDEND PLEASE SEE PAGE 20

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. This enables us to power the world's critical systems.

WHAT DOES XP POWER DO?

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.

Previously we were a specialist distributor and have moved up the value chain to designer and then to design manufacturer. We operate in the healthcare, industrial electronics, 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 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.

WHAT IS A POWER CONVERTER?

A power converter is an essential hardware component required in every piece of electrical equipment.

The task of the component is to convert the alternating current from the mains supply into stable direct current, which is required by all electronic equipment, or to a stable alternating current oscillating at very fast frequency in the case of an RF power converter. The power converter is also a safety critical component in any system as it protects the user of the equipment from the potentially lethal mains supply.

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
- XP Power is one of few companies in the world that can offer a solutions from low to high voltage and from low to high power

Our 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 electronics, semiconductor equipment manufacturing, and technology.

OUR CULTURE

We are a diverse and transnational organisation and therefore ensuring a cohesive and complementary corporate culture is fundamental to our sustainable success.

READ ABOUT CULTURE ON PAGES 72 TO 73

We operate across four key industries: healthcare, industrial electronics, semiconductor equipment manufacturing, and technology.

01

Industrial Electronics

Power solutions for applications such as 3D printing, process control, analytical instruments, smart grid, transport, robotics and renewable energy.

02

Technology

Power solutions for applications such as high end computing, broadcast, displays, satellite communications and security.

03

Healthcare

Medically approved power solutions for applications including analytics, imaging, patient monitoring, life science, robotic surgery and diagnostic equipment.

04

Semiconductor Equipment Manufacturing

Power solutions to power the electronics and processes with semiconductor manufacturing equipment including equipment for deposition, wafer handling, etching, semiconductor test and ion implantation.

NORTH AMERICA

The North American network consists of 11 sales offices; an extensive engineering solutions function based in Northern California with production facilities in 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.

REVENUE

58%

11 SALES OFFICES

EUROPE

In Europe, the network consists of eight 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.

REVENUE

32%

8 SALES OFFICES

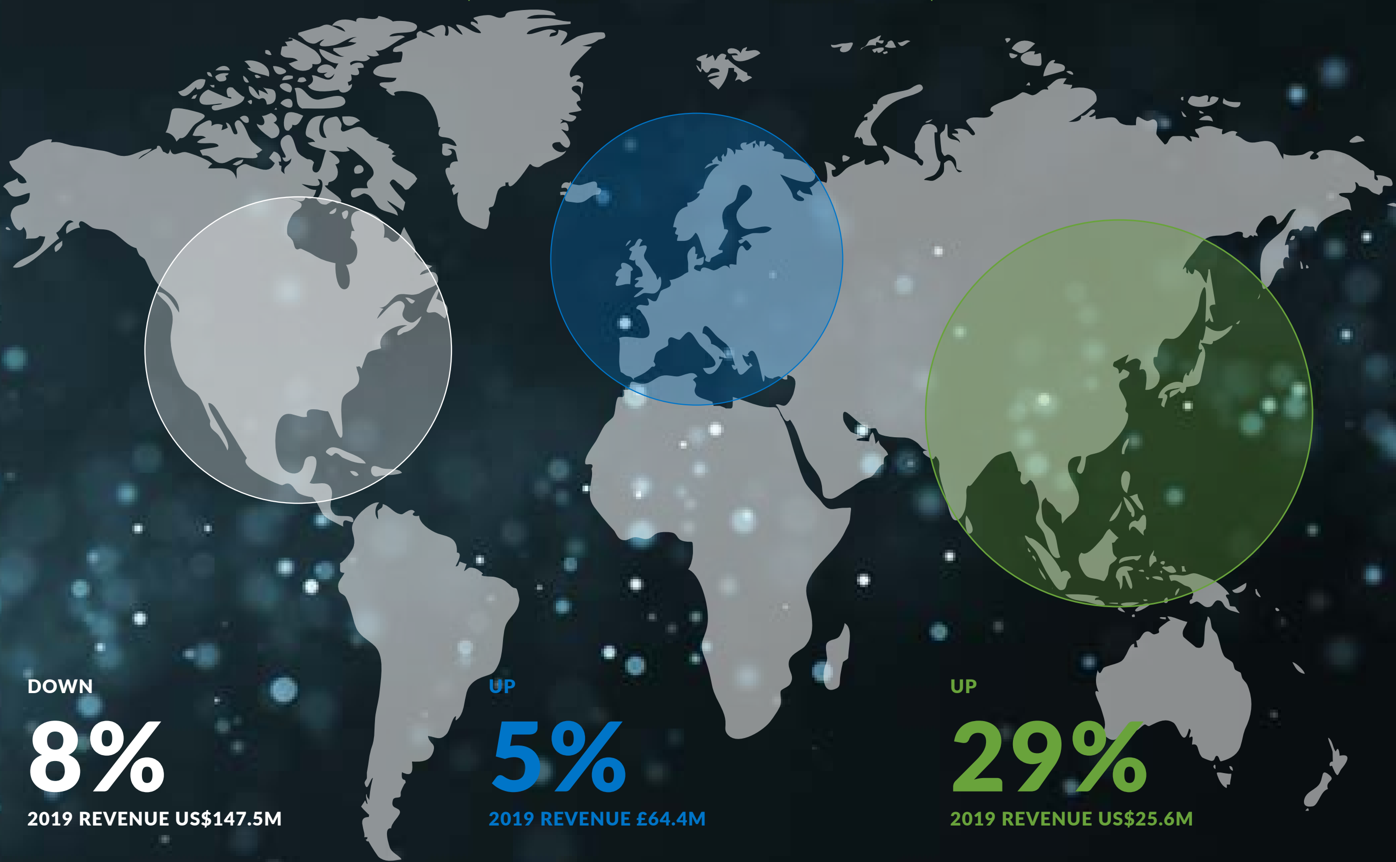
ASIA

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.

REVENUE

10%

5 SALES OFFICES



DOWN

8%

2019 REVENUE US$147.5M

UP

5%

2019 REVENUE £64.4M

UP

29%

2019 REVENUE US$25.6M

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 businesses 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.

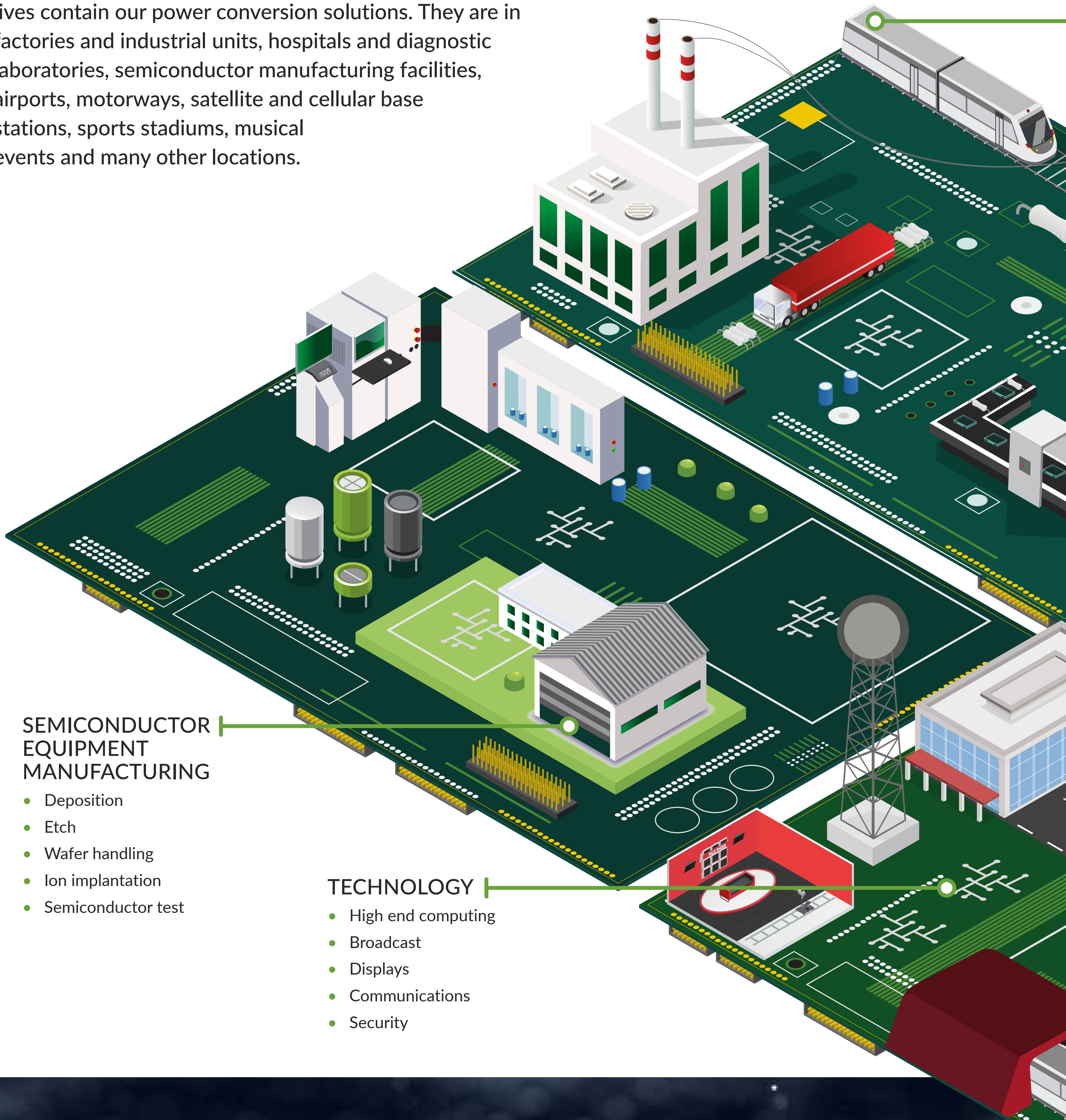
Increasingly, the design and manufacturing processes of major international original equipment manufacturers take place across different continents, with these blue-chip companies demanding global support. In response, XP Power has established an international network of offices which offers the necessary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

FOR MORE INFORMATION ON OUR MARKETPLACE PLEASE SEE PAGES 12 TO 15

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 the 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.

OUR PRODUCTS

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 EQUIPMENT MANUFACTURING

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

TECHNOLOGY

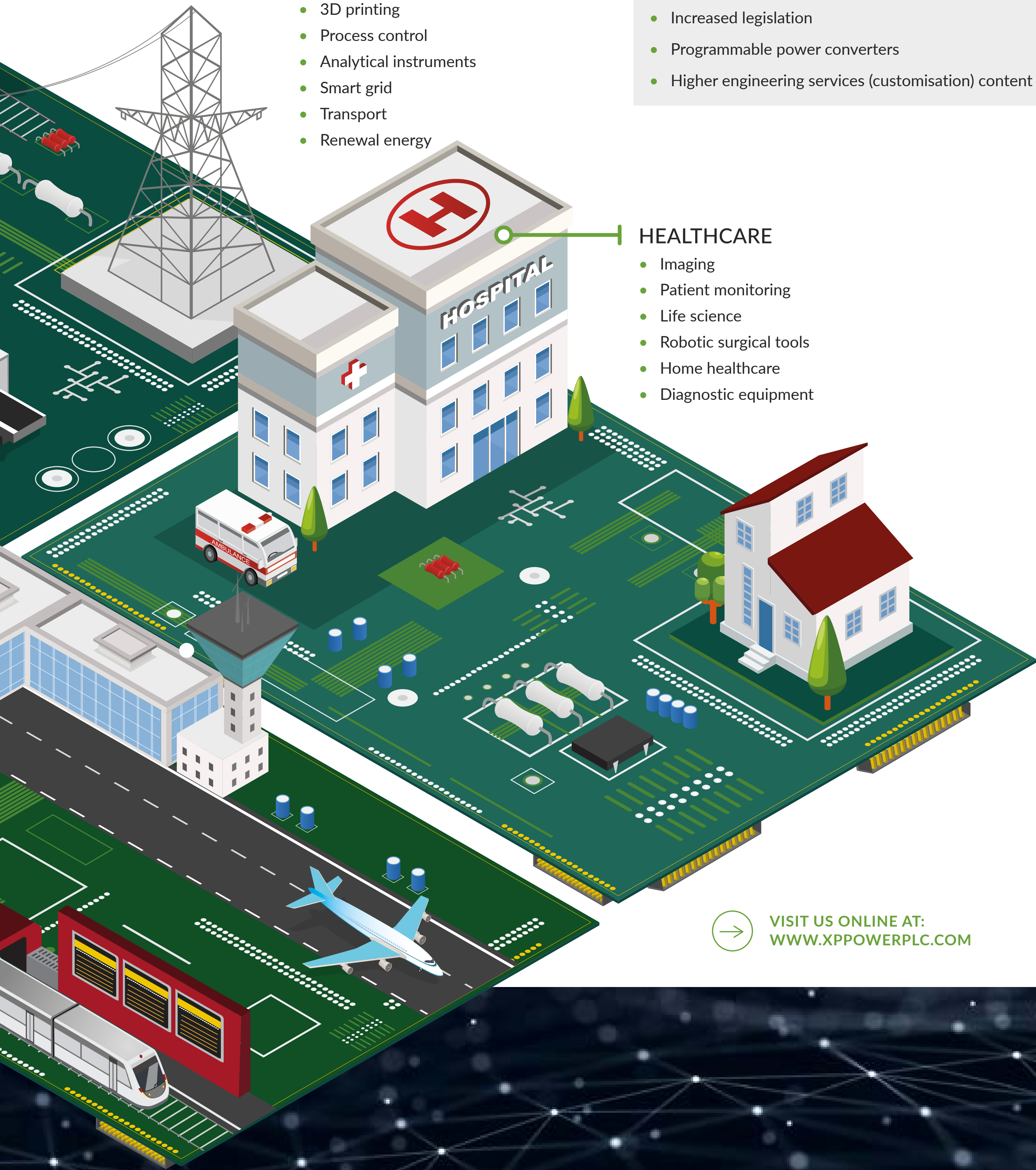
- High end computing
- Broadcast
- Displays
- Communications
- Security

Trends

- Increased connectivity and communications between power converter and application (IIoT)
- Higher power
- Increased legislation
- Programmable power converters
- Higher engineering services (customisation) content

INDUSTRIAL ELECTRONICS

- 3D printing
- Process control
- Analytical instruments
- Smart grid
- Transport
- Renewal energy



HEALTHCARE

- Imaging
- Patient monitoring
- Life science
- Robotic surgical tools
- Home healthcare
- Diagnostic equipment

VISIT US ONLINE AT:
WWW.XPPOWERPLC.COM

CHAIRMAN'S STATEMENT

JAMES PETERS
Chairman

"We delivered a resilient performance in 2019 despite facing a number of challenges. While growth in our Healthcare, Industrial Electronics and Technology markets remained robust, this was offset by a cyclical slowdown in the Semiconductor Equipment Manufacturing market and pressure on gross margins. Despite these headwinds we grew order intake and revenues over prior years, continued to win new designs and made good strategic progress."

OUR PROGRESS IN 2019

2019 was a challenging year and, despite growing both order intake and revenues over prior years, adjusted earnings per share declined for the first time since 2012. External factors including a cyclical decline in the Semiconductor Equipment Manufacturing sector and margin pressure, due to component price inflation and currency fluctuations, combined with the revenue impact, in our fourth quarter, of some short-term issues with the implementation of a new ERP system adversely impacted our earnings. Despite these headwinds we continued to win new designs and made good strategic progress.

Our strong cash generation and confidence in the Group's long-term prospects have enabled us to increase dividends consistently since listing in 2000. We are proposing a final dividend of 36p (2018: 33p) which brings the 2019 dividend per share to 91p, a 7% increase over 2018. The compound average growth rate of our dividend has been 8% over the last five years, demonstrating the Board's commitment to its progressive dividend policy.

7%
DPS INCREASE

UP
136%
FREE CASH FLOW

STRATEGY REVIEW

The Group's strategy has remained consistent for a significant period. It is built on the development of a market leading range of competitive products, either organically or by acquisition, to enable further penetration of existing target accounts where we still have relatively low market shares, combined with a drive to move our product portfolio up the power and voltage scale. We are one of a few companies in the world with a product portfolio across the power and voltage spectrum and can use our engineering services skills to combine these capabilities and provide customers with a complete power solution.

During the year the Board completed its annual review of Group strategy. This determined that our strategy continued to work effectively to achieve long-term earnings growth, market share gains in our target sectors and customers, and our brand strength, as demonstrated by the consistent revenue growth generated in all sectors except Semiconductor Equipment Manufacturing, which was impacted in 2019 by cyclical weakness. We are confident we can continue to develop market leading products and encouraged by the potential of our product and sales pipeline to continue to deliver organic growth. Following a refinancing in 2019, we have sufficient committed funds to support targeted acquisitions. We continue to make improvements to our systems and processes, product life cycle management and supply chain to support the sales growth we are generating, as well as bringing new talent into the business to support our growth.

READ ABOUT STRATEGY ON PAGES 22 AND 23

OUR BOARD

Pauline Lafferty joined the Board on 3 December 2019 as a Non-Executive Director. Pauline brings a wealth of international business experience to the Group and significant expertise in strategic human resources. She is already making a considerable contribution to the Board.

Mike Laver, Executive Director responsible for Corporate Development, retired from the Board at the Annual General Meeting on 16 April 2019. I would like to thank Mike for his significant contribution to the development of the Group over many years.

OUR PEOPLE AND OUR VALUES

The success of any organisation is dependent on its culture and the people and talent within it. The Board worked closely with the Executive Leadership Team during 2019 to ensure the Group is identifying and developing its key people and bringing new talent and capabilities into the business to ensure that it can continue to grow and take market share. We have expanded our engineering capability significantly in the last two years and are taking steps to bring more talent into our Supply Chain team during 2020.

In addition to our core values of Integrity, Knowledge, Flexibility, Speed and Customer Focus, commitment to Health and Safety remain an essential part of our DNA and underpin the value proposition we offer our customers. We have conducted annual employee engagement surveys since 2015 and I am pleased that we have shown strong scores each time, having taken action to address any issues arising from the results of the prior year. One of the main findings from these employee surveys is that our employees are proud to be part of our Company, highlighting the significant engagement we have between the business and our people. The survey score is one of our non-financial key performance indicators.

READ ABOUT CULTURE ON PAGES 72 AND 73

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 CO2 emissions year on 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 practices and raise awareness of sustainability issues across our global workforce.

READ ABOUT SUSTAINABILITY ON PAGES 48 AND 49

OUTLOOK

We delivered a resilient performance in 2019 despite facing a number of challenges. While growth in our Healthcare, Industrial Electronics and Technology markets remained robust, this was offset by a cyclical slowdown in the Semiconductor Equipment Manufacturing market and pressure on gross margins, resulting from the increase in US trade tariffs on Chinese manufactured goods and changes in product mix. Despite these headwinds we grew order intake and revenues over prior years, continued to win new designs and made good strategic progress.

Trading conditions in the early months of 2020 give grounds for optimism. Signs of a recovery in the Semiconductor Equipment Manufacturing sector are reflected in our strong order intake in the fourth quarter of 2019 and are finding good opportunities for the products brought into the Group portfolio through the acquisitions of Comdel and Glassman. We also expect benefits from the transfer of production from Minden to Vietnam in the second half of 2020. However, we are affected by certain external events, such as the impact the outbreak of the COVID-19 virus had on our supply chain. This introduces some caution into our outlook, but we remain encouraged by our healthy order book.

JAMES PETERS
Chairman

CONTENTS

Strategic Report

STRATEGIC REPORT

OUR MARKETPLACE

OVERVIEW

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 of their critical systems.

THE MARKETS WE SERVE

We have a broad exposure to the Healthcare, Industrial Electronics, 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 Semiconductor Equipment Manufacturing and Technology markets are most cyclical but it is clear that the long-term growth prospects for these sectors are robust. Healthcare is our least cyclical sector with Industrial Electronics 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 10% 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 5% share of the available global market. Our overall share in the low voltage market is estimated at 7%.

NORTH AMERICA

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

TOTAL MARKET VALUE

$1,100

/MILLION US$

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.

TOTAL MARKET VALUE

$750

/MILLION US$

HIGH VOLTAGE

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

TOTAL MARKET VALUE

$500

/MILLION US$

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.

TOTAL MARKET VALUE

$1,400

/MILLION US$

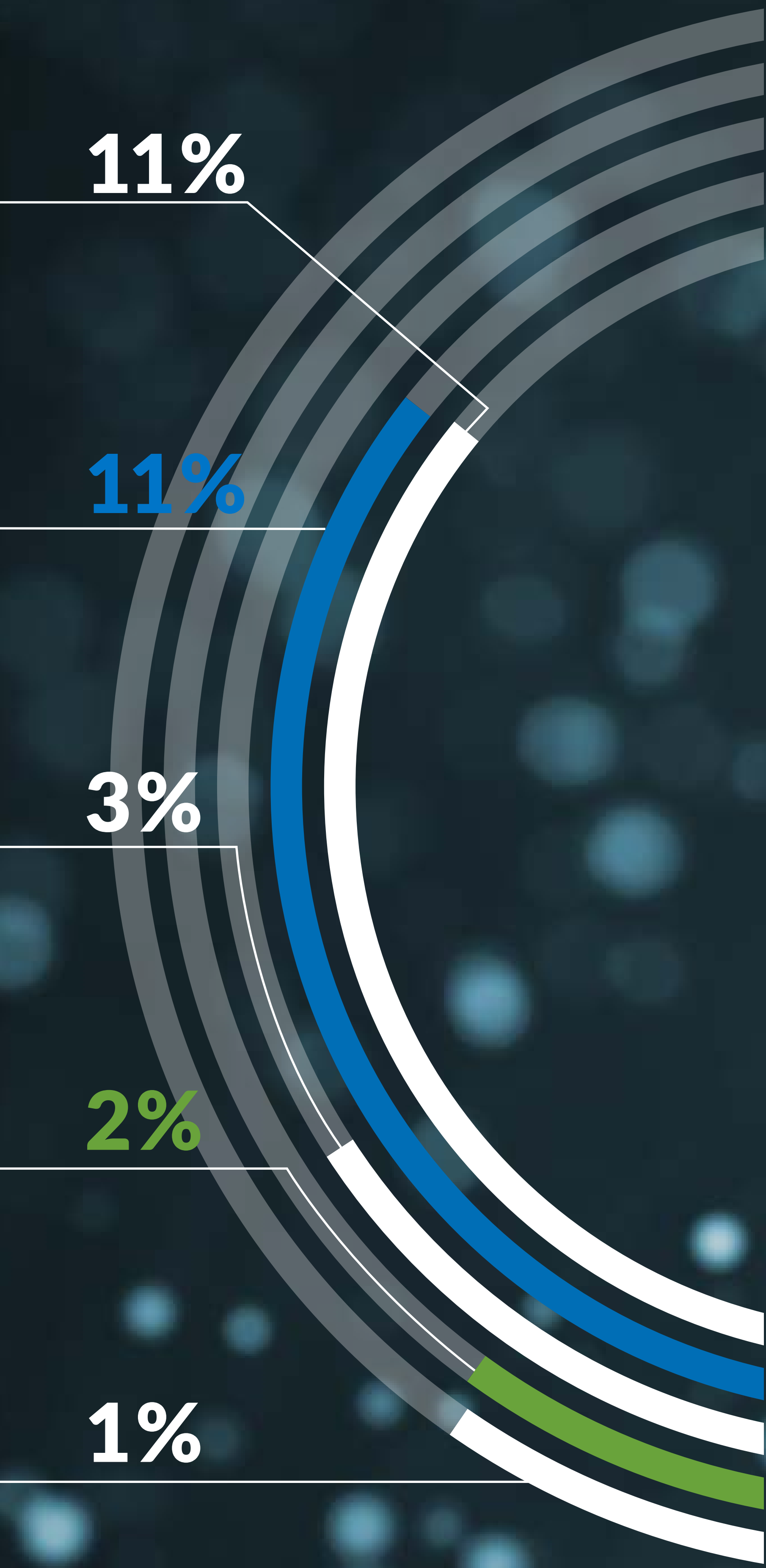
RF POWER

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.

TOTAL MARKET VALUE

$1,200

/MILLION US$



KEY TRENDS IN THESE MARKETS

01

MARKET TREND

Electronic devices are becoming ever more pervasive in our lives.

IMPACT ON MARKETS

More demand for power conversion products across our target market sectors of healthcare, industrial electronics, semifab and technology.

02

MARKET TREND

Increased need for a complete power solution and connectivity to the customer's application using firmware.

IMPACT ON MARKETS

Our engineering services groups can package these products together in one enclosure to provide a complete power solution that the customer can easily integrate into their tool. This includes communications and connectivity via firmware where required.

03

MARKET TREND

There have been significant medical advances. There is also an ageing world population and a growing market for home healthcare products.

IMPACT ON MARKETS

Healthcare is a particularly attractive sector for us with good long-term growth trends.

04

MARKET TREND

More and more roles that are performed by people are rapidly being taken over by electronic machines and robotics as artificial intelligence advances.

IMPACT ON MARKETS

More and more demand for semiconductor devices and therefore the equipment to manufacture these devices. In particular we expect long-term growth opportunities in the semiconductor equipment manufacturing sector driven by the Internet of Things (IoT), big data and Artificial 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 MARKETPLACE
CONTINUED

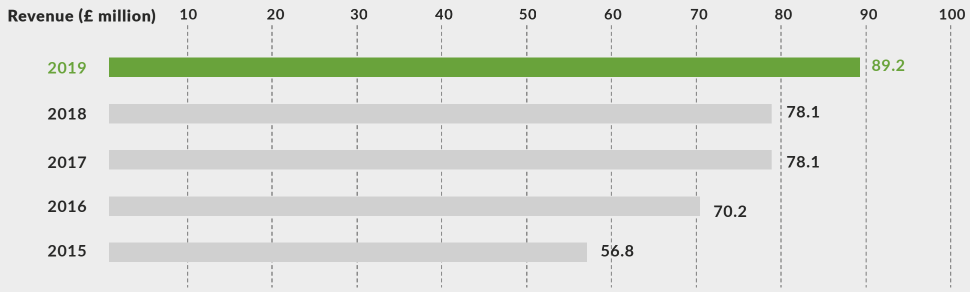
REVENUE TRENDS

The revenue trends for each sector are set out below:

INDUSTRIAL ELECTRONICS

£ millions

- 45% of revenue
- Grew 7% (constant currency YoY)
- Most diverse sector with high level of innovation

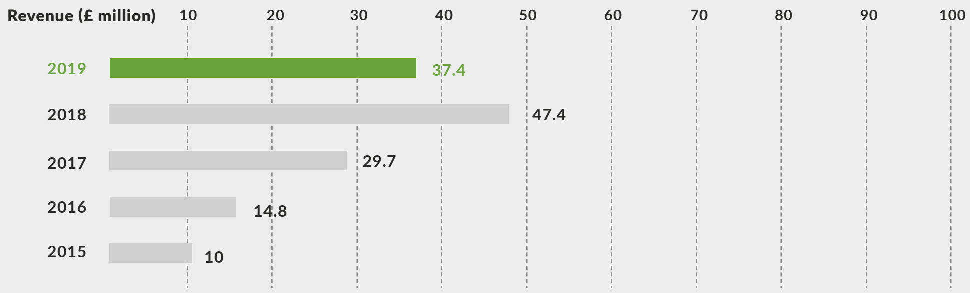


CAGR
11.9%

SEMICONDUCTOR EQUIPMENT MANUFACTURING

£ millions

- 19% of revenue
- Contracted 21% (constant currency YoY)
- RF (Radio Frequency) power and high voltage facilitate greater penetration
- Attractive long-term growth drivers
- Design win pipeline very strong

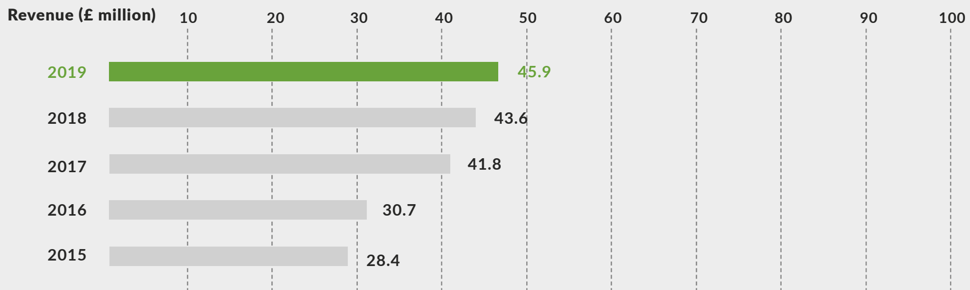


CAGR
39.1%

HEALTHCARE

£ millions

- 23% of revenue
- Grew 6% (constant currency YoY)
- Building a leading position, strong order performance
- High efficiency products well received due to high reliability
- Corporate approvals with all the major players

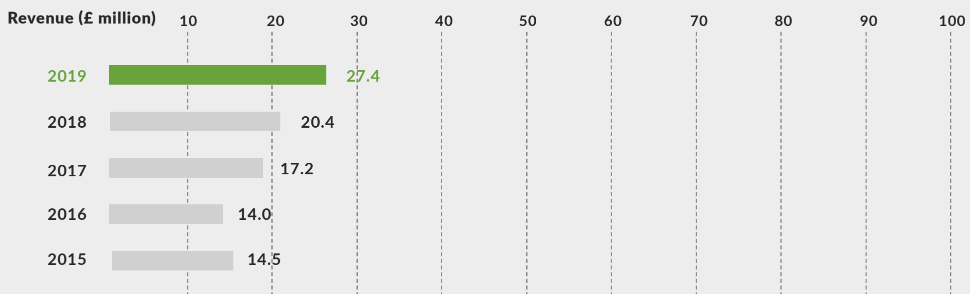


CAGR
12.8%

TECHNOLOGY

£ millions

- 13% of revenue
- Grew 34% (constant currency YoY)
- Generally larger programmes with short lifecycles so revenues fluctuate more than the other sectors



CAGR
17.2%

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.

58 % of revenues

North America revenue was US$147.5 million in 2019 (2018: US$159.5 million), a decrease of 8%. The decrease was 12% after excluding US$14.8 million of revenue from the Glassman business (2018: US$8.8 million) which was acquired at the end of May 2018. North America represented 58% of overall revenue (2018: 61%).

North America was adversely affected by the cyclical decline in the Semiconductor Equipment Manufacturing sector which began in 2018 and persisted throughout the majority of 2019.

	US$ MILLIONS
2019	147.5
2018	159.5
2017	121.3
2016	93.7
2015	85.5

32% of revenues

Our European business grew revenue by 5% to £64.4 million (2018: £61.1 million) despite weakness in continental Europe. Growth was driven by Industrial Electronics and Healthcare, with Technology revenue being in line year on year.

READ ABOUT PERFORMANCE ON PAGE 32

	£ MILLIONS
2019	64.4
2018	61.1
2017	57.5
2016	49.4
2015	45.1

10% of revenues

Asia revenues were US$25.6 million in 2019 (2018: US$19.9 million), an increase of 29%, with the strongest growth in Industrial Electronics. Our Asia business is also benefitting from the RF and high-voltage high-power products brought into the product portfolio as a result of the Comdel and Glassman acquisitions.

READ ABOUT PERFORMANCE ON PAGE 32

	US$ MILLIONS
2019	25.6
2018	19.9
2017	19
2016	16.1
2015	13.7

OUR MARKETPLACE: OUR GROWTH DRIVERS

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.

READ ABOUT PERFORMANCE ON PAGES 30 AND 40

ENERGY EFFICIENCY AND RELIABILITY

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.

HOW WE'RE RESPONDING

We have developed a portfolio of "Green" XP Power products with class-leading efficiencies, which can operate without fan cooling.

INNOVATION

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.

HOW WE'RE RESPONDING

With the acquisitions in RF Power in 2017, and high voltage power in 2018, we now have six design centres around the globe offering a diverse range of products.

HEALTHCARE

A global population that is both increasing and ageing, coupled with advances in diagnostic technology and surgical robotics, is driving the demand for more healthcare devices. This 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.

HOW WE'RE RESPONDING

We have the broadest, most up-to-date range of medically approved power converters in our industry.

PROLIFERATION OF ELECTRONIC DEVICES

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), Artificial Intelligence (AI) and big data. These devices drive demand for semiconductor manufacturing equipment, which is a key focus area for XP Power.

HOW WE'RE RESPONDING

We have the broadest range of standard products in our industry which are designed to be easy to modify to power the customers' specific application. Many of our products are suitable to power semiconductor manufacturing equipment and these customers value our engineering services proposition.

LEGISLATION

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 for 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.

HOW WE'RE RESPONDING

We have dedicated resources devoted to power converter legislation, which our customers value.

CONNECTIVITY AND INDUSTRY 4.0

Customers' applications are becoming ever more complicated and increasingly more connected enabling Industry 4.0.

HOW WE'RE RESPONDING

Our engineering services groups are providing complete power solutions including connectivity to and from the customers' application using firmware and, where required, to the internet.

PENETRATION

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.

HOW WE'RE RESPONDING

RF Power from the acquisition of Comdel, and high voltage from the acquisition of Glassman, increase our available market from US$3.1 billion to $4.8 billion.

CAPITAL EQUIPMENT

Our products are designed into and power capital equipment and as such are subject to the capital equipment cycles. We have found growth niches in new industrial technologies such as 3D printing, analytical instruments, smart grid and robotics. 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.

HOW WE'RE RESPONDING

We have the largest direct sales force in our industry together with the broadest product portfolio so we are well positioned to take advantage of any recovery in the capital equipment markets. We have also targeted newer and faster growth industrial sectors such as 3D printing, analytical instruments, robotics and smart grid infrastructure.

EXPANSION OF "GREEN" PRODUCTS

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.

HOW WE'RE RESPONDING

We have developed a portfolio of "Green" XP Power products with class-leading efficiencies and have the most environmentally friendly manufacturing facility in our industry.

OUR BUSINESS MODEL

Our business model has evolved from that of a specialist distributor, to designer, to design manufacturer.

KEY RESOURCES

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.

READ ABOUT PERFORMANCE ON PAGES 30 AND 40

READ ABOUT OUR SUSTAINABILITY ON PAGES 48 AND 49

KEY ACTIVITIES

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 that 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 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 suppliers' 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.

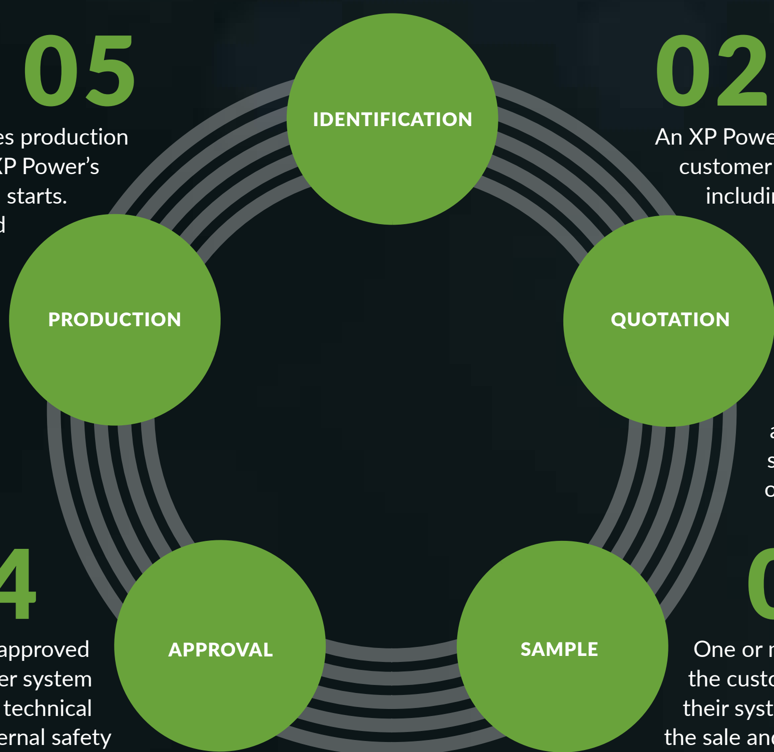
SALES CYCLE

Our sales process is generally a technical sale, between XP Power sales engineers and customer design engineers. Our customers are typically experts in their field, whether it is robotic surgery, a state of the art semiconductor manufacturing tool 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.

01

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.



02

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.

03

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.

04

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.

05

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.

REVENUE STREAMS

- We gain substantial revenue annuity over the life cycle of a product. The design in cycle is typically 18 to 24 months.
- Revenue from our own designs were flat compared with 2018. Our own design product created £155.8m of revenue. Labelled product accounted for £39.4m of revenue and third party was £4.7m.

WE ARE PART OF THE RESPONSIBLE BUSINESS ALLIANCE (RBA)

OUR EMPLOYEES CAN TAKE A DAY OF PAID TIME OFF TO SUPPORT LOCAL COMMUNITY ACTIVITIES

+7%

DIVIDEND PER SHARE

EMPLOYEE CULTURAL SURVEY SCORE OF

75.0

32

ADDITIONAL PRODUCT FAMILIES TO OUR PORTFOLIO DURING 2019

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

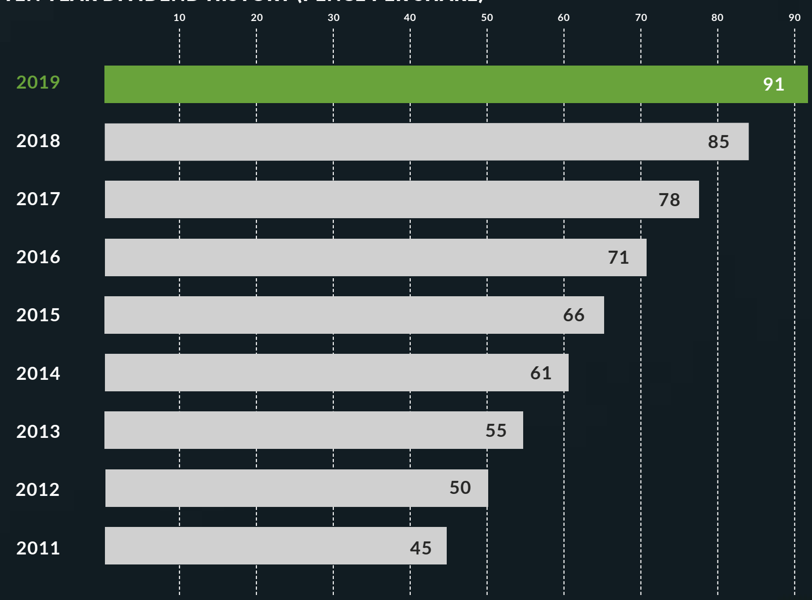
Our communities and the environment

- 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 as shown below
- 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 through acquisitions in RF (Radio Frequency) power and high voltage.

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.

	Develop a market leading range of competitive products	Target accounts where we can add value	Vertical penetration of focus accounts
RATIONALE	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. 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.	We pride ourselves in the level of service and support we offer to our customers, particularly during the design-in stage. 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.	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.
TARGET/GOAL	To release sufficient products to achieve a best year revenue in excess of US$30 million.	Organic revenue growth in excess of 10%.	Organic revenue growth in excess of 10%.
PAST PERFORMANCE	Over the past few years we have been expanding our product portfolio and have developed a number of highly efficient, leading-edge products.	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.	We have spent the last few years gaining approved or preferred supplier status at the key customers in the Industrial Electronics, Healthcare, Semiconductor Equipment Manufacturing, and Technology sectors. We are focused on this existing customer base in order to grow our revenues.
PLANNED FUTURE ACTIONS	Emphasis has now shifted towards products which still have leading efficiencies but which are more mainstream and attractive from a cost perspective.	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.	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.
LINK TO KPIS	• New product families released • Proportion of own-designed revenue	• Revenue	• Revenue from top 30 customers
LINK TO RISKS	• Competition from new market entrants and new technologies • Loss of key personnel or failure to attract new personnel	• Dependence on key customers • Product recall/quality management	• Dependence on key customers • Product recall/quality management

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.

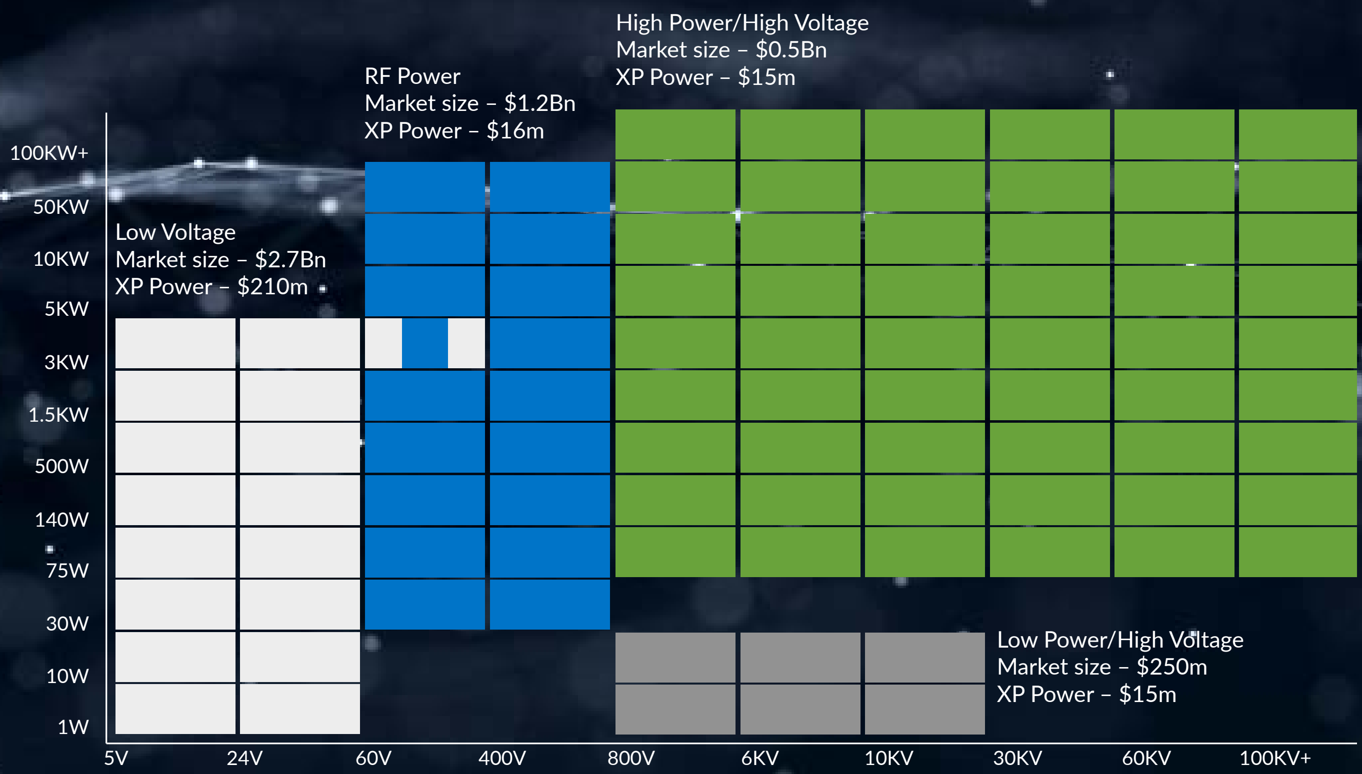
Build a global supply chain which balances high efficiency with market leading customer responsiveness	Lead our industry on environmental matters	Make selective acquisitions of complementary businesses to expand our offering
Since listing in 2000 we have built a strong brand in the power converter market. 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 processes and, in particular, our supply chain processes in order to scale and run a much larger business as we continue to grow.	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.	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.
Consistent improvement in lead time and on time delivery.	Consistent reduction in our CO_2 intensity.	Bolt-on acquisitions driving inorganic revenue growth in excess of 5%.
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.	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.	Through our recent acquisitions we have added both RF power and high power/ high voltage to our product range.
As the business continues to grow and become more complex we will continue to add talent to our supply chain operations in 2020. In 2019 we have also upgraded our ERP system in our sales companies in Asia, Europe and North America.	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.	We continue to look for acquisitions to expand our product offering and other capabilities.
• Adjusted earnings per share	• Lifetime CO_2 emissions savings from "Green" products	• New product families released
• Loss of key personnel or failure to attract new personnel • Cybersecurity/information systems failure	• Risks relating to regulation, compliance and taxation • Loss of key personnel or failure to attract new personnel	• Strategic risk association with valuing or integrating new acquisitions

OUR STRATEGY IN ACTION: PRODUCT PORTFOLIO

Our product portfolio presents significant growth opportunities.

OUR PORTFOLIO:

- Acquisitions in high voltage (EMCO and Glassman) and RF power (Comdel) expand our addressable market from $2.7 billion to $4.7 billion
- One of few companies in the world who can provide solutions right across the power and voltage spectrum
- Can use our engineering services capabilities to combine different products to give the customer a complete power solution
- Presents significant long-term growth opportunity



LINK TO STRATEGY

- Our acquisitions provide us with the opportunity to release further new product families
- As we can create a larger product offering we can add value in accounts where we already have strong relationships
- Expanding our product offering so that we can capture opportunities in target accounts
- We can focus on "Green" products in the low voltage market to lead on environmental matters

LINK TO VALUES AND CULTURE

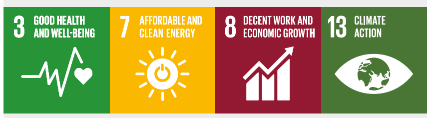
- We aim to constantly improve our knowledge and therefore a wider product portfolio supports this
- Our product ideas derive from our customer focus
- We are flexible regarding our product offering so we can modify our products to solve our customers' power problems
- We ensure all opportunities for growth are qualified with integrity

READ ABOUT STRATEGY ON PAGES 22 AND 23

READ ABOUT SUSTAINABILITY ON PAGES 48 AND 49

LINK TO SUSTAINABILITY AND THE SDGS

- As we develop our product portfolio and offering we are able to offer an increased range of "Green" products which consume and waste less energy so have lower carbon emissions. This improves the wellbeing of society, and in turn impacts climate action
- As we grow we are increasingly able to further economic growth and development in the locations that we operate in



OUR STRATEGY IN ACTION: VIETNAM

We are creating more flexibility within our supply chain. There has been a 75% increase in manufacturing capacity as the construction of Vietnam II is now complete. Over 2,000 products are now approved for production in Vietnam enabling our customers to mitigate the economic impact of Section 301 Tariffs in the USA. In addition, the manufacture of our low power/high voltage DC modules is transferring from Minden, Nevada, to Vietnam to reduce our manufacturing costs.

OUR RATIONALE

Our rationale for increasing supply chain flexibility in Vietnam:

- Cost advantage over China and USA
- Helps mitigate Section 301 Tariffs and provides a competitive advantage over competitors with Chinese-based manufacturing
- Expect annualised cost savings of approximately £4 million with the shift from Nevada to Vietnam
- This enables us to invest back £1-2 million of the savings into the business to expand and strengthen our new product introduction team

"Over 2,000 products are now approved for production in Vietnam

LINK TO STRATEGY

- This provides us with the opportunity to invest back into the business, which will support new product families being released, and improve design for manufacture
- This supports our focus on building a global supply chain. It will provide us with increased efficiency and flexibility
- Investment back into the business will support our vision of being the first choice power solutions provider delivering the ultimate experience to our customers and our people

READ ABOUT SUSTAINABILITY ON PAGES 48 AND 49

LINK TO VALUES AND CULTURE

- We aim to constantly improve our knowledge and therefore investment in the business supports this
- This demonstrates our focus on being flexible. Vietnam provides us with enhanced business continuity options
- Throughout this process we have acted with speed and agility
- We ensure all opportunities for growth are qualified with integrity
- Our customer focus is evident from the decision to move products to Vietnam to allow them to mitigate the effects of tariffs

LINK TO SUSTAINABILITY AND THE SDGS

- We are focused on supporting decent work and economic growth. Therefore we follow our Responsible Business Alliance (RBA) commitment in Vietnam
- We ensure we act with integrity in Vietnam and encourage responsible consumption and production. Our Vietnam facility has excellent environmental credentials

OUR STRATEGY IN ACTION: SOLVING OUR CUSTOMERS' POWER PROBLEMS

XP Power partnered with a leader in inventory management robotics with self-learning Artificial Intelligence to scan supermarket shelves and report inventory status and re-order items as needed. These intelligent robots help the world's largest retailers to predict demand and manage their inventories with confidence. This allows employees to be freed from mundane tasks to interact with customers or focus on other initiatives as retailers push to meet customers' demands to order online.

The robots have sensors and cameras that scan the shelves and communicate to the inventory control system how much is currently in stock. Employees then re-stock items as needed.

THE APPLICATION

This application required a smart power conversion system for the robot docking station to charge the robot's batteries. The robot is designed to be used in both warehouses and stores.

POWER REQUIREMENT

The customer required a high output power at a relatively uncommon voltage but also required power delivery at low line output enabling the robot to be used in many places in the world. Significantly they also wanted digital control of the power solution and custom firmware to allow them to:

- Monitor and control the docking station from a remote user location
- Control the sequence and timing of the battery charges to optimise the facility's power consumption meaning greener power consumption and lower energy costs
- Report fault conditions transmitted via serial interface while also giving LED visual indicators on the docking station itself

WHY WE WON

- The customer's requirements could not be implemented with a standard off the shelf solution due to the communication required between the power solution and the customer's application
- Our engineering services team got to work and rapidly designed a complete power solution for the customer using a modified standard building block. XP Power was not only able to provide the power conversion hardware but could also provide the firmware control solution allowing communication between the power supply and customer's application. This was not an offering the competition could provide
- Our solution also had superior conducted and radiated emissions and therefore presented less electrical noise issues that the customer had to contend with. This allowed the customer's engineering team to focus on the robot solution and not worry about the complexity of the power solution and associated firmware

COMMERCIAL

The customer ended up with a base solution that met all their unique requirments, received higher value in getting to market faster and did not have to commit their own precious engineering resource into developing firmware. This is a classic example of XP Power providing power expertise to deliver genuine value and help our customer be successful.

> We provided power expertise to deliver genuine value and contribute to our customer's success

LINK TO STRATEGY

- Targeting customers where we can add genuine value
- Our broad up-to-date product offering meant we had a suitable product we could adapt for the complex solution

LINK TO VALUES AND CULTURE

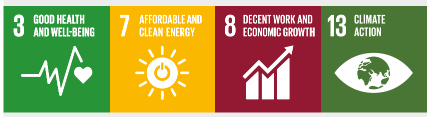
- Speed – we were fast to solve the customer's power problems and get them to market quickly
- Knowledge – we had the capability to provide the complete power solution including custom firmware
- Flexibility – our solution was tailored to the customer's needs meeting their unique requirements
- Customer focus – the customer's needs remain at the centre of everything we do

READ ABOUT STRATEGY ON PAGES 22 AND 23

READ ABOUT SUSTAINABILITY ON PAGES 48 AND 49

LINK TO SUSTAINABILITY AND THE SDGS

- Industrial Electronics innovation and infrastructure
- Decent work and economic growth

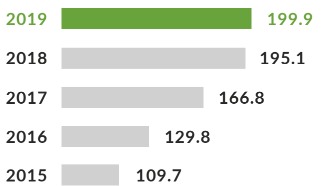
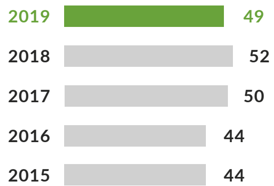
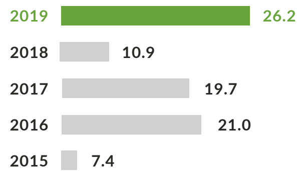


OUR KEY PERFORMANCE INDICATORS

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 (%)	Free cash flow
			
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 target free cash flow growth of 10% per annum.
WHY DO WE MEASURE THIS?	Provides an indicator of business growth between reporting periods.	Used to assess how effectively we are targeting top customers.	Provides an indicator of value created for shareholders.
TARGET ACHIEVED (AND COMMENTARY)	• No	• Yes	Yes
OUR PROGRESS IN 2019	• Leveraged off the new products gained through acquisition, expanding sales in other regions • Expanded our distribution channels	• This metric decreased due to the cyclical downturn in the semiconductor equipment manufacturing industry • Excluding the cyclical impact noted above we continue to grow share of our large customers	• Improved our working capital management, specifically related to inventory • Improved cash flow forecasting to make better use of available cash, either through debt repayment or short term deposits
OUR PLANS FOR 2020	• Continue to utilise our broad product offering through all sales regions • Provide increasing support to our customers through our engineering solutions group	• 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 seek opportunities to maximise working capital
LINK TO STRATEGY	• Target accounts where we can add value	• Vertical penetration of focus accounts	• Build a global supply chain which balances high efficiency with market leading customer responsiveness
LINK TO CORE VALUES			
LINK TO RISK	1 2 3 4 5	6 7 8 9 10 11	1 2 3 4 5
LINK TO REMUNERATION	Revenue growth drives the annual growth of our adjusted profit before tax which is a target in our Group bonus plan	Placing emphasis on revenue from our top 30 customers aligns with our strategy and long term earnings growth, a key measure in our share incentive schemes	Free cash flow is a metric in our Group bonus plan

FOR MORE INFORMATION ON OUR STRATEGY SEE PAGES 22 AND 23

FOR MORE INFORMATION ON RISKS SEE PAGES 42 TO 47

FOR MORE INFORMATION ON OUR CORE VALUES SEE PAGES 52 AND 53

FOR MORE INFORMATION ON SUSTAINABILITY SEE PAGES 48 AND 49

NON-FINANCIAL

Adjusted diluted Earnings per share ("EPS") growth (%)	New product families released	Cultural survey score (index out of 100)	Lifetime CO_2 emission savings from "green" products (tonnes)
2019: 145.5 2018: 172.8 2017: 147.0 2016: 115.3 2015: 104.3	2019: 32 2018: 27 2017: 27 2016: 47 2015: 22	2019: 75	2019: 236,157 2018: 236,000 2017: 291 ,000 2016: 158,000 2015: 133,000
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 and be at least above the benchmark for similar sized international companies. In 2020 we changed providers to Work Buzz to use a more modern survey with enhanced online reporting tools and a different question set.	We have set a target to increase the lifetime CO_2 emissions savings from "Green" XP Power products by at least 5% per annum.
Used to assess the adjusted earnings performance of the Group	Used to assess the expansion of the Group's product portfolio.	Used to assess the Group's performance against its People objectives.	Used to assess the Group's performance against its environmental objectives
• No	• Yes	• Yes	• No
• Earnings negatively impacted by US/China tariffs	• We released 32 new product families in 2019 (2018: 27) • 25 (2018: 20) of these new product families can be classified as "Green" XP Power products	• We continue to undertake an annual employee engagement survey to identify areas our people tell us where we can improve to deliver the ultimate employee experience • In 2019 we changed providers to Work Buzz to use a more modern survey with enhanced online reporting tools and a different question set.	• Of the 32 new product families launched in 2018, 25 were "Green" • Our revenues from "Green" XP Power products increased by 3% to £43.2 million in 2019 • CO_2 emission savings declined in 2019 due to product mix
• Leverage strong order intake end to 2019 to grow EPS	• We will no longer report this metric as a KPI	• While employee engagement is pleasing the results of the survey indicate that we need to work to improve recognition programmes	• 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
6 7 8 9 10 11	1 2 3 4 5	6 7 8 9 10	6 7 8 9 10 11
• EPS is a performance condition in our share incentive scheme			

PERFORMANCE: OPERATIONAL REVIEW

DUNCAN PENNY
Chief Executive Officer

REVIEW OF OUR YEAR

The 2019 financial year presented several challenges to our business. A combination of cyclical weakness in the Semiconductor Equipment Manufacturing sector, which had begun in 2018, the trade dispute between China and the USA, the knock-on impact of the component price inflation we experienced in 2018, fluctuating Sterling to US Dollar exchange rates and some destocking in our distribution channels, combined to produce tougher business conditions.

Against this backdrop we continued to make good progress with the execution of our strategy, putting the business on a stronger footing to grow in the future by continuing to improve our product life cycle management procedures and upgrading our processes and systems in our sales organisations in Asia, Europe and North America.

We exited 2019 having delivered an ERP implementation, with Section 301 tariffs now being recovered from customers and a strong order book as the Semiconductor Equipment Manufacturing sector showed signs of recovery in the fourth quarter. We are making significant progress, in line with our vision of being the first-choice power solutions provider, delivering the ultimate experience to our customers and our people.

Our design wins were strong in 2019, boding well for future market share and revenue growth. We continued to move our product portfolio to higher power and technically more complex applications, and to expand the number of design wins with higher engineering solutions content.

We are one of the few companies that can offer its customers a full range of solutions across the voltage and power spectrum and provide the engineering services to package these together to provide a complete power solution, including communication with the customers' application through firmware. This is a powerful proposition which makes us an ideal partner for many of our target customers and greatly expands our addressable market.

MARKETPLACE

Demand and order intake in the Industrial Electronics, Healthcare and Technology sectors was robust throughout the year. In the Semiconductor Equipment Manufacturing sector, the cyclical weakness which had started in the second half of 2018 gathered pace in the first part of 2019, before starting to recover in the final quarter of the year.

Group order intake was up 8% on a reported basis to £214.9 million (2018: £198.4 million). In constant currency order intake increased by 4% and on a like-for-like basis, excluding Glassman, which was acquired at the end of May 2018, order intake growth was 2%. The resulting book-to-bill ratio was 1.08.

Overall revenues grew by 2% to £199.9 million (2018: £195.1 million) on a reported basis. Revenues were reduced by approximately £5 million due to the short-term issue with the implementation of a new ERP system in the fourth quarter of 2019, as discussed later in this review. In constant currency revenues reduced by 2% and by 4% on a like-for-like basis, excluding the acquisition of Glassman completed in May 2018.

The average exchange rate for US Dollar to Sterling was 1.28 in 2019 versus 1.34 in 2018, representing a 4% weakening. We discuss the impact of foreign exchange volatility in more detail in our Financial Review.

MARKETPLACE: SECTOR DYNAMICS

Revenues from Industrial Electronics customers grew by 7% to £89.2 million (2018: £83.7 million) representing 45% (2018: 43%) of overall revenues. Although Industrial Electronics is our largest sector, it is very diversified with few of these customers making it into our top 30 customer list. Applications in this sector vary significantly and are principally driven by new and emerging electronic technologies and high growth niches rather than traditional areas like industrial machinery, automotive or mining. Typical drivers for our revenues in this sector include renewable energy, analytical instruments, test and measurement equipment, displays, 3D printing, smart grid and industrial printing. Our Distribution business, which represents 11% of our overall business and is exposed to a very diverse range of end markets, is also included within the Industrial Electronics sector.

The Semiconductor Equipment Manufacturing sector remains an important area for XP Power. Revenue from these customers reduced by 21% to £37.4 million (2018: £47.4 million) as a cyclical decline took hold in the latter part of 2018, before reaching a low point in the first half of 2019. We began to see signs of a recovery in this sector in our order intake in the fourth quarter of 2019. Revenue from Semiconductor Equipment Manufacturing sector customers represented 19% of overall revenue (2018: 24%). Our expansion into high-voltage and high-power products, combined with our engineering services offering, has made us an attractive supplier to this market. The new higher power and higher voltage products we now have allow us to service considerably more of the opportunities we see in this sector, significantly expanding our addressable market.

Despite the sector's cyclicality 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, big data and the roll out of 5G technology. The latest generations of semiconductor logic and memory devices are becoming more capital intensive to manufacture as they become multilayer, and as dimensions continue to shrink. This plays to XP Power's strengths as one of few companies in the world that can offer the whole spectrum of power and voltage required for Semiconductor Equipment Manufacturing, making us a compelling partner to the manufacturers of these state-of-the-art tools.

Revenue from Healthcare customers grew by 5% to £45.9 million (2018: £43.6 million) representing 23% of overall revenues (2018: 22%). Healthcare remains another attractive market for XP Power given the breadth of our medical product range and high level of customer service. Healthcare customers are demanding in terms of quality and reliability, making our value proposition very attractive to them. We provide mission critical power solutions for numerous applications in the healthcare arena, from patient contact applications such as robotic surgery, to diagnostic equipment such as MRI and ultrasound, through to ventilators and laboratory equipment. We also understand the many special requirements and regulatory approvals that a medical power solution has to meet. Healthcare tends to be much less cyclical than the other sectors we address which adds resilience to our diversified business model.

Revenue from Technology customers grew 34% to £27.4 million (2018: £20.4 million) representing 13% of overall revenues (2018: 11%). The strong growth achieved in 2019 was partly due to a large programme for test equipment in Asia which had been dormant for several years. Other 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 we serve.

MARKETPLACE: NORTH AMERICA

North America revenue was US$147.5 million in 2019 (2018: US$159.5 million), a decrease of 8%. The decrease was 12% after excluding US$14.8 million of revenue from the Glassman business (2018: US$8.8 million) which was acquired at the end of May 2018. North America represented 58% of overall revenue (2018: 61%).

North America was adversely affected by the cyclical decline in the Semiconductor Equipment Manufacturing sector which began in 2018 and persisted throughout the majority of 2019, as discussed above.

EUROPE REPRESENTED
32%
OF OVERALL REVENUES
(2018: 31%)

ASIA REPRESENTED
10%
% OF OVERALL
REVENUES (2018: 8%).

PERFORMANCE: OPERATIONAL REVIEW CONTINUED

We started to see signs of a recovery in the Semiconductor Equipment Manufacturing sector in the order intake in the last quarter of 2019, which appears to be predominately driven by increased demand for next generation technology tools and reduction in excess customer inventory. Notwithstanding the disappointing performance in the Semiconductor Equipment Manufacturing sector, the Industrial Electronics, Healthcare and Technology sectors all grew year on year.

Order intake in North America was US$161.7 million (2018: US$158.1 million), an increase of 2% resulting in a book-to-bill ratio of 1.10. After excluding the order intake from the Glassman acquisition of US$14.0 million (2018: US$9.4 million), orders reduced by 1%.

The Section 301 tariffs imposed by the US government on Chinese sourced products had an adverse impact on XP Power. From September 2018 a 10% tariff was imposed on power converters imported from China, where the Group has a manufacturing facility. In May 2019 the tariff was increased to 25%. The introduction of these tariffs necessitated the implementation of a process to recover this from customers to avoid a severe impact on our margins in North America. We recovered more than 90% of the Section 301 tariffs from customers in 2019. Whilst this shortfall is almost neutral to our reported absolute gross margin, it does reduce our reported gross margin percentage by approximately 60 basis points.

Our manufacturing facility in Vietnam presented an opportunity for the Group to shift production away from China to a location where the new tariffs did not apply. We had already started shifting production of our lower power products from China to Vietnam and the introduction of the Section 301 tariffs has caused us to accelerate this process. We are now able to produce over 2,000 different products in our Vietnam facility and the majority of these have been transferred from our China facility. Many customers have now qualified our Vietnam facility so they can begin to take product from Vietnam rather than China. We believe that our established production capabilities in Vietnam give us a significant advantage against competitors who primarily have a China only manufacturing footprint.

MARKETPLACE: EUROPE

Our European business grew revenue by 5% to £64.4 million (2018: £61.1 million) despite weakness in continental Europe. Growth was driven by Industrial Electronics and Healthcare, with Technology revenue being in line year on year. The European Industrial Electronics business remains highly fragmented, and comprises of many customers and numerous applications, but growth is being driven by areas such as analytical instruments, renewable energy, industrial printing and other niches rather than traditional industrial manufacturing equipment. Semiconductor Equipment Manufacturing was the only sector to decline but this makes up less than 1% of our European business. Europe represented 32% of overall revenues (2018: 31%).

Order intake in Europe was £65.0 million (2018: £64.6 million), an increase of 0.6%, resulting in a book-to-bill ratio of 1.01.

MARKETPLACE: ASIA

Asia revenues were US$25.6 million in 2019 (2018: US$19.9 million), an increase of 29%, with the strongest growth in Technology which benefited from a large customer programme for burn-in test equipment that was reinvigorated. Our Asia business is also benefitting from the RF and high-voltage high-power products brought into the product portfolio as a result of the Comdel and Glassman acquisitions. Prior to acquisition, these companies had minimal sales representation in Asia which presents a significant future opportunity for the Group. Asia represented 10% of overall revenues (2018: 8%).

Order intake in Asia was US$28.2 million (2018: US$21.4 million), an increase of 32%, resulting in a book-to-bill ratio of 1.10.

SUPPLY CHAIN

As previously announced, during the first half of 2018 we started to see a significant tightening of the supply chain for certain electronic components, which resulted in increased lead times, in some cases moving from 12 to 52 weeks, and component cost inflation. In response, we went into the market to increase our safety inventories of critical components, at prices beyond our standard costs, in order to ensure we could continue to meet our lead times to customers. The higher prices we had to pay for components were a drag on gross margins in the second half of 2018 and in 2019. As expected, we have seen an unwinding of this inventory position in 2019 which has resulted in a reduction in working capital in the period.

We remain vigilant and are keeping supply chain dynamics under close review given the advent of the COVID-19 outbreak in China, as we are now entering a period where demand for the next generation of semiconductor manufacturing equipment appears to be rising. We have already started to see the first signs of lengthening lead times for certain components such as multi-layer ceramic capacitors, purportedly driven by the roll out of 5G technology. Power semiconductor devices have also continued to be on long lead times throughout 2018 and 2019. We will continue to proactively manage our inventory to ensure continuity of supply but expect the levels to reduce further in 2020.

COVID-19 VIRUS

The situation regarding the COVID-19 virus outbreak in Wuhan, China in mid-December has been widely reported. We send our heartfelt thoughts to everyone affected by the virus outbreak, particularly our colleagues at our Kunshan manufacturing site, who we are providing with all necessary support. Our first priority is to ensure the safety of our people and we have taken epidemic prevention and control measures at both our Kunshan and Vietnam manufacturing facilities.

The Chinese authorities extended the Chinese Lunar New Year holiday and imposed a number of travel restrictions and operational restrictions on companies. These measures caused a two-week delay to the recommencement of production at our Kunshan facility, which re-opened on 17 February 2020. The difficulties our people have experienced in travelling back to work and the self-quarantine requirements also mean that we have been operating at a reduced level of capacity and do not expect to be operating at full capacity until mid-March at the earliest. Our local supply chain has experienced similar issues and we now have a backlog of production orders to catch up. There will be an inevitable slippage of revenues from the first quarter of 2020, but it is too early to determine whether this will have a material effect on our first half performance and to what extent the worldwide economic conditions will be affected by this situation.

Our Vietnamese facility recommenced production following the Lunar New Year holiday as planned on 1 February 2020 and is operating normally. We have been taking mitigating action by accelerating the transfer of more products and materials from China to Vietnam to maintain the supply of products to our customers.

ADAPTING TO THE MARKET AND THE COMPETITION

Over the last two decades XP Power has evolved from a specialist distributor of power conversion products to a designer, and then manufacturer, of power solutions for the Industrial Electronics, Healthcare, Semiconductor Equipment Manufacturing and Technology markets. Our product portfolio has moved up the power and voltage spectrum, and now also includes RF power conversion products.

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 portfolio of products from low to high-power and low to high voltage, including RF power. This capability, when combined with our engineering services offering, which can take standard products and tailor them to provide complete plug and play power systems, often incorporating custom firmware communications, makes us a compelling business partner as the equipment we power gets more sophisticated and connected.

Our low-cost Asian competitors continue to be competitive for low-power/low-complexity products without demanding or critical applications and it is straightforward for customers to

source low-cost/low-power products directly through this channel. However, this market is not growing, with revenue from these products remaining stable. By contrast, engineering solutions of the type provided by XP Power 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 significant value to our customers as we expand our engineering service groups across the globe and customers demand more connectivity and digital control of the power solutions that power their applications. These trends are driving our order and revenue growth.

We are building a broad and compelling product offering supported by an excellent engineering services capability which makes us an increasingly attractive partner for leading companies in the Industrial Electronics, Healthcare, Semiconductor Equipment Manufacturing and Technology sectors to choose to power their mission-critical applications.

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 this strategy is targeting key accounts where we can add value and gain more of the available business in those accounts, combined with moving the product line up in power, voltage and complexity. Although this strategy continues to remain appropriate and effective, we constantly challenge and refine it, as we have done again in 2019.

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 end to end supply chain that balances high efficiency with market leading customer responsiveness; and
- Lead our industry on environmental matters.

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 continue to move our product portfolio up in power and voltage to expand our addressable market and protect our margins. We are also enhancing our proposition to our target customers by expanding our engineering services capabilities. This allows us to combine our products into one complete power solution to power a customer's application.

The executive leadership team undertook an in-depth critical review of our strategy during 2019 which was presented and challenged by the Board. The key outcomes of this review were:

- Upgrade key talent so we have the capabilities to profitably scale the business, particularly in developing an end to end global supply chain;
- Ensure product development resources are focused on the appropriate product segments. This is resulting in more internal resources being focused on higher power products and away from the low-voltage/low-complexity market which we can address via third parties. As a result of this, we have closed our low-voltage design centre in Fyfield in the UK;
- Enhance product life cycle management from capture of requirements, through concept and feasibility, development, production and eventually end of life; and
- Upgrade systems and processes using our new ERP system as a platform for robust control and excellent customer service and responsiveness.

TASK FORCE FOR CLIMATE RELATED FINANCIAL DISCLOSURES

We are cognisant of the increasing concerns our people, customers, suppliers and shareholders have around climate change. We consider that we have taken a lead in our industry in developing and promoting high efficiency products which consume less energy and therefore help reduce carbon emissions over the lifetime of the equipment that our products power. The Task Force for Climate Related Financial Disclosures ("TCFD") encourages us to provide financial guidance to investors regarding the risks and opportunities that climate change might have on our business.

In general, we regard the continuing emphasis and concern over climate change as a positive for our business as our customers have embraced our high efficiency "Green" XP Power products. These generated revenues of £43.2 million in 2019 (2018: £42.1 million) representing 22% of total revenue. The Company is committed to leading the industry in this area. We believe that legislation regarding the efficiency requirements for power conversion will become more and more stringent and the standards currently in place for higher volume consumer applications, such as external power supplies, will spread to industrial and healthcare applications where we will be well positioned. Concerns over climate change should lead to an increasing emphasis by our customers of efficiency and more revenue opportunities to power renewable energy systems and controllers – smart grid being a prime example where we have already been successful.

Our geographic footprint is diverse, and we do not generally operate in locations that could be exposed to sea level rises or are particularly vulnerable to dramatic swings in weather patterns. We are continually reviewing the potential primary impacts on the business. The secondary effects of measures to combat climate change could also impact the Group. However, if more stringent legislation regarding power conversion efficiency were introduced, we believe we are well positioned to take advantage of such changes.

NEW ERP SYSTEM

Efficient and robust systems are essential for us to manage an international business and supply chain with a highly diverse customer base. The Group had operated a global Customer Relationship Management system across its businesses, which allowed it to collaborate, share information and provide efficient and effective customer service. In our 2017 Annual Report, we announced a project to implement the latest version of SAP's ERP software across our entire global supply chain. Priority would be given to our sales companies in Asia, Europe and North America, which were already running an older version of SAP, with our China and Vietnam manufacturing facilities and our recent acquisitions to follow.

The implementation of the new system will have significant benefits in terms of factory planning and customer responsiveness, and it will give us significant operational advantages, with our factory systems running on the same platform as our sales companies. Further gains will be realised when we migrate the acquired Comdel and Glassman businesses to the new platform.

We transitioned to the new SAP ERP system in mid-October 2019. However, during the system migration and in the first few weeks of operation as the teams across the Group went up the learning curve with the new processes, we experienced some short-term disruption to the implementation which led to shipments temporarily falling behind expected run rates. This resulted in approximately £5 million of scheduled order backlog moving from the fourth quarter of 2019 into 2020.

We are confident that the new SAP ERP system will deliver significant long-term benefits to the Group's ability to run its global business and supply chain.

In 2019, the Group capitalised £3.4 million (2018: £1.1 million) of development costs and incurred £2.2 million (2018: £0.2 million) of other project related costs in respect of this project. In 2020, we expect to capitalise a further £2.5-3.0 million and the other project related costs will be circa £1.0 million.

MANUFACTURING

In October 2017, we commenced construction of a second manufacturing facility in Vietnam on our existing site near Ho Chi Minh City. Construction was completed in early 2019. Our existing manufacturing facility in China and our first Vietnam facility have an annual revenue capacity of US$170 million. Vietnam II conservatively adds an additional US$130 million of capacity, bringing our total Asian manufacturing capacity up to US$300 million per annum.

This additional capacity is necessary to accommodate our growth trajectory. It also gives us the opportunity to transfer production from China to Vietnam, thereby saving the costs of the Section 301 Tariffs currently imposed on Chinese goods by the USA authorities. We have transferred over 2,000 different products to Vietnam from China and are also well advanced in transferring production of our high-voltage/low-power DC-DC modules from Minden, Nevada to Vietnam. We believe this will give us a 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.

RESTRUCTURING OF LOW-POWER, HIGH-VOLTAGE MANUFACTURING AND TRANSFER TO VIETNAM

In order to take advantage of our expanded Vietnam capacity, competitive labour rates and excellent quality, in August 2019 we announced that we would be transferring the manufacture of all our low-power, high-voltage DC-DC modules to our Vietnamese facility. Our manufacturing facility in Minden, Nevada will close by June 2020. We expect that this will result in annualised cost savings of approximately £4.0 million. Approximately £1-2 million of these cost savings will be reinvested back into the business to expand and strengthen our new product introduction team. The enlarged team will facilitate further transfers of existing engineering services production from our facility in Sunnyvale, California to Vietnam, as well as new standard products as they are introduced, resulting in additional future savings. We expect to incur approximately £1-2 million in costs associated with the full closure of the Minden site over the next 12 months which will be excluded from adjusted results.

ENGINEERING SOLUTIONS

As well as expanding our product offering, we have continued to expand our engineering solutions groups particularly in Asia and North America. As we continue to move our capabilities up to higher power and higher voltages, we are becoming an increasingly attractive partner for customers whose applications are becoming more and more demanding. These demands include not only power delivery and management, but also sophisticated connectivity involving software and firmware which enable the customer's application to control the power solution and the power solution to communicate back to the application. As the world becomes more connected and the fourth industrial revolution gains traction, we expect this trend to gather pace. Customers place a high value on our engineering solutions capabilities which differentiate us from many of our competitors, who focus only on providing standard products with little additional value added.

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 its customers, 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. We released 32 new product families in 2019 (2018: 27) and 25 of these can be classified as "Green" XP Power products having ultra-high efficiency and/or low standby power (2018: 20).

We continue to move our product portfolio up in power and voltage range and away from our traditional low-power/low-voltage offering, to protect our margins and expand our addressable market. As part of this process we took the decision to close our design centre in Fyfield, UK which was focused on low-power, low-voltage product. RF power is a significant long-term opportunity and is a market which contains many interesting and significant niches. We have therefore directed more of our internal product development resources away from low-power/low-voltage and are supplementing the low-power area with more third-party products designed to our specifications and quality standards while expanding the RF development resources.

2019 STRATEGIC REPORT

Our Strategic Report on pages 12 to 62 has been reviewed and approved by the Board.

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

The construction of the second manufacturing facility in Vietnam, which is adjacent to our existing Vietnam facility, was completed in the first half of 2019. This conservatively adds an additional $130 million of end revenue capacity, bringing the combined capacity of our Asia manufacturing footprint to $300 million.

We have aggressively been transferring product from China to Vietnam to allow our customers to mitigate the effects of Section 301 Tariffs in the USA which are imposed on Chinese manufactured products. The Vietnam facility is now capable of manufacturing over 2,000 different AC-DC products which have largely been transferred from our China facility. Vietnam has proved a good location for the Group both operationally and strategically. 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.

Both facilities 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 USA tariffs, we will continue to operate in Kunshan, China, where we have been building the high power more complex products and products which are destined to our growing Chinese customers.

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 supply of many components such as multi-layer ceramic capacitors and chip type resistors started to improve early in 2019 but many of the active power semiconductor devices we use remain on long lead times necessitating high safety inventories to maintain competitive lead times.

CLOSURE OF MINDEN MANUFACTURING

In August 2019 we announced the closure of our facility in Minden, Nevada, which manufactures our high voltage low power DC-DC modules and the transfer of this production to Vietnam. The transfer is tracking to plan and we continue to expect to have the transfer completed by mid 2020. The resultant annual savings are expected to be £4 million and £1-2 million of the savings will be reinvested back into the business to expand and strengthen our new product introduction team.

■ Manufacturing location ▲ Warehouse

NORTH AMERICA

MANUFACTURING LOCATIONS	WAREHOUSE
4	1

EUROPE

MANUFACTURING LOCATIONS	WAREHOUSE
0	2

ASIA

MANUFACTURING LOCATIONS	WAREHOUSE
2	1

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 four years has been 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 became clear that we need to upgrade our systems and processes in order to be able to scale and run a much larger company. In 2018 we 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. SAP S/4 HANA was implemented in our sales and marketing companies in October 2019 and we are now planning the roll out of the second phase of this project into our Asian manufacturing facilities which is expected to go live in 2021.

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

GAVIN GRIGGS
Chief Financial Officer

"We continue to invest in our business and people, whilst still being able to deliver strong year-on-year profit growth."

REVIEW OF OUR YEAR

XP Power delivered a resilient performance in 2019. The business generated strong free cash flow due to good working capital management and continues to have a robust financial position.

STATUTORY RESULTS

On a statutory basis, revenue was £199.9 million (2018: £195.1 million), representing growth of 2%. Operating profit was £26.7 million (2018: £39.3 million), a decrease of 32% over the prior year, with operating margin at 13.4% (2018: 20.1%). Net finance costs were £2.7 million (2018: £1.7 million) resulting in profit before tax of £24.0 million (2018: £37.6 million) and an income tax expense of £3.2 million (2018: £7.2 million), equivalent to an effective tax rate of 13% (2018: 19%). Basic earnings per share were 107.0 pence (2018: 157.8 pence), a decrease of 32%.

ADJUSTED RESULTS

Throughout this results announcement, 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 focus in particular 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 page 132 show the full list of adjustments between statutory operating profit and adjusted operating profit, between statutory profit before tax and adjusted profit before tax, as well as between statutory profit after tax and adjusted profit after tax at Group level for both 2019 and 2018.

REVENUE PERFORMANCE

The Group generated revenue growth of 2% during the year on a reported basis. Revenues were reduced by approximately £5 million due to the short-term issue with the implementation of a new ERP system in the fourth quarter of 2019, as discussed elsewhere in this review. In constant currency revenues reduced by 2% and by 4% on a like-for-like basis, excluding the acquisition of Glassman.

The Group's revenue performance was impacted by the cyclical downturn in the Semiconductor Equipment Manufacturing sector, with revenue in this sector declining by 21% to £37.4 million (2018: £47.4 million). This was offset by growth all other sectors, with the Technology sector growing 34% to £27.4 million (2018: £20.4 million), the Industrial Electronics sector, increasing by 7% to £89.2 million (2018: £83.7 million) and the Healthcare sector, which grew 5% to £45.9 million (2018: £43.6 million).

Our North American region was impacted by the Semiconductor Equipment Manufacturing sector slowdown, which contributed to revenue declining by 8% to US$147.5 million from US$159.5 million. On a like-for-like basis, after excluding Glassman revenue of US$14.8 million North America decreased by 12%. Europe delivered growth of 5% to £64.4 million (2018: £61.1 million), driven by a good performance in the Nordics, up 22% and Central Europe, up 9%. Asia revenue grew by 29% to US$25.6 million (2018: US$19.9 million).

Order intake was up 8% on a reported basis to £214.9 million (2018: £198.4 million). Orders and revenue for 2019 represent a full year, book-to-bill ratio of 1.08 (2018: 1.02).

READ ABOUT OPERATIONAL PERFORMANCE ON PAGES 30 TO 35

READ ABOUT SUPPLY CHAIN PERFORMANCE ON PAGES 36 TO 37

GROSS PROFITABILITY

Gross margin decreased to 45.1% (2018: 47.3%), largely due to the impact of the Section 301 tariffs imposed on Chinese goods imported into the USA, the knock-on impact of the component price inflation experienced in 2018 and product mix.

ADJUSTED OPERATING EXPENSES AND MARGINS

The Group continued to invest in the business, which resulted in adjusted operating expenses increasing by 11% to £54.2 million (8% in constant currency and 4% on an organic constant currency basis). Investing in our people remains a focus and resulted in payroll and staff costs increasing by 20%. Headcount, excluding factories, increased by 5% compared to 2018 as we invested in our engineering and sales capabilities. Non-cash share-based payment charges amounted to £0.7 million (2018: £0.8 million) and related to a grant to senior management under the Long-Term Incentive Scheme during the year. Adjusted operating margin decreased to 18.0% (2018: 22.0%) due to the lower revenues and gross margin in 2019 combined with the annualization of increased investments in 2018.

FOREIGN EXCHANGE

The Group reports its results in Sterling, but the US Dollar continues to be our principal trading currency, with approximately 83% (2018: 84%) of our revenues denominated in US Dollars. The average Sterling to US Dollar exchange rate decreased by 4%, from 1.34 to 1.28. The Sterling to US Dollar exchange rate saw large movements during the year but ultimately the net impact on the Group's 2019 results was not significant.

FINANCE COST

Net finance cost increased to £2.7 million (2018: £1.7 million) due to increased average borrowings following the acquisition of Glassman in May 2018.

Interest cover (EBITDA as a multiple of net interest expense as defined by our Revolving Credit Facility) was 17 times (2018: 32 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 0.92 (2018: 1.07). The covenant level for net debt to EBITDA is a maximum of three times.

The Company renewed its financing facilities with effect from 8 November 2019, increasing the revolving credit facility by US$15m to US$120m, with a US$60m accordion option. The facility is provided by HSBC UK Bank PLC, J.P. Morgan Securities PLC and DBS Bank Ltd on similar terms to the previous arrangements, with a four-year term up to November 2023.

ADJUSTED PROFIT BEFORE TAX

The Group generated adjusted profit before tax and specific items of £33.2 million, down 19% compared to last year, due to the higher direct costs incurred.

SPECIFIC ITEMS

Specific items are excluded from management's assessment of profit because by either their size, or their nature they are non-repetitive and therefore could distort the Group's underlying earnings.

In 2019, the Group incurred £9.2 million (2018: £3.6 million) of specific items, predominantly related to £3.2 million for amortisation of intangible assets due to business combination (2018: £2.8 million), costs associated with acquisitions of £0.9 million (2018: £0.6 million) and ERP implementation costs of £2.2 million (2018: £0.2 million). In addition, the Group incurred legal costs of £1.9 million (2018: £Nil) related to a non-customer related legal dispute in North America and restructuring costs of £1.0 million (2018: £Nil) related to the transfer of the manufacturing of all our low-power, high-voltage DC-DC modules to our Vietnamese facility.

TAXATION

The effective tax rate on adjusted profit before tax decreased by 790bps to 9.6% (2018: 17.5%). The lower effective tax rate was due to one-off credits related to prior year tax assessments in the United States.

The effective tax rate on profit before tax decreased by 580 bps to 13.3% (2018: 19.1%). Going forward, XP Power expects the effective tax rate to be approximately 18-20% depending predominantly on the regional mix of profits.

> "Revenue growth has translated into earnings growth"

REVENUE INCREASES
2%

CASH FROM OPERATIONS INCREASES
72%

NET DEPT DECREASES
21%

PERFORMANCE: FINANCIAL REVIEW CONTINUED

ADJUSTED EARNINGS PER SHARE

Basic and diluted adjusted earnings per share from continuing operations before specific items both decreased by 16% to 148.3 pence and 145.5 pence respectively (2018: 176.1 pence and 172.8 pence).

CASH FLOW

The Group generated £46.2 million net cash from operations compared with £26.7 million in the previous year. The higher level of operating cash flows was largely a result of improved working capital management, specifically related to a £12.4 million reduction in inventory levels.

Free cash flow before acquisitions, dividends and repayment of borrowings was £26.2 million (2018: £10.9 million).

NET DEBT AND DIVIDENDS

We finished 2019 in a net debt position of £41.3 million (2018: £52.0 million), with the decrease due to improved cashflow generation and foreign exchange movements. The Group continued its progressive dividend policy which meant returning £16.7 million (2018: £15.3 million) to shareholders in the form of 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.

This year's cash flow performance has enabled us to recommend a final dividend of 36 pence per share for the fourth quarter of 2019. This dividend will be payable to members on the register on 27 March 2020 and will be paid on 28 April 2020. When combined with the interim dividends for the previous three quarters, the total dividend for the year will be 91 pence per share (2018: 85 pence), an increase of 7%.

The policy is to increase dividends progressively whilst maintaining an appropriate level of dividend cover. Dividend cover for the year was 1.2 times (2018: 1.9 times). We expect dividend cover to re-build based on strong long-term prospects.

FIXED ASSETS

We continue to invest in our business with the majority of the spend being on manufacturing and supporting our future sales growth. We plan to invest circa £8 million during the new financial year, in line with 2019. This investment is principally related to upgrading our ERP system.

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 no forward currency contracts outstanding at 31 December 2019 (2018: £10.8 million).

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 may arise following the United Kingdom's exit from the European Union.

GAVIN GRIGGS

Chief Financial Officer

READ ABOUT MARKETPLACE ON PAGES 12 TO 15

READ ABOUT SUPPLY CHAIN PERFORMANCE ON PAGES 36 TO 37

MANAGING OUR RISKS

The Group has well-established annual and ongoing risk management processes to identify and assess risks.

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.

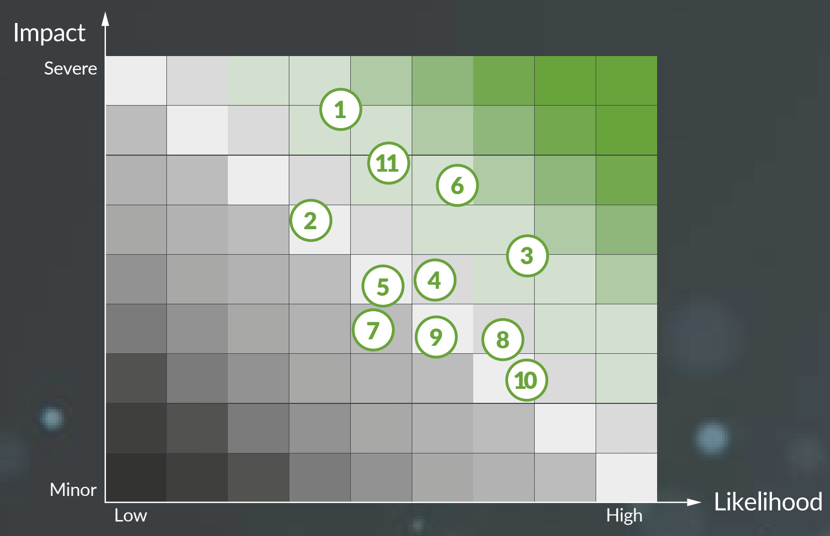
BOTTOM UP

Identifying, assessing and mitigating risk across functional areas

Key

No change to risk | Increase in risk | Decrease in risk

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
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.
11. Supply Chain

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	Potential impact	Mitigation	Assessed trend
1 **AN EVENT CAUSES A DISRUPTION TO OUR MANUFACTURING FACILITIES**	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.	• 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. • We have disaster recovery plans in place for both facilities. • 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.	
2 **PRODUCT RECALL**	A product recall due to a quality or safety issue	This would have serious repercussions to the business in terms of potential cost and reputational damage as a supplier to critical systems.	• 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. • Where we have contracts with customers, we limit our contractual liability regarding recall costs. • No single customer project accounts for more than 4% of overall revenue.	

MANAGING OUR RISKS CONTINUED

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	Potential impact	Mitigation	Assessed trend
3 **COMPETITION FROM NEW MARKET ENTRANTS AND NEW TECHNOLOGIES**	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 the 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.	• 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. • 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.	
4 **FLUCTUATIONS OF REVENUES, EXPENSES AND OPERATING RESULTS DUE TO AN ECONOMIC SHOCKS**	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.	• 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. • 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. • The Group benefits from good order exposure 12 months out allowing it to recognise market changes and mitigate the impact.	
5 **DEPENDENCE ON KEY CUSTOMERS**	The Group is dependent on retaining its key customers.	Should the Group lose a number of its key customers, this could have a material impact on the Group's financial condition and results of operations. However, for the year ended 31 December 2019, no single customer accounted for more than 10% of revenue.	• The Group mitigates this risk by providing excellent service. Customer complaints and non-conformances are reviewed monthly by members of the Executive Leadership team.	

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	Potential impact	Mitigation	Assessed trend
6 **CYBERSECURITY/ INFORMATION SYSTEMS FAILURE**	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.	• The Group has a defined Business Impact Assessment which identifies the key information assets; replication of data on different systems or in the Cloud; an established backup process in place as well as a robust anti-malware solution on our networks. • Internally produced training materials are used to educate users regarding good IT security practice and to promote the Group's IT policy. • 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.	
7 **RISKS RELATING TO REGULATION, COMPLIANCE AND TAXATION**	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.	• An outsourced internal audit function provides risk assurance in targeted areas of the business and recommendations for improvement. The scope of these reviews includes behaviour, culture and ethics. • The Group hires employees with relevant skills and uses external advisers to keep up-to-date with changes in regulations and to remain compliant.	
8 **STRATEGIC RISK ASSOCIATED WITH VALUING OR INTEGRATING NEW ACQUISITIONS**	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.	• Preparation of robust business plans and cash projections with sensitivity analysis and the help of professional advisers if appropriate. • Post-acquisition reviews are performed to extract "lessons learned".	

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	Potential impact	Mitigation	Assessed trend
9 **LOSS OF KEY PERSONNEL OR FAILURE TO ATTRACT NEW PERSONNEL**	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.	• 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.	
10 **EXPOSURE TO EXCHANGE RATE FLUCTUATIONS**	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.	• 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. • The Group does not hedge any translation of its subsidiaries' results to Sterling for reporting purposes.	
11 **RISK ASSOCIATED WITH SUPPLY CHAIN**	The Group is dependent on retaining its key suppliers and on their ability to meet their obligations to the Group. Supply Chain may also be affected by external events, such as the impact on our Chinese supply chain with the outbreak of the COVID-19 virus.	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.	• We conduct regular audits of our key suppliers and in addition keep large amounts of safety inventory of key components, which we also regularly review. We also dual source our components where possible to minimise dependency on any single supplier.	

VIABILITY STATEMENT

In accordance with provision 31 of the 2018 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 2020 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$120 million which expires in November 2023.

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 42 to 46 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 and 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 2022.

OUR COMMITMENTS TO SUSTAINABILITY

SEAN ROSS

Environmental Committee Chairman and Vice President of Quality Assurance

"This past year represented a significant milestone for our sustainability program. We surpassed over 500,000 tonnes of CO_2 savings of "Green" XP Power products that have been shipped and in use since 2010. This further demonstrates the strategy of introducing green products to market has the most significant impact on the environment and aligns with the interests of our stakeholders."

OUR COMMITMENT

The past ten years we have been a member of the RBA. This has helped us establish a base foundation from which we continue to further expand on our sustainability program. With our stakeholders we further promote a culture and clear understanding of our commitment to lead our industry on Environmental, Social and Governance 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 continuously review the impact that we as an organisation have on the environment. The review is consistent with our past conclusions that the greatest environmental impact we can have is the efficiency of the total power 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. These types of products help maximise energy savings during the entire lifetime of the customers' end application. 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 people.

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 customers' end application. The solutions we are able to develop can achieve efficiency of up to 95%. This provides a significant reduction in CO_2 emissions over the lifetime of the customers' equipment.

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 products 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, products 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 legislative requirements are projected to extend across various industries from consumer equipment to the healthcare and industrial markets that we serve.

OUR KEY ACHIEVEMENTS IN 2019

There were three key significant environmental initiatives within the business:

1. Surpassing 500,000 tonnes of CO_2 savings from "Green" XP Power products.
2. Further integration of past acquisitions into the XP Power sustainability programme.
3. Introduction of additional "Green" XP Power products.

The revenue growth of our "Green" XP Power products continues to increase. In 2019 we shipped £43.2 million of our green products, which was an increase of 3% from 2018.

Of the 32 product families that we launched in 2019, 25 were "Green" XP Power products having high efficiency and/or low standby power.

The calculated annual savings in CO_2 from these products compared to a standard 80% efficient converter are significant.

Based on our calculations, we estimate that the annual CO_2 emissions savings from the "Green" XP Power converters we sold in 2019 is 33,736 tonnes, which is a slight increase from 2018.

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 236,157 tonnes of CO_2 for products shipped in 2019. This past year represented a significant milestone for our sustainability program. We surpassed over 500,000 tonnes of CO_2 savings of "Green" XP Power products that have been shipped and in use since 2010. This further demonstrates the strategy of introducing green products to market has the most significant impact on the environment and aligns with the interests of our stakeholders.

25

NEW XP POWER GREEN PRODUCTS LAUNCHED

SUSTAINABILITY INITIATIVE – CELEBRATING THE EARTH

As in previous years we used 22 April, Earth Day, as a platform to launch an entire week of environmental awareness. Some activities across our global locations included community refuse clean up, e-waste collection, reduction of plastic drink materials and planting of vegetation.

ECONOMIC SUSTAINABILITY

As well as responsible environmental and social responsibility practices we consider the sustainability of our business model and business practices. Our 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 movement up the value from specialist distributor through to design manufacturer has strengthened and supported our economic sustainability.

OUR PLANS FOR THE YEAR AHEAD

As products we bring to market have the most significant impact, we will continue to introduce "Green" XP Power products.

OUR COMMITMENT TO THE SDGS

XP POWER IS COMMITTED TO CREATING LONG-TERM SUSTAINABLE VALUE FOR OUR STAKEHOLDERS

To achieve this goal, we have aligned our operations with the Sustainable Development Goals, providing us with a framework to map against.

In our last report we began to outline our commitment to the SDGs. Within this report we will discuss our continued progress against the goals.

OUR SUSTAINABILITY FRAMEWORK

The Sustainable Development Goals, created by the UN, are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, poor sanitation and diseases.

READ ABOUT CULTURE ON PAGES 72 AND 73

We have utilised this framework as it is committed to solving global issues. As a transnational organisation, this is vitally important to us.

Through the application of the SDGs, the wider business environment and markets will be strengthened. Organisations can harness the 17 Sustainable Development Goals to drive growth, address risk, attract capital and focus on purpose (https://www.ey.com/en_gl/assurance/why-sustainable-development-goals-should-be-in-your-business-plan).

HOW XP POWER MEASURE AGAINST THE SDGS

We have outlined below the key SDGs that we believe we can impact the most.

03 GOOD HEALTH AND WELL-BEING

XP Power focuses on the wellbeing of our employees. We also work within the healthcare sector, supporting good health. Through our commitment to a more environmentally friendly society, we support the eradication of hazardous chemicals in the environment.

04 QUALITY EDUCATION

As an organisation, XP Power are committed to continually improving their training and development. Our core value of knowledge supports this SDGs. We promote quality education and ensure opportunities are available. We have worked with schools in our communities to promote science and electronics in particular.

05 GENDER EQUALITY

We support the movement to end all forms of discrimination of women and girls by enabling their full participation at XP Power. We promote workforce diversity and ensure all women can participate in all levels of the business.

07 AFFORDABLE AND CLEAN ENERGY

Our expansion into "Green" products supports our strategic aim of leading our industry on environmental matters. These green products require less energy, are void of hazardous substances and consume less material. We believe we are leading our industry in this area.

08 DECENT WORK AND ECONOMIC GROWTH

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 business practices.

09 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Our core value of knowledge demonstrates our desire to constantly innovate. This is exemplified by our green products. We support our customers' innovation through the power solutions we provide to power their leading applications. Our power converters enable infrastructure.

10 REDUCED INEQUALITIES

At XP Power, we are committed to empowering and promoting the inclusion of all. We ensure equal opportunities and adopt policies to ensure this. We recognise the benefits of a diverse and talented workforce and consider this a competitive advantage.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

We aim to achieve the sustainable management and efficient use of natural resources. We integrate sustainable practices into our operations. We also raise awareness around sustainable development and desire to be a leader in our industry on environmental matters.

13 CLIMATE ACTION

Through our green products and focus on reducing CO_2 emissions we are supporting the reduction in greenhouse gases. We are integrating climate change measures into the business through monitoring emissions and carbon disclosures.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Our modern slavery statement and participation in the Responsible Business Alliance demonstrate our allegiance to this goal. We work towards ensuring our supply chain partners have the same approach towards ethical business practices as XP Power.

OUR CORE VALUES

Our progression from a specialist distributor, to designer, to design manufacturer demonstrate our core values in action. This shift demonstrates a clear customer focus and commitment to supporting their needs. We have strengthened our knowledge, acted with speed and flexibility whilst maintaining integrity.

INTEGRITY

- 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

KNOWLEDGE

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

FLEXIBILITY

- 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

SPEED

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

CUSTOMER FOCUS

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

LINK TO THE SDGS

Our core values are fundamental to our organisational activities. They underpin how we operate and our business decisions.

We act with integrity through our commitment to reducing inequalities and ensuring responsible consumption and production. We understand the issues around greenhouse gas emissions and therefore support environmentally friendly options. In addition, we treat our employees with integrity and support their wellbeing. We ensure the reduction of corruption and are committed to ending abuse and exploitation of children.

Through our commitment to increased knowledge we ensure a quality education as well as decent work and economic growth.

We are flexible through our desire to constantly innovate, aligned with the goal around industry, innovation and infrastructure.

The importance of speed and responding to customers furthers our ability to support economic growth. It also supports the development of industry.

Our customer focus helps us to support local infrastructure and industries through our innovative approach.

OUR CORE VALUES IN ACTION

HEATHER MURDOCK

Head of Global Human Resources

"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."

OUR CULTURE, VISION AND CORE VALUES

With the increasing emphasis and focus on culture driving organisational performance and behaviour, our executive leadership team embarked on an in-depth review of our culture in September 2019. The review included surveying our people, reviewing latest thinking on the subject and a number of offsite workshops. The output of this work was shared and discussed with the Board of Directors.

We determined that our vision to be the **first choice** power solutions provider delivering the **ultimate experience** for **our customers** and **our people** was still appropriate. We also considered that the core values around which we unite of Integrity, Knowledge, Speed, Flexibility and Customer Focus were still extremely relevant and helpful in driving and managing the business, however they do need to be reinforced where we see deviations. We also identified a number of behaviours and attributes around which we could unite as a leadership team to further develop the performance of the business which were considered helpful. Amongst was having a unified approach to processes and deeper collaboration between functions.

One of our people strategies is to continue to embed our Company core values into everything we do as 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.

2019 has seen some significant change and harmonisation in the way we operate. In October 2019 we implemented SAP S/4 HANA in our sales companies in Asia, Europe and North America. This was a significant change management initiative which brings uniform best practices across our sales companies. The second phase of this project, due to go live in 2021, rolls this out into our manufacturing facilities to give us an excellent system platform on which to manage our end-to-end supply chain. In addition, we have made great progress to enhance and harmonise our product lifecycle management processes across the globe producing increased efficiencies together with consistent and enhanced customer experience.

We believe that engaging our employees in our vision and core values 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 long-term priorities to ensure we were aimed at the right objectives and targets.

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

During 2020 we will leverage the work we did in 2019 to provide the ultimate experience for our people so they will deliver the ultimate experience to our customers.

OUR CULTURAL SURVEY

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

In 2019 we worked with a new external adviser to renew and enhance our cultural survey. The new survey provides significantly enhanced online reporting and control of results as well as a more up to date question set. The new provider also allows us to benchmark ourselves against similar companies. I am pleased to report that we achieved an engagement score of 75 which was 3 points about the benchmark. This is pleasing as this score was achieved during a time when the business was undergoing significant process and system changes.

Other areas of the survey which achieved strong results were collaboration, leadership and importantly diversity. In terms of the lower scoring areas was recognition which we will be working on during 2020.

Although we cannot make a direct comparison to the overall score for 2019 some questions were the same or similar and "I would recommend XP Power as a great place to work" and "I am proud to work for XP Power" scored highly contributing to our overall engagement score of 75.

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

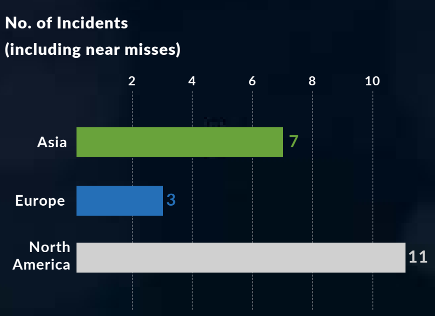
We focus on improving our training and development, ensuring we maintain an innovative and dynamic business that is focused on providing the best solutions for customers and an exciting and engaging work environment for our people. In particular, we believe our sales team is the best trained and most 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.

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

KEY — 50 XP Power Employees

924 MALE

	Non-Executive Board	Executive	Management	All Other	Total
ASIA	0	3	25	489	517
EUROPE	2	9	21	90	122
NORTH AMERICA	0	4	43	238	285
Total Male	2	16	89	817	924

FEMALE

KEY — 50 XP Power Employees

969 FEMALE

	Non-Executive Board	Executive	Management	All Other	Total
ASIA	0	0	15	739	754
EUROPE	2	1	9	44	56
NORTH AMERICA	0	1	12	146	159
Total Female	2	2	36	929	969

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.

SUSTAINABILITY TARGETS

- Average hours of training per year per employee, with breakdown by employment category.
- Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation
- Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity
- Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation

OUR PEOPLE AND THEIR HEALTH AND SAFETY CONTINUED

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

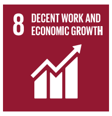
LINK TO SUSTAINABLE DEVELOPMENT GOALS

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 investment and wellbeing of all our employees.

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.

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 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 are now driving demand for connectivity and digital control so the power solution can communicate with their application which we are addressing with our engineering services offering.

CUSTOMERS

Our 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 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 customers' expectation for an ultra-high efficiency, extremely reliable power supply that we have been able to focus on providing the best solution for the customers' requirements.

KEY ACHIEVEMENTS

We have added 32 additional product families to our portfolio during 2019. Of these 32 families, 25 were high efficiency and/or incorporated low standby power. can communicate directly with the customers' 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 efficiency and ease of integration into their applications. We will continue to expand our engineering services and support to provide complete power solutions which are capable of connecting and communicating with our customers' applications.

LINK TO SUSTAINABLE DEVELOPMENT GOALS

8 DECENT WORK AND ECONOMIC GROWTH

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

11 SUSTAINABLE CITIES AND COMMUNITIES

We produce high efficiency products which reduce CO_2 emissions year after year.

More of our products are moving up the power and complexity level, which incorporate digital interfaces to vary voltages and control the power solution remotely.

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 people and our supply chain partners.

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 Action 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.

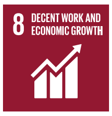
OUR PLANS FOR THE YEAR AHEAD

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.

Through the RBA we support increased transparency and accountability for suppliers.

OUR SHAREHOLDERS

COMMUNICATING WITH ALL OUR SHAREHOLDERS

Communicating what a power converter actually does and how we deliver genuine value to our customers can be challenging, especially to individual investors who do not have the advantage of face-to-face meetings with management. We make use of videos which we post to our investor relations website which explain:

- what a power converter is;
- the markets we serve;
- our strategy;
- our business model;
- our fundamental growth drivers; and
- our investment proposition.

We also have videos which shows the types of applications we power and how power converters are all around us but hidden from view. In providing this information we are attempting to reach out to our current and prospective shareholders to give them the best information we can. We also publish a video presentation of our results the morning of our interim and annual earnings release. Investors are able to register for our investor alert service via a website so they can receive timely notifications of all our regulatory announcements.

Our Non-Executives also make themselves available and consult our major shareholders on key issues such as corporate governance and remuneration policies.

CREATING VALUE FOR SHAREHOLDERS

We are conscious that some of the markets we operate in are cyclical which is true of semiconductor manufacturing equipment and to industrial electronics; our healthcare business is much less cyclical. Combined with our high gross margins and high operational gearing this naturally causes significant movement in our earnings through the cycles. Our business model is highly cash generative and this combined with our consistent profitability allows us to maintain a progressive dividend policy throughout the cycles. Since listing in 2000 our dividend has never declined and has grown at an average compound rate in excess of 15% over the last 10 years. We are proud of our consistent delivery of value to our shareholders.

SUSTAINABILITY TARGETS

- Number of board meetings and attendance rate
- Existence of audit committee, number of meetings and attendance rate

OUR COMMUNITIES

COMMUNITY ENGAGEMENT

In 2019 the XP Power team reached out and supported more local community initiatives than in any prior year.

We believe that we should give back to the communities in which we work as they make up an integral part of our lives.

Some of the key programmes that took place in 2019 included:

- Members of our Singapore office, in collaboration with the local food bank, distributed food bundles by going door to door to underprivileged households. There were 42 volunteers and we were able to make deliveries to over 200 households
- Our Minden, Nevada, team helped collect refuse in local fields and roadways. The total amount of refuse collected during this day exceeded 100 kg
- Helping to sort, distribute and prepare food for residents of the local Rescue Mission Centre. We have developed a good relationship over the past 3 years with this organisation that is local to our Southern California location
- Food drives and collections at some of our other locations that are donated to local food banks. This has been done during the non-holiday season as this is when donations are most in need

BREAST CANCER AWARENESS

One of the most successful campaigns in 2019 was the Breast Cancer Awareness Initiative. XP locations across the globe participated during this month-long event. Many activities were held to promote awareness of this disease, whilst also generating employee donations. In total there was over $10,000 collected and distributed to eight different local charities associated with Breast Cancer.

OUR PLANS FOR THE YEAR AHEAD

The local representatives that coordinate activities continue to be fully engaged within the community. There have already been discussions within the team for the year ahead and the team is planning those key initiatives for 2020 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.

10 REDUCED INEQUALITIES

SUSTAINABILITY TARGETS

- Competences relating to economic, environmental and social impacts
- Stakeholder representation

THE ENVIRONMENT

CO_2 EMISSIONS

XP Power has been tracking and monitoring our CO_2 emissions for the past 10 years. In 2009 we set ourselves a target of reducing CO_2 emissions per unit of revenue by 5% per annum. This aligned 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_2 emissions in accordance with the internationally recognised Green House Gas (GHG) Protocol and our metrics include scope 1 and scope 2 emissions. The CO_2 emissions data shows the three-month moving average of CO_2 emissions per unit of revenue at our Kunshan and Vietnam facilities. Our total Green House Gas emissions for these locations in 2019 were 4,560 tonnes of CO_2 compared to 4,307 tonnes in 2018. CO_2 emissions per unit of revenue deteriorated in China due to lower overall revenue from this factory in 2019.

In 2019 overall CO_2 emissions for recent acquisitions and other remote locations were 6,303 tonnes of CO_2 emissions. This data is comprised of 11 XP global locations, including recent acquisition of XP Glassman and XP Comdel divisions.

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. Nevertheless, we have taken action to reduce water usage in our sites including rainwater capture and reuse in our Vietnam facility.

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. The reduction in water consumed in 2019 was the result of not requiring extra shifts of production at our China facility.

CARBON DISCLOSURE PROJECT

We continue to collaborate annually with the Carbon Disclosure Project. The data is on our environment performance and is publicly accessible through the Carbon Disclosure Project website at 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.

A new Directive has now been published to add to the list of controlled substances. This Directive is 2015/EC and is titled Commission Delegated Directive (EU) 2015/863 of 31 March 2015 amending Annex II to Directive 2011/65/EU of the European Parliament and of the Council as regards the list of restricted substances. The amending Directive came into force from 22nd July 2019. We are pleased to report that except for our legacy radio frequency products, we are compliant with the latest RoHS directive.

THIRD PARTY VERIFICATION

For 2019 we engaged with Intertek to advise us on our how we should capture and report our environmental data. The accuracy of our energy, water, paper, solar power, green power and CO_2 emissions data disclosed in this report have been independently reviewed by Intertek.

AHEAD

- Continue to develop and expand on our green product portfolio
- Reduction in our overall CO_2 impact with the consolidation of our high voltage product line being manufactured in our Vietnam facility

Further assessment of our operations in which additional changes can be implemented for improved environmental performance.

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.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

OUR PLANS FOR THE YEAR

CO_2 Emissions Data	2019	2018	2017	2016	2015
CO_2 emissions (tonnes) – China and Vietnam facility	4,560	4,307	3,906	3,581	3,361
CO_2 emissions per unit of factory revenue (kg/$1,000) – China facility	77	54	54	56	47
CO_2 emissions per unit of factory revenue (kg/$1,000) – Vietnam facility	113	107	81	82	141
Water Data	**2019**	**2018**	**2017**	**2016**	**2015**
Average number of employees	1,859	1,972	1,953	1,506	1,448
Water consumed (thousand litres)	30,478	39,605	39,480	32,582	32,220
Water consumed per employee (thousand litres)	16.4	20.1	20.2	21.6	22.3

SUSTAINABILITY TARGETS

- Company climate change opportunities – Identification of company's climate change opportunities w/potential to generate a substantive change in business operations, revenue or expenditure
- Company targets – Company's active emissions reduction initiatives within the reporting year
- Company targets – Company's intensity target + whether a science-based target

SUSTAINABILITY: NON FINANCIAL DISCLOSURES SUMMARY

The new EU Corporate Social Responsibility Directive (2014/95/EC) requires additional disclosure of non-financial impacts. XP Power welcomes this development and the table below summarises the requirements of the new reporting expectation, pointing to where additional information can be found.

	Non-financial disclosure	2019	2018	Relevant group principal risk	Action taken	Due diligence
PEOPLE	Score from annual Employee Engagement Survey	**75**		Loss of key personnel or failure to attract new personnel	Results of our survey are reviewed by management and discussed in team meetings where employees are encouraged to come up with their own ideas of how to address areas of weakness	A third-party survey is used to ensure anonymity or results and ensure best practice
	Health and safety incidents (including near misses)	**21**	17	An event that causes a disruption to one of our manufacturing facilities	Regional health and safety committees review our health and safety metrics to drive continuous improvement. We also undertake periodic risk assessments and include health and safety with our employee culture surveys	Benchmarking health and safety incidents with industry norms. We have also engaged with a health and safety consultant to review our health and safety processes to drive continuous improvement
CUSTOMERS	Proportion of revenue from top 30 customers (%)	**49**	52	Dependence on key customers	Although our strategy is to gain a higher share of business in our top accounts we also recognise the value of a balanced portfolio. Our product roadmap considers the benefit of products that can be sold into numerous applications and sectors	Review of sector splits and design wins and management review of product road map
	Number of new product families released	**32**	27	Dependence on key customers	Expansion of products taken from third parties to expand product portfolio	All third-party products have a full design and specification verification test to ensure they meet XP Power standards
SUPPLIERS	Number of supplier audits	**42**	34	Dependence on key suppliers	Suppliers are required to implement corrective actions if any deficiencies are identified as a result of audits	Suppliers are ranked according to how critical they are and audit frequency is determined accordingly
OUR COMMUNITIES	Number of XP Power events benefitting local communities	**8**	7	Loss of key personnel or failure to attract new personnel	XP Power employees are granted an additional day's leave to participate in activities which are charitable and benefit the local communities in which we operate	Activities are approved by the local environmental and communities committee
	CO_2 emissions intensity metric (kg/$'000 revenue)	**30.2**	27.9	Risks relating to regulation or compliance	We are continuing to work on ways to reduce our CO_2 intensity by reducing burn in times for products and recycling the power used for burn in within our production facilities. Vietnam also has a solar panel array to provide power to the administration building	We measure our CO_2 emissions in accordance with the internationally recognised Green House Gas (GHG) Protocol and our metrics include scope 1 and scope 2 emissions Our metrics are independently verified by a third party
ENVIRONMENT	Water usage per employee (thousand litres)	**15.9**	20.1	Risks relating to regulation or compliance	Although we do not use water within our production processes our Vietnam facility has rain water capture which is used to water plants and provide water for toilets and showers	Our water usage metrics are verified by a third party

CONTENTS

Governance

GOVERNANCE

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

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."

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.

CORPORATE CULTURE

Given the emphasis being placed on the importance of culture, the executive management dedicated time to critically review the Group's culture in September 2019. The Board reviewed this work in October 2019 and gave feedback to the executive which has been communicated to the organisation. The main feedback was that our core values of integrity, knowledge, flexibility, speed and customer focus are still appropriate for our strategy and direction of travel but need to be reinforced where we see behaviours which are inconsistent with these values. I am confident we have the appropriate culture to support our strategy and growth aspirations.

JAMES PETERS
Non-Executive Chairman

READ ABOUT CULTURE ON PAGES 72 AND 73

GOVERNANCE: BOARD 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
BOARD STRUCTURE	Overview effectiveness of the Board and its committees	• Terms of reference review of the Board and its committees • Annual work plan for the Board • Performance evaluation by anonymous online questionnaires • Succession planning
STRATEGY	Review and evaluation of the business strategy and the performance against the strategy	• Review of the Group's strategy and refinement of that strategy
BUSINESS PERFORMANCE	Review and monitoring of business performance against forecasts and plans	• Regular business updates, including reviews of Key Performance Indicators • Reviews of financial performance against budget • Reviews of tax and treasury, including foreign exchange and hedging • Review of the Group's strategy
COMPLIANCE	Review of compliance	• Review of results of internal audits and resulting recommendations • Review of any whistleblowing reports (two events in 2019) • Review of health and safety incidents
RISK MANAGEMENT	Review of risk management	• Review of the risks facing the Group and actions to be put in place to mitigate those risks • Review of insurance arrangements • Setting the risk appetite of the Group in relation to risks identified • Reviewing cybersecurity arrangements • Pre and post implementation review for new ERP system
REMUNERATION	With the assistance of the Remuneration Committee, approval of remuneration policies across the Group	• Setting the new 2020 remuneration policy and remuneration arrangements for the Executive Directors • Approving remuneration arrangements for senior management • Review of staff pay
FINANCIAL STATEMENTS	Final approval of annual financial statements and accounting policies	• Review and approval of interim and final results
SUSTAINABILITY	Ensuring the Group is following a sustainable business model	• Review and refinement of the Group's environmental and water policy • Review and approval of the Group's Code of Conduct • Evaluation of performance of the Group's Environmental Social Governance key performance indicators, including health and safety, CO_2 emissions and water usage.
CULTURE AND VALUES	Ensuring that the corporate culture and values are being represented effectively across all nations and operations.	• Board visit and review of key Asian facilities, including China, Singapore and Vietnam • Review and challenge of the executive management's review of culture • Review of the results and actions from the annual Employee Engagement Survey • Review and approval of diversity policy

DIRECTORS AND OFFICERS

JAMES PETERS

NON-EXECUTIVE CHAIRMAN

Appointed
30 June 2014

COMMITTEES
- Nomination (Chair)

XP POWER

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

SKILLS AND BUSINESS EXPERIENCE
- 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
- 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.

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.

PAULINE LAFFERTY

NON-EXECUTIVE DIRECTOR

Appointed
3 December 2019

COMMITTEES
- Remuneration
- Nomination
- Audit

SKILLS AND BUSINESS EXPERIENCE
- Former Chief People Officer at The Weir Group plc, a position she held between 2011 and 2017. Prior to that, she worked in executive search from 1998 to 2011, as a partner with The Miles Partnership and, previously, as an Executive Director at Russell Reynolds Associates.
- She holds non-executive positions at Centurion Group, a leader in the supply of critical rental equipment, infrastructure and support services to the energy industry and Scottish Event Campus Limited (SEC) where she is also Chair of the Remuneration Committee.

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.

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).

READ ABOUT THE COMMITTEES ON PAGE 70

TOP DOWN:
Oversight, governance, strategic direction, risk appetite at corporate level

BOTTOM UP:
Execution of strategy, compliance, control environment, assessment and mitigation of risk across functional areas

THE BOARD OF DIRECTORS
Non-Executive Chairman: James Peters

AUDIT COMMITTEE

CHAIR: TERRY TWIGGER

- Financial reporting
- Compliance
- External audit
- Internal controls

REMUNERATION COMMITTEE

CHAIR: POLLY WILLIAMS

- Directors' fixed and variable pay
- Share Incentive Plans
- Key employee retention

NOMINATION COMMITTEE

CHAIR: JAMES PETERS

- Board composition
- Board appointments

SUSTAINABILITY COMMITTEE

CHAIR: SEAN ROSS

- Corporate social responsibility
- Sustainability initiatives

INTERNAL AUDIT

- Risk framework
- Internal audits
- Process improvements
- Continuous improvement

EXECUTIVE LEADERSHIP TEAM

- Executing the Board's strategy
- Assessment and mitigation of risk
- Managing the control environment
- Promoting the culture, core values and ethics

BOARD LEADERSHIP AND COMPANY PURPOSE

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

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. Following the retirement of Peter Bucher as a Non-Executive Director on 31 December 2018 Pauline Lafferty was appointed as a Non-Executive Director on 3 December 2019. Pauline brings a wealth of international business experience to the Board including expertise in strategic human resources.

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

The Board commissioned Learnership to conduct an independent external evaluation of the Board which included anonymous surveys, one-to-one interviews with each board member and a report and presentation to the Board regarding the results of the evaluation. The key points that came out of the evaluation were more focused on medium to long-range strategy development, development of the Company's culture to support leadership capability and operating excellence, and further work on succession planning and talent management. Overall, the evaluation concluded that the Board was functioning effectively.

The Board considers Pauline Lafferty, Terry Twigger and Polly Williams to be independent.

How our Board is entrepreneurial and effective

As well as reviews of the business performance, issues, challenges and opportunities at each board meeting, the Board also engages with executive management on in-depth strategy reviews and visits various operating units to engage with employees from all areas of the business. Polly Williams acted as the designated director for employee engagement and visited several sites to engage with employees from all levels of the business. Our Board has diverse talents and experiences which it is able to effectively deploy to ensure the Board is suitably entrepreneurial and effective.

READ ABOUT THE BOARD ON PAGES 68 AND 69

READ ABOUT OUR PURPOSE AND VALUES ON PAGES 52 AND 53

READ ABOUT OUR STRATEGY ON PAGES 22 AND 23

EFFECTIVENESS OF THE BOARD

STAGE 1
The Directors answer an in-depth anonymous questionnaire completed by all Directors

STAGE 2
One-to-one interviews were conducted between the external facilitators and each of the Directors

STAGE 3
Collation of results and a report which is shared and presented to the Board

STAGE 4
The Board decides how to improve effectiveness

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

OUR PURPOSE
Our purpose is to provide our customers in the industrial electronics, healthcare, semiconductor equipment manufacturing and technology sectors with solutions to power their critical systems and get their products to market in the shortest possible time to provide genuine value.

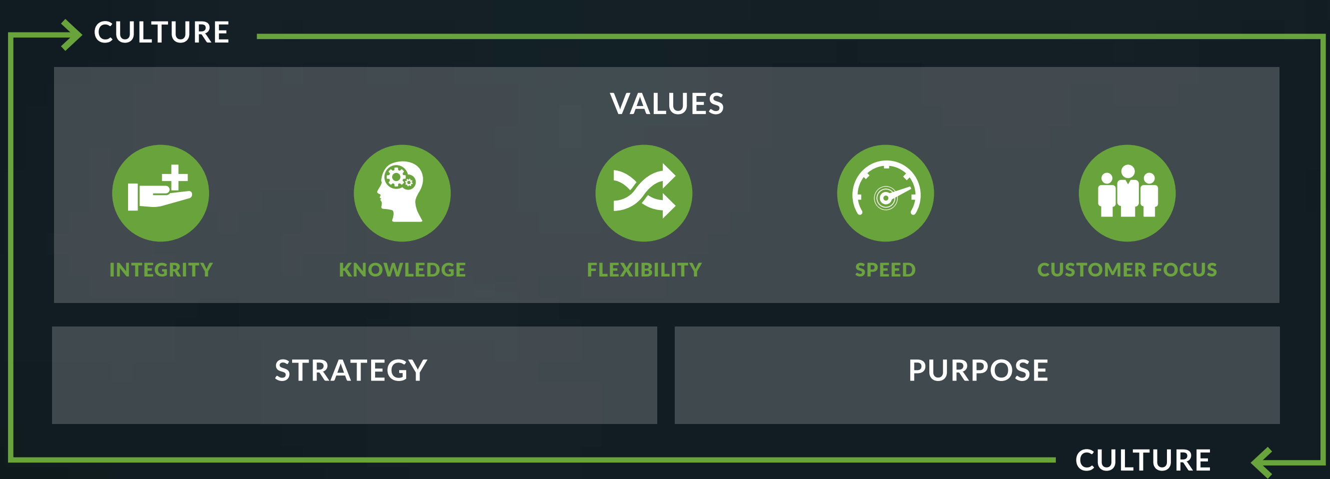
OUR VISION
Our vision is to be the first-choice power solutions provider delivering the ultimate experience for our customers and our people.

OUR VALUES
Our core values are:

- Integrity
- Knowledge
- Flexibility
- Speed
- Customer focus

These values are an intrinsic part of our DNA and guide our people to deliver genuine value to our customers. We reinforce these values at every opportunity. They are embedded into our performance management system and evaluated through our annual employee engagement survey.

HOW THESE LINK TO OUR STRATEGY
Our strategy is very customer focused. We know that to win we not only have to have the right power solution, but we have to be first to provide the customer with a working solution in their prototype system. Not only is speed and responsiveness of the essence but our sales, applications and systems engineers have to be extremely knowledgeable to guide the customer's engineering team through the challenges that power conversion presents to their system. Flexibility quickly comes into play – we will happily modify our products to make them easier for the customer to integrate the power solution into their system. Our sales mantra of knowledge, flexibility and speed is a winning formula and hence forms the core of our values. No customer, supplier or employee wants to deal with a partner they do not trust and so integrity is at the heart of everything we do. We live and breathe our core values and they underpin the ongoing success of XP Power.



CULTURE

OUR CULTURE JOURNEY

Attention and importance of culture is becoming more and more prevalent. There is a widely held view that a company's culture is more important that its strategy in that a good strategy with poor culture will not succeed. In 2015 our executive management team worked to identify the key elements of XP Power's culture that made it successful. This resulted in our core values of integrity, knowledge, flexibility, speed and customer focus which we have embedded into everything we do, including our performance management system.

During 2019 the executive management team dedicated time to re-evaluate the Company's culture and critically assess both the positive and negative aspects. This work was reviewed with the Board of Directors and reported back to the organisation. The conclusion was that the core values were still relevant and appropriate but more work was required to impart them as the organisation grew and that all leaders need to call out behaviours that did not align with our culture and core values in order to coach the organisation to greater heights.

2018

JANUARY –
Anonymous online cultural survey conducted

APRIL –
Board visited and engaged with employees in Boston, Silicon Valley and Orange County

MAY –
Glassman acquisition – core values training and roll-out of XP Power performance management system

2019

JANUARY –
Anonymous online cultural survey conducted

MAY –
Board visited and engaged with employees in China, Vietnam and Singapore

SEPTEMBER –
Leaders surveyed on culture – Executive Management Team workshop to critically evaluate XP Power culture

OCTOBER –
Executive Management Team presents the results of the workshop on culture to the Board – feedback provided to the organisation

How culture underpins our values, purpose and strategy

Our cultural journey started from the work we did on core values in 2015. We recognised the importance of distilling out the values that had contributed to the success of the business in order to keep these alive as the organisation grew. Our values are embedded into everything we do, including our performance management system. They underpin a strategy which is very customer focused that we have consistently executed over a long period of time. Our culture is central to allow us to achieve our vision of becoming the first-choice power solutions provider delivering the ultimate experience for our customers and our people.

The Board should ensure that the necessary resources are in place for the Company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

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 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 42 to 47. 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 our key 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.

In order for the Company to meet its responsibilities to Shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties.

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 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.

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING

MAIN PRINCIPLE:

Certain Directors are available at the Annual General Meeting to answer any questions from Shareholders.

However, given that 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.

READ ABOUT OUR PURPOSE AND VALUES ON PAGES 52 AND 53

READ ABOUT OUR STRATEGY ON PAGES 22 AND 23

READ ABOUT RISKS ON PAGES 42 TO 47

READ ABOUT OUR BUSINESS MODEL ON PAGES 18 TO 20

READ ABOUT STAKEHOLDER ENGAGEMENT ON PAGE 74

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.

CONSULTATIONS

The Remuneration Committee consulted with major Shareholders in respect of significant decisions on Executive remuneration, including development of the new 2020 remuneration policy.

CORPORATE WEBSITE

The Group uses its website 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.

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 2019 include the following:

- Sustainability of margins as the Company grows
- Working capital management and the unwind of inventory put in place due to component shortages
- Effects of Section 301 trade tariffs in the USA
- Cyclicality 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

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.

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 CEO meets with key customers to provide feedback on the service we provide.

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.

The Board should ensure that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Polly Williams is the designated Non-Executive Director for workforce engagement. During 2019 Polly has met with groups of employees in China, Vietnam, Singapore, Pangbourne, Fyfield and Bremen to discuss culture and workforce matters.

Management runs a number of live communications meetings where employees have the opportunity to ask questions. An anonymous annual employee engagement survey, which has free text space so employees can feedback any matter to management, is conducted annually and the results evaluated by management. The Company also has a whistleblowing facility which goes directly to the senior Non-Executive Director should they have any issue they are uncomfortable raising with executive management.

DIVISION OF RESPONSIBILITIES

The Chair leads the Board and is responsible for its overall effectiveness in directing the Company.

They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive Board relations and the effective contribution of all Non-Executive Directors, and ensures that Directors receive accurate, timely and clear information.

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.

The Chairman

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.

How our Chairman promotes a culture of openness

The Chairman conducts Board meetings in a manner that the views of all Board members are sought and welcomed. Open discussion is encouraged. An evaluation of Board effectiveness is conducted each year. In 2019 a full evaluation by an independent party was commissioned.

Non-Executive Directors

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.

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.

The Board should include an appropriate combination of Executive and Non-Executive (and, in particular, independent Non-Executive) Directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the executive leadership of the Company's business.

The Board now consists of four non-executives including the Chairman and three executives. Of the non-executive, three are considered independent. There is clear division of responsibilities between the executives and non-executives.

Non-Executive Directors have sufficient time to meet their Board responsibilities and they provide constructive challenge, strategic guidance and hold management to account.

READ ABOUT SUSTAINABILITY ON PAGES 48 AND 49

READ ABOUT OUR BUSINESS MODEL ON PAGES 18 TO 20

READ ABOUT OUR GOVERNANCE STRUCTURE ON PAGES 70 AND 71

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
1 March 2019	All
10 May 2019	All
31 July 2019	All
4 October 2019	All
3 December 2019	All

COMPOSITION, SUCCESSION AND EVALUATION

Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Pauline Lafferty joined the Board on 3 December 2019. In determining the candidate profile the Board considered the Company strategy and how a new non-executive could contribute to the development of the business and existing capabilities on the Board.

STAGE 1

Overview of the current Board and their skills

STAGE 2

Outlining which key skills are needed. The Board considers these to be:

- Relevant business experience
- Managing growth
- Organisational development
- Acquisitions
- Public company experience

STAGE 3

A draft of a role description is drawn up. This provides a clear understanding of what is required in terms of succession planning


Ki-AOI
KHÔNG ĐẶT FIXTURE TRÊN MÁY
REPAIR STATION
Pass

The Board and its Committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.

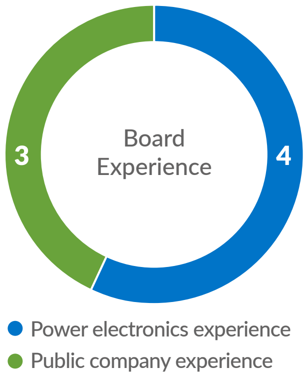
SKILLS MATRIX

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

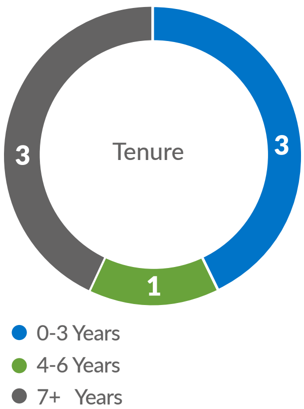
In line with the new UK corporate governance code of 2018, we include an appropriate combination of executives and non-executives (principle G); the figures are outlined below.

As Section 3, principle K proposes, there is a combination of skills, experience and knowledge. XP Power also considers the length of service in order to ensure the Board is effective in its role.

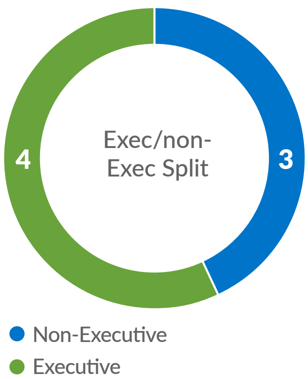
Through the above skills matrix, XP Power has proven Board strength and diversity, enabling the Board to make effective decisions which should in turn ensure long-term sustainability.



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



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



The balance of the make-up of the Board between non-executive and executive, excluding the Chairman, has been addressed in 2019 with the appointment of Pauline Lafferty and retirement of Mike Laver

RE-ELECTION

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 at least every three years.

Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each Director continues to contribute effectively.

BOARD EVALUATION

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.

The Board's evaluation of its own performance and that of its Committees is conducted annually using an online Board effectiveness questionnaire conducted by a third party. The questionnaire 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.

In 2019 the Board extended the evaluation process and commissioned an independent third party. As well as the questionnaires, each Board member was interviewed regarding the Board effectiveness and a report and presentation was then made to the Board on the findings.

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

DIVERSITY

We operate in a global market and recognise the benefits of a diverse and talented workforce and consider this a key competitive advantage. A diverse workforce drives innovation and brings a broader range of perspectives which allows us to better support our customers and their success.

The Board plays a key role in setting the tone of diversity and inclusion and the Nomination Committee aims to apply the principals of the Group's diversity policy when considering Board appointments. The policy states that:

- The Group is committed to equality of opportunity in all of our employment practices, procedures and policies; and
- When we hire or promote someone, we choose the best candidate in a non-discriminative manner.

During FY19, the Committee appointed Pauline Lafferty to the Board. Her inclusion on the Board diversifies and strengthens the Board's overall skills and experience.

Further information on gender diversity, including in our broader executive team, may be found on page 55.

APPOINTMENTS TO THE BOARD

NOMINATION COMMITTEE

The Nomination Committee consists of James Peters (Chair), Terry Twigger, Pauline Lafferty 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 twice during the year. The attendees were as follows:

Date	Attendees
31 July 2019	All and Duncan Penny (guest)
4 October 2019	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

STAGE 1

Directors complete an online questionnaire. This utilises questions such as whether the Directors operate with independent judgement

STAGE 2

The results of the questionnaire are collated by an external consultant. The consultant interviews each Director regarding the effectiveness of the Board.

STAGE 3

Results of the evaluation are summarised by the consultant and a report produced for the Board. The report is presented to the Board and the Board and actions for improvement are decided

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

- More focus on medium to long-range strategy development
- Development of the Company's culture to support leadership capability and operating excellence
- Further work on succession planning and talent management

BOARD INDUCTION AND TRAINING

Training and development

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 Asian facilities in 2019 and the Bremen sales office. This included our Singapore design centre and manufacturing facilities in China and Vietnam. This visit included a number of presentations by the function heads of those facilities and other functions within 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.

All Directors receive a thorough induction on joining the Board and are able to regularly update and refresh their knowledge and skills. An example of a Board induction process is outlined below.

STAGE 1

Understanding the business

This will include an overview of the structure, history, strategy, Board procedures, listing requirements and governance

STAGE 2

Meeting the team

Meeting members of the leadership/ management team and Executive teams.

Meeting external brokers and advisers as required

STAGE 3

Visiting sites

Visiting sites to understand the operations of the business and specific functional areas

STAGE 4

- Understanding what knowledge would be beneficial to enable the Board to function more effectively

STAGE 5

- Determining how best to train or impart the knowledge required

STAGE 6

- Implementation by way of training or specific site visits with presentations from the functional areas

2019 TRAINING

As well as the site visits described above and the presentations received by the functional leaders of those sites, the Board also had a presentation from the head of engineering and head of the European sales business. 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. for expanding the Vietnam manufacturing facility, respectively.

The Board intends to visit the high voltage facility in Highbridge, New Jersey and Silicon Valley sales and engineering site in 2020.

FAIR, BALANCED AND UNDERSTANDABLE

In order to ensure our financial and business reporting is fair, balanced and understandable, we have followed the process outlined below.

STAGE 1: FAIR

Is the report fair?

Is the whole story presented?

Are the key messages in the narrative reflected in the financial reporting?

STAGE 2: BALANCED

Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report?

Are the statutory and adjusted measures explained clearly with appropriate prominence?

STAGE 3: UNDERSTANDABLE

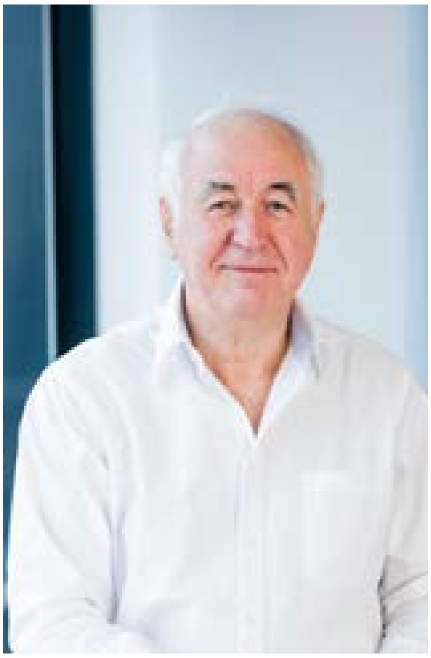
Is there a clear and understandable framework to the report?

Are the important messages highlighted appropriately throughout the document?

CONCLUSION

Following its review, XP Power is of the opinion that the 2019 Annual Report and Accounts are representative of the year and provide a fair, balanced and understandable view

AUDIT COMMITTEE REPORT



TERRY TWIGGER
Audit Committee Chair

"The focus has been on maintaining and improving the Group's internal controls and embedding the control framework into our new ERP and financial consolidation software"

DEAR SHAREHOLDER

As Chairman of the XP Power Audit Committee, I am pleased to present the 2019 Audit Committee Report to Shareholders. I trust that this report will provide you with an insight into our work, the matters handled and the focus of the Audit Committee's deliberations during 2019.

It has been a year of significant change and the focus has been on maintaining and improving our internal controls, embedding the controls into our new ERP and Group consolidation system and further development of our risk management environment. Our internal audit programme was focused on reviewing the financial and HR controls in certain regions, reviewing the improvements to the Group's export control procedures and performing a post-acquisition assessment of Comdel and Glassman. 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 and internal auditors 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. I am delighted to welcome Pauline Lafferty to the Committee from 3 December 2019.

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

The Audit Committee is pleased to be able to confirm that, as requested by the Board, it advised the Board that, taken as a whole, the Annual Report for 2019 is fair, balanced and understandable.

It is anticipated that the external audit will be retendered in 2021 after the completion of the upgrade of the Group's ERP system. 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

3 March 2020

READ ABOUT RISKS ON PAGES 42 TO 47

MEMBERS OF THE AUDIT COMMITTEE

Terry Twigger (Chair), Independent Non-Executive Director

Pauline Lafferty, Independent Non-Executive Director (appointed 3 December 2019)

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 facilitated by an independent third party 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, although it noted the small size of the Committee. This latter point has been addressed by the appointment of Pauline Lafferty.

MEETINGS OF THE AUDIT COMMITTEE

The Audit Committee met five times during 2019 with attendance on the dates as follows:

Date	Attendees
14 January 2019	All
26 February 2019	All
9 May 2019	All
29 July 2019	All
17 December 2019	All

Although not members of the Audit Committee, the Chief Executive Officer, 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. Other management staff were also invited to attend as appropriate.

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 whistleblowing;
- 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 Investor website www.xppowerplc.com.

ACTIVITIES OF THE AUDIT COMMITTEE

In 2019 the Audit Committee's activities included:

- Examining the 31 December 2018 Annual Report and the 30 June 2019 Half Year Report and discussing them with management and the external Auditor 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 "Significant risks and judgements in the financial reporting" below.
- Challenging the assumptions and analysis produced by management in relation to the Group's 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, including those related to goodwill and capitalised product development.
- Continuing to evolve the Group's risk and compliance framework by guiding the outsourced internal Auditor, Deloitte LLP, and reviewing the work scopes of the target areas within the total audit universe.
- Ongoing review of the development and implementation of the Company's new ERP system.
- 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.
- Reviewing the results of the finance functions' peer-to-peer balance sheet reviews.
- Assessing the accounting principles to be adopted in the preparation of the 2019 accounts.
- Reviewing any material issues of fraud, whistleblowing and litigation.

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

SIGNIFICANT RISKS AND JUDGEMENTS IN THE FINANCIAL REPORTING

In relation to the 31 December 2019 Annual Financial Statements included in this report on pages 113 to 153, the Audit Committee considered the following topics. It considered these areas to be significant, taking into account the level of materiality and the degree of judgement exercised by management. The Audit Committee questioned and challenged the judgements and estimates made on each of the significant issues detailed below and resolved that they were appropriate and acceptable.

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. 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 challenges the appropriateness of judgements and forecasts used including discount rates and growth rates used by management in the Company's impairment calculations. In addition the Committee reviews the calculation to ensure that sensitivity analysis is performed by management which reflects reasonable downside scenarios. It also assesses the carrying value in the context of the Group's wider net asset value and market capitalisation. Given that the impairment calculations indicated that there remains significant headroom between the value in use and the carrying value, 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 and looks to increase its product portfolio. 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 Committee 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 in 2018 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. Although Inventory has reduced in 2019 as component lead times have shortened, 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 during the year with sample counts at the year end 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.

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 our Risk Management Framework of the Strategic Report section on page 42.

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 and used it to identify areas for risk assurance work and internal audits to be carried out. In 2019 these included a review of the IT General Controls and those around the new systems, an assessment of the Controls in the Comdel and Glassman acquisitions following the integration of these businesses, reviews of the financial controls in one region and the Human Resource controls in another region. These reviews indicated a number of areas requiring improvements, which are being addressed by management. The Group has implemented a Controls Self-Assessment programme and this was reviewed by the Internal Audit team in conjunction with one of the regional reviews. The recommendations made by the internal Auditor are assessed by management and addressed within an agreed timeline.

The recommendations and control observations from the reviews are rated and presented to the Committee for comment or further action.

The internal Auditor regularly follows up on these actions and keeps the Committee informed of progress against the agreed timeline.

EXTERNAL AUDIT

The current external Auditor, PricewaterhouseCoopers LLP, was appointed in 2007. During 2019, the audit partner rotated off, having served a maximum term of five years. His successor, after a period of shadowing his predecessor, took over the engagement in 2019.

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 Auditor 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 Auditor 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 Auditor in excess of £20,000 must first be approved by the Chairman of the Audit Committee.

During the year, non-audit fees of £0.1 million (2018: nil) were paid to the Auditor for forensic services following a whistleblowing incident in Asia.

EXTERNAL AUDIT PROCESS REVIEW

STAGE 1

An assessment of the lead Audit partner and the Audit team

STAGE 2

A review of the Audit approach, scale, determination of significant risk areas and materiality

STAGE 3

The Execution of the Audit

STAGE 4

Interaction with management and the Committee

STAGE 5

The quality of any recommendation points

STAGE 6

A review of independence, objectivity and scepticism

REMUNERATION COMMITTEE REPORT

POLLY WILLIAMS

Remuneration Committee Chair

"Our objective is that remuneration effectively and fairly supports and rewards the successful delivery of strategy and reflects shareholder interests and concerns."

DEAR SHAREHOLDER

As Chair of the XP Power Remuneration Committee, I am pleased to present the 2019 Remuneration Committee Report on behalf of the Board. It sets out our new proposed Remuneration Policy for the next three years and remuneration details for the Executive and Non-Executive Directors of the Company in respect of 2019. It has been prepared in accordance with the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and is split into two areas: the Remuneration Policy and the Annual Report on Remuneration.

The current Remuneration 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. Our proposed policy will 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 2020 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, 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.

PERFORMANCE AND DECISIONS ON REMUNERATION TAKEN IN 2019

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

After three strong years performance by the Group in 2016, 2017 and 2018, when adjusted pre-tax profits increased by 11%, 26% and 14%, respectively, the adjusted pre-tax profits declined 19% from £41.2 million in 2018 to £33.2 million in 2019 which was disappointing. This was largely as a result of a cyclical decline in the semiconductor manufacturing equipment sector and deferral of revenues in North America from the fourth quarter of 2019 into 2020. This deferral was as a result of issues related to the implementation of a new enterprise resource planning (ERP) system in the regional sales companies in Asia, Europe and North America during the fourth quarter of 2019. The new system is now operating satisfactorily, and shipment capacity is at normal levels.

Bonus criteria were set in respect of adjusted profit before tax and adjusted free cash flow for 2019. The adjusted profit before tax threshold was set at £41.2 million, the amount achieved in 2018. On the basis of the profit performance in 2019, no bonuses were paid to our CEO and CFO in respect of adjusted profit before tax. However, adjusted free cash flow generation was strong in 2019 and the Group achieved its adjusted free cash flow bonus targets which resulted in a bonus of 10.7% of salary payable to Executive Directors serving at the end of 2019. Andy Sng has a bonus metric based on the adjusted operating profit achieved by the Asia sales organisation. Due to the strong performance in Asia, where adjusted operating profit increased 30% in 2019 compared to 2018, Andy received a bonus equal to 77.4% of his salary on this metric, in addition to the bonus of 10.7% based on free cash flow generation. Half of any bonus is paid in cash with half paid in shares deferred for two years.

The first tranche of share option awards granted in February 2016 vested in respect of 79% of that tranche in February 2019. No long-term incentive awards were due to vest in 2019.

In accordance with the 2017 plan, LTIP awards were made during the year to Executive Directors and key management. Following consultation with Shareholders, the Committee increased the threshold and maximum earnings per share targets in respect of the 2018 and 2019 LTIPs to 6% and 12% compound annual growth, respectively.

SHAREHOLDER CONSULTATION

As detailed in our 2018 annual report, following the 2018 AGM at which our Remuneration Report was approved by 90.6% of votes cast, we consulted with our larger shareholders in early 2019. This resulted in us making some changes in respect of the workings of annual bonus and increasing the earnings per share targets. At our 2019 AGM, the resolution to approve the Remuneration Report was approved by 97.8% of votes cast.

NEW PROPOSED REMUNERATION POLICY

Our objective is that remuneration effectively and fairly supports and rewards the successful delivery of strategy and reflects shareholder interests and concerns. The new policy needs to be robust, effective and flexible to cover the period up to Spring 2023.

We started considering changes to the policy in mid-2019. Our process included dialogue with the Executive Directors. The Remuneration Committee also commissioned a benchmarking report so that it could consider XP's remuneration in the light of the levels and structures applied by peer UK-quoted companies. Whilst we recognise the weaknesses of benchmarking in itself, and the perception of some shareholders that it is a mechanism for salary inflation, it is relevant information for the Committee to consider in the light of competitive pressures the company faces.

We considered how the structure and workings of remuneration could be aligned to support XP's business. A feature of XP's business is cyclicality as reflected in its financial results in the years 2016 to 2019. This has and will lead to substantial variance in annual bonus and LTIP outcomes. Whilst it is intended and appropriate that executive remuneration be strongly aligned with financial performance, having outcomes which are so immediately and strongly impacted by cyclicality (both positively and negatively) could have negative commercial and strategic consequences in attracting, retaining and motivating executives.

In the light of data of peer companies, it is clear that our executive remuneration has been significantly behind that of peer companies in terms of salaries, annual bonus limits and normal annual long-term incentive award levels.

The Committee also considered the significant changes in governance guidelines which have been made since 2017, principally those reflected in the Investment Association Principles of Remuneration 2019 and the FRC UK Corporate Governance Code 2018. Reflecting all of these things, we are proposing to make a number of changes.

The changes we propose impact the levels of remuneration, the type and workings of performance conditions attached to both annual bonus and long-term incentives, the structure of long-term incentives and bring the policy into compliance with the latest guidelines referred to above.

In taking decisions, we always consider the overall position and particularly the impact under different economic scenarios. For clarity we have separated those policy matters which require shareholder approval and other changes which we have implemented in respect of 2020.

We consulted on all the proposed changes with 16 shareholders representing 61% by value of the shareholders and took account of feedback received. Further commentary on the changes is set out below.

Policy changes

The Company proposes the following changes intended to address the issues referred to above:

- Increase the maximum annual bonus opportunity of the CEO from 100% to 125% of salary (the actual maximum bonus opportunity for the CEO will remain at 100% of salary for 2020);
- Increase the normal maximum long-term incentive award for Executive Directors from 100% of salary to 150% of salary;
- As part of the long-term incentive award, introduce the ability to make awards of restricted shares, without performance conditions, to Executive Directors up to a maximum annual value of 15% of salary.

The Company proposes to introduce the following policy changes reflecting current governance guidelines:

- A two-year holding period post vesting date for future long-term incentive awards made to Executive Directors;
- Ensure robust malus and clawback conditions apply to annual bonus and long-term incentives;
- Ensure that the Committee has authority and discretion where necessary to override formulae and workings to reduce pay outs and vesting levels for annual bonus and long-term incentives. Thus, ensuring pay-outs fully and properly reflect overall performance and shareholder experience;
- A post-employment shareholding requirement as detailed in the policy table below. The key feature is that post cessation, Executive Directors must hold shares worth 200% of salary for first year and 100% for second year. If their shareholding is lower than these thresholds, they must hold the entire value for the two-year period;
- Align Executive Directors' pension contributions with those offered to all XP power employees in their respective countries of employment. Unlike many other companies, XP Power's existing policy regarding pension contributors for Executive Directors has been significantly below those offered to our other UK employees.

Salary changes

Reflecting on the market data from peer companies and taking account of feedback from shareholders, the Committee intends to increase the salaries of the CEO and CFO to the median level over a two-year period. In line with this intention, the salaries of our CEO and CFO will be increased from £401,700 to £450,000 and from £288,400 to £323,000, respectively, effective 1 April 2020. With this increase, they remain below the current median based on peer data. The Committee intends to make another increase in 2021 to bring the CEO and CFO to the median level.

Annual bonus performance conditions

The current and proposed new policies provide that specific annual bonus targets and weightings may vary from year to year according to strategic priorities and this will continue under the new policy.

For 2020, 50% of annual bonus will be based on adjusted profit before tax, 25% on adjusted operating cash flow as a percentage of adjusted operating profit with 25% based on strategic objectives. The introduction of strategic targets in the annual bonus ensures focus also remains on the big picture, rather than only near-term financial performance. This reflects points made by shareholders in relation to meeting strategic objectives.

Half of the annual bonus will be deferred for two years and settled in shares, subject to continued employment or good leaver status. Deferred bonus shares are granted at the closing share price prevailing two working days following the Company's annual results announcement.

Long-term incentive performance conditions and award structure

The current and proposed new policies provide that specific performance share award targets and weightings may vary from year to year according to strategic priorities and this will continue under the new policy.

For 2020, it is intended that an award of performance shares will be made at 100% of salary with 67% subject to a cumulative EPS target and 33% subject to a relative Total Shareholder Return ("TSR") target.

Subject to shareholder approval, for 2020 an award of restricted shares will be made at 12.5% of salary to each Executive Director.

REMUNERATION COMMITTEE REPORT CONTINUED

The significant change to the previous year's performance share award is the application of a cumulative three-year EPS target, setting a target for total adjusted EPS to be earned over a three-year period, rather than a simple three-year EPS target. This captures total EPS over three years, mitigating the short-term impact of the cycle, and reduces the influence on the target performance of the prior year EPS.

The award of restricted shares will provide long-term alignment with shareholders, without the complexities of performance conditions. The Committee is conscious that having even a small portion of restricted shares is unusual but sees it is a small but significant mitigation of the impact of cyclicality. In the consultation, some shareholders expressed strong support for restricted shares whilst others expressed concerns and indicated they were supportive of the overall proposals on the basis that the restricted share award was set at a modest level. In calculating values against the LTIP limit, the value of restricted share awards will be multiplied by two to reflect that they do not have performance conditions attached.

Further comments

The Committee is conscious of investor concerns about increases in salary and other elements of remuneration and that taken together the increases outlined above represent a significant increase in maximum potential executive remuneration. The Committee intends to take the steps because as it stands, executive remuneration is low compared to peer companies and it believes that failing to take steps in this area could restrict the company's ability to retain, motivate and attract high quality executives over the period to 2023.

Chairman's remuneration

The company's Non-Executive Chairman, James Peters, is a former Non-Executive and has a material shareholding from which he receives a significant dividend. The Chairman's fee, which is currently £50,000, has not changed since July 2014. The benchmarking work we carried out indicated a range of £75,000 to £190,000 with a median at £145,000.

The Remuneration Committee determined to increase the Chairman's fee to £150,000. Mr Peters has indicated he will only take a total fee of £60,000 in line with the proposed total fee of the current Senior Independent Director (SID) who is also Chair of the Audit Committee (see details below).

Non-Executive remuneration

Non-Executive director remuneration is not a matter for the Remuneration Committee. However, we have set out the changes which were recommended by the Chairman and CEO and discussed with shareholders. In the light of the peer review work carried out, the Chairman and CEO proposed that the base Non-Executive director fee be increased from £40,000 to £50,000 with additional fees for the roles of SID and chair of the Audit and Remuneration committees of £5,000 per role. Previously, only the SID received an additional fee of £5,000. It would not be expected that Non-Executive remuneration would increase ahead of inflation or the UK company-wide salary increase during the period of the new policy.

To effect the changes to Chairman and Non-Executive remuneration, the company is proposing to increase the current limit on the total amount of Non-Executive Director's fees from £300,000 to £600,000.

Regulatory changes

In carrying out the remuneration review the Committee has considered the various changes to the regulatory environment and in particular the revised UK Corporate Governance Code and the legislation requiring companies to make additional pay disclosures. The Committee has sought to align practice and disclosures to the new requirements. This includes:

- Retaining the existing discretion contained in our bonus plans to permit the Committee to override formulaic outcomes.
- Clarification of our policy on the treatment of vested and unvested awards in the event of cessation of employment and the introduction of a post cessation shareholding policy.
- A review of the recovery and withholding provisions in our incentive plans to reflect best practice in this area.

We are satisfied that in respect of 2019 the remuneration policy operated as intended in terms of company performance and quantum.

In addition, the Committee has ensured that the new policy and practices are consistent with the six factors set out in Provision 40 of the Code:

- Clarity – the policy is transparent and clearly articulated in this report.
- Simplicity – The Committee believes the remuneration structure is market standard, simple and well understood. We have purposefully avoided any complex structures which have the potential to deliver unintended outcomes.
- Risk – our Policy and approach to target setting seek to discourage any inappropriate risk-taking. We consider a blend of Shareholder return, financial and non-financial objectives with stretching targets together with strategic goals. The policy contains appropriate Remuneration Committee discretion to mitigate potential risks.
- Predictability – Executives' incentives are subject to individual participation caps. An indication of the range of outcomes in the packages is provided on pages 89 to 91. Deferred bonus and LTIP awards provide alignment with the share price and their values will depend on share price at the time of vesting.
- Proportionality – there is a clear link between individual awards, delivery of strategy and our long-term performance. The policy contains appropriate Remuneration Committee discretion to mitigate the risk of rewarding poor performance.
- Alignment of culture – pay and policies cascade down the organisation and are fully aligned with XP Power culture.

As mentioned above, we have undertaken a comprehensive review of our Remuneration Policy and hope you will support the binding and advisory remuneration votes and the resolution to approve the new share plan. I would like to thank all Shareholders that participated in the Shareholder consultation exercise and the helpful feedback that has contributed to the new policy.

We look forward to your support for the Annual Report on Remuneration and our proposed Remuneration Policy, 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/Restricted Share Plan);
- To align Shareholders' and senior management's interests (bonus in shares, Long-Term Incentive Plan/Restricted Share 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 and changes to the prior policy are indicated in the table for:

EXECUTIVE DIRECTORS

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
BASE SALARY	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 April, 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
BENEFITS	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: • Paid holidays • Life insurance • Private medical cover • Housing allowance • Car allowance	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 CONTINUED

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
ANNUAL BONUSES	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 after two years, subject to continued employment or good leaver status.	Up to 125% of base salary for CEO and up to 100% for CFO (previous policy was 100% for both)	Specific targets and weightings may vary according to strategic priorities and may include: • Financial performance • Attainment of personal and strategic objectives Weighting will focus on Group financial performance	The Remuneration Committee has the power to reduce unpaid annual bonuses and clawback bonuses already paid on a net basis in circumstances set out below this table.
SHARE OPTION PLAN	Align the interests of Executive Directors and Shareholders in the long-term. Incentives long-term value creation.	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.	No further options are intended to be granted to Executive Directors.	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.	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.
PENSIONS	Provide a basic pension benefit that would be expected for the position.	Percentage of base salary paid into a defined contribution scheme.	In line with pension benefits offered to the XP Power workforce in the relevant geography which is currently 8% in the UK. (Previous policy was 2-3% depending on geography).	n/a	There are no provisions for recovery of pension payments contributions.
SHAREHOLDING (MINIMUM)	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 to achieve this.	n/a	n/a	n/a

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
LONG-TERM INCENTIVE PLAN (LTIP)	Align the interests of Executive Directors and Shareholders in the long-term. Incentivises long-term value creation.	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. 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. Performance is typically measured over three financial years starting with the year of date of grant, or any longer period as the Remuneration Committee may decide. An award will be distributed two years after vesting. (Previous policy was 50% after measurement of performance vesting, with the remaining 50% distributed after a period of one year). Amounts equivalent to any dividends or Shareholder distributions made in respect of awards at vesting, are paid at the discretion of the Remuneration Committee.	The normal maximum award level under the LTIP is 150% (previous policy was 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.	In respect of performance shares, it is the Remuneration Committee's intention to set relative TSR targets for 33% of the award and absolute EPS growth targets for 67%. (previous intention 50%: 50%) Restricted shares will not have performance conditions (previous policy did not include restricted shares) although the Remuneration Committee will set appropriate performance conditions and weightings each year prior to awards being made. On a change of control of the Company during the performance measurement period the Remuneration Committee has the discretion to determine the number of shares vesting by assessing the achievement of the performance conditions and apply a pro-rata reduction based on the proportion of the performance period elapsed at the time of the event, unless it determines a pro-rata reduction is not appropriate and applies a higher amount. Early vesting of performance awards may occur where a participant ceases employment for good leaver reasons. The Remuneration Committee has the discretion to determine the number of shares vesting by assessing the achievement of the performance conditions and applying a pro-rata reduction to the number of shares vesting based on the proportion of the performance period the participant was employed, unless the Remuneration Committee determines the reduction is not appropriate. Shares will vest at the end of the two-year holding period or such earlier date as the Remuneration Committee determines. Participants who leave after the measurement of performance shall be entitled to receive their vested shares at the end of the two-year holding period, or such earlier date as the Remuneration Committee determines.	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 set out below this table.
RESTRICTED SHARE PLAN 2020 (RSP)	Align the interests of Executive Directors and Shareholders in the long-term. Incentivises long-term value creation.	Awards may be granted as restricted shares without performance conditions under the 2020 Restricted Share Plan. Restricted share awards normally vest five years from the date of award.	Up to a maximum of 15% of base salary may be granted as restricted shares without performance conditions. In calculating value against 150% of salary LTIP limit, the value of restricted share awards will be multiplied by two to reflect that they do not have performance conditions attached.	Restricted shares will not have performance conditions (previous policy did not include restricted shares). Where a participant ceases to be an employee for good leaver reasons during the first three years of the restricted share period, the number of shares vesting will be subject to a pro-rata reduction by reference to period of time elapsed between the award date and the date of cessation. The Remuneration Committee has the discretion to permit acceleration of vesting and to disapply pro-rating. Where participants cease employment after the first three years of the restricted period no pro-rating will apply, but awards will vest on the fifth anniversary of the grant of the award unless the Remuneration Committee exercises its discretion to permit earlier vesting. On a change of control of the Company the Remuneration Committee shall determine the number of restricted shares vesting taking into account the time that has elapsed since the grant of the award and any factors it considers to be relevant.	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 set out below this table.

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
POST EMPLOYMENT SHAREHOLDING	Align the interests of Executive Directors and Shareholders in the long-term.	Post cessation executives must hold shares 200% of salary for the first year and 100% of salary for the second year or, if their holding is lower than this at cessation, the value of their holding at the point of cessation. Shares which have been or are in future purchased by executives will not be subject to restrictions on sale. Deferred bonus shares in their deferral period and vested LTIP awards which are still in their holding period will be counted against the percentage requirement on a net of tax basis	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, LTIP and RSP 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).

Annual bonus documentation and the LTIP, subject to shareholder approval, will contain provisions to give the Committee the ability to apply discretion to adjust any formulae and workings to reduce vesting levels to ensure pay-outs fully and properly reflect overall performance and shareholder experience and in response to exceptional negative events.

MALUS AND CLAWBACK

Annual bonus documentation, the LTIP and RSP, subject to shareholder approval, will contain provisions to give the Committee the ability to apply malus and clawback provisions. These allow the Committee to determine, in its absolute discretion, that an unvested award or bonus award (or part of an award) may not be permitted to vest or that the level of vesting is reduced in certain circumstances or payment back of some or all of an award is required after vesting.

Where the Committee acting fairly and reasonably determines within a period not exceeding three years from the determination of an award that:

- a serious breach of the Company's code of ethics has arisen; or
- a serious health and safety issue has occurred; or
- the award holder has participated in or was responsible for conduct which has resulted in significant losses to the Group; or
- the award holder has failed to meet appropriate standards of fitness and propriety resulting in a material negative effect on the Group; or
- the award holder has committed material wrongdoing or has breached the terms of their employment contract in such manner as would result in a potentially fair reason for dismissal; or
- there was a material error in determining whether an award should be made, in determining the size or nature of the award or the extent to which it has vested, it may require any unvested awards held by the award holder to lapse in whole or in part immediately, and/or may require the award holder to repay to the Company the after-tax value of some or all of the vested awards received during that period, in such form as they may determine.

Malus and clawback will continue to apply to any awards held by leavers and those vesting in connection with corporate events/changes in control.

The Committee has the right to apply the 'malus' provision to an individual or on a collective basis. It shall also (acting reasonably and in good faith) determine the amount or award subject to clawback.

NON-EXECUTIVE DIRECTORS

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
FEES	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 £600,000. (Previous policy was £300,000).	n/a	n/a

APPROACH TO EXECUTIVE RECRUITMENT

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. In accordance with the Code Non-Executive Directors will not serve more than nine years. Non-Executive Directors are not entitled to share option awards, long-term incentive plans or pensions.

SHAREHOLDER CONSULTATION

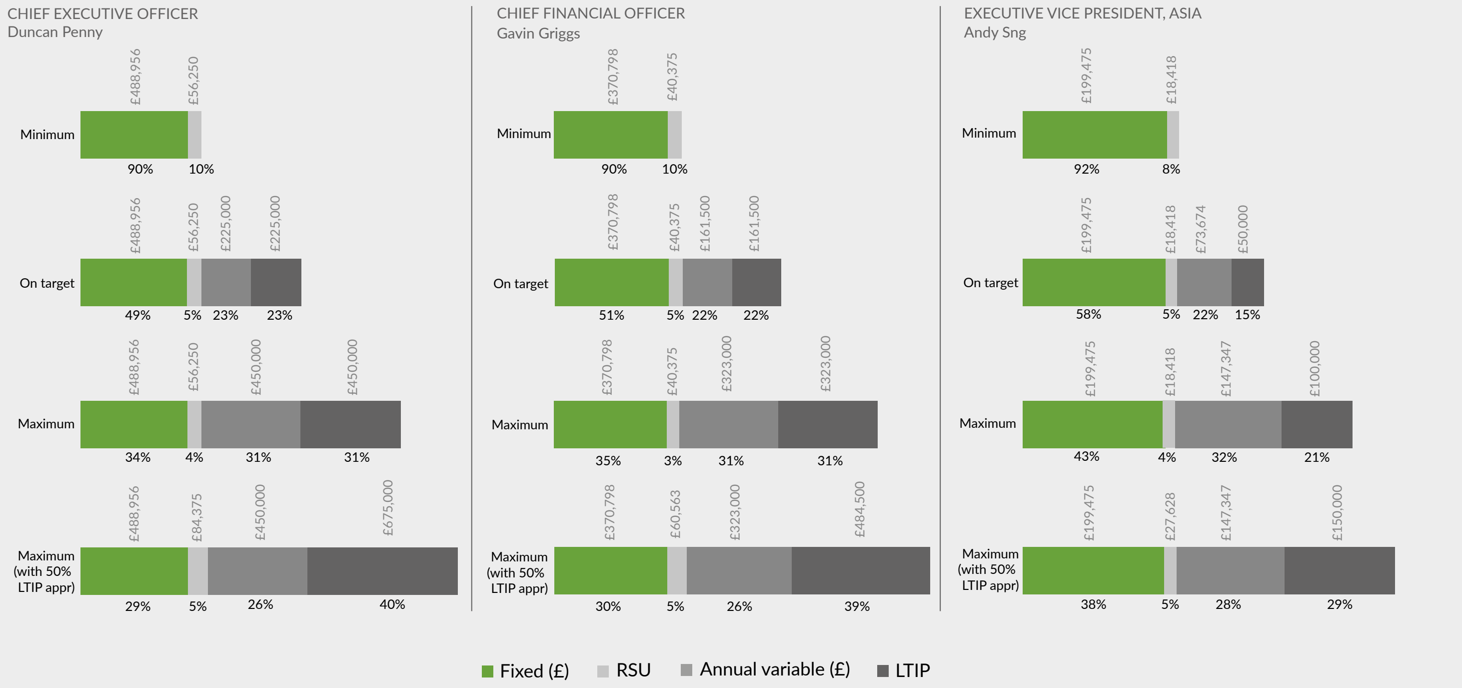
The Remuneration Committee's policy is to consult with major Shareholders in respect of significant decisions on Executive remuneration.

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.

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 new proposed Directors' remuneration policy (excluding share price movement).



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 2020 approved budget and threshold vesting of normal LTIP/RSP awards.

The "Maximum" scenario has been calculated assuming that the Directors achieve the maximum allowed variable bonus which for 2020 is capped at 100% of their respective base salaries and maximum vesting of normal LTIP/RSP awards under the plan. In order for Directors to achieve the maximum bonus, adjusted profit before tax would have to reach the maximum target which will be set out in the 2020 Annual Report.

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	£450,000	£2,956	£36,000	£488,956
Chief Financial Officer	Gavin Griggs	£323,000	£21,958	£25,840	£370,798
Executive Vice President, Asia	Andy Sng	S$265,225	S$76,663	S$17,167	S$359,055

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

Pauline Lafferty, Independent Non-Executive Director (appointed 3 December 2019)

Terry Twigger, Independent Non-Executive Director

MEETINGS OF THE REMUNERATION COMMITTEE

The Remuneration Committee met four times during 2019 with attendance on the dates as follows:

Date	Attendees
14 January 2019	All
1 March 2019	All
31 July 2019	All
2 December 2019	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 102.

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 from 1 April 2019 were £401,700 and £288,400 respectively.

BENEFITS-IN-KIND

The 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.

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 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.

REMUNERATION REPORT ANNUAL REPORT CONTINUED

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.

2019 performance targets for Executive Directors other than Andy Sng					
Target	Weighting	Threshold	Target	Stretch/max	Actual
Adjusted profit before tax	80%	£41.2m	£42.9m	£44.7m	£33.2m
Adjusted Free cash flow*	20%	£25.9m	£28.0m	£30.0m	£28.1m
Percentage of salary for Executive Directors at different levels of performance					
Executive Director					
Duncan Penny	£401,700	25%	50%	100%	10.7%
Gavin Griggs	£288,400	25%	50%	100%	10.7%
Mike Laver (retired from the Board 16 April 2019)	US$339,900	20%	40%	75%	3%

* Adjusted for £1.9 million of legal fees included in specific items.

80% of the 2019 annual bonus for Duncan Penny, Gavin Griggs and Mike Laver was based on the Group's adjusted profit before tax. The threshold for bonuses to start was £41.2 million, which was the adjusted profit before tax achieved in 2018. On-target performance set at £42.9 million, 4% ahead of adjusted profit before tax achieved in 2018. The bonus was structured on a linear pro rata basis.

The threshold adjusted profit before tax was not met in 2019 so no bonuses were paid based in respect of this part of the bonus plan.

20% of the 2019 annual bonus for Duncan Penny, Gavin Griggs and Mike Laver was on the free cash flow. The threshold for bonuses to start was £25.9 million. On-target performance was set at £28.0 million. The bonus was structured on a linear pro rata basis.

Adjusted free cash flow of £28.1 million was achieved which resulted in a bonus of 10.7%. The bonus in respect of Mike Laver has been pro-rated basis on the period he served on the Board.

2019 performance target for Andy Sng – Executive Vice President, Asia					
Target	Weighting	Threshold	Target	Stretch/max	Actual
Asia adjusted operating profit	80%	US$6.5m	US$7.5m	US$8.5m	US$8.4m
Adjusted Free cash flow*	20%	£25.9m	£28.0m	£30.0m	£28.1m
Percentage of salary paid for Andy Sng at different levels of performance					
Andy Sng	£147,838	25%	50%	100%	88.1%

* Adjusted for £1.9 million of legal fees included in specific items.

80% of the 2019 annual bonus for Andy Sng was based on the Asia adjusted profit before tax. The threshold for the bonus to start was US$6.5 million, which was the Asia adjusted profit before tax achieved in 2018. On-target performance set at US$7.5 million, 15% ahead of adjusted profit before tax achieved in 2018. The bonus was structured on a linear pro rata basis.

The Asia adjusted profit before tax grew 30% over that achieved in 2018 and therefore Andy Sng achieved a bonus based on Asia adjusted operating profit of 77.4%.

20% of the 2019 annual bonus for Andy Sng was based on adjusted free cash flow. The threshold for bonuses to start was £25.9 million. On-target performance was set at £28.0 million. The bonus was structured on a linear pro rata basis.

Adjusted free cash flow of £28.1 million was achieved which resulted in a bonus of 10.7%.

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 2019. The details of each Executive Director are shown in the table on page 99. Deferred bonus shares are granted at the closing share price prevailing two working days following the Company's annual results announcement.

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)

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.

Fifty percent of 2017 and 2018 awards and two thirds of 2019 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 and 2019 awards	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.

Fifty percent of 2017 and 2018 awards and a third of 2019 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
75th percentile (2017 and 2018 award) / 80th percentile (2019 award)	100%
Median (50th percentile)	25%
Below the median	No vesting

Vesting between the median and the 80th percentile will be measured on a straight-line basis.

On 8 March 2019, 123,747 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 2019 to 31 December 2021.

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.

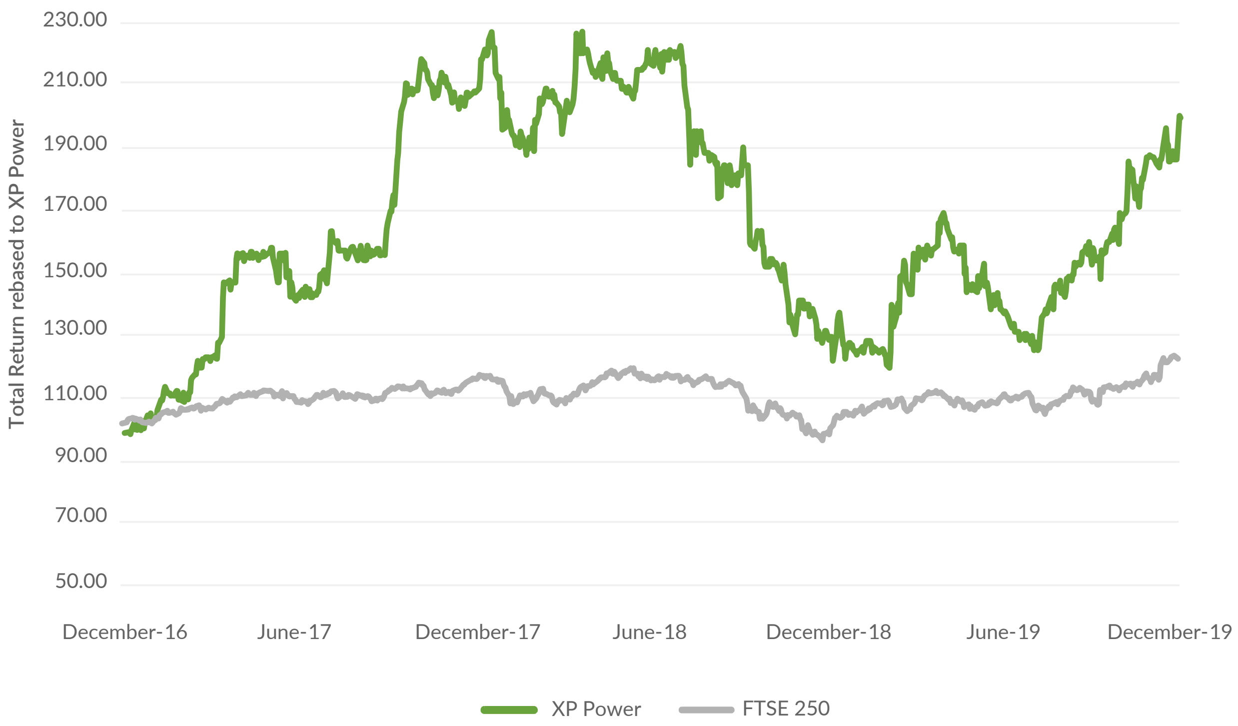
The first 50% of the share options granted in February 2016 under this plan were due to vest in February 2019 with the remaining 50% tranche due to vest in February 2020. Vesting of these options is based on TSR relative to the FTSE 350 Electronic and Electrical Equipment Sector.

Based on the achievement of the performance condition to February 2019, 79% of this tranche of the award vested corresponding to 19,900 shares for Duncan Penny, 9,950 shares for Mike Laver and 3,980 shares for Andy Sng.

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

The detail of historic Share Option Plan awards by Executive Director is shown in the table on page 100.

The chart below shows the total shareholder return for XP Power rebased against that of the FTSE250 over the performance period of the 2017 LTIP.



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
2018	390	14	4	276	684
2019	399	15	4	43	461

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 2019.

Percentage increase in remuneration in 2019 compared with 2018	CEO	Chosen employee group Note 1
Base salary	2%	4%
All taxable benefits	6%	10%
Annual bonus	(84%)	(64%)
Total	(33%)	6%

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

The ratio of remuneration of the Chief Executive Officer to the average employee of the entire Group (excluding China and Vietnam) over the last five years was as follows:

	2015	2016	2017	2018	2019
Chief Executive remuneration (£'000)	310	342	531	684	461
Average employee remuneration (£'000)	52	64	66	69	73
Ratio	6:1	5:1	8:1	10:1	6:1

The UK government has now introduced legislation requiring companies to publish the ratio of their Chief Executive to that of the median, 25th and 75th percentile total remuneration of full-time equivalent employees. The table below shows the ratio of the pay of the Chief Executive Officer to that of the UK lower quartile, median and upper quartile employees in 2019.

Year	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	16:1	10:1	6:1

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
Pauline Lafferty (appointed 3 December 2019)	£40,000	3 December 2019	3 December 2019
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:

£	2019	2018
Basic salaries	**907,549**	1,053,893
Benefits-in-kind	**80,656**	113,665
Annual bonus	**212,368**	655,632
Money purchase pension contributions	**40,266**	39,662
Non-Executive Director fees	**140,757**	177,595
Total remuneration	**1,381,596**	2,040,447

DIRECTORS' REMUNERATION FOR 2019

Name of Director	Salary and fees	Annual bonus	Value of vested share awards	Pension	Benefits	2019 Total
£						
Executive						
Duncan Penny	398,775	43,109	–	15,600	3,717	**461,201**
Gavin Griggs	286,300	30,950	–	11,683	23,007	**351,941**
Mike Laver (retired from the Board 16 April 2019)	75,713	8,015	–	3,028	11,856	**98,612**
Andy Sng	146,761	130,295	–	9,955	42,075	**329,084**
Non-Executive						
James Peters	50,000	–		–	2,424	**52,424**
Terry Twigger	45,000	–		–	–	**45,000**
Polly Williams	40,000	–		–	–	**40,000**
Pauline Lafferty (appointed 3 December 2019)	3,333	–		–	–	**3,333**

DIRECTORS' REMUNERATION FOR 2018

Name of Director	Salary and fees	Annual bonus	Value of vested share awards	Pension	Benefits	2018 Total
£						
Executive						
Duncan Penny	390,000	276,237	–	13,650	4,189	684,076
Gavin Griggs	280,000	198,324	–	10,801	23,180	512,305
Mike Laver (retired from the Board 16 April 2019)	245,618	117,700	–	6,140	33,167	402,625
Andy Sng	138,275	63,371	–	9,071	53,129	263,846
Non-Executive						
James Peters	50,000	-		-	2,595	52,595
Terry Twigger	45,000	-		-	-	45,000
Polly Williams	40,000	-		-	-	40,000
Peter Bucher (resigned on 31 December 2018)	40,000	-		-	-	40,000

In the year under review, the base salary of the CEO, Duncan Penny, the CFO, Gavin Griggs and Andy Sng, Executive Vice President, Asia were increased as described on page 101. 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 2019	At 1 January 2019
Executive		
Duncan Penny	**206,990**	206,990
Andy Sng	**24,000**	24,000
Non-Executive		
James Peters	**1,529,279**	1,529,279

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:

Executive	Type of shares	Date of grant	Exercise price	Expiry date of option	At 31 December 2019 No. of shares	At 1 January 2019 No. of shares
Duncan Penny	2012 Share Options	10 October 2012	£9.46	10 October 2022	**60,750**	60,750
	2012 Share Options	23 February 2016	£15.425	23 February 2026	**39,800**	50,000
	2016 Deferred Bonus	17 March 2017	–	–	**–**	1,776
	2017 LTIP	30 May 2017	£0.010	30 May 2022	**6,000**	6,000
	2017 Deferred Bonus	02 March 2018	–	–	**3,975**	3,975
	2018 LTIP	16 May 2018	£0.010	16 May 2023	**11,200**	11,200
	2018 Deferred Bonus	06 March 2019	–	–	**6,057**	–
	2019 LTIP	08 March 2019	£0.010	08 March 2024	**19,024**	–
Gavin Griggs	2017 LTIP	01 November 2017	£0.010	01 November 2022	**8,000**	8,000
	2017 Deferred Bonus	02 March 2018	–	–	**515**	515
	2018 Deferred Bonus	06 March 2019	–	–	**4,349**	–
	2019 LTIP	08 March 2019	£0.010	08 March 2024	**13,659**	–
Mike Laver (retired from the Board 16 April 2019)	2012 Share Options	10 October 2012	£9.46	10 October 2022	**30,000**	30,000
	2012 Share Options	23 February 2016	£15.425	23 February 2026	**25,000**	25,000
	2016 Deferred Bonus	17 March 2017	–	–	**1,191**	1,191
	2017 LTIP	30 May 2017	£0.010	30 May 2022	**3,000**	3,000
	2017 Deferred Bonus	02 March 2018	–	–	**2,130**	2,130
	2018 LTIP	16 May 2018	£0.010	16 May 2023	**3,000**	3,000
	2018 Deferred Bonus	06 March 2019	–	–	**2,581**	–
	2019 LTIP	08 March 2019	£0.010	08 March 2024	**4,878**	–
Andy Sng	2012 Share Options	23 February 2016	£15.425	23 February 2026	**10,000**	10,000
	2016 Deferred Bonus	17 March 2017	–	–	**–**	514
	2017 LTIP	30 May 2017	£0.010	30 May 2022	**2,000**	2,000
	2017 Deferred Bonus	02 March 2018	–	–	**420**	420
	2018 LTIP	16 May 2018	£0.010	16 May 2023	**2,857**	2,857
	2018 Deferred Bonus	06 March 2019	–	–	**1,389**	–
	2019 LTIP	08 March 2019	£0.010	08 March 2024	**4,878**	–

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 91.

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. These awards have now vested.

The awards granted on 6 March 2019 relate to 50% of the bonus earned in the financial year 2018 and are deferred for two years after 31 December 2018.

The nominal-priced options awarded on 30 May 2017, 1 November 2017, 16 May 2018 and 8 March 2019 vest 50% after three years and 50% after four years and are subject to the performance criteria outlined in the Remuneration Policy on page 90.

The highest and lowest closing mid-market prices of the shares of XP Power Limited during 2019 were £31.10 and £19.65 per share respectively. The closing mid-market price on 31 December 2018 was £31.00 per share.

RELATIVE IMPORTANCE OF SPEND ON PAY

£ Millions	2019	2018	Change %
Distribution to Shareholders			
Dividends[1]	**16.7**	15.3	9%
Group employment costs[2]	**59.7**	55.2	8%

1 Refer to Financial Statements – Note 9 for more details.
2 Group employment costs includes Directors' remunerations. Refer to Financial Statements – Note 5 for more details.

REMUNERATION IN 2020 SALARY

Basic salaries for all Directors were reviewed against a benchmarking study that had been commissioned by the Remuneration Committee at the end of 2019. The companies used in the study were assessed for their suitability and relevance to the Company. The CEO and CFO will receive a basic pay increase of 12% with effect from 1 April 2020 and the Executive Vice President of Asia will receive a 3% increase. After these increases the base pay will still be below the median levels determined in the benchmarking study.

Executive	Base salary	Date of last review	Effective date of last increase
Duncan Penny	£450,000	28 February 2020	1 April 2019
Gavin Griggs	£323,000	28 February 2020	1 April 2019
Andy Sng	S$265,225	28 February 2020	1 April 2019

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

ANNUAL BONUS 2020

For 2020, the maximum bonus opportunity of the Executive Directors will be capped at 100% of salary with on target pay outs of 50%. Bonuses will be based 50% on adjusted profit before tax, 25% on adjusted operating cash flow as a percentage of adjusted operating income, and 25% based on strategic objectives. Adjusted operating cash flow will be measured over each quarter and the average of the four quarters will be used.

The introduction of strategic targets in the annual bonus ensures focus also remains on the big picture, rather than only near-term financial performance.

The Remuneration Committee is of the opinion that given the commercial sensitivity arising in relation to the targets used for the annual bonus, disclosing precise targets for the bonus plan in advance would not be in Shareholders' interests. 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.

The Committee regards the targets it has set as stretching, however, it should be noted that the targets set do not incorporate any potentially negative financial effects due to the COVID-19 virus. The targets have also been set at a US Dollar to Pound Sterling exchange rate of 1.30.

LONG-TERM INCENTIVE AWARDS 2020

The Remuneration Committee expects to make further awards to Executive Directors under the 2017 LTIP during 2020. 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.

The vesting of performance based LTIP awards made in 2020 will depend on two separate performance conditions over a three-year period as set out below. The award will be distributed two years after the vesting date. Vesting at threshold performance levels is 25% of the maximum.

Up to two thirds of the total Shares subject to the Award will vest depending upon the total diluted adjusted EPS over the three-year period 2020, 2021 and 2022 as set out in the table below.

Total adjusted EPS performance 2020, 2021 and 2022	Vesting
581.1 pence per share	100%
523.4 pence per share	25%
Below 523.4 pence per share	No vesting

Vesting between the diluted adjusted EPS targets will be measured on a straight-line basis. The above diluted adjusted EPS targets were derived by taking the average adjusted earnings per share for 2017, 2018 and 2019 which is 155.1 pence per share (which is 6.6% ahead of actual 2019 diluted adjusted EPS) to account for the inherent cyclicality in the business and applying a 6% or 12% annual compound growth rate.

Up to a third of the total Shares subject to the Award will vest dependent upon the achievement of the Company's 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 80th percentile will be measured on a straight-line basis.

In addition, the Remuneration Committee currently intends to make restricted share awards to each of the CEO and CFO at 12.5% of salary without performance conditions under the new 2020 remuneration policy if approved by shareholders at the 2020 Annual General Meeting.

NON-EXECUTIVE REMUNERATION

Fees for the Chairman and Non-Executive Directors have been benchmarked versus companies of similar size and complexity. As a result of the benchmarking, it is proposed that fees for Non-Executive Directors be changed from 1 April 2020 as follows:

	Existing fees	Proposed fees
Base fee	£40,000	£50,000
Additional fee for chairing a committee	-	£5,000
Additional fee for acting as Senior Non-Executive Director	£5,000	£5,000

Benchmarking of the Chairman's fee suggested a range from £75,000 to £190,000. However, due the current Chairman's shareholding he has agreed to take the same fee as the senior non-executive director which would be £60,000. This is an increase of £10,000 from the existing fee.

REVIEW OF POLICY

The policy will be next be put to Shareholders at the 2023 Annual General Meeting in accordance with the normal triennial cycle. The Committee will continue to follow its normal practice of consulting with the Company's major shareholders inviting them to express any views.

ADVICE ON REMUNERATION

During the year, h2glenfern Remuneration Advisory provided advice to the Company with respect to the Executive Directors' remuneration. Fees were charged pursuant to an annual retainer and on a cost incurred basis in relation to advice and support on the proposed new remuneration policy and totalled £47,000 in the year to 31 December 2019. 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 and the 2018 Remuneration Report:

	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 policy	13,470,788	96.2%	561,028	3.8%	2,266
Approval of remuneration report	12,844,145	97.8%	294,660	2.2%	24,891

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 3 March 2020.

OTHER GOVERNANCE AND STATUTORY DISCLOSURES

DIRECTORS

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

Gavin Griggs	Polly Williams
James Peters	Duncan Penny
Terry Twigger	Andy Sng
Pauline Lafferty (appointed on 3 December 2019)	

All Directors will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting on 21 April 2020.

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 2019 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	2,358,124	12.26
Mawer Investment Mgt	1,311,437	6.82
Kempen Capital Mgt	975,000	5.07
Canaccord Genuity Group Inc	969,764	5.04
Janus Henderson Group plc	818,250	4.25
Montanaro Investment Managers	775,000	4.03
Chelverton Asset Mgt	680,000	3.54
The Capital Group Companies, Inc	583,458	3.03

During the period between 31 December 2019 and 3 March 2020, 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
Montanaro Investment Managers	3 February 2020	760,100	3.95%

DIVIDENDS

Interim dividends were paid and are proposed as follows:

Period	Payment date	Amount	2018 Comparative
First Quarter	11 July 2019	17.0 pence	16.0 pence
Second Quarter	10 October 2019	18.0 pence	17.0 pence
Third Quarter	13 January 2020	20.0 pence	19.0 pence
Fourth Quarter (proposed)	28 April 2020	36.0 pence	33.0 pence
Total		91.0 pence	85.0 pence

We are proposing a final dividend of 36.0 pence per share which would be payable to members on the register on 27 March 2020 and will be paid on 28 April 2020. This would make the total dividend for the year 91.0 pence (2018: 85.0 pence) which is an increase of 7%.

AUDIT COMMITTEE

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

Terry Twigger (Chair)
Polly Williams
Pauline Lafferty

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 2019 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.

INCORPORATION BY REFERENCE

Certain laws and regulations require that specific information should be included in the Directors' report. The table below shows the items which are incorporated into this Directors' report by reference:

Information incorporated into the Directors' report by reference	Location and page
Statement of the amount of interest capitalised by the Group during the year with an indication of the amount and treatment of any related tax relief	Note 6 to the Group's consolidated financial statements (page 133) Related tax relief is insignificant
Details of long-term incentive plans	Remuneration committee report (page 90)
Details of any arrangements under which a director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking	Remuneration committee report (page 88)
Details of any arrangements under which a director of the Company has agreed to waive future emoluments, details of such waiver together with those relating to emoluments which were waived during the period under review.	
Details of allotments for cash of ordinary shares made during the period under review	Nothing to disclose
Contracts of significance to which the Company is a party and in which a director is materially interested	Nothing to disclose
Contracts of significance between the Company and a controlling shareholder	Nothing to disclose
Contracts for the provision of services to the Company by a controlling shareholder	Nothing to disclose
Details of any arrangement under which a shareholder has waived or agreed to waive dividends	Nothing to disclose
Agreements related to controlling shareholder requirements under LR 9.2.2ARD(1)	Nothing to disclose

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 113 to 167 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 2019 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

DUNCAN PENNY
Chief Executive Officer

3 March 2020

CONTENTS

Financials

FINANCIALS

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 Singapore 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 2019, 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 2019;
- the consolidated balance sheet of the Group as at 31 December 2019;
- the balance sheet of the Company as at 31 December 2019;
- 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.

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.

Our audit approach – overview

MATERIALITY

The overall materiality which we have used to plan our work for the Group amounted to £1.44 million, which represented 6.0% of profit before taxation. The overall materiality applied to the audit of the Company balance sheet amounted to £0.85 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; and
- Capitalised product development

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 to £1.43 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 £144,000 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 sufficient 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.

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
Goodwill *Refer to page 84 (Report from the Chair of the Audit Committee), page 129 (Critical accounting judgements and key sources of estimation uncertainty – Impairment of Goodwill) and page 136 (Note 11 – Goodwill).* The Group has goodwill of £53.2 million at 31 December 2019 contained within three cash-generating units ("CGUs") defined by its geographical split – North America, Europe and Asia. 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. 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.	We evaluated the suitability and appropriateness of the impairment model as prepared by management and noted no significant exceptions. We assessed the reasonableness of the inputs used to derive 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, industry indicators and historical trends for revenue growth 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.
Capitalised product development *Refer to page 84 (Report from the Chair of the Audit Committee), page 129 (Critical accounting judgements and key sources of estimation uncertainty – Recoverability and useful lives of Capitalised development costs) and page 137 (Note 12 – Intangible assets).* Part of the Group's strategy is to invest in research and development to create new products. As at 31 December 2019, the carrying value of product development costs capitalised as an intangible asset is £23.4 million, of which £8.0 million was capitalised in the current financial year. 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 10% 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 *Intangible Assets*, have been fulfilled and that the capitalised amounts are recoverable. 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.	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. 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. 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.

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 105, 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 47. 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 Provisions 6 and 24 to 29 of the UK Corporate Governance Code. 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" section set out on pages 10 to 63, "Governance" section set out on pages 64 to 105, and the "Financials" section on page 168 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 IFRS 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.

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. 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 auditors, 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 Greg Unsworth.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Public Accountants and Chartered Accountants
Singapore

3 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

£ Millions	Note	**2019**	2018
Revenue	4	**199.9**	195.1
Cost of sales	7	**(109.8)**	(102.8)
Gross profit		**90.1**	92.3
Expenses			
Distribution and marketing	7	**(43.2)**	(38.7)
Administrative	7	**(7.2)**	(2.9)
Research and development	7	**(13.0)**	(11.4)
Operating profit		**26.7**	39.3
Finance charge	6	**(2.7)**	(1.7)
Profit before tax		**24.0**	37.6
Income tax expense	8	**(3.2)**	(7.2)
Profit after tax		**20.8**	30.4
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**(0.1)**	0.3
Exchange differences on translation of foreign operations		**(4.2)**	4.4
		(4.3)	4.7
Items that will not be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation		**(0.1)**	0.2
Other comprehensive (loss)/income for the year, net of tax		**(4.4)**	4.9
Total comprehensive income for the year		**16.4**	35.3
Profit attributable to:			
Equity holders of the Company		**20.5**	30.2
Non-controlling interests		**0.3**	0.2
		20.8	30.4
Total comprehensive income attributable to:			
Equity holders of the Company		**16.2**	34.9
Non-controlling interests		**0.2**	0.4
		16.4	35.3
Earnings per share attributable to equity holders of the Company (pence per share)			
Basic earnings per share	10	**107.0**	157.8
Diluted earnings per share	10	**105.0**	154.9

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019

£ Millions	Note	**2019**	2018
ASSETS			
Current assets			
Corporate tax recoverable		**2.0**	0.8
Cash and cash equivalents	16	**11.2**	11.5
Inventories	17	**44.1**	56.5
Trade receivables	18	**34.8**	33.0
Other current assets	19	**3.3**	3.3
Derivative financial instruments	23	**0.6**	*
Total current assets		**96.0**	105.1
Non-current assets			
Goodwill	11	**53.2**	54.1
Intangible assets	12	**46.4**	43.6
Property, plant and equipment	13	**29.3**	30.7
Right-of-use assets	14	**6.6**	–
Deferred income tax assets	24	**1.8**	0.6
ESOP loan to employees		**0.1**	0.2
Total non-current assets		**137.4**	129.2
Total assets		**233.4**	234.3
LIABILITIES			
Current liabilities			
Current income tax liabilities		**3.1**	4.2
Trade and other payables	20	**25.2**	22.4
Derivative financial instruments	23	**–**	0.2
Lease liabilities	22	**1.6**	–
Accrued consideration	21	**0.5**	–
Total current liabilities		**30.4**	26.8
Non-current liabilities			
Accrued consideration	21	**1.2**	1.4
Borrowings	22	**52.5**	63.5
Deferred income tax liabilities	24	**5.5**	4.7
Provisions		**0.1**	0.5
Lease liabilities	22	**4.8**	–
Total non-current liabilities		**64.1**	70.1
Total liabilities		**94.5**	96.9
NET ASSETS		**138.9**	137.4
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	25	**27.2**	27.2
Merger reserve	25	**0.2**	0.2
Share option reserve	25	**3.9**	2.1
Treasury shares reserve	25	**(0.5)**	(1.0)
Hedging reserve	25	**–**	0.1
Translation reserve	25	**(0.2)**	4.0
Other reserve	25	**(0.8)**	(0.8)
Retained earnings	25	**108.4**	104.6
		138.2	136.4
Non-controlling interests		**0.7**	1.0
TOTAL EQUITY		**138.9**	137.4

* 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 2019

£ Millions	Note	Share capital	Share option reserve	Treasury shares reserve	Merger reserve	Hedging reserve	Translation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
		Attributable to equity holders of the Company										
Balance at 1 January 2018		27.2	2.2	(1.8)	0.2	(0.2)	(0.4)	(0.8)	90.0	116.4	0.9	117.3
Sale of treasury shares		–	–	0.8	–	–	–	–	(0.3)	0.5	–	0.5
Employee share option plan expenses		–	0.8	–	–	–	–	–	–	0.8	–	0.8
Tax on employee share option plan expenses		–	(0.9)	–	–	–	–	–	–	(0.9)	–	(0.9)
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		–	–	–	–	0.3	4.4	–	30.2	34.9	0.4	35.3
Balance at 31 December 2018		27.2	2.1	(1.0)	0.2	0.1	4.0	(0.8)	104.6	136.4	1.0	137.4
Sale of treasury shares		–	–	0.5	–	–	–	–	*	0.5	–	0.5
Employee share option plan expenses		–	0.7	–	–	–	–	–	–	0.7	–	0.7
Tax on employee share option plan expenses		–	1.1	–	–	–	–	–	–	1.1	–	1.1
Dividends paid	9	–	*	–	–	–	–	–	(16.7)	(16.7)	(0.5)	(17.2)
Exchange difference arising from translation of financial statements of foreign operations		–	*	–	–	–	(4.2)	–	*	(4.2)	(0.1)	(4.3)
Net change in cash flow hedges		–	–	–	–	(0.1)	–	–	–	(0.1)	–	(0.1)
Profit for the year		–	–	–	–	–	–	–	20.5	20.5	0.3	20.8
Total comprehensive income for the year		–	*	–	–	(0.1)	(4.2)	–	20.5	16.2	0.2	16.4
Balance at 31 December 2019		**27.2**	**3.9**	**(0.5)**	**0.2**	**–**	**(0.2)**	**(0.8)**	**108.4**	**138.2**	**0.7**	**138.9**

* Balances are 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 2019

£ Millions	Note	**2019**	2018
Cash flows from operating activities			
Profit after tax		**20.8**	30.4
Adjustments for:			
- Income tax expense	8	**3.2**	7.2
- Amortisation and depreciation	7	**12.7**	9.1
- Finance charge	6	**2.7**	1.7
- Share option expense	5	**0.7**	0.8
- Fair value (gain)/loss of derivative financial instruments		**(0.9)**	0.5
- Unrealised currency translation loss		**0.9**	2.7
Change in working capital, net of effects from acquisitions:			
- Inventories		**10.3**	(16.4)
- Trade and other receivables		**(3.7)**	(5.6)
- Trade and other payables		**4.5**	(0.1)
- Provision for liabilities and other charges		**(0.5)**	0.5
Cash generated from operations		**50.7**	30.8
Income tax paid, net of refund		**(4.5)**	(4.1)
Net cash provided by operating activities		**46.2**	26.7
Cash flows from investing activities			
Acquisition of a business, net of cash acquired		**–**	(35.5)
Purchases and construction of property, plant and equipment	13	**(4.7)**	(7.9)
Additions of development costs	12	**(8.0)**	(6.2)
Additions of intangible software and software under development	12	**(3.6)**	(0.9)
Proceeds from disposal of property, plant and equipment		*****	0.1
Proceeds from repayment of ESOP loans		*****	0.1
Net cash used in investing activities		**(16.3)**	(50.3)
Cash flows from financing activities			
Proceeds from borrowings		**–**	39.4
Repayment of borrowings		**(8.8)**	(3.4)
Principal payment of lease liabilities		**(1.5)**	–
Sale of treasury shares		**0.5**	0.5
Interest paid		**(2.7)**	(1.5)
Dividend paid to equity holders of the Company	9	**(16.7)**	(15.3)
Dividend paid to non-controlling interests		**(0.5)**	(0.3)
Net cash (used)/provided by financing activities		**(29.7)**	19.4
Net increase/(decrease) in cash and cash equivalents		**0.2**	(4.2)
Cash and cash equivalents at beginning of financial year		**11.5**	15.0
Effects of currency translation on cash and cash equivalents		**(0.5)**	0.7
Cash and cash equivalents at end of financial year	16	**11.2**	11.5

*Balances are less than £100,000.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 12 to 15.

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 International Financial Reporting Interpretations Committee ("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 2019, the Group adopted the new or amended IFRS and 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 adoption of IFRS 16 *Leases*:

Adoption of IFRS 16 *Leases*

WHEN THE GROUP IS THE LESSEE

Prior to the adoption of IFRS 16, non-cancellable operating lease payments were not recognised as liabilities in the balances sheet. These payments were recognised as rental expenses over the lease term on a straight-line basis.

The Group's accounting policy on leases after the adoption of IFRS 16 is as disclosed in Note 2.15.

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)*

On initial application of IFRS 16, the Group has elected to apply the following practical expedients:

i. For all contracts entered into before 1 January 2019 and that were previously identified as leases under IAS 17 *Leases* and IFRIC 4 *Determining whether an Agreement contains a Lease*, the Group has not reassessed if such contracts contain leases under IFRS 16; and

ii. On a lease-by-lease basis, the Group has:

   a. applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

   b. accounted for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

   c. excluded initial direct costs in measurement of the right-of-use ("ROU") asset at the date of initial application; and

   d. used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

There were no onerous contracts as at 1 January 2019.

For leases previously classified as operating leases on 1 January 2019, the Group has applied the following transition provisions:

i. On a lease-by-lease basis, the Group chose to measure ROU assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of transition.

ii. Recognised its lease liabilities by discounting the remaining lease payments as at 1 January 2019 using the incremental borrowing rate for each individual lease or, if applicable, the incremental borrowing rate for each portfolio of leases with reasonably similar characteristic.

The effects on adoption of IFRS 16 on the Group's financial statements as at 1 January 2019 are as follows:

	Increase/(decrease) £ Millions
Property, plant and equipment	**(0.6)**
Right-of-use assets	**7.0**
Lease liabilities	**6.4**

An explanation of the differences between the operating lease commitments previously disclosed in the Group's financial statements as at 31 December 2018 and the lease liabilities recognised in the balance sheet as at 1 January 2019 are as follows:

	£ Millions
Operating lease commitment disclosed as at 31 December 2018	**7.8**
Less: Short-term leases	**(0.2)**
Less: Low-value leases	**(0.2)**
Less: Discounting effect using weighted average incremental borrowing rate of 5.3%	**(1.1)**
Add: Extension options which are reasonably certain to be exercised	**0.1**
Lease liabilities recognised as at 1 January 2019	**6.4**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

b. Changes in accounting policy and disclosures (continued)

ii. *New standards and interpretations issued not yet adopted*

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standard in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments of IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

iii. Change in accounting estimates

Prior to 2019, the Group tested the product line for impairment based on previous and future demand forecast. With the migration to S4Hana in 2019, the Group is now able to capture the shelf life expiration date of stock items for finished goods. Shelf lives are added to the product according to the product hierarchies to compute the provision whereas the previous policy is based on previous and future demand forecast. The effect of the change in estimate is a £0.7 million reduction in the provision recognised.

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.

During the year, the Company conducted a detailed review on the application of its accounting policy and identified that the accounting policy for foreign currency translation of balances was not correctly applied to investment in subsidiaries balances in the XP Power Limited company balance sheet. Accordingly, the 31 December 2017 and 31 December 2018 XP Power Limited company comparatives have been restated, increasing investment in subsidiaries by £14.5 million and £17.2 million at 1 January 2018 and 31 December 2018 respectively. The XP Power Limited company balance sheet on page 154, Note 34: Investment in subsidiaries on page 156 and Note 47: Share capital and reserves on page 161 have been restated. Please refer to Note 49 for the effect of restatement.

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 remeasured. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Foreign currency translation (continued)

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 made 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 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.

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 component when the period between the transfer of control of good or service to a customer and the payment date is one year or less.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Group accounting (continued)

a. Subsidiaries (continued)

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.

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 remeasured 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment (continued)

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%

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.

2.7 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (continued)

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 seven to ten 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%

2.8 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for these costs that are directly attributable to the construction or development of properties and assets under construction. This includes those costs on borrowings acquired specifically for the construction or development of properties and assets under construction, as well as those in relation to general borrowings used to finance the construction or development of properties and assets under construction.

2.9 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 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.

2.11 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.

AT SUBSEQUENT MEASUREMENT

Debt instruments

Debt instruments mainly comprise "trade receivables", "other current assets (excluding prepayments, VAT receivables and rights to returned goods)", "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".

Fair value through profit or loss ("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 simplified approach permitted by the IFRS 9 *Financial Instruments*, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group uses a provision matrix to measure expected credit loss.

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 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.

2.13 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.

2.14 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.

2.15 Leases

a. The accounting policy for leases before 1 January 2019 are as follows:

When the Group is the lessee:

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.

b. The accounting policy for leases from 1 January 2019 are as follows:

When the Group is the lessee:

At the inception of the contract, the Group assesses if the contract contains a lease. A contract contains a lease if the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

- Right-of-use assets

  The Group recognised a right-of-use asset and lease liability at the date which the underlying asset is available for use. Right-of-use assets are measured at cost which comprises the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement date and lease incentive received. Any initial direct costs that would not have been incurred if the lease had not been obtained are added to the carrying amount of the right-of-use assets.

  These right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Leases (continued)

- Lease liabilities

  The initial measurement of lease liability is measured at the present value of the lease payments discounted using the implicit rate in the lease, if the rate can be readily determined. If that rate cannot be readily determined, the Group shall use its incremental borrowing rate.

  Lease payments include the following:

  - Fixed payment (including in-substance fixed payments), less any lease incentives receivables;
  - Variable lease payment that are based on an index or rate, initially measured using the index or rate at the commencement date;
  - Amount expected to be payable under residual value guarantees;
  - The exercise price of a purchase option if is reasonably certain to exercise the option; and
  - Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

  For contract that contain both lease and non-lease components, the Group allocates the consideration to each lease component on the basis of the relative stand-alone price of the lease and non-lease component. The Group has elected to not separate lease and non-lease component for property leases and account these as one single lease component.

  Lease liability is measured at amortised cost using the effective interest method. Lease liability shall be remeasured when:

  - There is a change in future lease payments arising from changes in an index or rate;
  - There is a change in the Group's assessment of whether it will exercise an extension option; or
  - There is modification in the scope or the consideration of the lease that was not part of the original term.

  Lease liability is remeasured with a corresponding adjustment to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

- Short-term or low-value leases

  The Group has elected to not recognised right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less and leases of low value leases, except for sublease arrangements. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

- Variable lease payments

  Variable lease payments that are not based on an index or a rate are not included as part of the measurement and initial recognition of lease liability. The Group shall recognise those lease payments in profit or loss in the periods that triggered those lease payments.

2.16 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).

Fair value changes on derivatives that are not designated or do not qualify for the hedge accounting are recognised in profit or loss when the changes arise.

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)

2.16 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 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 23. Movements on the hedging reserve in other comprehensive income are shown in the Consolidated Statement of Changes in Equity. 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.

2.17 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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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.

As the timing of the tax deduction and the recognition of the employee share option expense differs, IAS 12 *Income Taxes* 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 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.

2.19 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 share option 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.

2.20 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.

2.21 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.

2.22 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 equity up to the redemption amount that is payable at the date at which the agreement first becomes exercisable.

2.23 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.

2.24 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 development costs

During the year £8.0 million (2018: £6.2 million) of development costs were capitalised, bringing the total carrying amount of development costs capitalised as intangible assets as at 31 December 2019 to £23.4 million (2018: £20.1 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. Significant judgements are used by the Group to estimate future sales of products and expected future cash flows. In making these estimates, management has relied on past performance, its expectations of market developments, and industry trends.

b. Useful lives of Capitalised development costs

The Group estimates the useful lives of capitalised development costs based on the period over which the assets are expected to be available for use by the Group. Significant judgements are used by the Group in determining the useful lives of capitalised development costs based on the expected life cycle of these products, taking into consideration expected customer demand and technological innovation.

c. 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 2019 was £53.2 million (2018: £54.1 million) with no impairment adjustment required for 2019.

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.

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 CODM 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.

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

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.

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

	Year to 31 December 2019				Year to 31 December 2018			
£ Millions	**Europe**	**North America**	**Asia**	**Total**	Europe	North America	Asia	Total
Semiconductor Manufacturing	**0.4**	**36.6**	**0.4**	**37.4**	0.5	46.2	0.7	47.4
Technology	**6.2**	**14.4**	**6.8**	**27.4**	6.2	13.0	1.2	20.4
Industrial Electronics	**45.8**	**33.3**	**10.1**	**89.2**	43.2	30.6	9.9	83.7
Healthcare	**12.0**	**31.2**	**2.7**	**45.9**	11.2	29.3	3.1	43.6
Total	**64.4**	**115.5**	**20.0**	**199.9**	61.1	119.1	14.9	195.1

Revenues of £20.5 million (2018: £27.9 million) are derived from a single external customer. These revenues are attributable to the semiconductor manufacturing sector.

The revenue by region or country where sales are generated is as follows:

£ Millions	**2019**	2018
North America	**107.5**	110.0
United Kingdom	**31.8**	28.3
Singapore	**29.1**	24.9
Germany	**13.9**	14.9
Switzerland	**2.7**	2.6
France	**3.7**	3.7
Other countries	**11.2**	10.7
Total revenue	**199.9**	195.1

The majority of North America's revenue is generated from the United States of America.

ii. Segment

As permitted under IFRS 15 *Revenue from Contracts with Customers*, the aggregated transaction price allocated to unsatisfied contracts of periods one year or less, or are billed based on time incurred, is not disclosed.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2019 and prior year comparatives is as follows:

Reconciliation of segment results to profit after tax:

£ Millions	**2019**	2018
Europe	**16.4**	15.9
North America	**32.0**	40.8
Asia	**6.6**	4.9
Segment results	**55.0**	61.6
Research and development	**(8.4)**	(8.7)
Manufacturing	**(3.8)**	(2.7)
Corporate cost from operating segment	**(6.9)**	(7.3)
Adjusted operating profit	**35.9**	42.9
Finance charge	**(2.7)**	(1.7)
Specific items	**(9.2)**	(3.6)
Profit before tax	**24.0**	37.6
Income tax expense	**(3.2)**	(7.2)
Profit after tax	**20.8**	30.4

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

ii. Segment (continued)

£ Millions	Year to 31 December 2019⁺ Europe	North America	Asia	Total	Year to 31 December 2018 Europe	North America	Asia	Total
Other Information								
Property, plant and equipment additions	**0.2**	**2.3**	**2.2**	**4.7**	0.5	4.7	5.7	10.9
Depreciation of property, plant and equipment	**0.5**	**1.1**	**2.0**	**3.6**	0.6	1.1	1.7	3.4
Right-of-use assets additions	**0.3**	**1.4**	*	**1.7**	–	–	–	–
Depreciation of right-of-use assets	**0.3**	**1.1**	**0.3**	**1.7**	–	–	–	–
Intangible assets additions	**–**	**4.1**	**7.5**	**11.6**	0.4	18.1	4.7	23.2
Amortisation	**0.3**	**4.2**	**2.9**	**7.4**	–	4.1	1.6	5.7
Balance sheet								
Segment assets	**31.1**	**123.7**	**74.8**	**229.6**	28.4	126.8	77.7	232.9
Unallocated deferred income tax and current income tax				**3.8**				1.4
Consolidated total assets				**233.4**				234.3
Segment liabilities	**(5.3)**	**(66.2)**	**(14.4)**	**(85.9)**	(3.7)	(71.0)	(13.3)	(88.0)
Unallocated deferred and current income tax				**(8.6)**				(8.9)
Consolidated total liabilities				**(94.5)**				(96.9)

* Balance is less than £100,000.

⁺ The Group initially applied IFRS 16 at 1 January 2019, which requires the recognition of right-of-use assets and lease liabilities for lease contacts that were previously classified as operating leases (see Note 2.1). As a result, the Group recognised £6.4 million of right-of-use assets and £6.4 million of liabilities from those lease contracts. The assets and liabilities are included in the Europe, North America and Asia segments as at 31 December 2019. The Group applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see Note 2.1).

NON-CURRENT ASSETS, OTHER THAN DEFERRED INCOME TAX ASSETS, BY COUNTRIES:

£ Millions	2019	2018
North America	**84.3**	81.4
United Kingdom	**13.1**	13.0
Singapore	**23.1**	19.1
Germany	**0.5**	–
Switzerland	**0.1**	–
France	*	–
Other countries	**14.5**	15.1
Total non-current assets	**135.6**	128.6

* Balance is less than £100,000.

RECONCILIATION OF ADJUSTED MEASURES

The Group presents adjusted operating profit 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, restructuring charges, acquisition related costs and amortisation of intangible assets arising from business combinations.

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 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.

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

a. A reconciliation of operating profit to adjusted operating profit is as follows:

£ Millions	2019	2018
Operating profit	**26.7**	39.3
Adjusted for:		
Acquisition costs	**0.9**	0.6
Costs related to ERP implementation	**2.2**	0.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Legal costs	**1.9**	–
Restructuring costs	**1.0**	–
	9.2	3.6
Adjusted operating profit	**35.9**	42.9

b. A reconciliation of profit before income tax to adjusted profit before tax is as follows:

£ Millions	2019	2018
Profit before tax ("PBT")	**24.0**	37.6
Adjusted for:		
Acquisition costs	**0.9**	0.6
Costs related to ERP implementation	**2.2**	0.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Legal costs	**1.9**	–
Restructuring costs	**1.0**	–
	9.2	3.6
Adjusted PBT	**33.2**	41.2

c. A reconciliation of profit after tax to adjusted profit after tax is as follows:

£ Millions	2019	2018
Profit after tax ("PAT")	**20.8**	30.4
Adjusted for:		
Acquisition costs	**0.9**	0.6
Costs related to ERP implementation	**2.2**	0.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Legal costs	**1.9**	–
Restructuring costs	**1.0**	–
Non-recurring tax benefits[1]	**(1.3)**	(0.1)
	7.9	3.5
Adjusted PAT	**28.7**	33.9

[1] Adjusted for tax on specific items relating to completed acquisitions of £0.2 million (2018: £0.1 million), costs related to ERP implementation of £0.4 million (2018: £Nil), legal costs of £0.5 million (2018: £Nil), and restructuring costs of £0.2 million (2018: £Nil).

5. EMPLOYEE COMPENSATION (INCLUDING DIRECTORS)

£ Millions	2019	2018
Wages and salaries	**51.4**	47.6
Employers' contribution to defined contribution plans	**7.6**	6.8
Share option expense	**0.7**	0.8
	59.7	55.2
Less: amount capitalised in intangible assets	**(6.8)**	(6.7)
Total	**52.9**	48.5

For further information regarding Directors' remuneration, refer to the Directors' Remuneration Report.

6. FINANCE CHARGE

£ Millions	2019	2018
Interest income	*	*
Interest expense on bank loans and overdrafts		
- Bank borrowings	2.7	1.7
- Lease liabilities	0.3	–
	3.0	1.7
Unwinding of discount for asset retirement obligation	*	–
Unwinding of discount for accrued consideration	*	*
	3.0	1.7
Less: amount capitalised in intangible assets and property, plant and equipment	(0.3)	–
Amount recognised in profit or loss	**2.7**	1.7

* Balances are less than £100,000.

Finance expenses on general financing were capitalised at a rate of 4.0% per annum (2018: Nil per annum).

7. EXPENSES BY NATURE

£ Millions	2019	2018
Profit after tax is after charging:		
Amortisation of intangible assets	7.4	5.7
Depreciation of property, plant and equipment	3.6	3.4
Depreciation of right-of-use assets	1.7	–
Employee compensation (Note 5)	52.9	48.5
Foreign exchange (gain)/loss	(0.1)	0.4
Gain on foreign exchange forwards	(0.4)	(0.3)
Purchases of inventories	78.6	102.4
Changes in inventories	12.4	(18.7)
Fees payable to the Group's Auditor for the audit of the Group's accounts	0.5	0.5
Fees payable to the Group's Auditor for non-audit services	0.1	–
Fees payable to other audit firm for audit related services	*	–
Tax fees payable to other firms for services provided to the Group	0.1	*
Lease expense (Note 14)	0.4	1.6
Finance charge (Note 6)	2.7	1.7
Consultancy fees	3.0	1.0
Travel and entertainment	2.4	2.9
Costs related to ERP implementation	2.2	0.2
Legal costs	1.9	*
Restructuring costs	1.0	–
Other charges	5.5	8.1
Total	**175.9**	157.5

* Balances are less than £100,000.

8. INCOME TAXES

£ Millions	2019	2018
Singapore corporation tax		
- current year	2.5	3.5
- over-provision in prior financial year	(0.2)	(0.2)
Overseas corporation tax		
- current year	0.9	3.3
- (over)/under-provision in prior financial years	(1.0)	0.3
Withholding tax	0.2	–
Current income tax	2.4	6.9
Deferred income tax		
- current year	1.0	0.3
- over-provision in prior financial years	(0.2)	–
Income tax expense	3.2	7.2

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

In 2018, a tax credit of £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	2019	2018
Profit before tax	24.0	37.6
Tax on profit at standard Singapore tax rate of 17% (2018: 17%)	4.1	6.4
Tax incentives	(0.5)	(0.5)
Higher rates of overseas corporation tax	0.5	1.1
Deduction for employee share options	*	(0.2)
Non-deductible expenditure	0.3	0.3
(Over)/under-provision of tax in prior financial years	(1.4)	0.1
Withholding tax	0.2	–
Income tax expense	3.2	7.2

* Balance is less than £100,000.

There is no (2018: £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	2019	2018
Deferred tax asset – share option plan expenses	1.1	(0.9)
Total	1.1	(0.9)

9. DIVIDENDS

Amounts recognised as distributions to equity holders in the period:

	2019		2018	
	Pence per share	£ Millions	Pence per share	£ Millions
Prior year third quarter dividend paid	**19.0***	**3.6**	18.0	3.4
Prior year final dividend paid	**33.0***	**6.3**	29.0	5.5
First quarter dividend paid	**17.0^**	**3.3**	16.0*	3.1
Second quarter dividend paid	**18.0^**	**3.5**	17.0*	3.3
Total	**87.0**	**16.7**	80.0	15.3

* Dividends in respect of 2018 (85.0p).

^ Dividends in respect of 2019 (91.0p).

The third quarter dividend of 20.0 pence per share was paid on 13 January 2020. The proposed final dividend of 36.0 pence per share for the year ended 31 December 2019 is subject to approval by Shareholders at the Annual General Meeting scheduled for 21 April 2020 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 28 April 2020 to members on the register as at 27 March 2020.

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	2019	2018
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**20.5**	30.2
Earnings for earnings per share	**20.5**	30.2
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**19,154**	19,134
Effect of potentially dilutive share options (thousands)	**368**	366
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,522**	19,500
Earnings per share from operations		
Basic	**107.0p**	157.8p
Basic adjusted*	**148.3p**	176.1p
Diluted	**105.0p**	154.9p
Diluted adjusted*	**145.5p**	172.8p

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

£ Millions		
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**20.5**	30.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Acquisition costs	**0.9**	0.6
Non-recurring tax benefits	**(1.3)**	(0.1)
Costs related to ERP implementation	**2.2**	0.2
Legal costs	**1.9**	–
Restructuring costs	**1.0**	–
Adjusted earnings	**28.4**	33.7

11. GOODWILL

£ Millions	2019	2018
Cost		
At 1 January	**54.1**	40.4
Accrued consideration (Note 21)	**0.3**	–
Recognised on acquisition of business	**–**	12.5
Foreign currency translation	**(1.2)**	1.2
At 31 December	**53.2**	54.1
Accumulated impairment loss		
At 31 December	**–**	–
Carrying amount		
At 31 December	**53.2**	54.1

Goodwill arises on the consolidation of business/subsidiary undertakings.

In 2018, 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 £0.9 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.

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.

Key assumptions used for value-in-use calculations:

	31 December 2019			31 December 2018		
	Growth rate[1]	Discount rate[2]	Terminal growth rate	Growth rate[1]	Discount rate[2]	Terminal growth rate
North America	8.4%	13.0%	2.0%	5.0%	8.4%	0.0%
Europe	4.0%	12.7%	2.0%	5.0%	12.2%	0.0%
Asia	8.8%	14.0%	2.0%	5.0%	8.1%	0.0%

[1] Compound annual growth rate of projected revenue over five years
[2] Pre-tax discount rate applied to the pre-tax cash flow projections

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.

A sensitivity analysis was performed for each of the CGUs or group of CGUs and other than for the Europe CGU, management concluded that no reasonably possible change in any of the key assumptions would result in the carrying value of the CGU to exceed its recoverable amount.

The impairment test carried out as at 31 December 2019 for the Europe CGU, which includes 19% of the goodwill recognised on the balance sheet, has revealed that the recoverable amount of the CGU is £3.2 million or 14% higher than its carrying amount. A reasonably possible change of a 1.2% increase in the discount rate or a decrease in growth rate by 0.2% would result in the recoverable amount of the Europe CGU being equal to its carrying value.

12. INTANGIBLE ASSETS

£ Millions	Development costs	Brand	Trademarks	Technology	Customer relationships	Customer contracts	Intangible Software	Intangible Software under development	Total
Cost									
At 1 January 2018	29.0	0.1	1.0	2.3	5.5	0.4	–	–	38.3
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
At 31 December 2018	36.4	1.0	1.0	5.2	18.6	0.6	0.2	1.7	64.7
Additions	8.0	–	*	–	–	–	0.2	3.4	11.6
Transfer	–	*	*	*	–	–	4.9	(4.9)	–
Reclassification from property, plant and equipment	–	–	–	–	–	–	2.3	–	2.3
Foreign currency translation	(1.2)	*	*	(0.3)	(0.8)	*	(0.2)	(0.2)	(2.7)
At 31 December 2019	**43.2**	**1.0**	**1.0**	**4.9**	**17.8**	**0.6**	**7.4**	**–**	**75.9**
Amortisation									
At 1 January 2018	13.0	–	0.9	0.2	0.5	0.2	–	–	14.8
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
At 31 December 2018	16.3	0.1	0.9	0.8	2.4	0.6	*	–	21.1
Charge for the year	3.9	0.1	–	0.6	2.5	–	0.3	–	7.4
Transfer	–	*	–	*	–	–	–	–	–
Reclassification from property, plant and equipment	–	–	–	–	–	–	1.6	–	1.6
Foreign currency translation	(0.4)	*	–	*	(0.2)	*	*	–	(0.6)
At 31 December 2019	**19.8**	**0.2**	**0.9**	**1.4**	**4.7**	**0.6**	**1.9**	**–**	**29.5**
Carrying amount									
At 31 December 2019	**23.4**	**0.8**	**0.1**	**3.5**	**13.1**	**–**	**5.5**	**–**	**46.4**
At 31 December 2018	20.1	0.9	0.1	4.4	16.2	–	0.2	1.7	43.6

* 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 two to eight years.

The Group's trademarks used to identify and distinguish the Group's name and logo have a carrying amount of £0.1 million (2018: £0.1 million). The Group intends to renew the trademarks continuously and evidence supports its ability to do so, based on its past experience. An analysis of market and competitive trends provides evidence that the trademarks will generate net cash inflows for the Group for an indefinite period. Therefore, the trademarks are carried at cost without amortisation, but is tested for impairment on an annual basis.

13. PROPERTY, PLANT AND EQUIPMENT

£ Millions	Freehold land	Buildings	Plant and equipment	Motor vehicles	Building improvements	Projects under development	Total
Cost							
At 1 January 2018	0.6	12.4	22.7	0.6	4.9	0.2	41.4
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	0.6	1.1	–	0.2	0.2	2.2
At 31 December 2018	1.6	15.2	26.1	0.5	5.3	3.2	51.9
Reclassification to right-of-use asset on initial application of IFRS 16	–	(0.7)	–	–	–	–	(0.7)
Adjusted balance at 1 January 2019	1.6	14.5	26.1	0.5	5.3	3.2	51.2
Additions	–	–	2.1	0.1	1.2	1.3	4.7
Disposals	–	–	(1.6)	(0.2)	*	–	(1.8)
Transfer	–	3.5	1.0	–	*	(4.5)	–
Reclassification to intangible assets	–	–	(2.1)	–	(0.2)	*	(2.3)
Foreign currency translation	*	(0.7)	(1.0)	*	(0.2)	*	(1.9)
At 31 December 2019	1.6	17.3	24.5	0.4	6.1	–	49.9
Depreciation							
At 1 January 2018	–	2.6	13.9	0.3	2.1	–	18.9
Charge for the year	–	0.4	2.4	0.1	0.5	–	3.4
Disposals	–	–	(1.3)	(0.1)	(0.4)	–	(1.8)
Foreign currency translation	–	–	0.7	–	–	–	0.7
At 31 December 2018	–	3.0	15.7	0.3	2.2	–	21.2
Reclassification to right-of-use asset on initial application of IFRS 16	–	(0.1)	–	–	–	–	(0.1)
Adjusted balance at 1 January 2019	–	2.9	15.7	0.3	2.2	–	21.1
Charge for the year	–	0.3	2.7	0.1	0.5	–	3.6
Disposals	–	–	(1.6)	(0.1)	(0.1)	–	(1.8)
Transfer	–	–	*	–	*	–	–
Reclassification to intangible assets	–	–	(1.6)	–	–	–	(1.6)
Foreign currency translation	–	(0.1)	(0.6)	*	*	–	(0.7)
At 31 December 2019	**–**	**3.1**	**14.6**	**0.3**	**2.6**	**–**	**20.6**
Carrying amount							
At 31 December 2019	**1.6**	**14.2**	**9.9**	**0.1**	**3.5**	**–**	**29.3**
At 31 December 2018	1.6	12.2	10.4	0.2	3.1	3.2	30.7

* Balances are less than £100,000.

14. LEASES

a. Right-of-use assets

Carrying amounts and depreciation charge during the year

£ Millions	Leasehold land and buildings	Equipment and motor vehicles	Total
Cost			
At 1 January 2019	6.9	0.1	7.0
Additions	1.4	0.3	1.7
Disposals	*	–	*
Depreciation charge during the year	(1.7)	*	(1.7)
Foreign currency translation	(0.3)	(0.1)	(0.4)
At 31 December 2019	**6.3**	**0.3**	**6.6**

* Balances are less than £100,000.

There is no balance in 2018 as IFRS 16 *Leases* was adopted by the Group on 1 January 2019.

b. Lease expense not capitalised in lease liabilities

£ Millions	2019
Lease expense – short-term leases	**0.3**
Lease expense – low-value leases	**0.1**
Total (Note 7)	**0.4**

c. Total cash outflow for all leases in 2019 was £2.2 million.

d. Future cash outflows which are not capitalised in lease liabilities

Extension options

The leases for certain office spaces contain extension periods, for which the related lease payments have not been included in lease liabilities as the Group is not reasonably certain to exercise these extension options. The Group negotiates extension options to optimise operational flexibility in terms of managing the assets used in the Group's operations. All the extensions are exercisable by the Group and not by the lessor.

e. Nature of the Group's leasing activities

Leasehold land and buildings

The Group has made an upfront payment to secure the right-of-use of two 50-year leasehold lands, which are used in the Group's production operations. The Group also leases office space for the purpose of back office operations, sales activities, and warehousing activities.

Equipment and motor vehicles

The Group leases vehicles to render logistic services, and leases copier machines for back office use.

15. SUBSIDIARIES

Details of principal subsidiaries as at 31 December 2019, all of which are consolidated, are as follows:

Name of Subsidiary	Place of incorporation/ ownership (or registration) and operation	Proportion of Ownership 2019 (%)	Proportion of Ownership 2018 (%)	Statutory Auditor of subsidiaries
Held by the Company				
XP Power Plc	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power Singapore Holdings Pte Limited	Singapore	**100**	100	PricewaterhouseCoopers LLP
Held by the Group				
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 (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 21.

16. CASH AND CASH EQUIVALENTS

£ Millions	2019	2018
Cash at bank and on hand	**11.1**	10.9
Short-term bank deposits	**0.1**	0.6
Total	**11.2**	11.5

For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

£ Millions	2019	2018
Cash at bank balances (as above)	**11.2**	11.5
Cash and cash equivalents per consolidated cash flow statement	**11.2**	11.5

17. INVENTORIES

£ Millions	2019	2018
Goods for resale	**18.6**	25.2
Raw materials	**21.8**	27.2
Work-in-progress	**3.7**	4.1
Total	**44.1**	56.5

The cost of inventories recognised as an expense and included in "cost of sales" amounts to £109.8 million (2018: £102.8 million).

18. TRADE RECEIVABLES

	31 December		1 January
£ Millions	**2019**	2018	2018
Current assets			
Trade receivables	**34.9**	33.1	23.9
Loss allowance (Note 30 (d))	**(0.1)**	(0.1)	(0.1)
Total	**34.8**	33.0	23.8

The average credit period taken on sales of goods is 64 days (2018: 62 days). No interest is charged on the outstanding receivables balance. The carrying amounts of trade receivables approximate their fair values.

19. OTHER CURRENT ASSETS

£ Millions	2019	2018
Prepayments	**2.1**	2.2
Deposits	**0.3**	0.3
VAT receivables	**0.4**	0.4
Rights to returned goods	**0.2**	–
Other receivables	**0.3**	0.4
Total	**3.3**	3.3

Other current assets are not impaired as at 31 December 2019 and 31 December 2018.

20. TRADE AND OTHER PAYABLES

£ Millions	2019	2018
Trade payables	**12.7**	11.5
Other taxes	**2.3**	1.4
Other creditors and accruals	**9.8**	9.5
Refund liabilities	**0.4**	–
Total	**25.2**	22.4

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.

The refund liabilities and rights to returned goods (Note 19) are recognised for products expected to be returned from customers.

21. ACCRUED CONSIDERATION

£ Millions	2019	2018
At 1 January	1.4	1.4
Movement in provision during the year	0.3	–
Payment	–	–
At 31 December	1.7	1.4

£ Millions	2019	2018
Current portion	0.5	–
Non-current portion	1.2	1.4
At 31 December	1.7	1.4

The Group owns 89.9% (2018: 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% (2018: 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.

22. BORROWINGS AND LEASE LIABILITIES

a. Bank borrowings

The borrowings are repayable as follows:

£ Millions	2019	2018
On demand or within one year	–	–
In the second year	–	–
In the third year	–	63.5
In the fourth year	52.5	–
Total	52.5	63.5

The carrying amounts of the Group's borrowings are denominated in the following currency:

£ Millions	2019	2018
Bank loans (in USD)	52.5	63.5
Total	52.5	63.5

UNDRAWN BORROWING FACILITIES

£ Millions	2019	2018
Expiring beyond one year	37.1	19.0
Total	37.1	19.0

There is no drawdown on bank overdrafts (2018: £Nil) during the year.

The fair value of the Group's bank loans and overdrafts approximates their book value.

22. BORROWINGS AND LEASE LIABILITIES (CONTINUED)

The other principal features of the Group's borrowings are as follows:

1. 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. 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. In November 2019, the Group renewed its facility from US$105.0 million to US$120.0 million with a US$60.0 million accordion option with a four-year term up to November 2023. 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%-0.5% for the unutilised facility.
2. Management assessed all loan covenants have been complied with as at 31 December 2019.

b. Lease liabilities

£ Millions	**2019**	2018
Current portion	**1.6**	–
Non-current portion	**4.8**	–
Total	**6.4**	–

There is no balance in 2018 as IFRS 16 *Leases* was adopted by the Group on 1 January 2019.

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

				Non-cash changes				
£ Millions	**1 January 2019**	**Proceeds from borrowings**	**Principal and interest payments**	**Adoption of IFRS 16**	**Addition during the year**	**Interest expense**	**Foreign exchange movement**	**31 December 2019**
Bank loans	**63.5**	**–**	**(11.2)**	**–**	**–**	**2.7**	**(2.5)**	**52.5**
Lease liabilities	**–**	**–**	**(1.8)**	**6.4**	**1.6**	**0.3**	**(0.1)**	**6.4**

				Non-cash changes		
£ Millions	1 January 2018	Proceeds from borrowings	Principal and interest payments	Interest expense	Foreign exchange movement	31 December 2018
Bank loans	24.0	39.4	(4.9)	1.5	3.5	63.5

23. 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 2019, the total notional amount of outstanding currency forward contracts that the Group has committed is £Nil (2018: £10.8 million). These contracts are to hedge against exchange rate movements on future sales and hedge accounting has been applied.

31 December 2019	**Contract notional amount**	**Fair value asset**
£ Millions		
Forward foreign exchange contracts		
Current portion	–	–
Total	–	–

31 December 2018	Contract notional amount	Fair value asset
£ Millions		
Forward foreign exchange contracts		
Current portion	10.8	*
Total	10.8	*

* Balances are less than £100,000.

23. 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:

	Assets		**Liabilities**	
December 2019	**Contract notional amount**	**Fair value asset**	**Contract notional amount**	**Fair value (liability)**
£ Millions				
Forward foreign exchange contracts				
Current portion	**11.3**	**0.6**	**–**	**–**
Total	**11.3**	**0.6**	**–**	**–**

	Assets		Liabilities	
December 2018	Contract notional amount	Fair value asset	Contract notional amount	Fair value (liability)
£ Millions				
Forward foreign exchange contracts				
Current portion	–	–	15.0	(0.2)
Total	–	–	15.0	(0.2)

24. DEFERRED INCOME TAXES

The movement in deferred income tax assets and liabilities during the financial year is as follows:

Deferred income tax assets

	Share-based payment
£ Millions	
At 1 January 2018	1.4
Credit to statement of comprehensive income	0.1
Charge to equity	(0.9)
At 31 December 2018	**0.6**
Credit to statement of comprehensive income	0.1
Credit to equity	1.1
At 31 December 2019	**1.8**

Deferred income tax liabilities

	Accelerated tax depreciation	**Intangible assets amortisation**	**Capitalised development costs**	**Other temporary differences**	**Total**
£ Millions					
At 1 January 2018	(0.7)	(0.8)	(3.4)	0.7	(4.2)
(Charge)/credit to statement of comprehensive income	–	–	(0.8)	0.4	(0.4)
Foreign currency translation	0.1	(0.1)	(0.2)	0.1	(0.1)
At 31 December 2018	**(0.6)**	**(0.9)**	**(4.4)**	**1.2**	**(4.7)**
(Charge)/credit to statement of comprehensive income	(0.4)	(0.2)	(0.9)	0.6	(0.9)
Foreign currency translation	–	–	0.2	(0.1)	0.1
At 31 December 2019	**(1.0)**	**(1.1)**	**(5.1)**	**1.7**	**(5.5)**

25. SHARE CAPITAL AND RESERVES

CALLED UP SHARE CAPITAL

£ Millions	2019	2018
Allotted and fully paid 19,242,296 ordinary shares (2018: 19,242,296)	**27.2**	27.2

RESERVE

The reserves of the Group comprise the following balances:

£ Millions	2019	2018
Merger reserve	**0.2**	0.2
Share option reserve	**3.9**	2.1
Treasury shares reserve	**(0.5)**	(1.0)
Hedging reserve	**–**	0.1
Translation reserve	**(0.2)**	4.0
Other reserve	**(0.8)**	(0.8)
Retained earnings	**108.4**	104.6
Balance at 31 December	**111.0**	109.2

Merger reserve represents the difference between the value of shares issued by the Company in exchange for the value of shares of subsidiaries acquired under common control.

Share option reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and is reduced by the expiry or exercise of share options.

Treasury shares reserve represents the amount of treasury shares held by the Group. 33,650 (2018: 54,800) treasury shares were sold during the financial year. The cost of the treasury shares sold amounted to £0.8 million (2018: £0.5 million). As at 31 December 2019, the Group's Employee Share Ownership Plan (ESOP) held 46,090 (2018: 79,740) shares carrying value of £475,561 (2018: £960,084) owned by the Trust.

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments.

Translation reserve represents exchange differences arising from the translation of financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

Other reserves 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 change 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. 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.

26. OPERATING LEASES AND OTHER COMMITMENTS

As at 31 December 2018, the future minimum lease payments under non-cancellable operating leases contracted for but not recognised as liabilities, are as follows:

£ Millions	2018
Within one year	2.1
In the second to fifth years inclusive	5.2
After five years	0.5
Total	7.8

Operating lease payments represent rentals payable by the Group for certain of its office properties and warehouses.

The Group has remaining £Nil commitments (2018: £0.1 million) on the contract for the construction of a factory in Vietnam.

As disclosed in Note 2.1, the Group has adopted IFRS 16 on 1 January 2019. These lease payments have been recognised as ROU assets and lease liabilities on the balance sheet as at 31 December 2019, except short-term and low-value leases.

27. DEFINED CONTRIBUTION PLANS

The total cost recognised is £7.6 million (2018: £6.8 million) for the Group.

In the USA, the total cost charged to the statement of comprehensive income of £4.1 million (2018: £3.7 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 £2.1 million (2018: £1.8 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 £1.4 million (2018: £1.3 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 2019, the Company's Employee Share Ownership Plan provided nil (2018: 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 86 to 103.

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 86 to 103.

£ Millions	**2019**	2018
Short-term employee benefits	**1.4**	2.0
Post-employment benefits	*	*
Total Directors' remuneration	**1.4**	2.0

* 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**
119,200	946	10 October 2012*	10 October 2022
266,383	1,543	23 February 2016#	23 February 2026
385,583			

* 2012 Approved option scheme has been fully vested.

50% of 2016 Approved option scheme vested in 2019 and 50% will vest in 2020.

	2019		2018	
	Number of share options	**Weighted average exercise price (pence)**	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of the year	**510,750**	**1,391**	568,550	1,350
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(93,120)**	**–**	(3,000)	–
Exercised during the year	**(32,047)**	**1,346**	(54,800)	957
Outstanding at the end of the year	**385,583**	**1,358**	510,750	1,391
Exercisable at the end of the year	**252,392**	**1,261**	129,750	946

The weighted average share price at the date of exercise for the share options exercised during the period was £25.37 (2018: £34.89). The options outstanding at 31 December 2019 had a weighted average exercise price of £13.58 (2018: £13.91), and a weighted average remaining contractual life of 5.1 years.

29. SHARE-BASED PAYMENTS (CONTINUED)

For options granted in 2016, the Group has taken a charge of £0.1 million (2018: £0.2 million). The fair value of options was determined using the Black-Scholes Model with a share price of £15.43 and a weighted average exercise price of £15.43, 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
123,747	1	8 March 2019	8 March 2024
228,396			

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 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. The Group has taken a charge of £0.3 million (2018: £0.4 million) for the LTIPs granted in 2017, 2018, and 2019. 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		
	2019	2018	2017
Options granted	**123,747**	54,999	49,650
Fair value at grant date	**£13.94**	£24.84	£17.13
Assumption used:			
Share price	**£20.50**	£35.50	£26.77
Exercise price	**£0.01**	£0.01	£0.01
Expected volatility	**29.44%**	27.66%	27.69%
Expected option life	**3 years**	3 years	3 years
Expected dividend yield	**3.74%**	2.59%	3.75%
Risk free interest rate	**1.21%**	1.50%	0.99%

Volatility was estimated based on the historical volatility of the shares over a three-year period prior to grant date.

	2019		2018	
	Number of LTIP options	**Weighted average exercise price (pence)**	Number of LTIP options	Weighted average exercise price (pence)
Outstanding at beginning of the year	**104,649**	**1**	49,650	1
Granted during the year	**123,747**	**1**	54,999	1
Forfeited during the year	**(4,630)**	**(1)**	–	–
Exercised during the year	**–**	**–**	–	–
Outstanding at the end of the year	**223,766**	**1**	104,649	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 22, cash and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 25.

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 2019 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.

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**
At 31 December 2019					
Financial assets					
Cash and cash equivalents	**1.4**	**0.5**	**8.2**	**1.1**	**11.2**
Trade receivables	**2.6**	**2.8**	**29.1**	**0.3**	**34.8**
Other current assets	**0.1**	*	**0.2**	**0.3**	**0.6**
ESOP loan to employees	**0.1**	–	–	–	**0.1**
Subtotal	**4.2**	**3.3**	**37.5**	**1.7**	**46.7**
Financial liabilities					
Borrowings	–	–	**(52.5)**	–	**(52.5)**
Trade and other payables	**(2.9)**	**(0.7)**	**(17.5)**	**(3.5)**	**(24.6)**
Lease liabilities	**(0.6)**	**(0.5)**	**(4.8)**	**(0.5)**	**(6.4)**
Other financial liabilities	**(1.0)**	–	–	**(0.8)**	**(1.8)**
Subtotal	**(4.5)**	**(1.2)**	**(74.8)**	**(4.8)**	**(85.3)**
Net financial assets/(liabilities)	**(0.3)**	**2.1**	**(37.3)**	**(3.1)**	**(38.6)**
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	–	–	–	–
Currency forwards	**11.3**	–	–	–	**11.3**
Currency profile excluding non-financial assets and liabilities	**11.0**	**2.1**	**(37.3)**	**(3.1)**	**(27.3)**
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	**0.7**	**2.2**	**(44.3)**	**(0.3)**	**(41.7)**
Currency exposure of financial assets	**10.3**	**(0.1)**	**7.0**	**(2.8)**	**14.4**

£ Millions	GBP	EUR	USD	Others	Total
At 31 December 2018					
Financial assets					
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
Subtotal	3.8	3.4	35.2	3.0	45.4
Financial liabilities					
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)
Subtotal	(2.9)	(0.6)	(82.2)	(1.3)	(87.0)
Net financial assets/(liabilities)	0.9	2.8	(47.0)	1.7	(41.6)
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	12.6	–	–	12.6
Currency forwards	15.0	(10.8)	–	–	4.2
Currency profile excluding non-financial assets and liabilities	15.9	4.6	(47.0)	1.7	(24.8)
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	1.4	2.0	(53.6)	1.4	(48.8)
Currency exposure of financial assets	14.5	2.6	6.6	0.3	24.0

* Balance is less than £100,000.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Currency risk (continued)

If the US Dollar and Euro change against Sterling by 5% and 0.4% respectively (2018: US Dollar 5%, Euro 1%) 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	2019 Profit after tax	2018 Profit after tax
Group		
EUR against GBP		
- strengthened	*	*
- weakened	*	*
USD against GBP		
- strengthened	**0.3**	0.3
- weakened	**(0.3)**	(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% (2018: 0.5%) with all other variables, including tax rates, being held constant, the profit before tax will be lower/higher by £262,000 (2018: £317,000) 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 macroeconomic 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.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Credit risk (continued)

The Group's credit risk exposure in relation to trade receivables under IFRS 9 is set out in the provision matrix as follows:

£ Millions	Current	1 – 30 days	31 – 60 days	61 – 90 days	91 – 120 days	> 120 days	Total
		Past due					
At 31 December 2019							
North America region							
Expected loss rate	**0.0%**	**0.1%**	**0.2%**	**0.2%**	**0.3%**	**31.1%**	
Trade receivables	**12.7**	**3.2**	**0.3**	**0.7**	**0.2**	**0.2**	**17.3**
Loss allowance	**–**	*	*	*	*	*	*
Europe region							
Expected loss rate	**0.0%**	**0.1%**	**0.2%**	**0.2%**	**0.3%**	**38.6%**	
Trade receivables	**8.0**	**2.1**	**0.7**	**0.3**	**0.1**	**0.2**	**11.4**
Loss allowance	**–**	*	*	*	*	*	*
Asia region							
Expected loss rate	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	
Trade receivables	**4.2**	**1.7**	**0.3**	*	*	*	**6.2**
Loss allowance	**–**	**–**	**–**	**–**	**–**	**–**	**–**

£ Millions	Current	1 – 30 days	31 – 60 days	61 – 90 days	91 – 120 days	> 120 days	Total
		Past due					
At 31 December 2018							
North America region							
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	–	*	*	*	*	*	*
Europe region							
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	–	*	*	*	*	*	*
Asia region							
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	–	–	–	–	–	–	–

* Balances are less than £100,000.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Credit risk (continued)

The movement in the allowance for impairment of trade receivables is as follows:

£ Millions	2019	2018
Beginning of financial year	**(0.1)**	(0.5)
Application of IFRS 9	**–**	0.4
Restated allowance for impairment under IFRS9	**(0.1)**	(0.1)
Loss allowance[a] recognised in profit or loss during the year on assets acquired/originated	*	(0.1)
Receivables written off as uncollectible	*	0.1
Foreign currency translation	*	–
End of the financial year	**(0.1)**	(0.1)

[a] Loss allowance measured at lifetime ECL.

* Balances are less than £100,000.

e. Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (Note 22) 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 16.

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
Group					
At 31 December 2019					
Trade and other payables	**25.2**	**–**	**–**	**–**	**25.2**
Lease liabilities	**1.9**	**2.0**	**2.4**	**0.9**	**7.2**
Accrued consideration	**0.5**	**1.0**	**0.2**	**–**	**1.7**
Borrowings, including interest	**1.9**	**1.8**	**55.7**	**–**	**59.4**
Total	**29.5**	**4.7**	**58.4**	**1.0**	**93.6**
At 31 December 2018					
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
Total	25.2	3.1	66.1	0.3	94.7

The Group manages the liquidity risk by maintaining sufficient cash and bank facilities to enable it to meet its normal operating commitments.

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 2019.

£ Millions	Level 1	Level 2	Level 3	Total
2019				
Assets				
Derivative financial instruments	**–**	**0.6**	**–**	**0.6**
Liabilities				
Derivative financial instruments	**–**	**–**	**–**	**–**
2018				
Assets				
Derivative financial instruments	–	*	–	*
Liabilities				
Derivative financial instruments	–	(0.2)	–	(0.2)

* Balance is 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. OTHER INFORMATION

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of XP Power Limited on 3 March 2020.

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2019

£'000	Note	2019	2018 Restated	2017 Restated
ASSETS				
Current assets				
Cash and cash equivalents	35	**5,016**	4,865	4,633
Trade and other receivables	36	**42,437**	16,719	9,181
Other current assets	37	**565**	660	1,092
Derivative financial instruments	38	**632**	42	154
Inventories	39	**10,949**	12,327	10,434
Corporation tax recoverable	46	**–**	–	1,291
Total current assets		**59,599**	34,613	26,785
Non-current assets				
Investment in subsidiaries*	34	**44,892**	46,951	44,279
Property, plant and equipment	40	**1,626**	1,821	2,299
Right-of-use assets	41	**333**	–	–
Intangible assets	42	**16,377**	12,220	7,564
Long-term receivable	45	**6,806**	28,171	18,495
Total non-current assets		**70,034**	89,163	72,637
Total assets		**129,633**	123,776	99,422
LIABILITIES				
Current liabilities				
Trade and other payables	44	**46,509**	34,190	21,210
Current income tax liabilities	46	**2,449**	3,784	3,146
Derivative financial instruments	38	**–**	229	248
Lease liabilities		**167**	–	–
Total current liabilities		**49,125**	38,203	24,604
Non-current liabilities				
Deferred income tax liabilities	43	**2,479**	1,738	1,419
Lease liabilities		**173**	–	–
Total non-current liabilities		**2,652**	1,738	1,419
Total liabilities		**51,777**	39,941	26,023
NET ASSETS		**77,856**	83,835	73,399
EQUITY				
Share capital	47	**29,770**	29,786	29,786
Share option reserve	47	**404**	179	5
Hedging reserve	47	**–**	42	(239)
Translation reserve*	47	**18,868**	22,502	17,857
Retained earnings	47	**28,814**	31,326	25,990
TOTAL EQUITY		**77,856**	83,835	73,399

* Please refer to Note 49 for the effect of restatement.

NOTES TO THE COMPANY BALANCE SHEET

32. 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.

33. 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 2019, 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:

Adoption of IFRS 16 *Leases*

The effects on adoption of IFRS 16 on the Company's financial statements as at 1 January 2019 are as follows:

	Increase £'000
Right-of-use assets	**546**
Lease liabilities	**546**

An explanation of the differences between the operating lease commitments previously disclosed in the Company's financial statements as at 31 December 2018 and the lease liabilities recognised in the balance sheet as at 1 January 2019 are as follows:

	£'000
Operating lease commitment disclosed as at 31 December 2018	**688**
Less: Low-value leases	**(4)**
Less: Discounting effect using weighted average incremental borrowing rate of 2.86%	**(138)**
Lease liabilities recognised as at 1 January 2019	**546**

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:

a. premium received on initial recognition less the cumulative amount of income recognised in accordance with the principles of IFRS 15; and

b. the amount of expected loss computed using the impairment methodology under IFRS 9.

34. INVESTMENT IN SUBSIDIARIES

£'000	2019	2018 Restated
Cost at carrying value		
At 1 January	**46,951**	44,279
Exchange differences on translation	**(2,059)**	2,672
At 31 December	**44,892**	46,951

Please refer to Note 49 for the effect of restatement.

Name of Subsidiary	Place of incorporation/ Ownership (or registration) and operation	Proportion of Ownership % 2019	Proportion of Ownership % 2018	Auditor of Subsidiaries
XP Power Plc	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power Singapore Holdings Pte Limited	Singapore	**100**	100	PricewaterhouseCoopers LLP

35. CASH AND CASH EQUIVALENTS

£'000	2019	2018
Cash at bank	**5,016**	4,865
Total	**5,016**	4,865

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
At 31 December 2019								
Cash at bank	**197**	**4,548**	**6**	**264**	**1**	**–**	**–**	**5,016**

	GBP £'000	USD £'000	EUR £'000	SGD £ '000	JPY £'000	SEK £'000	DKK £'000	TOTAL £'000
At 31 December 2018								
Cash at bank	17	3,495	352	946	4	1	50	4,865

36. TRADE AND OTHER RECEIVABLES

	31 December		1 January
£'000	2019	2018	2018
Trade receivables	**6,223**	4,236	2,520
Trade receivables from related parties	**13,219**	12,168	6,246
Other receivables from related parties	**12,482**	258	-
Loan receivables from a related party	**10,513**	57	415
Total	**42,437**	16,719	9,181

The average credit period taken on sales of goods is 78 days (2018: 59 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.

37. OTHER CURRENT ASSETS

£'000	2019	2018
Deposit	65	68
Prepayments	408	230
VAT receivables	92	362
Total	**565**	660

38. DERIVATIVE FINANCIAL INSTRUMENTS

The total notional amount of outstanding currency forward contracts that the Company has committed is £Nil (2018: £10.8 million). These contracts are to hedge against exchange movements on future sales and hedge accounting has been applied.

As at 31 December 2019, the fair value asset/(liability) of the currency forward contracts recognised under a hedging reserve is £Nil (2018: £42,000) (Note 47).

December 2019	Contract notional amount	Fair value asset
£'000		
Current portion	–	–
Total	–	–

December 2018	Contract notional amount	Fair value asset
£'000		
Current portion	10,841	42
Total	10,841	42

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 2019	Assets		Liabilities	
£'000	Contract notional amount	Fair Value asset	Contract notional amount	Fair Value (liability)
Current portion	11,300	632	–	–
Total	11,300	632	–	–

December 2018	Assets		Liabilities	
£'000	Contract notional amount	Fair Value asset	Contract notional amount	Fair Value (liability)
Current portion	–	–	14,975	(229)
Total	–	–	14,975	(229)

39. INVENTORIES

£'000	2019	2018
Goods for resale	10,949	12,327

40. PROPERTY, PLANT AND EQUIPMENT

£'000	Freehold land	Building	Plant and equipment	Motor vehicles	Building improvements	Total
Cost						
At 1 January 2018	217	1,743	1,895	41	471	4,367
Additions	–	–	90	–	–	90
Reclassification to intangible assets (Note 42)	–	–	(458)	–	–	(458)
Disposals	–	–	(30)	–	–	(30)
Foreign currency translation	13	105	89	2	29	238
At 31 December 2018	**230**	**1,848**	**1,586**	**43**	**500**	**4,207**
Additions	–	–	104	–	–	104
Disposals	–	–	(43)	–	–	(43)
Foreign currency translation	(10)	(81)	(72)	(2)	(22)	(187)
At 31 December 2019	**220**	**1,767**	**1,575**	**41**	**478**	**4,081**
Depreciation						
At 1 January 2018	–	479	1,162	9	418	2,068
Additions	–	52	137	8	15	212
Disposals	–	–	(30)	–	–	(30)
Foreign currency translation	–	32	77	1	26	136
At 31 December 2018	**–**	**563**	**1,346**	**18**	**459**	**2,386**
Additions	–	56	141	9	16	221
Disposals	–	–	(42)	–	–	(42)
Foreign currency translation	–	(27)	(62)	(1)	(21)	(110)
At 31 December 2019	**–**	**592**	**1,383**	**26**	**454**	**2,455**
Carrying amount						
At 31 December 2019	**220**	**1,175**	**192**	**15**	**24**	**1,626**
At 31 December 2018	230	1,285	240	25	41	1,821

41. RIGHT-OF-USE ASSETS

£'000	Leasehold land and buildings
Cost	
At 1 January 2019	546
Depreciation charge during the year	(202)
Foreign currency translation	(11)
At 31 December 2019	**333**

42. INTANGIBLE ASSETS

£'000	Development costs	Trademarks	Intangible software	Intangible software under development	Total
Cost					
At 1 January 2018	11,769	–	–	–	11,769
Additions	3,806	–	239	1,141	5,186
Reclassification from Property, plant and equipment (Note 40)	–	–	–	458	458
Foreign currency translation	949	–	15	100	1,064
At 31 December 2018	16,524	–	254	1,699	18,477
Additions	4,006	*	65	3,392	7,463
Transfer	(91)	91	4,949	(4,949)	–
Foreign currency translation	(857)	(4)	(97)	(142)	(1,100)
At 31 December 2019	**19,582**	**87**	**5,171**	**–**	**24,840**
Amortisation					
At 1 January 2018	4,205	–	–	–	4,205
Charge for the year	1,656	–	36	–	1,692
Foreign currency translation	358	–	2	–	360
At 31 December 2018	6,219	–	38	–	6,257
Charge for the year	2,439	–	133	–	2,572
Foreign currency translation	(361)	–	(5)	–	(366)
At 31 December 2019	**8,297**	**–**	**166**	**–**	**8,463**
Carrying amount					
At 31 December 2019	**11,285**	**87**	**5,005**	**–**	**16,377**
At 31 December 2018	10,305	–	216	1,699	12,220

* Balance is less than £1,000.

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.

43. DEFERRED INCOME TAXES

The following are the major deferred tax assets/(liabilities) recognised by the Company and movements thereon during the current and prior reporting period.

£'000	Accelerated tax depreciation	Capitalised development costs	Intangible assets amortisation	Other temporary differences	Total
At 1 January 2018	(142)	(1,272)	–	(5)	(1,419)
Charge to statement of comprehensive income	226	(399)	–	(46)	(219)
Exchange difference	6	(102)	–	(4)	(100)
At 31 December 2018	90	(1,773)	–	(55)	(1,738)
Charge to statement of comprehensive income	(65)	(231)	(505)	(46)	(847)
Exchange difference	(2)	86	18	4	106
At 31 December 2019	**23**	**(1,918)**	**(487)**	**(97)**	**(2,479)**

NOTES TO THE COMPANY BALANCE SHEET CONTINUED

44. TRADE AND OTHER PAYABLES

£'000	2019	2018
Trade payables and other creditors	**5,056**	4,594
Amount payable to related parties	**41,453**	29,596
Total	**46,509**	34,190

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.

45. LONG-TERM RECEIVABLE

£'000	2019	2018
Loans to related parties	**6,806**	28,171
Total	**6,806**	28,171

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.

46. CORPORATE TAX RECOVERABLE/CURRENT INCOME TAX LIABILITIES

Movement in corporate tax recoverable:

£'000	2019	2018
At 1 January	**–**	1,291
Currency translation differences	**–**	53
Under-provision in prior financial year	**–**	(2)
Refund received	**–**	(1,342)
At 31 December	**–**	–

Movement in current income tax liabilities:

£'000	2019	2018
At 1 January	**3,784**	3,146
Currency translation differences	**(231)**	241
Income tax paid (net of refund)	**(3,233)**	(2,828)
Current year tax expense	**2,350**	3,396
Over-provision in prior financial year	**(221)**	(171)
At 31 December	**2,449**	3,784

47. SHARE CAPITAL AND RESERVES

Share capital £'000	2019	2018
Allotted and fully paid 19,242,296 ordinary shares	**29,770**	29,786

The movement in 2019 relates to transaction costs incurred in anticipation of an equity issuance.

Share option reserve £'000	2019	2018
Balance at 1 January	**179**	5
Share option expense	**232**	174
Exchange differences on translation	**(7)**	–
Balance at 31 December	**404**	179

Hedging reserve £'000	2019	2018
Foreign exchange risk		
Balance at 1 January	**42**	(239)
Net change in cash flow hedges	**(42)**	281
Balance at 31 December	**–**	42

Translation reserve £'000	2019	2018 Restated
Balance at 1 January	**22,502**	17,857
Exchange differences on translation	**(3,634)**	4,645
Balance at 31 December	**18,868**	22,502

Please refer to Note 49 for the effect of restatement.

Retained earnings £'000	2019	2018
Balance at 1 January	**31,326**	25,990
Changes in accounting policy	**–**	9
Dividends paid	**(16,675)**	(15,284)
Profit for the year	**14,163**	20,611
Balance at 31 December	**28,814**	31,326

48. 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 47.

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.

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 2019 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.

48. 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 2019 **£'000**	**GBP**	**EUR**	**USD**	**Others**	**Total**
Financial assets					
Cash and cash equivalents	**197**	**6**	**4,549**	**264**	**5,016**
Trade and other receivables	**3,973**	**1,778**	**35,953**	**733**	**42,437**
Other current assets	**–**	**–**	**–**	**65**	**65**
Long-term receivables	**–**	**–**	**6,806**	**–**	**6,806**
Subtotal	**4,170**	**1,784**	**47,308**	**1,062**	**54,324**
Financial liabilities					
Trade and other payables	**(12,471)**	**(400)**	**(32,807)**	**(613)**	**(46,291)**
Lease liabilities	**–**	**–**	**–**	**(340)**	**(340)**
Subtotal	**(12,471)**	**(400)**	**(32,807)**	**(953)**	**(46,631)**
Net financial (liabilities)/assets	**(8,301)**	**1,384**	**14,501**	**109**	**7,693**
Currency forwards	**11,300**	**–**	**–**	**–**	**11,300**
Currency profile excluding non-financial assets and liabilities	**2,999**	**1,384**	**14,501**	**109**	**18,993**
Less: Financial assets denominated in the entity's functional currency	**–**	**–**	**14,501**	**–**	**14,182**
Currency exposure of financial assets	**2,999**	**1,384**	**–**	**109**	**4,492**

At 31 December 2018 **£'000**	GBP	EUR	USD	Others	Total
Financial assets					
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
Subtotal	89	1,721	46,696	1,317	49,823
Financial liabilities					
Trade and other payables	(6,014)	(196)	(27,849)	(131)	(34,190)
Subtotal	(6,014)	(196)	(27,849)	(131)	(34,190)
Net financial (liabilities)/assets	(5,925)	1,525	18,847	1,186	15,633
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	12,604	–	–	12,604
Currency forwards	14,975	(10,841)	–	–	4,134
Currency profile excluding non-financial assets and liabilities	9,050	3,288	18,847	1,186	32,371
Less: Financial assets denominated in the entity's functional currency	–	–	18,847	–	18,847
Currency exposure of financial assets	9,050	3,288	–	1,186	13,524

48. 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 0.76% (2018: 0.75%) with all other variables, including tax rates, being held constant, the profit before tax will be lower/higher by £152,738 (2018: £102,844) 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 years 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 aging 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:

		Past due					
£'000	**Current**	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**91 – 120 days**	**> 120 days**	**Total**
At 31 December 2019							
Expected loss rate	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	
Trade receivables	**10,268**	**5,907**	**2,321**	**74**	**207**	**665**	**19,442**
Loss allowance	**–**	**–**	**–**	**–**	**–**	**–**	**–**

		Past due					
£'000	Current	1 – 30 days	31 – 60 days	61 – 90 days	91 – 120 days	> 120 days	Total
At 31 December 2018							
Expected loss rate	0%	0%	0%	0%	0%	0%	
Trade receivables	12,567	3,072	275	56	4	430	16,404
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 compute the expected credit loss on a 12-month basis instead of a lifetime approach.

48. 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
At 31 December 2019					
Trade and other payables	**46,509**	**–**	**–**	**–**	**46,509**
Lease liabilities	**176**	**174**	**–**	**–**	**350**
Total	**46,685**	**174**	**–**	**–**	**46,859**

£'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2018					
Trade and other payables	34,190	–	–	–	34,190
Total	34,190	–	–	–	34,190

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 amounting to US$40 million with a US$20 million additional accordion option and has a tenure of the four years from loan agreement date with potential of one year extension. In May 2018, the Group increased the revolving credit facility to US$85 million with a US$20 million additional accordion option. In November 2018, the Group has fully exercised the US$20 million additional accordion option and the revolving credit facility has increased to US$105 million. In November 2019, the Group renewed its facility by increasing its revolving credit facility by US$15.0 million with a US$20.0 million accordion option with a four-year term up to November 2023. 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.

48. 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 measured at fair value at 31 December 2019:

£'000	Level 1	Level 2	Level 3	Total
2019				
Assets				
Derivative financial instruments	**–**	**632**	**–**	**632**
Liabilities				
Derivative financial instruments	**–**	**–**	**–**	**–**
2018				
Assets				
Derivative financial instruments	–	42	–	42
Liabilities				
Derivative financial instruments	–	(229)	–	(229)

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:

	Related amounts set off in the balance sheet			Related amounts not set off in the balance sheet		
£'000 **At 31 December 2019**	**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**
Trade receivables	**–**	**–**	**–**	**13,219**	**–**	**13,219**
Loan receivables from a related party	**10,845**	**(332)**	**10,513**	**–**	**–**	**–**
Total	**10,845**	**(332)**	**10,513**	**13,219**	**–**	**13,219**
At 31 December 2018						
Trade receivables						
Loan to related parties	28,441	(270)	28,171	–	–	–
Total	28,441	(270)	28,171	12,168	–	12,168

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

g. Offsetting financial assets and financial liabilities (continued)

ii. Financial liabilities

The Company has the following financial instruments subject to enforceable master netting arrangements or similar agreements as follows:

49. PRIOR YEAR RESTATEMENT

Under IAS 21 *The Effects of Changes in Foreign Exchange Rates*, investment in subsidiaries should have been translated to the presentation currency at the closing rate at each financial statement date, with the corresponding translation difference recorded within equity. Investment in subsidiaries on the Company Balance Sheet was previously accounted for based on the historical translation rate at the date of acquisition. As disclosed in Note 2.2(a), while the Company's functional currency is USD, the financial statements are presented in GBP.

Accordingly, these balances have been restated and accounted for using the closing rate at each financial statement date and in accordance with IAS 21.

The effects of this restatement are as follows:

RECONCILIATION FOR THE BALANCE SHEET ON 1 JANUARY 2018:

	As previously reported	Adjustment	As restated
£'000			
ASSETS			
Investment in subsidiaries	29,786	14,493	44,279
EQUITY			
Translation reserve	3,364	14,493	17,857

RECONCILIATION FOR THE BALANCE SHEET ON 31 DECEMBER 2018:

	As previously reported	Adjustment	As restated
£'000			
ASSETS			
Investment in subsidiaries	29,786	17,165	46,951
EQUITY			
Translation reserve	5,337	17,165	22,502

FIVE YEAR REVIEW CONSOLIDATED INFORMATION

	2019 £ Millions	2018 £ Millions	2017 £ Millions	2016 £ Millions	2015 £ Millions
Results					
Revenue	**199.9**	195.1	166.8	129.8	109.7
Profit from operations	**26.7**	39.3	32.5	28.0	25.6
Profit before tax	**24.0**	37.6	32.2	27.8	25.4
Assets employed					
Non-current assets	**137.4**	129.2	88.1	73.2	65.4
Current assets	**96.0**	105.1	83.5	65.7	53.5
Current liabilities	**(30.4)**	(26.8)	(25.1)	(25.8)	(19.8)
Non-current liabilities	**(64.1)**	(70.1)	(29.6)	(6.2)	(10.0)
Net assets	**138.9**	137.4	116.9	106.9	89.1
Financed by					
Equity	**138.2**	136.4	116.0	106.1	88.3
Non-controlling interests	**0.7**	1.0	0.9	0.8	0.8
	138.9	137.4	116.9	106.9	89.1
Key statistics (pence)					
Earnings per share	**107.0**	157.8	148.3	112.0	103.7
Adjusted earnings per share	**148.3**	176.1	149.4	116.2	105.3
Diluted earnings per share	**105.0**	154.9	146.0	111.2	102.8
Diluted adjusted earnings per share	**145.5**	172.8	147.0	115.3	104.3
Share price in the year (pence)					
High	**3,110.0**	3,740.0	3,626.0	1,845.0	1,750.0
Low	**1,965.0**	2,090.0	1,725.0	1,410.0	1,375.0
Dividends per share (pence)	**91.0**	85.0	78.0	71.0	66.0

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

SHAREHOLDER NOTES

FSC
RECYCLED
Paper made from
recycled material
FSC® C100528

Printed on Revive™ 100 Silk.

A recycled paper manufactured from paper fibres derived from pre and post consumer waste and manufactured at a mill certified with ISO 14001 environmental management standard.

Consultancy, design and production by:
jonesandpalmer.co.uk

XP Power Limited
401 Commonwealth Drive
Haw Par Technocentre
Lobby B #02-02
Singapore 149598
T: +65 6411 6900
F: +65 6479 6305