XP Power

ANNUAL REPORT & ACCOUNTS
for the year ended 31 December 2020

POWERING THE WORLD'S CRITICAL SYSTEMS

DRIVING SUSTAINABLE GROWTH

XP Power

WE PROVIDE OUR CUSTOMERS WITH SOLUTIONS TO POWER THEIR CRITICAL SYSTEMS.

We have moved steadily up the value chain from a specialist distributor, to designer, to design manufacturer.

WE ARE DRIVING SUSTAINABLE GROWTH

We have performed extremely well in a period of unprecedented difficulty throughout the COVID-19 pandemic demonstrating the resilience of our business model.

READ ABOUT OUR PURPOSE AND VISION ON PAGE 9

“I am pleased that we have once again demonstrated the resiliency of our business and have been able to meet the demands of our customers in the most challenging environment of the COVID-19 pandemic, whilst producing an excellent financial performance for our Shareholders. This is all down to the hard work and commitment of the XP team globally.”

Gavin Griggs
Chief Executive Officer

2 March 2021

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Contents

01

OUR PEOPLE

ENSURING SAFETY AND WELLBEING

Throughout the COVID-19 pandemic, we have placed the safety and wellbeing of our people as our top priority. We have followed all the recommended epidemic prevention and control measures in all of our facilities around the world, enabling them to stay open and keep product flowing to our customers.

STAYING CONNECTED

We were able to stay close to our colleagues throughout the epidemic by frequent all-hands video conferences and tailored employee surveys while the majority of our people worked from home.

Over 2,000

Employees across 14 countries

READ MORE ABOUT OUR UNIQUE CULTURE ON PAGE 8

READ MORE ABOUT OUR INNOVATIONS ON PAGE 46

READ MORE ABOUT HOW WE OPERATE ON PAGE 29

02

PRIORITISING OUR CUSTOMERS

POWERING THE WORLD'S CRITICAL SYSTEMS

Our customers provide mission critical systems to service the Healthcare, Industrial Technology and Semiconductor Manufacturing Equipment markets. Our Healthcare customers saw unprecedented demand due to the COVID-19 pandemic. We were proud to support them to expedite shipments and provide the power for the critical care equipment required to treat COVID-19.

READ MORE ON PAGE 24

RELENTLESS CUSTOMER FOCUS

While our Healthcare customers experienced unprecedented demand, our customers making Semiconductor Manufacturing Equipment also saw significant demand. This was due to the acceleration of technological changes due to COVID-19, and advancements in semiconductor manufacturing technology, which we were able to support in the most challenging environment.

Over **4,500**
Direct customers

READ MORE ON PAGE 24

Keeping our customers supplied with product

We are designed into numerous ventilator products and other critical care devices such as drug delivery systems, patient monitors, specialist ultrasound and X-ray equipment.

READ MORE ON PAGE 39

03

STRENGTHENING OUR SUPPLY CHAIN

CONTINUING TO SUPPLY OUR CUSTOMERS DURING COVID-19

Our Vietnamese facility was able to keep product flowing to customers, while China was shut down in the early stages of the COVID-19 pandemic. Our supply chain team expedited component deliveries and rapidly expanded capacity to respond to the worldwide crisis and support our customers.

READ MORE ON PAGE 39

TALENT AND EXPANSION

We have strengthened our supply chain talent in 2020 with a number of key hires. We have expanded our Vietnamese capacity and have closed our facility in Minden, Nevada, and successfully transferred production to Vietnam. This has resulted in significant cost savings for 2021.

Over **3,000**

Products now approved for manufacture in Vietnam

READ MORE ON PAGE 37

Our low-cost manufacturing in both China and Vietnam provides the supply chain resiliency our customers value

Over **2,000**

Products capable of manufacture in China

READ MORE ON PAGE 45

04

GROWING OUR PRODUCT PORTFOLIO

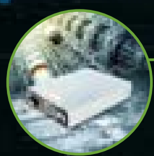
ENGINEERING NEW PRODUCTS

Throughout the COVID-19 pandemic, we have been able to continue to maintain our product development and invest in new products.

PRODUCT FAMILIES

Over the years, we have built a broad product portfolio of over 250 product families to give us the broadest product offering in the industry.

YEAR	FAMILIES
2020	+20
2019	+32
2018	+27
2017	+27
2016	+47
2015	+22
2014	+26
2013	+31
2012	+19
2011	+38
2010	+31

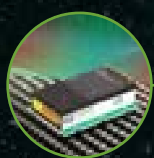


2021
Next-generation high-power platforms scheduled for launch

2019
5kW high-power product line released

2018
Added high voltage/high power through the acquisition of Glassman High Voltage

2017
Added RF Power through the acquisition of Comdel



2015
Added high voltage DC-DC Modules through the acquisition of EMCO High Voltage

05

MAINTAINING A STRONG CASH POSITION

PRESERVING OUR CASH

Early in the COVID-19 pandemic, we took swift action to ensure we preserved cash in the face of worldwide uncertainty. We focused on early collection of receivables and prudent management of inventory in the face of unprecedented demand from our Healthcare customers. We took the difficult decision to cancel the 2019 final dividend and did not declare a dividend for the first quarter of 2020.

OPERATING CASH FLOW

The actions we took and prudent management resulted in strong operating cash conversion. Strong performance allowed us to resume dividend payments with effect from the second quarter of 2020.

117%

Adjusted Operating Cash Conversion

READ MORE
ON PAGE 50

We were able to resume dividend payments from the second quarter of 2020

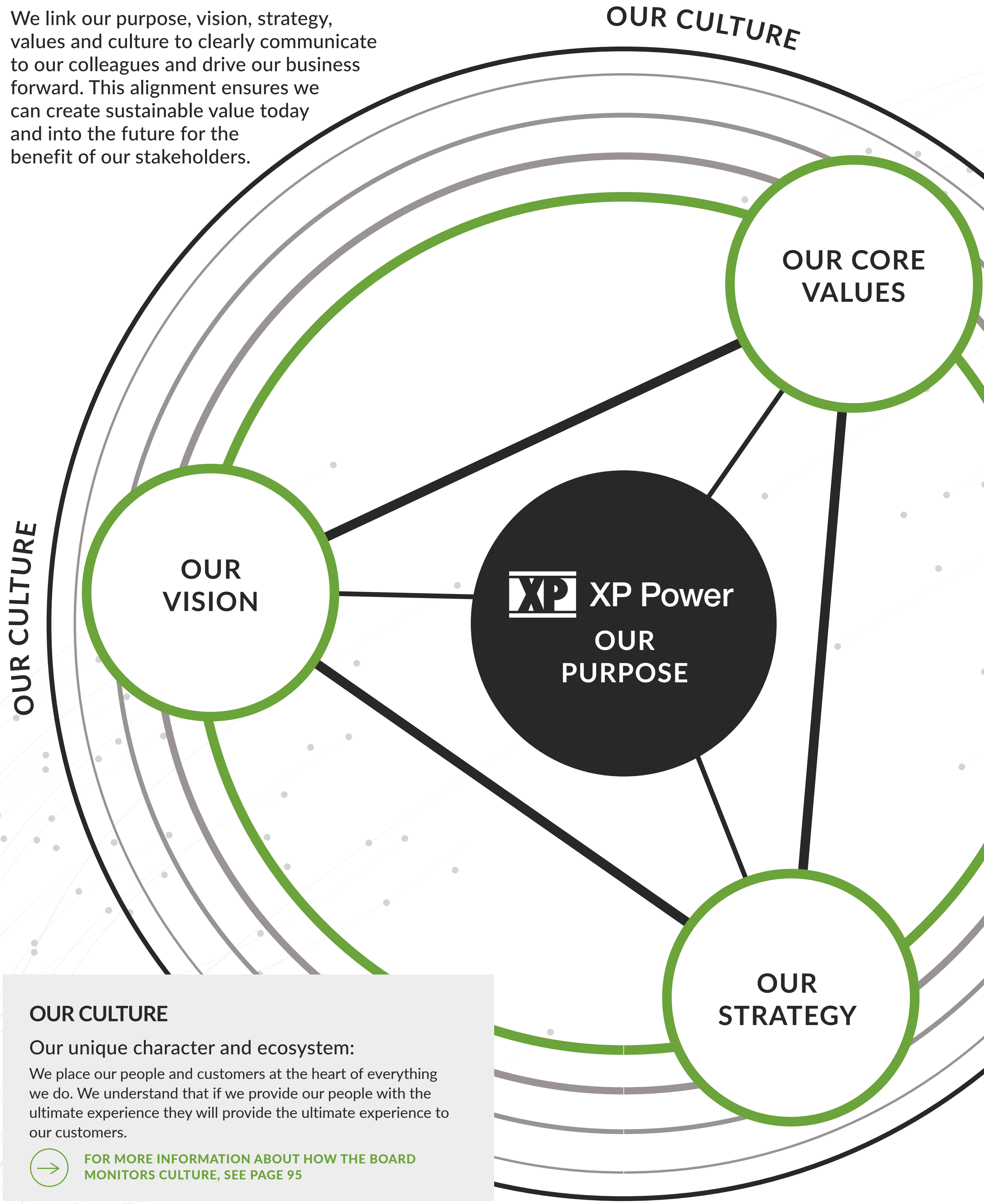
74 pence

Dividend of 74 pence per share (2019: 55 pence per share)

READ MORE
ON PAGE 51

OUR PURPOSE, VISION, STRATEGY, VALUES AND CULTURE

We link our purpose, vision, strategy, values and culture to clearly communicate to our colleagues and drive our business forward. This alignment ensures we can create sustainable value today and into the future for the benefit of our stakeholders.



OUR CULTURE

Our unique character and ecosystem:

We place our people and customers at the heart of everything we do. We understand that if we provide our people with the ultimate experience they will provide the ultimate experience to our customers.

FOR MORE INFORMATION ABOUT HOW THE BOARD MONITORS CULTURE, SEE PAGE 95

OUR CULTURE

OUR PURPOSE

Why we exist:

We power the world's critical systems.

Being a purpose-led business:

We add genuine value to our customers, helping them get to market quickly with complete power solutions. Our people understand where we create value for the customer.

OUR VISION

Where we want to be:

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

OUR STRATEGY

How we will deliver our vision:

We have a well articulated strategy that we have continued to refine and consistently execute over a significant period of time.

READ MORE ON PAGES 32 TO 38

OUR CORE VALUES

Our fundamental beliefs for continued success:

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

Integrity

Customer Focus

Speed

Flexibility

Knowledge

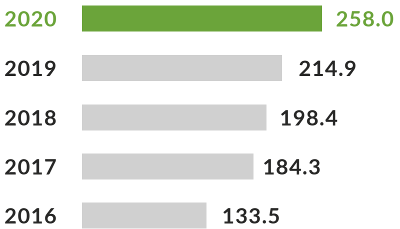
FINANCIAL AND OPERATIONAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Order Intake (£m)

+20%

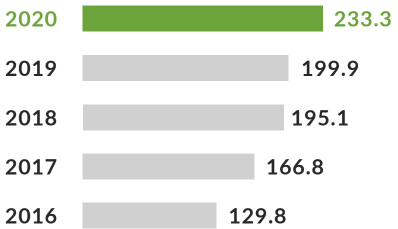
£258.0m



Total Revenue (£m)

+17%

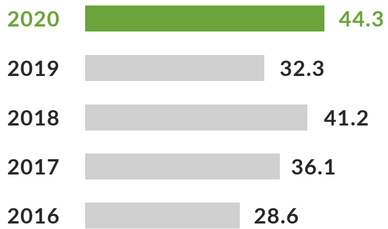
£233.3m



Adjusted Profit Before Tax (£m)[1]

+37%

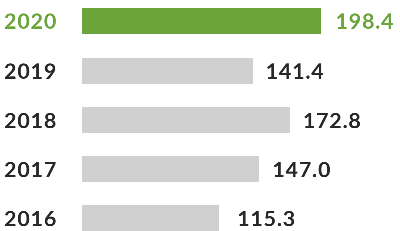
£44.3m



Adjusted Earnings Per Share[1]

+40%

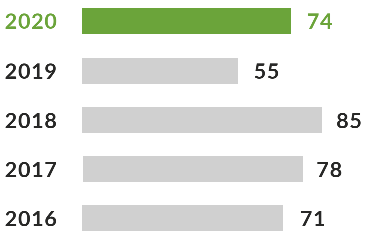
198.4p



Dividend Per Share

+35%

74p



OPERATIONAL HIGHLIGHTS

- Gross margin increased to 47.2% due to manufacturing efficiencies from increased production to meet demand.
- Further production and supply chain optimisation across the group, including the transfer of low-power, high voltage DC-DC manufacturing from Nevada to Vietnam
- Strong growth in order intake and revenue driven by the recovery in the Semiconductor Manufacturing Equipment sector and demand from our Healthcare customers as they increased supply of critical care devices for the treatment of COVID-19, offsetting weakness in Industrial Technology sector.

FOR MORE INFORMATION ON OUR PERFORMANCE PLEASE SEE PAGES 42–47

REASONS TO INVEST

WE ARE DRIVING SUSTAINABLE GROWTH TO CREATE LONG-TERM VALUE FOR ALL STAKEHOLDERS

01

A growing penetration of global, blue-chip customers enabling sound organic growth over a long period of time.

FOR MORE INFORMATION ON OUR GROWTH DRIVERS PLEASE SEE PAGES 26–27

02

Strong positions in customers exposed to growing, essential markets enabling consistent market share gains.

FOR MORE INFORMATION ON OUR MARKETPLACE PLEASE SEE PAGES 14–15

03

Strong financials – attractive operating margins with potential for expansion.

FOR MORE INFORMATION ON OUR FINANCIAL PERFORMANCE PLEASE SEE PAGES 48–51

04

Cash generation – high conversion of profit to cash, due to a well-managed business with light capital requirements.

FOR MORE INFORMATION ON CASH GENERATION PLEASE SEE PAGE 50

05

Revenue annuity – once designed into our customers' applications, we enjoy a revenue stream for lifetime of the customers' product lifecycle, which is typically seven to eight years.

FOR MORE INFORMATION ON REVENUE ANNUITY PLEASE SEE PAGE 30

06

Capital allocation – a disciplined approach, prioritising a strong balance sheet, with a focus on investing in the business to drive organic growth.

FOR MORE INFORMATION ON INVESTING IN THE BUSINESS PLEASE SEE PAGE 50

XP POWER AT A GLANCE
WHO WE ARE

OUR POWERFUL OFFERING

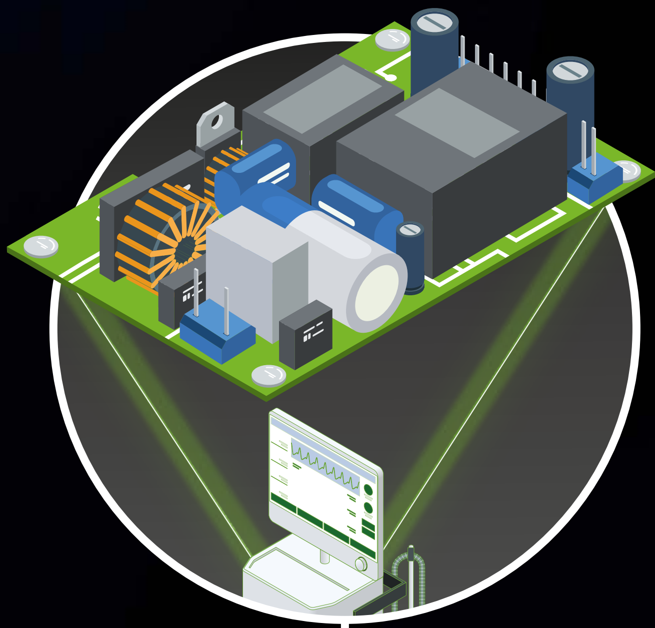
> XP Power designs and manufactures power control systems, the essential hardware component in every piece of electrical equipment that converts power from the electricity grid into the right form for equipment to function.

These products will either power the electronics, in the case of our low voltage products, or processes, in the case of our high voltage and radio frequency (RF) power systems, in critical systems in the Healthcare, Industrial Technology or Semiconductor Manufacturing Equipment sectors.

We believe we have the broadest, most up-to-date power conversion product portfolio available in the market today. This makes us a valuable partner to the blue-chip original equipment manufacturers who are trying to reduce costs by consolidating their supplier base.

WHAT IS A POWER CONVERTER?

All electronic equipment needs a stable low voltage, direct current to be able to operate as it invariably contains numerous semiconductor devices that only operate at such voltages. By contrast, the distribution of electrical power is via the mains supply, which, due to other factors, is an alternating current at relatively high voltage to avoid unnecessary energy losses during transmission. The power converter achieves the transformation of voltage. We can also transform the mains supply to a very high voltage to power processes such as particle ionisation or transform to a signal switching at radio frequencies to produce a plasma, to sterilise or to weld plastics for instance.



HOW DOES IT WORK?

A modern power converter works by firstly “rectifying” the alternating mains supply to a high voltage direct current and then “switching” it back to an alternating current at a much higher frequency using precisely controlled power semiconductor devices. This high-frequency voltage can then be converted to the lower required voltage using magnetics and a final stage of rectification to the stable low voltage direct current. Various microprocessors are used to control this process and provide communication to and from the customer’s application.

WHY IS A POWER CONVERTER IMPORTANT?

A power converter not only provides the correct, stable voltage that any piece of electronic equipment needs to operate, it also prevents electrical noise radiating or conducting into the environment that would interfere with our communications and other equipment. Importantly, it also provides the critical isolation barrier between the potentially lethal mains supply and the user of the end equipment, whatever it might be. So it is also a safety critical device in any electronic system.

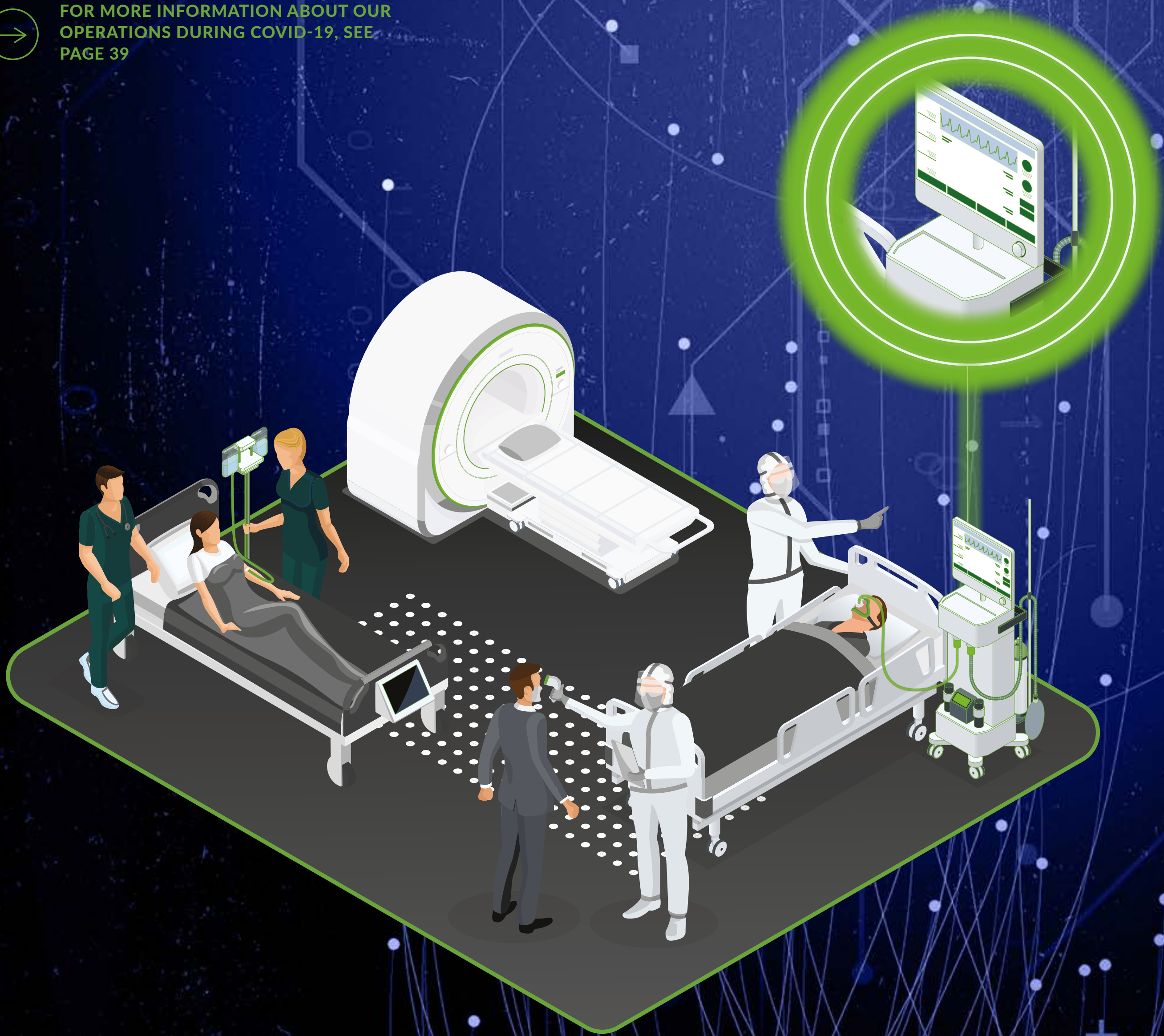
BUSINESS INSIGHT:

POWERING CRITICAL SYSTEMS

Early on in the COVID-19 pandemic, it became evident that the world rapidly needed significantly more critical care equipment for the treatment of patients with the virus. XP Power was already designed into much of this equipment, which included ventilators of various types, patient monitors, drug delivery systems, suction pumps, hospital beds, and specialist ultrasound and portable X-ray equipment. Our customers placed orders for the power converters they needed for this equipment in unprecedented volumes, requiring very short lead times. Demand for this equipment commenced at a time when China was itself shut down due to the epidemic. We were able to respond swiftly due to the benefit of having our Vietnamese facility, which had been recently expanded.

SEE PAGE 14 TO DISCOVER THE OTHER CRITICAL SYSTEMS THAT WE POWER

FOR MORE INFORMATION ABOUT OUR OPERATIONS DURING COVID-19, SEE PAGE 39



XP POWER AT A GLANCE

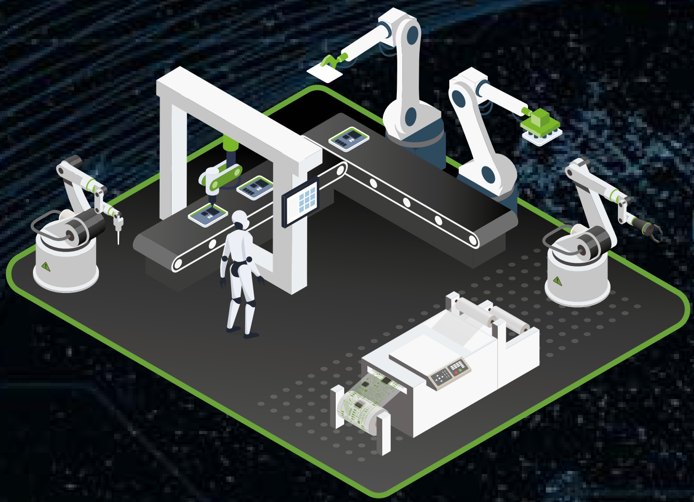
OUR MARKET SECTORS

Every piece of electronic equipment requires a power converter to operate. Numerous products in our daily lives contain our power conversion solutions. We do not see these power systems as they are embedded inside our customers' equipment.

SEMICONDUCTOR MANUFACTURING EQUIPMENT

Semiconductor manufacturing equipment is an important and attractive sector for XP Power. These customers have demanding state-of-the-art applications that manufacture the semiconductor devices, which are becoming more and more prevalent in our lives. We are one of few companies in the world that can provide these customers with the complete spectrum of power solutions used in their tools from low to high power and low to high voltage. Applications in this customer set include:

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



INDUSTRIAL TECHNOLOGY

Industrial technology is the most diverse customer base we have. The types of applications are numerous but generally individual programmes are smaller than in semiconductor manufacturing equipment or healthcare. The products need to be robust and highly reliable. We generally target niche high-growth sectors in industrial technology, which include:

- 3D and industrial printing
- Process control
- Robotics
- Test and measurement
- Smart grid
- Transport
- Security

HEALTHCARE

There are special safety requirements regarding power solutions that are in a medical environment, especially if they are in contact with the patient. These customers, therefore, have rigorous safety and quality requirements often including full component traceability. XP Power has a broad offering of medically approved power conversion solutions making us an attractive partner to the makers of medical equipment. Applications are numerous but include:

- Analytics and imaging
- Patient monitoring
- Life science
- Surgical tools
- Diagnostics
- Laboratory instruments

THE POWER OF OUR GLOBAL REACH

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

NORTH AMERICA

The North American network consists of 11 sales offices, design centres in Massachusetts, New Jersey and Southern California, and an engineering solutions group in Silicon Valley. This network allows XP Power to provide its major customers with local, face-to-face support and rapid response times.

Production facilities are based in Massachusetts, New Jersey and Silicon Valley.

Total revenue

£147.2m

+27%

ON LAST YEAR'S REVENUE

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 high quality and rapid service delivery.

We maintain a small production facility in the UK for customer modifications.

Total revenue

£65.0m

+1%

ON LAST YEAR'S REVENUE

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 design engineering solutions capability in Singapore and South Korea to complement our offering to customers in the region.

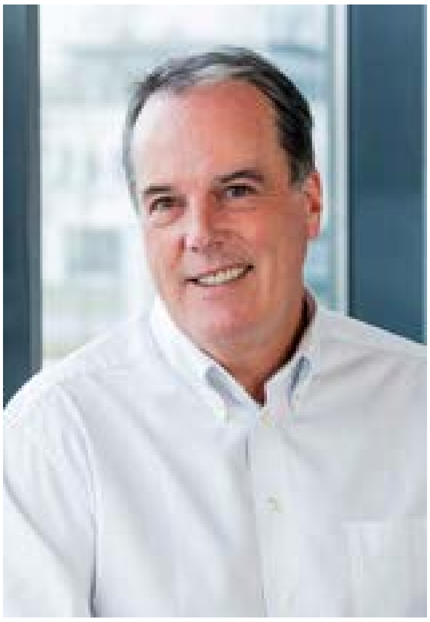
Total revenue

£21.1m

+6%

ON LAST YEAR'S REVENUE

CHAIRMAN'S STATEMENT



James Peters
Chairman

> "We made significant strategic progress in 2020 and produced an excellent set of results in a difficult environment."

Our progress in 2020

We made significant strategic progress in 2020 and produced an excellent set of results in a difficult environment. The year was dominated by the exceptional challenges of the global health crisis caused by COVID-19. A key priority throughout has been to protect the health and wellbeing of our colleagues and I would like to thank them all for their commitment and adaptability during this unprecedented period.

We have delivered record orders, revenues and earnings, and strong cash generation, against a difficult global backdrop. COVID-19 impacted the demand dynamics in our Industrial Technology sector, but this was more than offset by the continuation of the strong recovery in the Semiconductor Manufacturing Equipment sector and exceptional demand from our Healthcare customers for critical care equipment for the treatment of COVID-19 affected patients. We can feel proud of what we achieved in 2020 and our contribution to helping our customers produce much needed life-saving equipment rapidly, and at a time when the global supply chain was being adversely affected by the pandemic.

Having taken the difficult decision to cancel both the final 2019 dividend and first quarter 2020 dividend in response to the uncertainty caused by the COVID-19 crisis, our strong cash generation and confidence in the Group's long-term prospects enabled us to resume the payment of dividends from Q2 2020. The Board is proposing a final dividend of 36p (2019: nil), which, if approved, will bring the total 2020 dividend per share to 74p (2019: 55p).

COVID-19

The Group's presence in China meant it was exposed to the challenges of the COVID-19 pandemic earlier than many international organisations, as our Chinese manufacturing facility was unable to reopen as planned in late January 2020 following the Chinese New Year. As the seriousness of the situation became clear, we quickly established very clear priorities and protocols for the organisation to manage through the challenges of the pandemic, namely:

1. Ensuring the safety and wellbeing of all our colleagues;
2. Keeping our customers supplied with product (particularly those providing critical healthcare equipment for the treatment of COVID-19 patients); and
3. Preserving cash and maintaining liquidity.

This swift response was well received by our people and customers and was instrumental to us successfully navigating through the challenges that we subsequently faced. Our China facility reopened on 17 February 2020 and we have kept all production and warehouse facilities operational since then, apart from short breaks for COVID-19 decontaminations. This clearly demonstrates the built-in resilience of our supply chain.

We are continuing to monitor the global situation in respect of COVID-19 closely and remain mindful of the significant challenges and uncertainty it continues to present.

OUR RESPONSE TO COVID-19 ON PAGE 39

Our Board

In October 2020 we announced that, after over 17 years as Chief Executive Officer, Duncan Penny had informed the Board of his intention to retire as CEO. Duncan stepped down as CEO on 31 December 2020 and will leave the Board and the Group at the Annual General Meeting on 20 April 2021.

The Board also announced that, following a thorough search process, Gavin Griggs would succeed Duncan as Chief Executive Officer from 1 January 2021. Gavin has been Chief Financial Officer at XP Power since November 2017 and has worked very closely with Duncan in that time. Gavin is a proven business leader with significant experience and expertise across a variety

"We have produced record orders, revenues and earnings and strong cash generation, against a difficult global backdrop."

17%
Revenue increase

40%
Adjusted earnings per share increase

of growth-oriented business sectors and the Board is confident that Gavin is the right person to take XP Power forward.

The transition from Duncan to Gavin has been smooth as anticipated and I have confidence that under his leadership the Group will deliver further Shareholder value in the future.

The search for Gavin's successor as Chief Financial Officer is underway, and an appointment will be announced in due course.

Duncan joined XP Power as Chief Financial Officer in 2000, becoming CEO in 2003, and has led our business with distinction. On behalf of the entire XP Power team, I want to thank Duncan for his significant and enduring contribution to our Group and wish him well for the future.

SEE PAGES 84–133 FOR OUR BOARD AND CORPORATE GOVERNANCE

Our people and values

The success of any organisation is dependent on its culture and the people and talent within it. The Board continues to work closely with the Executive Leadership Team to ensure the Group is identifying and developing its key people and bringing new talent and capabilities into the business, to help underpin our growth ambitions. We recruited a leader for our Global Supply Chain and a Chief People Officer during the year. These are two important senior executive appointments that have significantly enhanced our capabilities and demonstrate the ambition we have for the Group.

I am proud of what our people have achieved in 2020 and I know from our engagement with them that they are proud to be part of the XP Power team.

READ MORE ABOUT OUR CULTURE ON PAGE 95

Strategy review

The Group has consistently executed a clearly outlined strategy for several years which has successfully delivered meaningful value creation for all stakeholders. In summary, it is built on the development of a market-leading range of competitive products to enable further penetration of existing target accounts, combined with a drive to move our product portfolio up the power and voltage scale. This product portfolio development and the significant expansion of our addressable markets has been achieved through a combination of internal organic investment and targeted acquisitions. Although we are one of a few power companies in the world with a product portfolio across such a broad power and voltage spectrum we still have relatively low market share, we can use our product portfolio and engineering services and capabilities to provide customers with a complete power solution and increase our market share.

Our strategy continues to work effectively to achieve sustainable long-term earnings growth through market share gains in our target sectors and customers. This success is demonstrated by our consistent performance and resilience over the cycles in the sectors in which we operate. 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 bank refinancing in 2020, we have sufficient committed funds to support targeted acquisitions to enhance our product portfolio and expand our addressable market. We see acquisitions as an important element of our growth strategy but will maintain a disciplined approach. We also continue to make improvements to our systems and processes, in our product life cycle management and our supply chain to support the sales growth we are generating, as well as bringing new talent into the business to support our continued growth.

While our new CEO will continually review our strategic progress, we expect development to be evolutionary not revolutionary but with a heightened focus on execution and organisational and supply chain agility.

SEE PAGES 32–38 TO SEE OUR STRATEGY IN MORE DETAIL

Sustainability

We are committed to the long-term sustainable success of XP Power in all its aspects. In 2020, we engaged with our key stakeholders to better understand which aspects of their relationship with XP Power were most important to them, with a focus on sustainability in particular. We have incorporated this feedback into our sustainability strategy and have reported this in our 2020 Annual Report.

Sustainability has been a long-term focus for XP Power. In 2009, we established an environmental committee led by the CEO, which set the bold goal of leading our industry on environmental matters. We have helped lead the industry in developing "green" products that deliver power more efficiently and consume less energy, while powering their application, or in standby mode. These products reduce the annual CO_2 emissions of the equipment throughout its life and are by far the biggest positive impact we can make on the environment. We have set Company targets to reduce CO_2 emissions intensity by a minimum of 3% per annum over the short and medium term and an aspiration to achieve carbon neutrality by 2040. During 2021 we will develop further strategies to bring this date forward.

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, including social ones, across our global workforce.

READ MORE ABOUT OUR SUSTAINABILITY ON PAGES 62–83

Outlook

We delivered an excellent performance in 2020 despite facing significant external challenges, once again demonstrating the resilience of our business model and quality of our people.

Trading conditions in the early months of 2021 give grounds for continued optimism. Despite the challenges and uncertainty that remain regarding COVID-19, we entered the year with a strong order book and with a positive backdrop within the Semiconductor Manufacturing Equipment sector. While we are mindful of the headwind that the recent strengthening of Sterling creates and the continued uncertainty created by COVID-19, we currently expect further underlying revenue growth this financial year. We remain excited regarding the long-term prospects of the Group.

James Peters
Chairman

STRATEGIC REPORT

Contents

CHIEF EXECUTIVE OFFICER SUCCESSION

Duncan Penny
Chief Executive Officer
(Retired as CEO 31 December 2020)

> "I am pleased to report that we have delivered an excellent financial performance in the most challenging environment"

In my final update to Shareholders, I am pleased to report that we have delivered an excellent financial performance in the most challenging environment, while prioritising the safety and wellbeing of our people during the COVID-19 pandemic.

Looking back over the last 21 years at XP Power, 17 of those as CEO, it has been a remarkable journey as we transformed from a specialist distribution business, to a private label model, then to designer and design manufacturer, followed finally by our move into Radio Frequency Power and High Voltage. On our journey, we have built the enduring relations with key customers in the Healthcare, Industrial Technology and Semiconductor Manufacturing Equipment sectors that are at the heart of our success. Our target customers value our knowledge, speed and flexibility to solve their power problems and assist them to get their products to market in the shortest possible time.

As a business that designs its power solutions into capital equipment, we are subject to the inherent cyclicality of those end markets. I have experienced several such cycles in my time at XP Power, but what is striking is that we have always made good strategic progress in a down cycle and emerged a stronger business each time. I believe the reason for this is that we continue to execute against our strategy relentlessly regardless of the circumstances we find ourselves in. The COVID-19 pandemic has been no exception.

Gavin Griggs joined XP Power as CFO in November 2017. It has been a great pleasure working with him and he has been instrumental in helping refine and execute our strategy since his arrival. While it was entirely appropriate for the Board to conduct a thorough executive search process for my replacement, I am pleased that we were able to appoint a strong internal candidate into the CEO role. I believe the benefits to our people, our customers and Shareholders in having this continuity are significant.

It has been a real privilege to lead XP Power as CEO, working with such a talented and passionate team of people. To see and experience the Group grow from its origins as a distributor to a design manufacturer and leader in its industry has been hugely rewarding. As I retire, I am confident the Group will continue to prosper and under Gavin's leadership it will enter the next successful phase of its development.

"It has been a real privilege to lead such a talented and passionate team of people and experience the Group grow from a distributor to a design manufacturer and leader in its industry."

Gavin Griggs
Chief Executive Officer
(Appointed 1 January 2021)

"The Company has a sound businesss model, strong customer relationships, and a passionate and dedicated workforce."

On joining the Company as CFO in November 2017, I was immediately impressed by the passion its people had for the business and the organisation's willingness to continually change and evolve. Since then, we have continued to develop, not just our product range, but our processes, systems and talent to build a platform for further future growth. I am excited to have been given the opportunity to serve as Chief Executive Officer and to lead the business in its next stage of development.

The Company has a sound business model, strong customer relationships, and a passionate and dedicated workforce. We are proud of the further progress we made in 2020 and the strength of the financial results we were able to deliver in what was an exceptional year due to the impact of the COVID-19 pandemic.

While the challenges and uncertainties regarding COVID-19 are not yet behind us, I am confident in the resiliency of the business and its long-term prospects.

At the outset of the pandemic we set three very clear priorities of:

1. Ensuring the safety and wellbeing of our people;
2. Keeping product flowing to our customers; and
3. Preserving our cash and maintaining liquidity.

These priorities served us well in guiding us through the challenges of 2020 and we will continue to follow these in the year ahead.

XP Power is a successful, long-term business with excellent prospects. I am looking forward to leading the Group into its next phase of development, shaping its strategy and leading a team of high-performing and committed colleagues.

"XP Power is a successful, long-term business with excellent prospects. I am looking forward to leading the Group into its next phase of development."

OUR APPROACH TO SUCCESSION PLANNING

Our approach to succession planning and the process the Board followed in appointing a new CEO is set out in detail in the Nomination Committee Report.

READ MORE IN OUR NOMINATION COMMITTEE REPORT ON PAGES 102–109

OUR MARKETPLACE

DRIVING SUSTAINABLE GROWTH BY GROWING OUR ADDRESSABLE MARKET

GLOBAL POWER CONVERTER MARKET

A highly diverse market gives us an opportunity to grow market share

Overview

Our end markets can be broken down to the low voltage market – principally powering electronic systems and the high voltage and radio frequency (RF) market – which powers processes such as the generation of plasmas or some sort of particle acceleration or ionisation. The fragmented nature of the market means we have numerous competitors dependent on the product type, end application or geographic location with no one competitor having a dominant share. We consider that we have strong relationships with the leading customers in the higher growth market niches, which will allow us to continue to grow our market share. This is particularly true in process power where our share is currently very low.

Trends shaping the market

The Group is exposed to several long term growth drivers that will support future growth. These include the key trends of the proliferation of electronic devices, accelerating global digitisation and the long-term demand for healthcare equipment.

Our position

Our broad and up-to-date product portfolio, combined with our engineering services capability to modify products, allows our product to more effectively integrate into the customer's application. This means we are ideally positioned to support our customers and solve their power problems. We are also ideally placed to acquire complementary businesses to expand our product and engineering offering to expand our addressable market within our existing customer base.

US $ BILLIONS

	Estimated market	XP Power estimated share
Low voltage	3.2	8.4%
Process power	1.7	2.6%
Total	4.9	6.4%

Source: Microtech Consultants and XP Power management estimates

01

MARKET TREND
Electronic devices are becoming ever more pervasive in our lives.

IMPACT ON MARKETS
In every aspect of our lives, we see more and more electronics and digitalisation, all of which require our type of products.

02

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

IMPACT ON MARKETS
Our customers' systems are getting more complex and trends such as Industrial 4.0 and the Industrial Internet of Things means there is high demand for our engineering services, which allow the power converter to communicate with the customer's application and vice versa.

03

MARKET TREND
Healthcare technologies continue to evolve. There is also an ageing world population and a growing market for home healthcare products.

IMPACT ON MARKETS
As more and more diagnostic and medical procedures are developed, the demand for the healthcare power converters we design and manufacture grows.

HIGH VOLTAGE MARKET

$500m

Total market value

Overview

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

Our response

Our salesforce is finding attractive opportunities in our existing customer base in semiconductor manufacturing equipment, research, additive manufacturing and healthcare applications for these products

READ MORE ABOUT OUR PRODUCT PORTFOLIO ON PAGE 36

RF POWER MARKET

$1,200m

Total market value

Overview

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

Our response

The RF Power market presents an exciting opportunity for us to grow our revenues with customers who already value our service and support.

OUR CUSTOMERS

Our customers are original equipment manufacturers who can be characterised as having expertise in their particular field, whether it be healthcare devices, fast growing industrial technologies or semiconductor equipment manufacturing, but generally do not have deep in-house power conversion expertise.

XP Power provides this expertise and assists our customers to design in a suitable power supply from our extensive range of products that meet the customer's cost and technical requirements. Technical requirements often involve helping the customer meet the relevant equipment safety standards that operate in their particular industry such as relevant medical or electrical safety standards as well as Electro Magnetic Compatibility (conducted and radiated electrical noise).

We pride ourselves on our customer focus, providing rapid response to their technical issues in order to solve their power problems and help them get to market as fast as possible.

04

MARKET TREND

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

IMPACT ON MARKETS

Demand for semiconductor devices and the equipment required to manufacture these will continue to grow driving demand for our low voltage and process power solutions.

OUR MARKETPLACE CONTINUED

THE MARKET SECTORS WE SERVE

We focus our resources on the key accounts that value our quality and high level of service and support, particularly during the critical design in stage when they are trying to get the power converter to effectively and safely power their prototype system, whatever type of application it might be.

Revenue trends

The revenue trends for each sector are set out below:

HEALTHCARE

We have a strong healthcare business due to our broad medical power converter offering, full traceability of components and high-quality in-house manufacturing. We believe we are now the largest provider of medical power conversion products in the world.

HOW THIS MARKET HAS BEEN AFFECTED BY COVID-19:

Early during the pandemic we saw significant demand for our products that were designed into critical care applications required for the treatment of COVID-19 patients. These included various types of ventilators, patient monitors, drug delivery devices, hospital beds, suction pumps and specialist ultrasound and portable X-ray. We estimate that we received an additional £15–£20 million of orders as a result. By contrast, other areas of healthcare such as robotic surgery, endoscopy, other diagnostics and dentistry, were extremely weak compared to 2019. We expect these to recover in 2021.

16%

5 Year CAGR

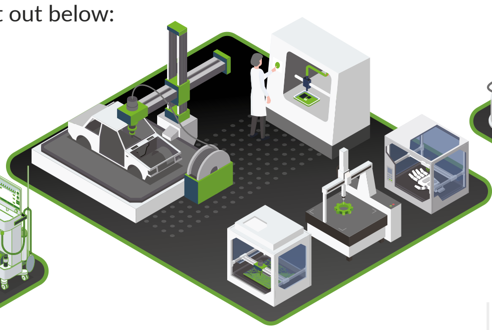
Total revenue (£m)

+51%

£69.3m

Revenue (£m)

2020	69.3
2019	45.9
2018	43.6
2017	51.0
2016	37.9



INDUSTRIAL TECHNOLOGY

The market for industrial technology is by far the most diversified of all our markets. There are no large individual programmes even though we are dealing with many blue-chip industrial customers. We focus on fast growing niches in this market such as robotics, test and measurement, 3D printing and additive manufacturing, smart grid, and analytical instruments.

HOW THIS MARKET HAS BEEN AFFECTED BY COVID-19:

Demand from our industrial technology customers contracted 19% as a result of the pandemic as demand for their products dropped or their own manufacturing or supply chains were disrupted due to COVID-19. We started to see recovery in this sector in the second half of 2020.

5%

5 Year CAGR

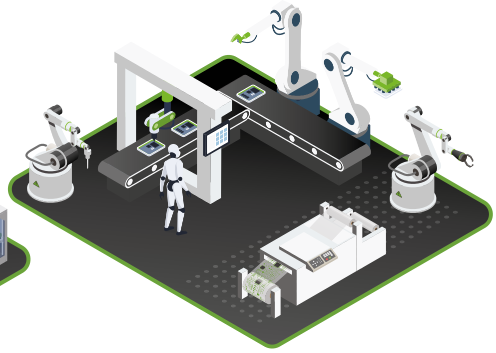
Total revenue (£m)

-19%

£94.4m

Revenue (£m)

2020	94.4
2019	116.6
2018	104.1
2017	86.7
2016	76.8



SEMICONDUCTOR MANUFACTURING EQUIPMENT

Our customers recovered strongly from the cyclical downturn in this sector that started in 2018 and started to recover in Q4 2019 in terms of orders. A combination of increased demand in the memory market and advances in process technology drove the growth. We see this as an attractive sector for our long-term growth as the demand for semiconductor devices is driven by multiple factors such as Artificial Intelligence (AI), big data, the Internet of Things (IoT), autonomous vehicles and the roll out of 5G.

HOW THIS MARKET HAS BEEN AFFECTED BY COVID-19:

We believe that COVID-19 has and will cause acceleration of many trends in the world such as remote working, general digitalisation, and online shopping, which will fuel further growth for semiconductor devices.

47%

5 Year CAGR

Total revenue (£m)

+86%

£69.6m

Revenue (£m)

2020	69.6
2019	37.4
2018	47.4
2017	29.1
2016	15.1

NORTH AMERICA

Overview

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

63%

OF REVENUES

TRENDS SHAPING THE REGIONAL MARKET

In general, our customers in North America are the most innovative and fast moving. We see this particularly in healthcare. North America is also the de facto leader in semiconductor manufacturing equipment; a sector we consider to have strong long-term growth prospects for XP Power.

PERFORMANCE

North America produced excellent growth in 2020 as the semiconductor manufacturing equipment sector recovered strongly and healthcare orders due to COVID-19 more than compensated for weakness in industrial technology.

Revenue (£m)

2020	147.2
2019	115.5
2018	119.1
2017	94.4
2016	68.6

EUROPE

Overview

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

28%

OF REVENUES

TRENDS SHAPING THE REGIONAL MARKET

Our customers in Europe are principally involved in industrial technology with some healthcare and very little semiconductor manufacturing equipment. It is, therefore, by far, our most diverse market.

PERFORMANCE

Although Europe produced growth in difficult conditions due to COVID-19 related healthcare business, it was hardest hit due to its exposure to industrial technology. Europe also did not benefit from the semiconductor manufacturing equipment exposure that Asia and North America enjoy.

Revenue (£m)

2020	65.0
2019	64.4
2018	61.1
2017	57.5
2016	49.4

ASIA

Overview

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. Asia's up and coming semiconductor manufacturing equipment market is particularly attractive.

9%

OF REVENUES

TRENDS SHAPING THE REGIONAL MARKET

Markets in Asia are generally growing faster than in North America and significantly faster than in Europe. Many applications are not attractive to us where customers prioritise cost over service and support. However, there are many attractive areas that we can service with our more complex high-power and high-voltage products.

PERFORMANCE

Asia produced excellent growth in 2020, following a strong 2019, driven principally by customers in the semiconductor manufacturing equipment sector.

Revenue (£m)

2020	21.1
2019	20.0
2018	14.9
2017	14.9
2016	11.8

READ MORE ABOUT OUR PERFORMANCE ON PAGES 42 TO 47

OUR GROWTH DRIVERS

The opportunities for XP Power – expanding our addressable market

We consider that we have strong and enduring relations with the key accounts that place value on our proposition of a broad and up-to-date product portfolio, excellent service and support, resilient supply chain, and low cost Asian manufacturing provides the flexibility to combine our products into a customised complete power solution using our engineering services group.

PROLIFERATION OF ELECTRONIC DEVICES

Electronic devices are becoming more and more pervasive in our lives as new technologies and innovation continues. This trend is accelerating with the adoption of the Internet of Things (IoT), Artificial Intelligence (AI), big data and the roll out of 5G. These devices drive demand for semiconductor manufacturing equipment, which is a key focus area for XP Power.

HOW WE ARE RESPONDING

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

LINK TO STRATEGY

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 proposition. COVID-19 has brought into focus that generally the healthcare infrastructure is inadequate in today's world.

HOW WE ARE RESPONDING

We have the broadest, most up-to-date range of medically approved power converters in our industry and are the world's leading provider of healthcare power conversion products.

LINK TO STRATEGY

CONNECTIVITY AND INDUSTRIAL REVOLUTION 4.0

Customers' applications are becoming ever more complicated and increasingly more connected enabling Industrial Revolution 4.0. Demand for communication between the customers' applications and the power conversion solution are rapidly expanding.

HOW WE ARE RESPONDING

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

LINK TO STRATEGY

CUSTOMER 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 in those customers by expanding our product offering.

HOW WE ARE RESPONDING

RF Power solutions from the acquisition of Comdel, and high voltage solutions from the acquisition of Glassman, increase our available market from US$2.7 billion to $4.9 billion.

LINK TO STRATEGY

CLIMATE CHANGE

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 are suitable for use in healthcare and industrial applications.

HOW WE ARE RESPONDING

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

LINK TO STRATEGY

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 ARE RESPONDING

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

LINK TO STRATEGY

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 are significant. XP Power is of a size where we can dedicate significant resources to this area, yet be agile to respond quickly with new products or documentation as required.

HOW WE ARE RESPONDING

We have dedicated resources devoted to power converter legislation, including the latest safety regulations, which our customers value.

LINK TO STRATEGY

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 labour costs rise significantly.

HOW WE ARE 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 growth 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.

LINK TO STRATEGY

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 ARE RESPONDING

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

LINK TO STRATEGY

OUR BUSINESS MODEL

01

02

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

OUR PURPOSE

WHY WE EXIST:

We power the world's critical systems.

OUR VALUES

- Integrity
- Knowledge
- Speed
- Flexibility
- Customer Focus

OUR VISION

WHERE WE WANT TO BE:

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

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.

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 that 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.

03

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 IDENTIFICATION

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

02 QUOTATION

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

03 SAMPLE

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

04 APPROVAL

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

05 PRODUCTION

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

04

REVENUE STREAMS

- We gain substantial revenue annuity over the life cycle of a product. The design in cycle is typically 18–24 months.
- Once designed in to a customer's programme, we generate ongoing revenue streams that typically continue to seven to eight years depending on the application and end market.

We are part of the Responsible Business Alliance (RBA)

Our employees can take a day of paid time off to support local community activities

74 pence
dividend per share

3.97
Employee cultural survey score

20
additional product families to our portfolio during 2020

05

SHORT-TERM VALUE GENERATION 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

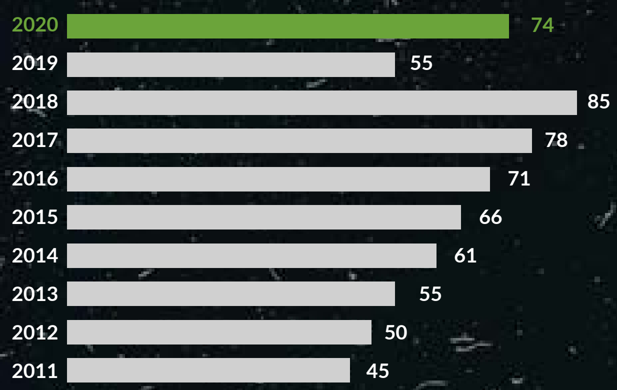
OUR COMMUNITIES AND THE ENVIRONMENT

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

OUR SHAREHOLDERS

- Dividend policy as shown below
- Investing in a growing business with attractive margins and market opportunities

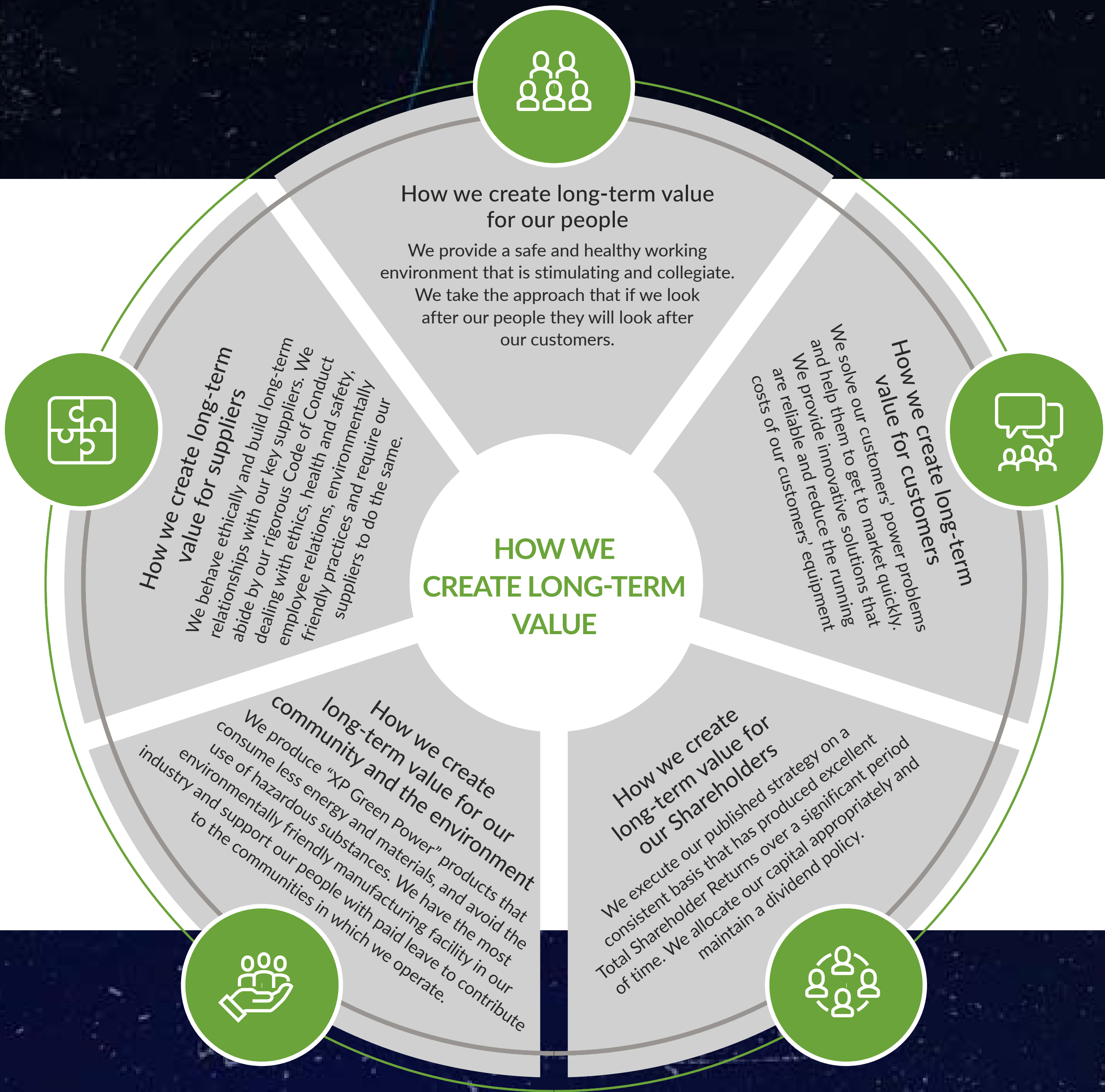
Ten year dividend history (pence per share)



POWERING LONG-TERM VALUE

POWERING LONG-TERM VALUE FOR OUR STAKEHOLDERS

We have a clearly articulated strategy that we continue to refine and consistently execute. We strive to create an environment where our people can be at their best so they can, in turn, solve our customers' power problem allowing them to get to market on time with our leading portfolio of products, combined with our excellent service and support. This is achieved through adopting sustainable business practices to ensure the business can continue to evolve and prosper for the benefit of all our stakeholders.



OUR STRATEGY

Our vision is to be the first-choice power solutions provider delivering the ultimate experience for our people and our customers. XP Power has followed a clear and consistent dual track strategy of moving up the value chain through its internally developed products and adding complementary products through acquisitions to target key accounts where we can add genuine value.

DEVELOP A MARKET-LEADING RANGE OF COMPETITIVE PRODUCTS

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.

TARGET ACCOUNTS WHERE WE CAN ADD VALUE

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.

VERTICAL PENETRATION OF FOCUS ACCOUNTS

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.

Photo of our Vietnam factory

BUILD A GLOBAL SUPPLY CHAIN THAT BALANCES HIGH EFFICIENCY WITH MARKET-LEADING CUSTOMER RESPONSIVENESS

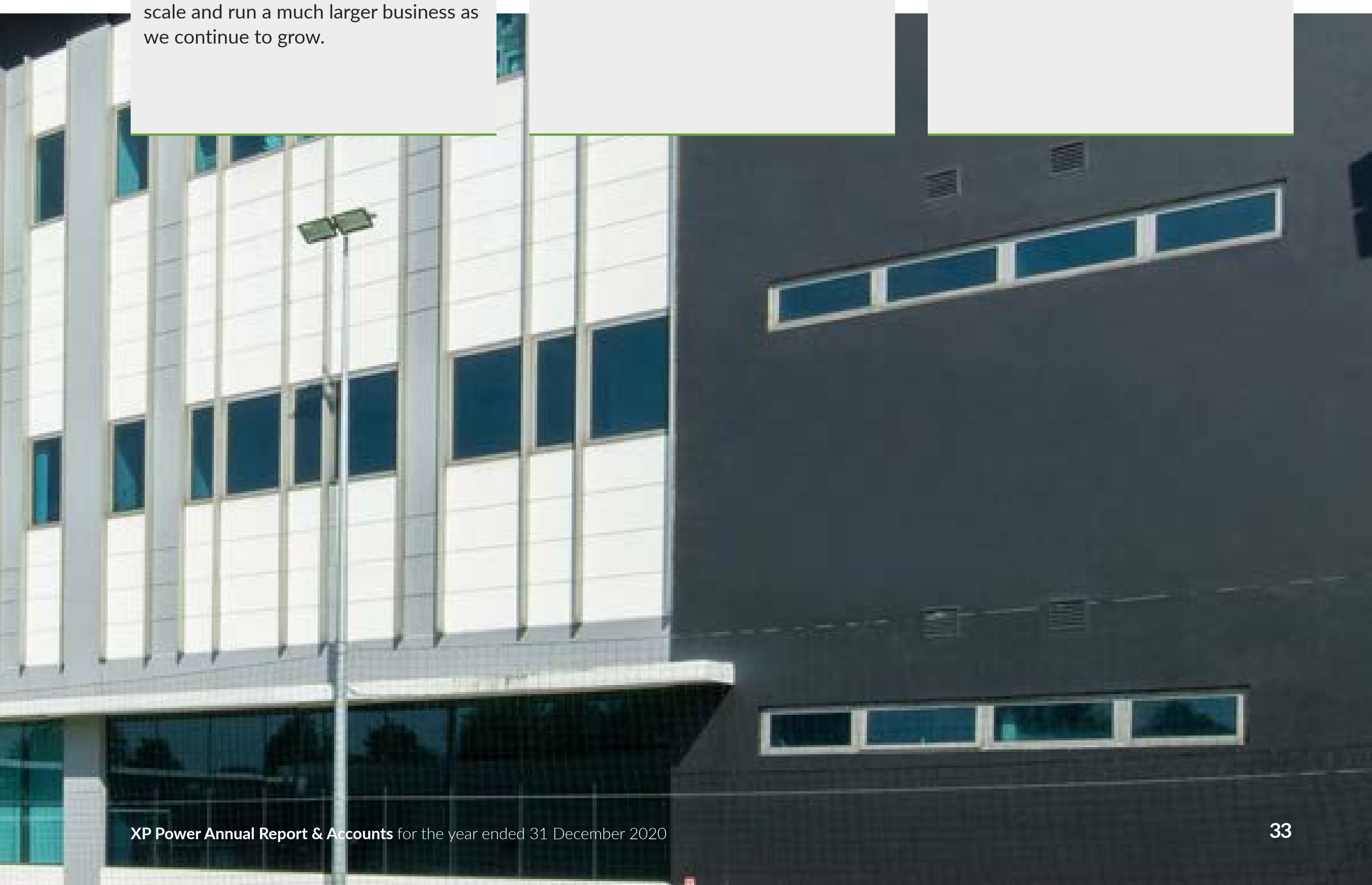
Since listing in 2000, we have built a strong brand in the power converter market. This, together with our product portfolio and excellent customer service, has allowed us to consistently take market share and grow significantly. As the Company grows, we need to upgrade our systems and processes and,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

LEAD OUR INDUSTRY ON ENVIRONMENTAL MATTERS

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

MAKE SELECTIVE ACQUISITIONS OF COMPLEMENTARY BUSINESSES TO EXPAND OUR OFFERING

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



OUR STRATEGY CONTINUED

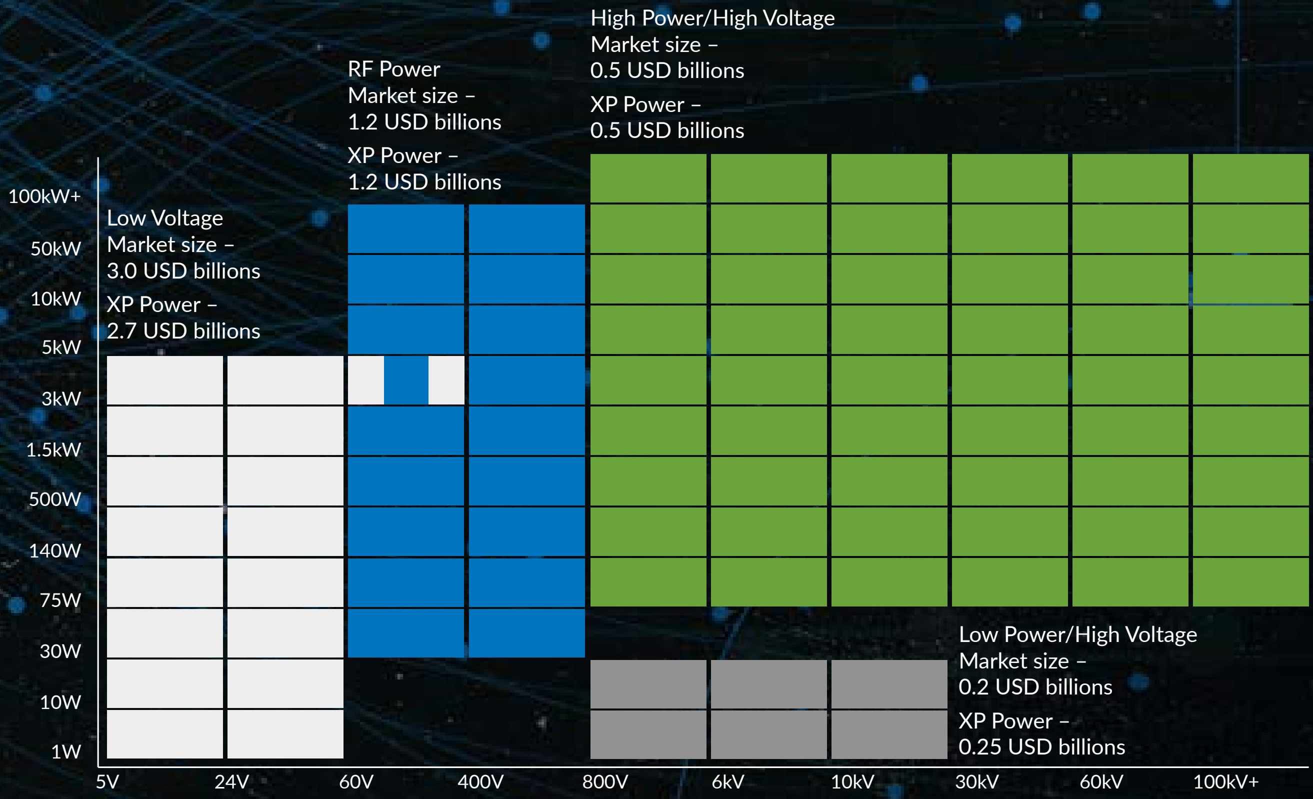
	DEVELOP A MARKET-LEADING RANGE OF COMPETITIVE PRODUCTS	TARGET ACCOUNTS WHERE WE CAN ADD VALUE	VERTICAL PENETRATION OF FOCUS ACCOUNTS
TARGET/GOAL	To release sufficient products to achieve at least a 10% organic revenue growth at attractive margins.	Organic revenue growth in excess of 10%.	Organic revenue 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 Healthcare, Industrial Technology, and Semiconductor Manufacturing Equipment sectors. We are focused on this existing customer base in order to grow our revenues.
PLANNED FUTURE ACTIONS	We are placing emphasis on product platforms that are easy to modify and can be reused over multiple sectors and applications.	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 augmented by 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 • Revenue growth	• Revenue growth	• 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

BUILD A GLOBAL SUPPLY CHAIN THAT BALANCES HIGH EFFICIENCY WITH MARKET-LEADING CUSTOMER RESPONSIVENESS	LEAD OUR INDUSTRY ON ENVIRONMENTAL MATTERS	MAKE SELECTIVE ACQUISITIONS OF COMPLEMENTARY BUSINESSES TO EXPAND OUR OFFERING
Reduction in manufacturing costs and freight and logistics, together with consistent improvement in lead time and on time delivery.	Excellent health and safety performance and 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 new supply chain and logistics 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 2021. In 2019, we have upgraded our ERP system in our sales companies in Asia, Europe and North America. We plan to roll the system out into our supply chain in 2021.	We will remain a committed member of the RBA. We strive to lead our industry on sustainability matters and have engaged with our key stakeholders in 2020 to develop our strategy regarding sustainability. READ MORE ON PAGES 62–83	We continue to develop a pipeline of potential acquisitions to further expand our product offering and engineering capabilities.
• Adjusted earnings per share	• Lifetime CO_2 emissions savings from "Green" products • Health and safety incident rates	• 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 PORTFOLIO

We believe we have the broadest, and most up-to-date product portfolio in our industry, making us the ideal partner for our key customers who are looking to save costs by reducing their vendor base. We are also one of the few companies in the world that has the complete spectrum of product offering from low to high power and low to high voltage.



WHAT WE'VE DONE THIS YEAR

Robust design methodology and platform approach

We have continued to develop our processes to ensure our designs are robust, yet we can meet customers' expectations in terms of rapid time to market. We have continued our journey to focus on higher power products with increased complexity. We have closed our UK design centre to deploy resources in other parts of our product portfolio, which we believe will provide greater returns.

READ MORE ON PAGES 22 AND 23

AMBITIONS FOR 2021

New product platforms

We have a number of exciting, higher power product platforms we expect to release in 2021. We will also continue to develop our design processes such that we can reuse more of the technology and know how we have across different applications and sectors.

LINK TO STRATEGY

We are continuing to expand and enhance our range of market-leading competitive products.

LINK TO VALUES AND CULTURE

Our approach to new product development is supported by our values of speed and flexibility, ensuring our customers have access to leading-edge products and can get them to market in the shortest possible time.

OUR STRATEGY IN ACTION: STRENGTHENING OUR SUPPLY CHAIN

OUR SUPPLY CHAIN

We have a flexible and resilient supply chain with low-cost Asia manufacturing sites in China and Vietnam. The resiliency we have demonstrated to deal with Section 301 Tariffs in 2019 and COVID-19 in 2020 is highly valued by our key customers.

WHAT WE'VE DONE THIS YEAR

Supply chain strategy

We have continued the transfer of products from China to Vietnam to provide robust business continuity to support our key customers regarding Section 301 Tariffs and to keep them supplied with product when China was closed down in the early stages of the COVID-19 pandemic. We have also closed our manufacturing facility in Minden, Nevada, transferring the manufacture of our high voltage DC-DC converters to Vietnam, saving £4 million per annum with effect from Q4 2020 (£2 million of which will be reinvested back into the business for further product transfers).

Agility and resiliency

We have demonstrated supply chain agility and resiliency to keep our key customers in the Healthcare and Semiconductor Manufacturing Equipment sectors supplied with product throughout the challenges of the COVID-19 pandemic.

AMBITIONS FOR 2021

Further product transfers

We will transfer the manufacture of more products from North America to Vietnam to further reduce our product costs and increase efficiency. We will also continue our journey of developing a lean manufacturing philosophy to remove waste and cost from our processes.

Lead time reduction

We will review our planning, forecasting, logistical and inventory planning processes to reduce lead times to provide our customers with improved logistical support to enable them to respond more dynamically to changes in demand in their end markets.

LINK TO STRATEGY

We are building a global supply chain that balances high efficiency with market leading responsiveness.

LINK TO VALUES AND CULTURE

Our agile supply chain is supported by our cores value of speed, flexibility and customer focus, to provide the ultimate experience for our key customers.

OUR STRATEGY IN ACTION

SOLVING OUR CUSTOMERS' POWER CHALLENGES

THE CHALLENGE

Our customer required 5–20kW of power, depending on their system configuration, to drive an array of ultraviolet LED lights used in a curing process. The customer required a number of voltages between 100–400V but also needed to supply power to their system at constant current.

HOW WE RESPONDED

We were able to build the customer a complete power solution using our 5kW programmable building block. This power conversion platform is fully programmable using a Digital Signal Processor (DSP) through our proprietary Graphical User Interface (GUI). The platform is also digitally controlled allowing numerous parameters to be altered through its proprietary software.

Ordinarily, the customer would have designed and built an additional constant current control circuit into their system. However, with our product, the customer was able to control the power converter themselves through the digital interface, saving them development time and the cost of the additional control circuitry. In addition, on start-up the customer's application required a controlled ramp of current, which our product supported "out-of-the-box", using our user defined "current soft start", configured by the customer through the GUI. Finally, the customer's system required an enable control of the power system (rather than an inhibit), which could also be configured via the GUI.

We worked hand-in-hand with the customer to get the power solution working in their application. Once they had defined all the parameters through the GUI, we were able to preprogramme the power converters in our manufacturing facility once in production again saving the customer time and cost.

READ MORE
ON PAGES 23–36

LINK TO STRATEGY

This is an excellent example of how we are able to use our product and power conversion expertise to vertically penetrate this customer, and save them time and cost, and enable them to get to market in the shortest possible time. This is also a good example of how we have expanded our product portfolio with a power product that is able to work in numerous applications due to its digital programmability.

LINK TO VALUES AND CULTURE

This case study demonstrates many of our core values in action: Knowledge, Speed, Flexibility and Customer Focus delivering genuine value to our customer.

OUR RESPONSE TO COVID-19

HOW WE HAVE CONSIDERED OUR STAKEHOLDERS DURING COVID-19

Our team was dealing with the consequences of COVID-19 at an early stage of the pandemic. In January, it became clear that there would be severe disruption in China and our Kunshan manufacturing facility would not be able to open after Chinese New Year as planned. We immediately implemented our Business Continuity Plan, which had already considered the actions that we would need to take in the face of a pandemic. Our Executive team immediately set the clear structure of hierarchical priorities of:

1. Ensuring the safety and wellbeing of our people;
2. Keeping product flowing to customers; and
3. Preserving our cash.

We are pleased to report that we were able to keep our people safe, ensure our customers' businesses could operate by keeping product flowing and produce excellent financial results in this most challenging of situations. This was achieved without the need to furlough any employees or make use of any government loans or assistance other than what was automatically provided in Singapore and China to all companies regardless of need.

OUR PEOPLE

We swiftly adopted all the epidemic preventative and control measures recommended by the authorities in the regions we operate. Control measures were firstly implemented in China, but we immediately adopted the same measures in our Vietnamese facility. The situation developed rapidly such that all our employees around the world who could work from home did so. We kept the organisation connected by frequent all hands video calls informing our people of the latest situation and general developments within the business. These calls occurred multiple times per week and were extremely well received by our people. In addition, we conducted a number of employee surveys to identify and address any issues associated with new working practices due to the pandemic, such as working from home or a lack of connectedness to others. We also increased the awareness on mental health for all our staff. We were particularly mindful of the wellbeing of the people in our production and logistics facilities who could not perform their roles from home, who were keeping the business running and product flowing to our customers.

CUSTOMERS

It quickly became evident that there was a huge demand for critical healthcare devices across the world to treat COVID-19 patients. We received large orders from many of our key healthcare customers who supply various ventilators, patient monitors, drug delivery systems, suction pumps, hospital beds, and specialist ultrasound and portable X-ray devices required to equip critical care units. These customers had an immediate need that put huge strain on our supply chain teams to add capacity and source components quickly at a time when China was still effectively shut down. Our organisation responded magnificently, pulling in components and adding capacity rapidly as well as transferring production to Vietnam while China could not operate. We estimate that we received additional orders of £15–20 million related to COVID-19. We are proud that our products are designed into so many critical care devices and we were able to respond effectively. Our semiconductor manufacturing equipment customers also saw strong demand throughout 2020 and we are pleased to report that we were also able to keep products flowing to these key customers during this challenging time.

PRESERVING CASH

Although we benefited from demand from critical healthcare and semiconductor manufacturing equipment customers, industrial technology and non-critical healthcare demand dropped significantly and many companies struggled as their demand reduced or they could not produce due to supply chain disruptions. We took the prudent but difficult action of cancelling our final dividend for 2019 and our Q1 2020 dividend given the highly uncertain outlook. We quickly reviewed our cash flows and took all actions we could to slow outflows, while not impacting the medium-term health of the business, and focused on cash collections from customers. These actions allowed us to preserve cash and we were able to resume dividend payments to Shareholders from Q2 2020.

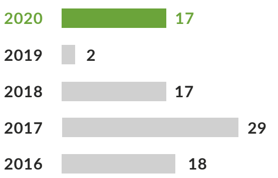
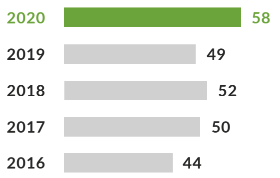
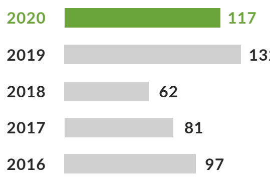
READ MORE ABOUT OUR RESPONSE TO COVID-19 IN OUR OPERATIONAL REVIEW ON PAGES 42–47

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 (%)	ADJUSTED OPERATING CASH CONVERSION (%)
			
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 adjusted operating cash conversion of 100%.
WHY DO WE MEASURE THIS?	Provides an indicator of the success of our strategy.	Used to assess how effectively we are targeting top customers.	Provides an indicator of value created for Shareholders to ensure our earnings are translated into cash.
TARGET ACHIEVED (AND COMMENTARY)	Yes	Yes	Yes
OUR PROGRESS IN 2020	• Cyclical recovery in semiconductor manufacturing equipment combined with new programme wins in the past three years and COVID-19 related healthcare demand offset declines in industrial technology and non-critical healthcare • Further expanded our specialist distribution channels in Europe and North America	• This metric improved in 2020 as the market for semiconductor manufacturing equipment recovered from its cyclical downturn • We continue to grow share of our large customers	• Improved our working capital management, specifically related to inventory and receivables • Improved cash flow forecasting to make better use of available cash, either through debt repayment or short-term deposits
OUR PLANS FOR 2021	• 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 reduce working capital by reducing lead times and improved inventory management
LINK TO STRATEGY	• Target accounts where we can add value	• Vertical penetration of focus accounts	• Build a global supply chain that 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 drives long-term earnings growth. Long-term earnings growth is a performance condition in the Company's Long-Term Incentive Plan (LTIP)	Operating cash conversion is a metric in our Group bonus plan

FOR MORE INFORMATION ON OUR STRATEGY SEE PAGES 32 AND 36

FOR MORE INFORMATION ON RISKS SEE PAGES 52–60

FOR MORE INFORMATION ON OUR CULTURAL JOURNEY SEE PAGE 95

FOR MORE INFORMATION ON SUSTAINABILITY SEE PAGES 62 AND 83

NON-FINANCIAL

ADJUSTED DILUTED EARNINGS PER SHARE ("EPS") GROWTH (%)	NEW PRODUCT FAMILIES RELEASED	EMPLOYEE ENGAGEMENT SCORE	LIFETIME CO_2 EMISSION SAVINGS FROM "GREEN" PRODUCTS (TONNES)
2020: 40 2019: 18 2018: 18 2017: 27 2016: 11	2020: 20 2019: 32 2018: 27 2017: 27 2016: 47	2020: 3.97	2020: 117,000 2019: 108,000 2018: 108,000 2017: 134,000 2016: 72,000
We aim 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.	We have set a target to increase the lifetime CO_2 emissions savings from "XP Green 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.	To develop our leaders and to assess the Group's performance against its People objectives.	Used to assess the Group's performance against its environmental objectives.
Yes	No	Yes	Yes
• Earnings positively impacted by the recovery in the semiconductor manufacturing equipment sector and demand for critical healthcare equipment. This more than offset weakness in industrial technology and non-critical healthcare	• We released 20 new product families in 2020 (2019: 32) • 17 (2019: 25) of these new product families can be classified as "XP Green 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 2021, we changed providers to Gallup, which will have benefits in providing tools for leadership development	• Of the 20 new product families launched in 2020, 17 were "Green" • Our revenues from "XP Green Power" products increased by 23% to £52.7 million in 2020
• Revenue and earnings outcome for 2021 is dependent on continued demand in the semiconductor manufacturing equipment sector and recovery in industrial technology to offset the non-repeat of orders associated with COVID-19	• We are focusing our design engineering on producing product platforms that can more easily be shared and reused over numerous applications and sectors • We expect to release two exciting significant product platforms in 2021	• Use the results of the new Gallup survey to develop leaders	• We will continue to release products with class-leading efficiency • We will continue to promote environmental awareness and adopt environmentally friendly practices
• Target customers where we can add value • Vertical penetration of focus accounts	• Develop a broad range of competitive products	• Supports all aspects of our strategy	• Leading our industry regarding sustainability matters
6 7 8 9 10 11	1 2 3 4 5	6 7 8 9 10	6 7 8 9 10 11
• Growth in adjusted EPS is a performance condition in our Long-Term Incentive Plan			

PERFORMANCE: OPERATIONAL REVIEW

Gavin Griggs
Chief Executive Officer

REVIEW OF OUR YEAR

We are proud of both our financial performance, and our contribution to the fight against COVID-19 in 2020. The Group produced an excellent set of results while ensuring the safety and wellbeing of our people, and we continued to make good strategic progress despite the challenges of navigating through the COVID-19 pandemic. This is all down to the hard work and commitment of the XP team globally.

The Semiconductor Manufacturing Equipment sector, which had started to recover in terms of order intake in Q4 of 2019, performed strongly throughout 2020. The strong performance was underpinned by a combination of increased end market demand and our market share gains from design wins on new tools, driven by advancements in technology in the logic and memory segments. The ongoing design wins are being supported by the development of closer relationships with our customers. In addition, we benefited from unprecedented demand from our Healthcare customers as they boosted production to provide critical care equipment in response to COVID-19. Our exposure to these two sectors more than made up for COVID-19-related weakness in our Industrial Technology sector.

The recent expansion of our Vietnamese production facility was fundamental in mitigating the effects of Section 301 Tariffs in 2019 and it has once again proven its value in 2020. Our Vietnam facility allowed us to keep product flowing to our customers while our Chinese facility was not able to operate due to Chinese government imposed COVID-19 restrictions. Our diversified manufacturing footprint and supply chain resilience is recognised as an important strategic differentiator by our key customers, many of whom are concerned about USA/China trade relations and general supply chain resiliency.

The new Enterprise Resource Planning (ERP) system, deployed in certain sites in Q4 of 2019, is running well and we are making significant progress with production and operations efficiency. The deployment is in line with our vision of being the first-choice power solutions provider, delivering the ultimate experience to our customers and making XP Power a great place to work for our people.

COVID-19 – THE RESILIENCE OF OUR BUSINESS MODEL

We first experienced the impact of COVID-19 in January 2020, as Chinese authorities extended the Chinese Lunar New Year holiday and imposed travel and operational restrictions to control the virus. These measures caused a two-week delay to the recommencement of production at our Kunshan facility, which reopened on 17 February 2020. We immediately implemented all the recommended prevention and control procedures in our Kunshan facility and deployed these same procedures in Vietnam to protect our people and keep the business operating safely.

The difficulties our people experienced in travelling back to work and the quarantine requirements also meant that we were operating at a reduced level of capacity into April 2020. During this period, demand from our customers supplying critical healthcare equipment to treat patients with the virus soared and we received an estimated £15–20 million of additional COVID-19-specific orders. Our customers in the Semiconductor Manufacturing Equipment sector were also experiencing strong demand. The combination of these factors created an urgent need for our products at a time when our capacity in China was severely restricted. Positively, Vietnam was not affected by such severe restrictions, so we were able to produce greater quantities from Vietnam during this difficult period, while accelerating the transfer of more products and materials from China to Vietnam to maintain supply to our customers.

During Q2 of 2020, the China supply chain was operating normally with reliable supply of components and other materials re-established. We expanded headcount in both production facilities and invested in additional capital equipment in Vietnam to increase production for Q3 of 2020 and beyond.

Our production facilities in North America and logistics facilities around the world have been able to operate normally with prevention controls in place in line with all public health advice.

We have continued to invest in the business through this difficult period and have achieved an excellent set of results without benefiting from any furlough scheme, reducing our workforce, or taking advantage of discretionary government COVID-19 financing or other optional financial concessions.

BALANCE SHEET AND LIQUIDITY

In response to COVID-19, we prioritised the preservation of cash and the availability of sufficient liquidity to manage potential short-term downside risks. As a result, we took the difficult decision to cancel the 2019 final dividend, which would have represented a cash outflow of £6.9 million in April 2020, and the first quarter dividend for 2020. As the Group's position became clearer, we resumed payment of dividends from the second quarter of 2020 but continued to manage our cash tightly through 2020, whilst still investing in working capital and our manufacturing facilities to meet the increased demand from customers.

We continue to have a strong balance sheet with circa. £91 million of available liquidity and net debt to EBITDA of 0.32 times at 31 December 2020.

MARKETPLACE

The Group delivered revenue growth of 17% to £233.3 million (2019: £199.9 million).

Order intake was up 20% on a reported basis to £258.0 million (2019: £214.9 million), which included £15–20 million of COVID-19 related orders. Orders and revenue for 2020 represent a full year, book-to-bill ratio of 1.11 (2019: 1.08). The Group had an order book of £124.1 million at 31 December 2020 (31 December 2019: £98.2 million), providing good visibility for 2021.

MARKETPLACE: SECTOR DYNAMICS

For the first time this year, we have consolidated the reporting of our Industrial and Technology sectors due to the overlap between the customer base.

Revenue from the Industrial Technology sector declined by 19% to £94.4 million (2019: £116.6 million) and represented 40% (2019: 58%) of overall revenue. Industrial Technology remains our largest sector, but it is very diversified with few of these customers making it into our top 30 customer list by revenue. Applications in this sector vary significantly and are principally driven by new and emerging electronic technologies and high-growth niches rather than traditional areas such as industrial machinery, automotive or mining. Typical drivers for our revenue in this sector include 3D printing, analytical instruments, displays, industrial printing, renewable energy, robotics, smart grid, defence and test and measurement equipment. Industrial Technology has traditionally been a resilient, long term growth market. Anecdotal feedback and the financial results of customers in this sector suggests many suffered a drop in end demand due to COVID-19, particularly in Q2, and were short of other parts as conditions recovered, which meant their demand for power converters from XP Power also reduced. We would expect to see a recovery in this sector as conditions gradually return to normal. Our Distribution business, which represents 10% (2019: 11%) of our overall revenue and is exposed to a very diverse range of end markets, is also included within our Industrial Technology sector. Distribution has been a good growth market where we have been growing market share with existing and adding new distributors to expand geographic reach and increase our market penetration.

+20%
Order Intake

+40%
Adjusted Earnings per Share

Revenue from Healthcare customers grew by 51% to £69.3 million (2019: £45.9 million) representing 30% of overall revenue (2019: 23%). The demand for Continuous Positive Airway Pressure (CPAP) machines, drug delivery systems, hospital beds, lung X-ray applications, patient monitors, specialist ultrasound, suction pumps, and various types of ventilators, increased significantly. By contrast, other applications such as dentistry, endoscopy, medical imaging, and robotic surgical tools showed declines compared to the prior year, as the sector focused on critical care applications for the treatment of patients with the virus.

Healthcare remains an attractive market for XP Power given long term growth demand dynamics, the safety critical nature of products, the breadth of our medical product range and high level of customer service focused on blue chip medical device manufacturers. 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 and understand the many special requirements and regulatory approvals that a medical power solution must meet. In normal circumstances. Healthcare tends to be much less cyclical than the other sectors we address, which adds resilience to our diversified business model.

The Semiconductor Manufacturing Equipment sector remains an exciting and important area for XP Power with excellent long-term growth prospects. Revenue from these customers increased by 86% to £69.6 million (2019: £37.4 million). We believe we not only benefited from a cyclical recovery but also from market share gains as a number of new programme wins, driven by technology advances, entered production. These included, in particular, reduced geometries in leading edge logic devices and increasing stacking in the 3D NAND market as producers moved from 64, to 96 and to 128 layers of memory and beyond, in a single device. The critical components in the smartphones, tablets, computers, and other electronic devices that drive our lives are made using extremely high technology semiconductor manufacturing tools and processes requiring numerous power conversion devices that XP Power can provide. Revenue from the Semiconductor Manufacturing Equipment sector customers represented 30% of overall revenue (2019: 19%). Our expansion into Radio Frequency ("RF") and 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 in this sector, significantly expanding our addressable market, which is reflected in our robust revenue growth.

Despite the sector's historical cyclicality, this market remains highly attractive due to its robust long term, structural growth drivers, which are being driven by the proliferation of applications including the Internet of Things (IoT), artificial intelligence (AI), autonomous vehicles, big data, and the roll out of 5G technology, which is still in its early stages. The latest generation of semiconductor logic and memory devices are becoming more capital intensive to manufacture as they become multi-layered, and as dimensions continue to shrink. This plays to XP Power's strengths as one of the few companies in the world that can offer the whole spectrum of power and voltage required for semiconductor manufacture, and an ability to combine these into a complete power solution, making us a compelling partner to the manufacturers of these state-of-the-art tools.

MARKETPLACE: NORTH AMERICA

Our North America revenue was US$188.1 million in 2020 (2019: US$147.5 million), an increase of 28%. North America represented 63% of overall revenue (2019: 58%).

Order intake in North America was US$209.8 million (2019: US$161.7 million), an increase of 30%, resulting in a healthy book-to-bill ratio of 1.12.

MARKETPLACE: ASIA

Asia revenue was US$26.8 million in 2020 (2019: US$25.6 million), an increase of 5%, with strong growth in Healthcare and Semiconductor Manufacturing Equipment, offset by weakness in Industrial Technology. Our Asia business is benefiting from new design wins with the RF and high voltage/high power products added to the product portfolio through the Comdel and Glassman acquisitions. We expect these designs to contribute to revenue in 2021 and beyond. Prior to acquisition, these companies had minimal sales representation in Asia, which presents a significant future opportunity for the Group. Asia represented 9% of overall revenue (2019: 10%).

Order intake in Asia was US$25.7 million (2019: US$28.2 million), a decrease of 9%, resulting in a book-to-bill ratio of 0.96.

MARKETPLACE: EUROPE

Our European revenue grew by 1% to £65.0 million (2019: £64.4 million). While Europe benefited from significantly higher demand for critical healthcare products, it was also most impacted by the decline in the Industrial Technology sector due to COVID-19. Europe represented 28% of overall revenues (2019: 32%).

Order intake in Europe was £72.6 million (2019: £65.0 million), an increase of 12%, resulting in a strong book-to-bill ratio of 1.12.

OUR STRATEGY AND VALUE PROPOSITION

Our vision is to be the first-choice power solutions provider, delivering the ultimate experience for our customers and making XP Power a great place to work. Over time, we have gradually moved our product portfolio up the power and voltage scale to enhance our margins and provide our customers with a broader offering to solve their power problems. We have also increased our engineering resource to provide enhanced engineering services capabilities, so we are able to deliver a complete power solution to our key customers. We are now one of very few providers who can offer customers a complete spectrum of power and voltage capabilities and package several power converters into an overall solution customised to the customer's application. This makes us an extremely attractive partner to our key customers and is a key driver in our market share gains.

We have followed a consistent strategy that has enabled us to produce strong results over a sustained period. The fundamental essence of this strategy is targeting key accounts where we can add value and gain more of the customer's available business, 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 2020.

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 penetration of those 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.

The challenges of managing the effects of COVID-19 have not diverted us from our strategic path and we continue to invest for the medium and long term. We continued to execute well against our strategy in the period, gaining further design wins with our newer product introductions, particularly in higher power applications, and our increased focus on engineering solutions, which provide more value to our customers. Acquisitions have been a key part of our growth strategy expanding our product portfolio and expanding the addressable market that we can sell into. The successful implementation of our strategy continues to drive market share gains and the strength of our new programme wins is encouraging despite the challenges of COVID-19. We continue to focus our own engineering resources on high-power applications and address the lower power applications through third-party products. It was for this reason that we took the decision in January 2020 to close our UK design centre in Fyfield, Essex, which was focused on low-power, low voltage products. Costs relating to the closure were £1.7 million, which have been treated as restructuring costs within specific items. These costs include the write down of capitalised product development work of £1.2 million in progress at the time of the site closure.

Our value proposition to customers is to solve their power problems, reduce their overall cost of design, manufacture and operation, and help them get their product to market as quickly as possible. We achieve this by providing excellent sales engineering support and producing new highly reliable products that are easy to design into the customer's system, consume less power, take up less space and reduce installation times.

Looking forward, whilst our strategy is clearly working and adding Shareholder value, it will continue to evolve building further organisational and supply chain agility to better serve our customers and further enhance execution. We will also increase our focus on people and development to ensure we are able to continue to grow our business.

MANUFACTURING

We completed the construction of an extension to the factory on our existing site in Vietnam in Q1 of 2019, adding, at a conservative estimate, more than US$150 million of manufacturing capacity per year and increasing our total Asian manufacturing capacity to more than US$350 million per year. The move into Vietnam, and the subsequent capacity expansion, have proved particularly timely given the continued deterioration in trade relations between China and the USA. The US Government implemented Section 301 tariffs at a rate of 10% from September 2018 and increased these to 25% in May 2019. Many of our competitors have Chinese-based manufacturing facilities, which puts them at a significant commercial disadvantage if they are selling into the USA. The ability to manufacture in Vietnam has become a compelling value proposition to our customers wherever they are located.

The outbreak of COVID-19 further underlined the benefits of our diversified manufacturing footprint as we were able to divert production from China to Vietnam when COVID-19 severely disrupted supply from our Chinese factory and supply chain in February and March 2020. Several of our customers have subsequently accelerated their qualification processes to transfer production from our China facility to our Vietnam facility to address the impact of Section 301 tariffs and COVID-19. This is a compelling option for our customers as they have become increasingly focused on the security and certainty of supply following COVID-19.

During 2020, we invested in additional equipment in Vietnam to expand capacity with a new surface mount line, and additional test and burn-in facilities, to meet demand from both increased business due to COVID-19 and the transfer of more products into Vietnam from China and our North American manufacturing facilities, as we seek to reduce costs.

Vietnam is now qualified to produce a total of 2,616 different low-voltage products (2019: 2,080), demonstrating our progress with the transfer of production capabilities. In addition, the transfer of low-power, high-voltage DC-DC modules, previously manufactured in Minden, Nevada, was completed in 2020 and there are now 476 different high-voltage modules capable of being manufactured in Vietnam.

We expect this important strategic capability of having production facilities in both Vietnam and China to enable us to win more design slots with key customers. A number of customers have already informed us that they will no longer design-in products manufactured in China due to concerns over China/USA trade tensions.

Our end objective is to provide a resilient and flexible supply chain with the capability to manufacture the majority of products in both China and Vietnam to provide enhanced business continuity planning. We also have three manufacturing facilities in North America. We have a customer focused Engineering services facility in California, a site in New Jersey focused on high voltage products and an RF focused facility in Massachusetts. These facilities have continued to operate throughout 2020 except for short periods where decontamination occurred following COVID-19 cases. The demand for RF products has led to some supply shortages and we are increasing capacity to meet the demand levels.

We monitor market dynamics closely working through our supply partners and maintain a level of safety stocks of key components. Towards the end of the period, we began to see supply issues for certain components and increased safety stocks to manage through any future supply issues.

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

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 from our Nevada factory to Vietnam. We completed this transfer in 2020, closing the Minden manufacturing facility in September. We expect that this will result in annualised cost savings of approximately £3 million. Approximately £1 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 incurred £0.6 million in costs associated with the closure of the Minden site, which are included in specific items.

RESEARCH AND DEVELOPMENT

New products are fundamental to our revenue growth. The broader our product offering, the higher the probability that we will have a product that will work in the customer's application with or without a modification by our engineering team. By expanding into RF Power, and high voltage in 2017 and 2018, we estimate that our addressable market has increased from around US$2.7 billion to approximately US$4.7 billion.

The design-in cycles required by our customers to qualify the power converter into their equipment and to gain the necessary safety agency approvals are lengthy. Typically, we see a period of around 18 months, or even longer in Healthcare, from first identifying a customer opportunity to receiving the first production order. Revenue will then start to build from this point, often peaking a number of years later. The positive aspect of this characteristic is that our business has a strong annuity base where programmes typically last five to seven years. Another aspect of this model is that the many new products we have introduced over the last three years have yet to make a meaningful impact on our revenue, creating a significant benefit for future years.

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 20 new product families in 2020 (2019: 32), and 17 of these can be classified as "Green XP Power" products having ultra-high efficiency and/or low standby power (2019: 27). We had a particularly high number of new products introductions in 2019 from our third-party design partners, particularly DC-DC converters.

We continue to move our product portfolio up the power and voltage scale and away from our more traditional low-power/low-voltage offering, to protect our margins and expand our addressable market. RF Power is a significant long-term opportunity and is a market that contains many interesting and significant niches beyond the Semiconductor Manufacturing Equipment sector including medical equipment, induction and dielectric heating, and industrial lasers. We have, therefore, directed more of our internal product development resources away from low-power/low-voltage applications 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.

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 that 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.

We are one of the few power 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 that makes us an ideal partner for many customers and greatly expands our addressable market.

SUSTAINABILITY

We are acutely aware of the increasing concerns our people, customers, suppliers, governments, and Shareholders have around climate change and sustainability issues in general. 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 their lifetime in use. We established a Sustainability Committee as early as 2009 and set ourselves the bold goal of becoming the leader in our industry regarding sustainability matters. We have consistently included sustainability factors into our decision making and have adopted environmentally responsible practices in our facilities. In particular, we believe that our Vietnamese production facility is the most environmentally friendly in our industry with its efficient building envelope, building management system, water recycling and solar panel array.

We determined many years ago that one of the biggest impacts we could have on the environment was designing and promoting "XP Green Power" products, which consume and, therefore, waste less energy over their operational lifetimes. This results in significant and ongoing reductions in CO_2 emissions generated by our customers' equipment. "XP Green Power" products generated revenues of £52.7 million in 2020 (2019: £43.2 million), representing 23% (2019: 22%) of total revenue.

In 2020, we engaged with our employees and key customers, and suppliers, to better understand their material areas of focus and concern regarding sustainability matters. We have also better understood the priorities of our Shareholders. The results of this engagement allowed us to build the topics that are most important to our stakeholders into our sustainability strategy. We were encouraged to discover that the most material interests of our stakeholders align very closely with those of executive management. These topics include product responsibility, attracting and retaining talent, health and safety (incorporating occupational), employee welfare, reducing emissions, diversity and inclusion.

We regard the continuing emphasis and concern over climate change as a positive for our business as our customers have embraced our high-efficiency "XP Green Power" products. These products are not only significantly more environmentally friendly due to their ongoing reduced carbon emissions, but are inherently more reliable, making them a compelling economic proposition. XP Power is committed to continuing to lead the industry in this area. We also believe that legislation on 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 be extended to industrial and healthcare applications where we will be well positioned to address this customer need. Concerns over climate change should lead to an increasing emphasis by our customers on efficiency and more revenue opportunities to power renewable energy systems and controllers.

We have set Company targets to reduce CO_2 emissions intensity by a minimum of 3% per annum over the short and medium term and an aspiration to achieve carbon neutrality by 2040. During 2021 we will develop further strategies to bring this date forward.

The Strategic Report on pages 18–83 has been reviewed and approved by the Board.

Gavin Griggs
Chief Executive Officer

2 March 2021

PERFORMANCE: FINANCIAL REVIEW

Johan Olivier
Acting Chief Financial Officer

The Group delivered excellent financial results in 2020 against the backdrop of the unprecedented challenges of COVID-19, reflecting the resilience of the Group and our people.

STATUTORY RESULTS

Revenue was £233.3 million (2019: £199.9 million), representing growth of 17%. Statutory operating profit was £37.4 million (2019: £26.7 million), an increase of 40% over the prior year, with operating margins at 16.0% (2019: 13.4%). Net finance costs were £1.7 million (2019: £2.7 million), resulting in profit before tax of £35.7 million (2019: £24.0 million) and an income tax expense of £4.0 million (2019: £3.2 million), equivalent to an effective tax rate of 11% (2019: 13%). Basic earnings per share were 163.0 pence (2019: 107.0 pence), an increase of 52%.

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 on adjusted results rather than statutory results. There are a number of items that are included in statutory results, but are considered to be one-off in nature or not representative of the Group's performance, and are excluded from adjusted results. The tables in Note 2 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 2020 and 2019.

REVENUE PERFORMANCE

The Group's revenue performance was driven by growth in the Semiconductor Manufacturing Equipment sector, which increased 86% to £69.6 million (2019: £37.4 million). The Healthcare sector grew 51% to £69.3 million (2019: £45.9 million), which includes the COVID-19 related shipments. This was partially offset by a decline in the Industrial Technology sector down 19% to £94.4 million (2019: £116.6 million).

Our North American region benefited from growth in the Semiconductor Manufacturing Equipment sector, increasing by 28% to US$188.1 million from US$147.5 million in 2019. Europe delivered growth of 1% to £65.0 million (2019: £64.4 million), as growth from Healthcare customers was offset by a decrease in the Industrial Technology sector. Asia revenue grew by 5% to US$26.8 million (2019: US$25.6 million), driven by good growth in the Healthcare sector.

OTHER INCOME

Included in other income are £0.6 million received related to the COVID-19 pandemic, primarily from the Singaporean government as part of the Jobs Support Scheme (JSS). The JSS was extended to all active employers in Singapore.

"Excellent financial results despite a challenging environment, reflecting the resilience of the Group and our people"

GROSS PROFITABILITY

Gross margin increased to 47.2% (2019: 45.1%), benefiting from production efficiency gains at our manufacturing facilities due to the increased demand and the transition of production from Minden to Vietnam. This more than offset the incremental COVID-19 related costs of £0.9 million incurred by the Group during the year, predominantly related to additional safety measures at our manufacturing facilities.

ADJUSTED OPERATING EXPENSES AND MARGINS

The Group continued to invest in the business, which resulted in adjusted operating expenses increasing by 16% to £64.2 million. In addition to investment in people we have also invested in our IT infrastructure, specifically related to the ERP implementation. Due to COVID-19, travel was severely restricted from early March leading to a decline in travel costs of £2.0 million compared to 2019. Adjusted operating margin increased to 19.7% (2019: 17.5%) due to volume leverage on higher revenue

FINANCE COST

Net finance cost decreased by 37% to £1.7 million (2019: £2.7 million). The lower interest expense was a result of lower interest rates and borrowing levels.

ADJUSTED PROFIT BEFORE TAX

The Group generated adjusted profit before tax and specific items of £44.3 million, an increase of 37% compared to last year.

SPECIFIC ITEMS

In 2020, the Group incurred £8.6 million (2019: £8.3 million) of specific items, predominantly related to £3.2 million for amortisation of intangible assets due to business combination (2019: £3.2 million), costs associated with acquisitions of £0.3 million (2019: £0.9 million) and ERP implementation costs of £1.9 million (2019: £2.2 million). In addition, the Group incurred legal costs of £0.4 million (2019: £1.9 million) related to a non-customer related legal dispute in North America, restructuring costs of £2.3 million (2019: £1.0 million) related to the closure of a UK design centre and the production facility in Minden, Nevada, and fair value loss on currency hedges of £0.5 million (2019: gain of £0.9 million).

The ERP implementation will continue through 2021 and costs related to the project and amortisation of intangible assets due to business combinations will continue to be classified to specific items.

LEGAL

On 11 September 2020, Comet Technologies USA Inc., Comet AG, and YXLON International (collectively "Comet") filed a lawsuit against XP Power LLC in the U.S. District Court for the Northern District of California, alleging trade secret misappropriation relating to RF match and generator technology (Comet Technologies USA Inc., Comet AG, and YXLON International v. XP Power LLC, Case No. 5:20-cv-6408 (N.D. Cal.)).

The Group believes there is no merit to this lawsuit and intends to vigorously defend against any claims brought against us by Comet.

The Group expects to incur further legal costs until this matter is resolved, the magnitude of which cannot currently be estimated with any certainty. The Group incurred legal costs of £0.4 million in 2020 (2019: £1.9 million) related to this matter which are treated as specific items and excluded from management's assessment of profit as they are non-repetitive and therefore could distort the Group's underlying earnings.

TAXATION

The effective tax rate on adjusted profit before tax decreased by 210 bps to 11.5% (2019: 13.6%). The lower effective tax rate was due to deductions for employee share option awards, the utilisation of tax losses and research and development tax credits.

The effective tax rate on statutory profit before tax decreased by 210 bps to 11.2% (2019: 13.3%).

Going forward, XP Power expects the effective tax rate to be approximately 16–18% depending predominantly on the regional mix of profits.

"Adjusted profit before tax grew by 37%, benefitting from good revenue growth, strong gross margins and lower finance costs"

RESEARCH AND DEVELOPMENT (R&D)

Gross R&D expenditure was £15.9 million, an increase of 22% on 2019 or 7% of revenue. R&D investment is a key part of the Group's strategy and is expected to continue to grow as the Group expands its engineering capabilities. The Group is particularly focused on our RF and high-power, high-voltage product development activities.

The Group capitalised £7.7 million of R&D costs (2019: £8.0 million), which reflects the continued development of new products as the Group expands its product portfolio.

CAPITAL EXPENDITURE

The Group continued to invest in its infrastructure, with particular focus on the upgrade of our ERP system and capital investment at our manufacturing facilities to expand capacity and improve operational performance. £7.2 million (2019: £8.3 million) was incurred on capital expenditure during 2020.

We plan to invest c.£11 million during the new financial year, with the main investments related maintenance and expansion of our manufacturing facilities and the upgrade of our ERP system.

ADJUSTED EARNINGS PER SHARE

Basic and diluted adjusted earnings per share increased by 40% to 201.8 pence and 198.4 pence respectively (2019: 144.1 pence and 141.4 pence).

CASH FLOW

The Group continues to be highly cash generative with net cash from operations of £45.6 million (2019: £46.2 million) representing cash conversion of 122% (2019: 173%). The slightly lower level of operating cash flows was largely a result of investing in working capital to meet

the increased demand from customers, specifically related to a £12.3 million increase in inventory. This was partially offset by good cash collections which saw trade and other receivables decrease by £2.7 million despite the 17% revenue increase.

Free cash flow before acquisitions, dividends and repayment of borrowings was £31.3 million (2019: £26.2 million).

The Group finished 2020 with net debt of £17.9 million (2019: £41.3 million), comprising cash and cash equivalents of £13.9 million and gross debt of £31.8 million. The decrease in net debt during 2020 was a result of the strong free cash generation, offset by £7.3 million paid in dividends during the year.

DEBT FACILITY

The Group's debt is sourced from a Revolving Credit Facility ("RCF") provided by HSBC UK Bank PLC, J.P. Morgan Securities PLC, and DBS Bank Ltd. The Group has exercised an option in the RCF agreement in October 2020 to extend the facility expiry date by a year to November 2024. The Group also converted US$30 million of accordion option to committed facilities, increasing the committed facility to US$150 million (£110 million at year-end exchange rate), with a further US$30 million accordion option.

The Group is subject to two financial covenants, which are tested quarterly. These covenants relate to the leverage ratio between adjusted EBITDA and net debt and the interest cover ratio between adjusted EBITDA and finance costs.

Interest cover was 46 times (2019: 17 times), which is well in excess of the four times minimum required in our banking covenant. Leverage ratio at the year-end was comfortable at 0.32 times (2019: 0.91). The covenant level for net debt to EBITDA is a maximum of three times.

CAPITAL ALLOCATION

The Group will continue its disciplined approach to capital allocation, prioritising the maintenance of a strong balance sheet, and sufficient committed facilities, while continuing to focus on investing in the business to drive organic growth. The Group continues to seek out and review acquisition opportunities that are in line with the Group's strategy and that meet management's strict acquisition criteria to deliver value creation to Shareholders.

Due to the uncertainties caused by COVID-19, the Board took the difficult decision to cancel the final dividend for 2019 and the first quarter dividend for 2020. Dividend payments were resumed from the second quarter of 2020.

The strong finish to the year's cash flow performance and continued good liquidity has enabled the Board to recommend a final dividend of 36 pence per share for Q4 of 2020. This dividend will be payable to members on the register on 26 March 2021 and will be paid on 28 April 2021. When combined with the interim dividends for the previous three quarters, the total dividend for the year will be 74 pence per share (2019: 55 pence).

The Group plans to operate in a range of between 1–2 times net debt to Adjusted EBITDA in the medium term. Given the impact of COVID-19 on the global economic environment, the Board is comfortable with the current leverage of 0.32 in the short term.

FOREIGN EXCHANGE

The Group reports its results in Sterling, but the US Dollar continues to be our principal trading currency, with approximately 85% (2019: 83%) of our revenues denominated in US Dollars. The average Sterling to US Dollar exchange rate remained in line with 2019 at 1.28, meaning that constant currency results are in line with reported results.

Johan Olivier
Acting Chief Financial Officer

117%
Adjusted operating cash conversion

-56%
Change in net debt

MANAGING OUR RISKS

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

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

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 minor to severe;
- The likelihood of a risk occurring – ranging from low to high; 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.

BOTTOM UP

Identifying, assessing and mitigating risk across functional and geographic areas.

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 to eliminate early failures, in circuit electrical testing, 100% functional testing, hipot testing of isolations barriers and quality inspection.
- Business continuity plans and disaster recovery plans and are in place for all key facilities, documented and communicated to key personnel to help cope with unexpected material events.

COVID-19

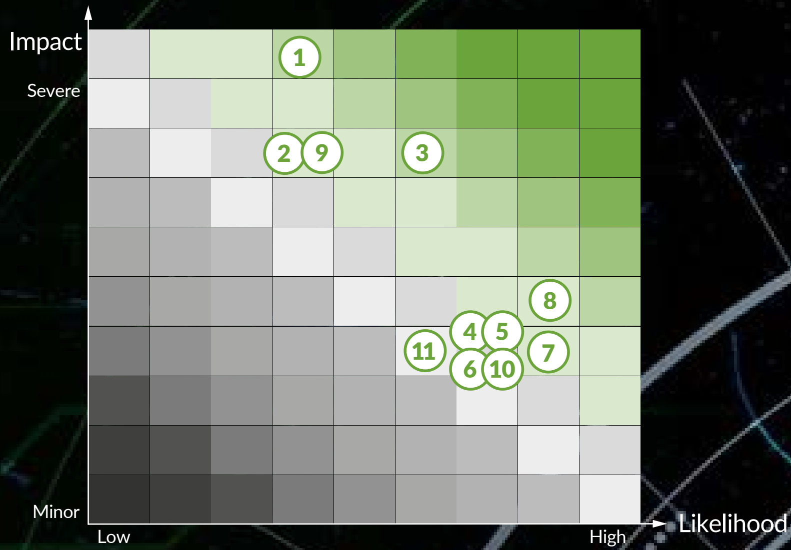
Our business continuity plans across the world had identified a pandemic as a potential material event and appropriate disaster recovery plans were already in place before COVID-19 started to affect our Chinese facility in January 2020. The disaster recovery plan was immediately implemented with great success, including review of learnings to enhance our response to the next pandemic or other potential disruptive event.

EMERGING RISKS

Although there is understandably much attention on COVID-19, the risk associated with a pandemic was already identified and incorporated into our risk management processes.

Recent history shows that novel communicable diseases are increasing in frequency and another pandemic is highly likely. However, the pandemic has caused businesses to re-evaluate their supply chains for resilience and redundancy, and we are doing the same. We are fortunate that we have multi-site manufacturing in Asia and the majority of our products can now be produced in either our Chinese or Vietnamese facility. We have been working to develop our supply chain to reduce dependency on single sources or single regions, in particular, China. In 2019, we split out risks associated with the supply chain that were previously combined in dependence on key customers/suppliers.

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. Fluctuations of revenues, expenses and operating results due to an economic shock.
3. Supply chain.
4. Cybersecurity/information systems failure.
5. Dependence on key customers,
6. Product recall.
7. Competition from new market entrants and new technologies.
8. Risks relating to regulation, compliance and taxation.
9. Strategic risk associated with valuing or integrating new acquisitions.
10. Exposure to exchange rate fluctuations.
11. Loss of key personnel or failure to attract new personnel.

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	PRIORITIES FOR 2021	ASSESSED TREND
1 AN EVENT CAUSES A DISRUPTION TO OUR MANUFACTURING FACILITIES LINK TO STRATEGY	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 the majority of our power converters. • 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 that could cause a serious disruption to manufacturing, and then identified and implemented actions to reduce or mitigate these risks where possible.	• Further transfer of products from China to Vietnam and from North America to Vietnam and China to increase redundancy. • Increase local sourcing in Vietnam.	No change to risk
2 FLUCTUATIONS OF REVENUES, EXPENSES AND OPERATING RESULTS DUE TO AN ECONOMIC SHOCKS LINK TO STRATEGY	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.	• We will plan 2021 prudently in light of significant economic uncertainty following the COVID-19 pandemic. • We will transfer the manufacture of products from California to Vietnam in order to reduce costs. • We will explore outsourcing of appropriate products and subassemblies to reduce our fixed costs.	Increase in risk

KEY
- DEVELOP A MARKET LEADING RANGE OF COMPETITIVE PRODUCTS
- TARGET ACCOUNTS WHERE WE CAN ADD VALUE
- VERTICAL PENETRATION OF FOCUS ACCOUNTS
- BUILD A GLOBAL SUPPLY CHAIN
- LEAD OUR INDUSTRY ON ENVIRONMENTAL MATTERS
- MAKE SELECTIVE ACQUISITIONS

KEY
No change to risk · Increase in risk · Decrease in risk

RISK	EXPLANATION OF RISK	POTENTIAL IMPACT	MITIGATION	PRIORITIES FOR 2021	ASSESSED TREND
3 RISK ASSOCIATED WITH SUPPLY CHAIN LINK TO STRATEGY	The Group is dependent on retaining its key suppliers and ensuring that deliveries are on time and the materials supplied are of appropriate quality.	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 particularly where components have a single source of supply.	• 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.	• We will design new products with multiple sources of components where possible. • We will continue to diversify and localise our supply chains. • We will develop outsourced resource for various subassemblies and finished goods as appropriate.	
4 CYBER SECURITY/ INFORMATION SYSTEMS FAILURE LINK TO STRATEGY	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.	We will continue to enhance our cyber security tools and processes and continue to promote heightened awareness to cyber security risks amongst our people.	

READ MORE ABOUT OUR STRATEGY
ON PAGES 32 TO 38

MANAGING OUR RISKS
CONTINUED

RISK	EXPLANATION OF RISK	POTENTIAL IMPACT	MITIGATION	PRIORITIES FOR 2021	ASSESSED TREND
5 DEPENDENCE ON KEY CUSTOMERS LINK TO STRATEGY	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 2020, no single customer accounted for more than 14% of revenue and that revenue was spread over 200 individual programmes.	• The Group mitigates this risk by providing excellent service. Customer complaints and non-conformances are reviewed monthly by members of the Executive Leadership team.	Given that a key tenant of the Group's strategy is to vertically penetrate its key customers, customer concentration is likely to increase. However, the Board believes that because each customer revenue stream is made up of a multitude of individual programmes and that these are designed in that the loss of an entire customer is unlikely. We will continue to ensure we provide excellent service to our key customers at competitive price points.	
6 PRODUCT RECALL LINK TO STRATEGY	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. 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 5% of overall revenue.	• Continue to enhance our product design processes. • Expand supplier quality capabilities.	

RISK	EXPLANATION OF RISK	POTENTIAL IMPACT	MITIGATION	PRIORITIES FOR 2021	ASSESSED TREND
7 COMPETITION FROM NEW MARKET ENTRANTS AND NEW TECHNOLOGIES LINK TO STRATEGY	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. Improvements in power conversion technology have tended to be incremental as more high performing components become available.	• 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 manufacturing 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.	• Gallium Nitride being a current example where we plan to introduce new products • We continue to develop higher-power, higher-voltage and high-complexity product platforms de-emphasising low-power, low-voltage low-complexity areas of the market.	Decrease in risk
8 RISKS RELATING TO REGULATION, COMPLIANCE AND TAXATION LINK TO STRATEGY	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.	We will continue to ensure we stay current with the latest legislation and will ensure we have the necessary contemporaneous documentation for compliance and tax purposes.	Decrease in risk

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

MANAGING OUR RISKS
CONTINUED

RISK	EXPLANATION OF RISK	POTENTIAL IMPACT	MITIGATION	PRIORITIES FOR 2021	ASSESSED TREND
9 STRATEGIC RISK ASSOCIATED WITH VALUING OR INTEGRATING NEW ACQUISITIONS LINK TO STRATEGY	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".	In event of an acquisition, we will ensure we have robust integration plans and perform a post-acquisition review.	Decrease in risk
10 EXPOSURE TO EXCHANGE RATE FLUCTUATIONS LINK TO STRATEGY	The Group deals in many currencies for both its purchases and sales including US Dollars, Euro 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 and cash flows.	• The Group reviews balance sheet and cash flow currency exposures and where considered appropriate, uses forward exchange contracts to hedge these exposures. • The Group does not hedge any translation of its subsidiaries' results to Sterling for reporting purposes.	We will continue to regularly review our balance sheet and cash flow exposures and take action to mitigate exposures as appropriate.	No change to risk
11 LOSS OF KEY PERSONNEL OR FAILURE TO ATTRACT NEW PERSONNEL LINK TO STRATEGY	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.	We will enhance our people management and leadership development under the leadership of our new Chief People Officer appointed in June 2020.	Decrease in risk

KEY
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- TARGET ACCOUNTS WHERE WE CAN ADD VALUE
- VERTICAL PENETRATION OF FOCUS ACCOUNTS
- BUILD A GLOBAL SUPPLY CHAIN
- LEAD OUR INDUSTRY ON ENVIRONMENTAL MATTERS
- MAKE SELECTIVE ACQUISITIONS

KEY
- No change to risk
- Increase in risk
- Decrease in risk

VIABILITY STATEMENT

In accordance with provision 4.31 of the 2018 revision of the UK Corporate Governance Code, the Directors are required to assess the prospects of the Group over a period longer than the 12 months required by the "Going Concern" provision.

In making this assessment, the Directors considered the Group's current financial position, its recent and historic financial performance and forecasts, its strategy and business model (pages 19–83) and the principal risks and uncertainties set out on pages 52–59. The impact of the COVID-19 pandemic has also been considered in determining the impact of the severe but plausible downside scenarios.

The Directors have determined the three-year period to December 2023 to be an appropriate period over which to assess the Group's viability, 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 making the assessment, the Directors considered a three-year financial model including the Group Annual Plan for 2021 and strategic financial plan for the years beyond this.

The Group has a business model where its products are designed into numerous applications, with numerous customers, in numerous geographies. The Group's products are all designed into capital equipment, which is generally in production for several 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.

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$150 million, which expires in November 2024.

In forming the viability statement, the Directors carried out an assessment of the principal risks and uncertainties facing the Group which could impact the business. Whilst the impact of Covid-19 on the Group's 2020 financial performance has been minimal, the Group has considered the increased uncertainty that the pandemic brings in the near term. Particular focus was given to the potential impact on our manufacturing facilities in the event of extended lockdowns and the impact on the broader economy and our customers.

The financial model was stress-tested with various downside scenarios. The potential impact of the principal risks was then considered in the context of each of these downside scenarios. 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 prolonged closure of a manufacturing facility, or a significant and permanent economic collapse.

The unlikely event of more than one risk occurring at the same time was also considered. A combination the loss of key customers together with a serious and prolonged economic shock was considered. The potential impact of this scenario did not put the Group in breach of its theoretical borrowing capacity.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due for at least a period of three years to 31 December 2023.

SECTION 172(1) STATEMENT

DRIVING SUSTAINABLE GROWTH BY CONSIDERING OUR STAKEHOLDERS IN DECISION-MAKING

Engaging with our stakeholders and our Section 172(1) Statement

Section 172 requires the directors of a company to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to:

a. the likely consequences of any decision in the long term,

b. the interests of the company's employees,

c. the need to foster the company's business relationships with suppliers, customers and others,

d. the impact of the company's operations on the community and the environment,

e. the desirability of the company maintaining a reputation for high standards of business conduct; and

f. the need to act fairly as between members of the company.

The key decisions made by management in 2020 related to the management of COVID-19 and we rapidly set the following priorities:

1. The safety and wellbeing of our people;
2. Keeping our customers supplied with product; and
3. Preserving our cash and managing liquidity.

During 2020, we consulted with our various stakeholders regarding matters that we consider would be important to them:

- COVID-19 presented us with significant challenges, in particular the ensuring the safety and wellbeing of our people. We communicated to our employees through frequent all hands video meetings with open questions and answers with the CEO and CFO and other regional leaders.
- We also conducted a number of specific employee surveys relating to COVID-19 and the challenges of working from home to ensure we could support our employees in all ways possible.
- We have surveyed our key customers, key suppliers and our employees regarding matters of business sustainability in order to understand what are the material matters that impact them regarding environmental, social and governance. This has been used as input to development our approach to sustainability.
- Our Remuneration Committee chair and Chairman have had discussions with our key Shareholders regarding executive remuneration and CEO succession to ensure we can take account of their views.
- We held quarterly business reviews with our key suppliers to monitor performance but also to understand their challenges, issues and concerns throughout the pandemic.
- We have a Code of Conduct, which all our employees and key suppliers sign up to dealing with business ethics, responsible environmental behaviour, health and safety and treatment of people.

SEE HOW THE BOARD HAS CONSIDERED KEY STAKEHOLDERS IN KEY BUSINESS DECISIONS ON PAGES 96 AND 97

Further information as to how the Board has had regard to the s172 factors:

s172(1) factor	Key example(s)	Page(s)
Consequence of any decision in the long term	Strategy	32–36
Interests of employees	Sustainability	62–83
Fostering business relationships with suppliers, customers and others	Engagement	96
Impact of operations on the community and the environment	Engagement	71
Maintaining high standard of business conduct	Governance	81
Acting fairly between members	Balanced long-term decision making	101
Balanced decision making	Governance	101

SUSTAINABILITY

Gavin Griggs
Chief Executive Officer

"We set an aspiration of carbon neutrality by 2040 and are developing plans to achieve this."

CONTENTS

SECTION 1: EMBEDDING SUSTAINABILITY

WHY SUSTAINABILITY MATTERS

Introduction to Sustainability from the CEO

The COVID-19 crisis has put many things in perspective. The pandemic and climate change are both global threats that we all must come together to address. Whilst the pandemic is far from over, climate change is probably the greatest challenge of our generation and the next ten years will be crucial to addressing it. Together, we must reduce CO_2 emissions and halt the rise in the Earth's temperature.

At XP Power, we are committed to partnering with our customers and suppliers in their sustainability journeys, and we strive to become carbon neutral, in line with our strategy of leading our market in sustainability. If the world is to achieve the United Nations Sustainable Development Goals (UNSDGs) by 2030, we must build momentum now — and bring everyone with us.

In 2012, we became the first power converter manufacturer to be admitted into the Responsible Business Alliance (formerly the Electronic Industry Citizenship Coalition) adopting its Code of Conduct. This not only set high standards for environmental performance but also covers the treatment of people, health and safety, business ethics and business systems.

Wherever possible, we have championed sustainable initiatives including solar panels on multiple sites, introducing low-energy lighting, reducing the time and recycling the electricity we use to burn in our products as well as launching a broad range of "green" high-efficiency products which we continually develop to support our customers sustainability agendas.

This is part of the momentum we've been building through more than ten years of engagement and innovation in sustainability through our entire supply chain. XP Power seeks to empower all its stakeholders to make the most of their energy and resources. Our high-efficiency products balance the growth and proliferation of electronic devices and a carbon-free future for our planet. Our engineers bring ideas, skills, and innovation to reducing energy usage for our customers. Our people act to reduce XP's carbon impact and serving local communities around the world.

In 2020, we set an aspiration of carbon neutrality by 2040 and we are developing the plans to be able to achieve this objective. But we appreciate we can and should go further and recognise the greatest impact we can have is on developing high-efficiency power supplies and in supporting our customers on their individual sustainability journeys and partner with vendors who are committed to this journey.

We believe that XP Power can make a positive impact.

Gavin Griggs
Chief Executive Officer

Our Sustainability Strategy is to:

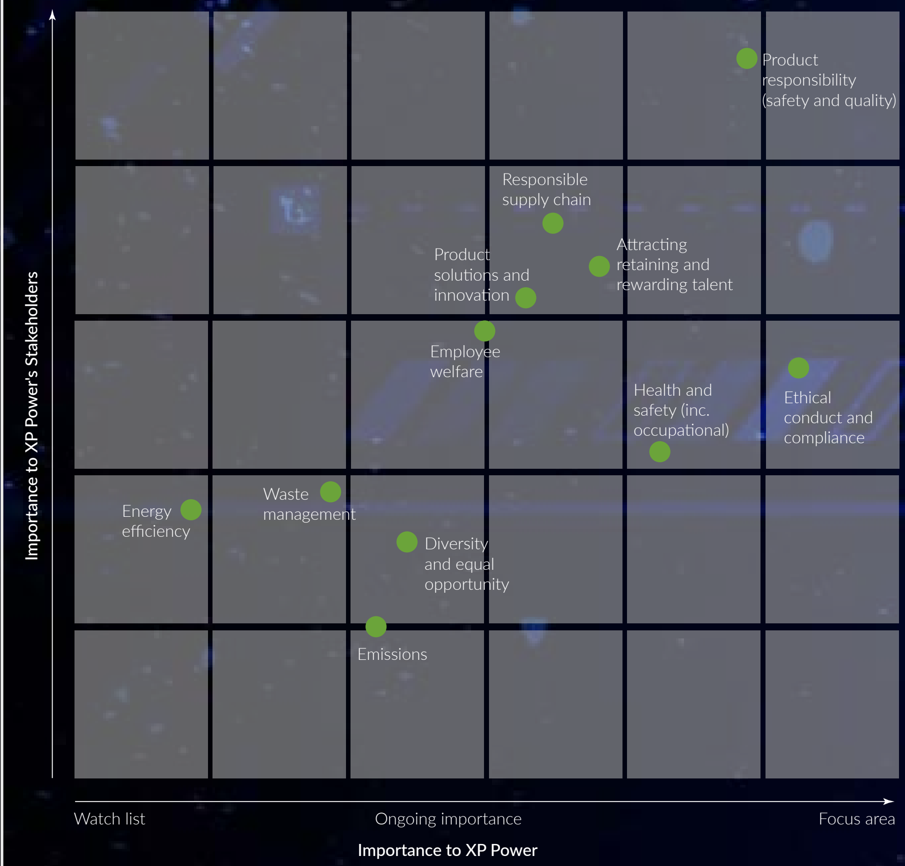
- Produce quality products that are safe and solve our customers' power problems;
- Minimise the impact we and our products have on the environment;
- Adopt responsible sourcing practices considering social and environmental impacts;
- Make XP Power a workplace where our people can be at their best ensuring an environment that is safe, diverse, inclusive and attracts and retains the best talent; and
- Uphold the highest standard of business ethics and integrity.

MATERIALITY ASSESSMENT

The materiality assessment we undertook in 2020 involved engaging with our employees, customers and suppliers regarding what aspects of sustainability were most important to them. This exercise was conducted using a comprehensive survey followed up with a number of meetings where appropriate. We have also taken account of the views of key Shareholders who have expressed their views in terms of what they would like to see regarding sustainability considerations.

By combining the importance of the issues identified by our stakeholders with the significance of their economic, environmental, social impacts and governance on the business, we derive the relative materiality of each issue. A summary of this work is shown in the material issues matrix below, including how the factors we assessed aligned with those of XP Power. We are pleased to report that there is very close alignment.

MATERIALITY ASSESSMENT MATRIX



SUSTAINABILITY
CONTINUED

SUSTAINABILITY ROADMAP

Achievements in 2020

- Maintained the safety and wellbeing of our people during the COVID-19 pandemic
- Shipped "XP Green Power" products in 2020 resulting in estimated lifetime CO_2 emission savings of over 117,000 tonnes
- Undertook a sustainability materiality impact assessment with key stakeholders to formulate a sustainability strategy
- Review and enhanced corporate framework for health and safety management to apply the same minimum standards in all locations
- Healthy and safety incident rate per 1,000 employees reduced 8% to 10.4
- Reduced our CO_2 emissions intensity by 7% to 27.9 tonnes of CO_2 per million GBP of revenue
- Trained all employees on our Code of Conduct; no reported breaches of the Code during 2020
- Company car scheme in the UK now only allows electric vehicles

Priorities going forwards

- Maintain the safety and wellbeing of our people during the COVID-19 pandemic
- Develop plans to achieve carbon neutrality by 2040
- Continue to enhance design processes including product reliability, efficiency and safety
- Conduct annual refresher training on our Code of Conduct
- Continue to enhance health and safety processes across the Group
- Reduce CO_2 emissions intensity by a minimum of 3% per annum
- Develop action plans from the results of the Gallup survey to further enhance employee engagement
- Ship "XP Green Power" products resulting in minimum lifetime CO_2 emission savings of 120,000 tonnes

SUSTAINABLE BUSINESS GOALS

The table below shows the linkage between the United Nations Sustainable Development Goals (UN-SDG), XP Power's business goals, how they are measured, and how this links to our Sustainability Strategy. The Board of Directors has ultimate oversight of, and responsibility for the Company's Sustainability Strategy.

	LINK TO XP POWER SUSTAINABILITY OBJECTIVES	BUSINESS KPIS	
HEALTH AND WELLBEING 3 GOOD HEALTH AND WELL-BEING	**HEALTH AND SAFETY** Improve the physical and mental health of our people and provide them with a safe place to work	Reduce the annual lost time from health and safety incidents through implementing best practice in training, incident reporting, audits and risk assessments	2020: 62 days Target (Year): Zero days (2021) More information: Page 68
GENDER EQUALITY 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in politic al, economic and public life 5 GENDER EQUALITY	**OUR PEOPLE** Create a workplace environment where our people can be at their best ensuring an environment that is safe, diverse, inclusive and attracts and retains the best talent	Gallup Employee Engagement score	2020: 3.91 Target (Year): 4.18 (2021) More information: Page 71

WORK AND ECONOMIC GROWTH

8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment

LINK TO XP POWER SUSTAINABILITY OBJECTIVES

OUR PEOPLE

Create a workplace environment where our people can be at their best ensuring an environment that is safe, diverse, inclusive and attracts and retains the best talent

BUSINESS KPIS

Employees completed ethics training %

2020:
100%

Target (Year):
100% (2022)

More information:
Page 81

REDUCED INEQUALITIES

10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard

LINK TO XP POWER SUSTAINABILITY OBJECTIVES

OUR PEOPLE

Create a workplace environment where our people can be at their best ensuring an environment that is safe, diverse, inclusive and attracts and retains the best talent

BUSINESS KPIS

Proportion of women in management roles

2020:
31%

Target (Year):
35% (2022)

More information:
Page 72

CLIMATE ACTION

13.2 Integrate climate change measures into national policies, strategies and planning

LINK TO XP POWER SUSTAINABILITY OBJECTIVES

OUR PEOPLE

We are committed to being a leader in our industry by reducing our impact on the environment. We are committed to reducing energy usage and CO_2 emissions resulting from the manufacture and use of our products.

BUSINESS KPIS

CO_2 intensity metric

2020:
27.9 kg CO_2/£'000 of revenue

Target (Year):
22.3 kg CO_2/£'000 of revenue (2025)

More information:
Page 77

SDG	LINK TO XP POWER SUSTAINABILITY OBJECTIVES	BUSINESS KPIS	
INDUSTRY, INNOVATION AND INFRASTRUCTURE 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all	**SUSTAINABLE PRODUCTS** We will continue to develop innovative, high-quality and safe products that consume less energy, use less materials and avoid the use of hazardous substances, and solve our customers' power problems	New "XP Green Power" product introductions	2020: 17 product families Target (Year): 15 product families (2021) More information: Page 76

SDG	LINK TO XP POWER SUSTAINABILITY OBJECTIVES	BUSINESS KPIS	
RESPONSIBLE CONSUMPTION AND PRODUCTION 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse 12.7 Promote public procurement practices that are sustainable, in accordance with national policies and priorities	**SUSTAINABLE PRODUCTS** We will continue to develop innovative, high-quality and safe products that consume less energy, use less materials and avoid the use of hazardous substances, and solve our customers' power problems	CO_2 estimated lifetime savings from "XP Green Power" products	2020: 117,000 tonnes of CO_2 Target (Year): 3% reduction per annum More information: Page 77

SDG	LINK TO XP POWER SUSTAINABILITY OBJECTIVES	BUSINESS KPIS	
PEACE, JUSTICE AND STRONG INSTITUTES 16.5 Substantially reduce corruption and bribery in all their forms	**ETHICS AND COMPLIANCE** We uphold the highest standard of business ethics and integrity and expect our suppliers to do the same	Our goal is to have zero breaches of our Code of Conduct	2020: 0 Target (Year): 0 (2021) More information: Page 81

SECTION 2:
HEALTH AND SAFETY

Our Sustainable Business Goal is to improve the physical and mental health of our employees and provide them a safe place to work. This aligns with the UNSDG 3 "Good health and wellbeing".

RESPONSE TO COVID-19

XP Power's exposure to COVID-19 started earlier than most companies given we have a major manufacturing facility in Kunshan, China. In January 2020, over the Lunar New Year Holiday, the Chinese authorities introduced rigorous epidemic prevention and control measures including travel restrictions to control the COVID-19 virus. We immediately implemented the recommended provisions to control the spread of the virus enhanced by our own control measures, identified through our risk assessments, to ensure the safety and wellbeing of our people. These included:

- Social distancing;
- Compulsory wearing of face masks;
- Sanitisation of hands and feet at the entrance to the site;
- Temperature checks and monitoring before entering the site;
- Sanitisation of any vehicles entering the site; and
- Special distancing and barrier measures in the canteen.

Concurrently, we adopted the same rigorous epidemic prevention and control measures in our Vietnam facility. Vietnam had not been affected by the virus at this stage of the pandemic and the control measures adopted early on by the Vietnamese authorities meant that Vietnam was one of the least affected countries in the world.

Our business continuity plans had considered the possibility of a pandemic and we were immediately able to implement our disaster recovery plan to ensure effective management, control and communication as the crisis developed.

Cases of COVID-19 quickly began to be reported in Europe and we immediately adopted the measures recommended by the local authorities in countries in which we operate, again enhanced by the results of our own risk assessments. These measures included:

- Working from home wherever possible;
- Social distancing;
- Sanitisation on entering any facility;
- Temperature monitoring and screening on entering any facility;
- Regular deep cleans and regular sanitisation of surfaces in the facilities;
- Restrictions on any visitors to the facilities. Where a visit from a non-employee was necessary (e.g. for matters relating to health and safety such as fire extinguisher checks) the same controls were implemented together with a questionnaire and declaration that the visitor had no symptoms nor had been in contact with any persons who had been diagnosed with the virus or who had symptoms; and
- A track and trace process in the event any employee in a facility developed symptoms or was diagnosed with the virus so people could self-isolate as appropriate.

In regions where we operate with very high local instances of the virus, which includes a number of our facilities in North America, we have also implemented mandatory weekly testing of employees.

We were conscious of the difficulties imposed on our people through long periods of working from home without regular face-to-face contact with their colleagues and the potential implications for their mental health. We held frequent (multiple times per week) all hands video updates to keep our colleagues connected and informed on what was happening. We also conducted a number of specific anonymous surveys to understand how our people were coping in the midst of the pandemic, and in particular working from home. The surveys indicated that we were managing the COVID-19 crisis well and we were able to make changes to help our employees during this difficult time. Some of these changes were practical in ensuring they had the correct equipment to work effectively and safely from home. We also made sure that a third-party Employee Assistance Programme was available to our employees and their relatives should they be experiencing difficulties.

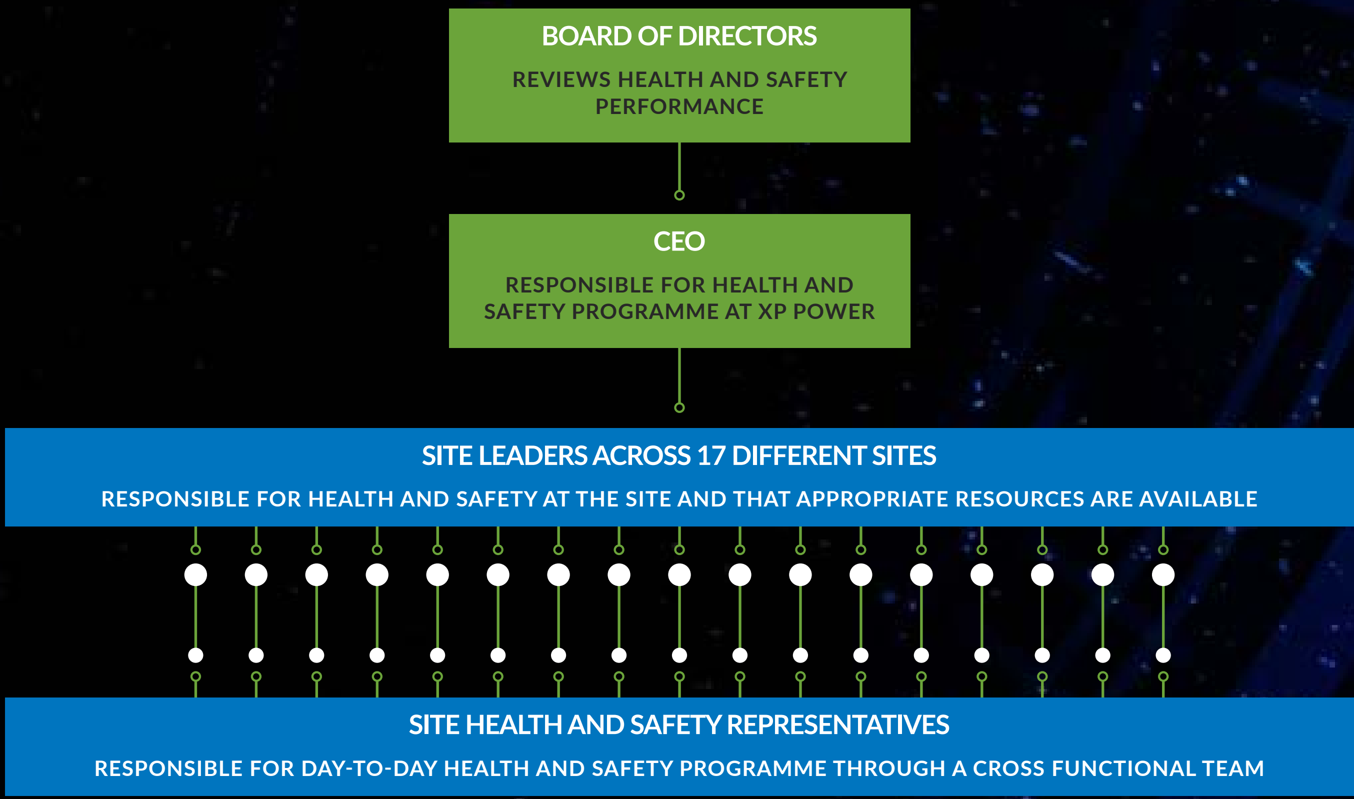
We continue to closely monitor the situation with the virus and the safety and wellbeing of our people remains our absolute top priority during this difficult time.

SAFETY FIRST

Safety is a top priority at XP Power and aside from the specific challenges and importance of safeguarding our people (and contractors) from the COVID-19 virus, health and safety remains of paramount importance to us as a responsible employer. Our health and safety management system is driven from the top with the Board having ultimate responsibility.

We have a corporate health and safety framework, which clearly defines the persons who are responsible and accountable for health and safety at each of our key sites. The procedure also defines the minimum standards required at each key site, which can be summarised as follows:

- Risk assessments based on the activities performed at each site, which are reviewed and updated annually;
- An annual internal audit of the health and safety processes at each site to ensure they are in line with the corporate procedure;
- Health and safety metrics are recorded covering health and safety incidents and near misses and these are reported and analysed. The Board of Directors reviews these health and safety metrics at each Board meeting;
- Metrics relating to walk through safety audits, fire drills and update of risk assessments are also recorded and monitored; and
- Consideration is given at each site to ergonomics, laboratory and electrical safety, legal requirements, use of chemicals, use of equipment and tools, facility preparedness and evacuation, and slips, trips and falls.



The Company has invested during 2020 to enhance health and safety due to COVID-19 including social distancing and signage, thermometer and temperature scanners, physical screening, COVID-19 testing, sanitisation materials and deep cleaning costs.

In addition, we have enhanced health and safety through expenditure on improved product racking, use of health and safety consultants, advisers and auditors.

XP Power's health and safety policy is available on our website at xppower.com/company/policies. The key elements of our policy are to maintain a healthy and safe working environment to minimise the number of occupational accidents and illnesses and ultimately achieve an accident-free workplace. We are committed to this goal and to achieving continual improvement. We encourage our people to look out for each other to keep us all safe.

SAFETY PERFORMANCE

We report all health and safety incidents including near misses whether or not they resulted in lost time. We actively encourage the reporting of near misses so we can analyse those events and learn and make improvements. There were two near misses reported in 2020. Our incident rate is calculated as the total number of incidents divided by the average number of employees expressed as incidents per 1,000 employees. Our target is to have an incident rate of zero.

In 2020 we had 22 health and safety incidents and 2 near misses. Of these, 10 incidents resulted in total lost time of 62 days. Two incidents in China were serious enough to contribute 50 days of absence from work. One was a slip on a wet surface resulting in 30 days of absence, and one was a slip on the stairs resulting in a broken foot, which caused 20 days of absence. We continue to review all accidents and near misses to ensure we learn from them and improve the environment to keep all employees safe from harm or injury. No incidents resulted in death or serious injury of any persons. We provide all our employees with health and safety training appropriate to their role.

HEALTH AND SAFETY INCIDENTS

	2020	2019	2018	2017	2016
Asia	**10**	7	6	9	6
Europe	**–**	3	8	9	2
North America	**12**	11	3	14	5
Total	**22**	21	17	32	13
Average number of employees	**2,108**	1,859	1,972	1,953	1,506
Incident rate per 1,000 employees	**10.4**	11.3	8.6	16.4	8.6

HEALTH AND WELLBEING

We encourage our employees to have active lifestyles and, where facilities allow, we provide showers so our people can exercise during their breaks or be able to cycle to work. Some of our sites have five-a-side football teams or participate in softball leagues. We have also provided yoga sessions in some sites during lunch time. Our Chinese facility has a frequently used outside basketball court and our Vietnamese facility a five-a-side football pitch. Unfortunately, these activities have had to be cancelled during the pandemic but we are keen to resume them once we can safely do so.

We operate a comprehensive Employee Assistance Programme (EAP) in Europe and North America, which we intend to roll out in Asia in 2021. This EAP service provides a complete support network that offers confidential expert advice and compassionate guidance 24/7, online and by phone in the relevant language, covering a wide range of issues, and wellbeing resources both to our employees and their immediate families.

SECTION 3:
OUR PEOPLE

Our Sustainable Business Goal is to create an environment where our people can be at their best. This aligns with the UNSDGs 5 "Gender equality", 8 "Decent work and economic growth", and 10 "Reduced inequalities".

EMPLOYEE ENGAGEMENT

Our vision is to not only deliver the ultimate experience for our customers but also for our people. We want XP Power to be a great place to work. Pauline Lafferty is the designated Non-Executive Director responsible for workforce engagement and ensuring the views of our employees are heard at the Board level and are taken into account in Board discussions and decision making. Pauline is ideally qualified for this role as a former Chief People Officer and a person who is passionate about employee engagement.

We use a number of methods to engage with our people including a Gallup engagement survey conducted in December 2020 that had an excellent participation rate 94% across the entire workforce. 2020 was the first year we have used the Gallup survey and we scored a respectable 3.91 out of 5.00 placing us at the 38th percentile rank in the Gallup database. The survey results are being used to drive further employee engagement and we are targeting to improve our score to 4.18 in 2021.

We also conducted two specific pulse surveys relating to COVID-19 during 2020 and held numerous all hands video meetings to keep our people connected and to answer any questions or concerns they had.

FREEDOM OF ASSOCIATION

We allow all of our employees to freely associate with any relevant unions. Our employees in Vietnam are members of the local union.

TALENT MANAGEMENT AND SUCCESSION PLANNING

Talent management and succession planning for the Executive Directors and Senior Leadership team is reviewed and discussed at Board level. In June 2020 Anna Mealings joined the Group as Chief People Officer and in Q4 of 2020 established people and organisational plans for 2021 with each member of the Executive Leadership Team. Anna and the Board will be reviewing talent management and succession planning during 2021 including the layer below the Executive Leadership team.

REWARD AND RECOGNITION

All our employees receive annual performance evaluations. We operate various bonus schemes and all non-sales commissioned employees are eligible to participate in either our general or executive bonus scheme. The overall bonus pools are determined by the level of adjusted profit before tax and operating cash conversion. Individual bonuses are then allocated based on individual performance.

We also have a number of spot recognition award schemes and have a CEO award, which is made annually for each region and globally to individuals who have gone significantly beyond what is expected of them. These awards are sometimes awarded to teams rather than individuals to recognise and promote collaboration.

As well as recognition schemes, we also provide health care benefits and life assurance according to the customs in the regions in which we operate.

NUMBER OF STAFF BY YEAR BY REGION

	2020	2019
Europe	**165**	174
North America	**375**	444
Asia	**1,723**	1,275
Total	**2,263**	1,893

EMPLOYEE TURNOVER BY YEAR

	Number			
	2020	2019	**2020**	2019
Europe	**9**	18	**5%**	10%
North America	**38**	34	**10%**	8%
Asia	**534**	546	**31%**	43%
Total	**581**	598	**26%**	32%

TRADE UNION REPRESENTATION

	Average number of employees represented	% of employees represented
Europe	–	–
North America	–	–
Asia	1,200	70%
Total	1,200	53%

DIVERSITY AND INCLUSION

Becoming a truly diverse and inclusive Company is not only the right thing to do, it is crucial to helping us grow our business, innovate, attract and retain talent, and engage the people who buy our power solutions. Different experiences, views and opinions allow us to explore many more options when considering decisions, which we believe results in better outcomes from the business and our various stakeholders.

We operate globally and recognise the cultural differences that may exist in the countries in which we do business. We recognise that a truly diverse workforce reflects our markets and will help us succeed in those markets. We will not tolerate any form of discrimination.

We are committed to equality of opportunity in all of our employment practices, procedures and policies. When we hire or promote someone, we choose the best candidate irrespective of age, race, national origin, disability, religion, gender, gender reassignment, sexual preference, marital status or membership/non-membership of any trade unions. We apply the same standards when selecting business partners.

Our policy is to aim:

- To create an environment in which individual differences and the contributions of all team members are recognised and valued.
- To create a working environment that promotes dignity and respect for every employee.
- To not tolerate any form of intimidation, bullying, or harassment, and to discipline those that breach this policy.
- To make training, development and progression opportunities available to all staff.
- To promote equality in the workplace, which XP Power believes is good management practice and makes sound business sense.
- To encourage anyone who feels they have been subject to discrimination to raise their concerns so we can apply corrective measures.
- To regularly review all our employment practices and procedures so that fairness is maintained at all times.

The Board of Directors has oversight of the Company's diversity policy, which is also available on our website at xppower.com/company/policies. Our diversity policy is also embedded in our Code of Conduct and our employees receive online training regarding our both our Code of Conduct and diversity.

The Group is supportive of flexible working policies such as working from home, part-time, and flexible hours according to the requirements of the position.

In the UK, for employees with more than two years' service we pay maternity or adoption leave for three months at 100% of salary compared to the statutory six weeks at 90% of salary. We also provide two weeks paid paternity leave at 100% of salary compared to statutory paternity leave of two weeks at £151 or 90% of usual pay if lower.

We have chosen to publish our gender pay gap data even though we have fewer than 250 employees in the UK and are, therefore, exempt from gender pay gap reporting. We are committed to eliminating any form of discrimination. One in three of the women in the bottom quartile work part-time, which explains their over representation in this quartile. 40% of our UK workforce are female.

UK GENDER PAY GAP

Genders in each pay band:	**2020**		2019		2018		2017	
	Male	**Female**	Male	Female	Male	Female	Male	Female
Lower quartile pay band	**40%**	**60%**	40%	60%	48%	52%	33%	67%
Lower middle quartile pay band	**58%**	**42%**	58%	42%	52%	48%	48%	52%
Upper middle quartile pay band	**77%**	**23%**	77%	23%	72%	28%	74%	26%
Upper quartile pay band	**92%**	**8%**	92%	8%	90%	10%	81%	19%

EMPLOYEES BY GENDER AND REGION AS AT 31 DECEMBER 2020

	Male	Female	Total
Europe	105	60	165
North America	258	117	375
Asia	761	962	1,723
Total	1,124	1,139	2,263

GENDER DIVERSITY STATISTICS

	Male	**Female**	**Total**	**Male**	**Female**
Board	5	2	7	71%	29%
Executive Management	6	1	7	86%	14%
Management	88	39	127	69%	31%
All other	1,025	1,097	2,122	48%	52%
Total	1,124	1,139	2,263	50%	50%

TALENT AND CAREER MANAGEMENT

Developing our talent is key to our ongoing success and in June 2020 we recruited a Chief People Officer who created People and Organisation Plans with each of our executive leaders identifying enablers to drive the attainment of our plan in 2021 and beyond. We also have commenced a People Leadership Programme where we provided learning opportunities and feedback to 96% of our people leaders (anyone with more than four direct reports).

An online learning portal (Learning Management System) was implemented during 2020 and rolled out to all employees that allowed us to deliver a number of pieces of training, including Code of Conduct training, in multiple languages to all of our people. This tool is also being used for onboarding new employees and for training on new information technology tools such as our various cyber security applications. All of our employees have access to our learning management system.

We have six apprenticeships programmes in areas such as finance, human resources, information technology and logistics.

SUSTAINABILITY
CONTINUED

COMMUNITY PARTNERSHIPS

We believe that it is important to contribute to the communities in which we operate and this resonates well with our employees. We allow every employee to take a paid day's leave to contribute to a charitable or worthy cause in the community. As COVID-19 made many volunteer activities difficult in 2020, we encouraged our employees to donate blood to help alleviate the shortages caused by COVID-19 and allowed them to use their community time off for this purpose.

Community activities in 2020:

- A campaign to encourage our people to donate blood across the globe to help alleviate shortages caused by COVID-19 (we allowed them a paid day off in order to do this).
- Our Southern California office participated in a clothing and food drive in September. We organised a curbside drop off for our employees working from home and we collected bags of clothing, baby essentials, and boxes of food.
- In New Jersey during February we organised a food drive and donated over 300 kg of groceries to local food banks to help those in need.
- Our team in Gloucester, Massachusetts, participated collected a similar amount of provisions for local food banks in March 2020.

Examples of community activities our people have engaged in from previous years across our various locations include:

- Collaboration with the local food banks, distributing food bundles by going door to door to underprivileged households.
- Collection of refuse in local fields and roadways. The total amount of refuse collected during one 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 three 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.

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

The Group made cash donations to local charities totalling £1,490 in 2020.

SECTION 4: ENVIRONMENTAL LEADERSHIP

13 CLIMATE ACTION

Our Sustainable Business Goal is to be the leader of our industry regarding environmental matters and minimise the impact we and our products have on the environment. This aligns with the UNSDG 13 "Climate action".

MANAGING ENVIRONMENTAL PERFORMANCE

XP Power is committed to be the world leader in our industry by reducing its impact on the environment. We will strive to improve our environmental performance by:

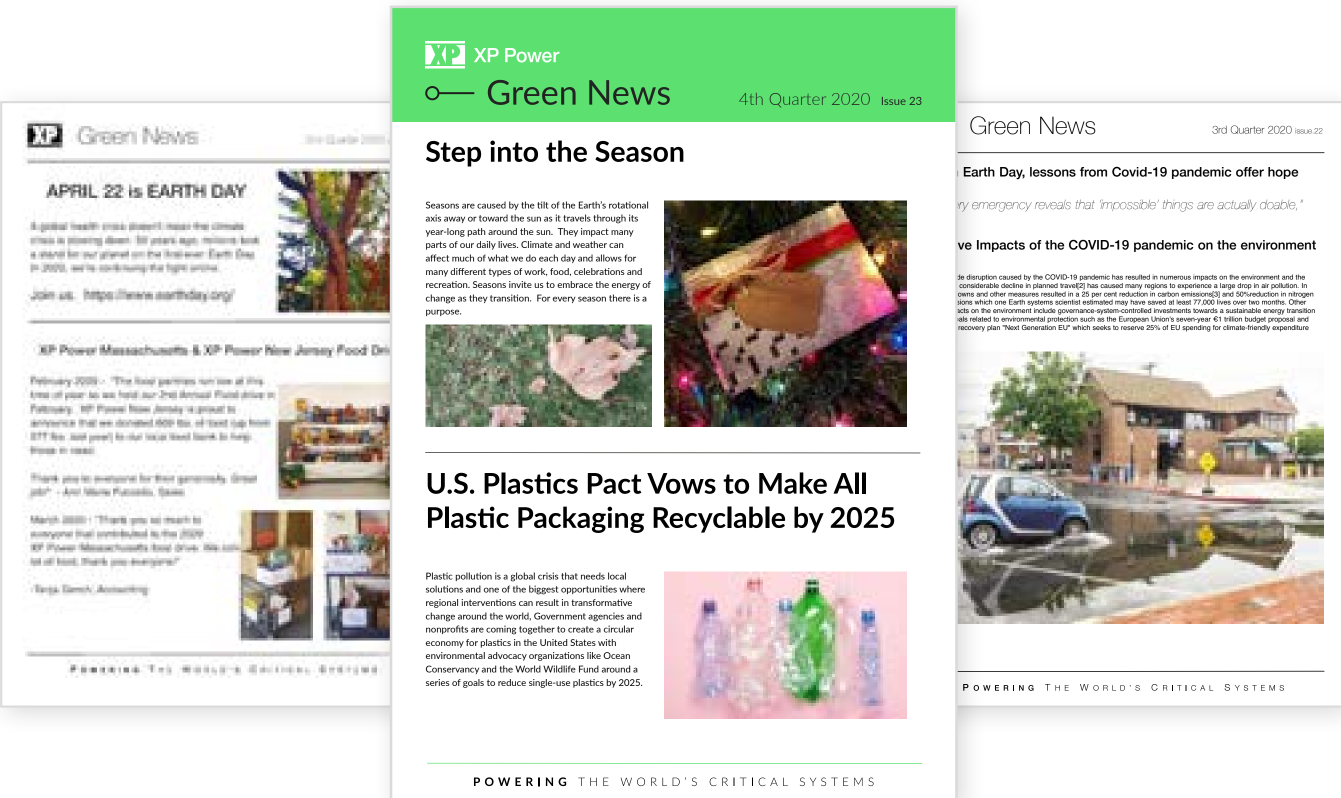
- As a minimum, complying with all relevant environmental legislation and regulations as they relate to each location and community in which we operate.
- Employ best practices to maximise the efficient use of resources to minimise waste and prevent pollution.
- Focus on promoting an environment of continuous improvement and risk mitigation through identifying objectives and setting measurable goals.
- Consider and respond to environmental issues through all phases of our product lifecycle.
- Communicating our environmental policy and objectives to our suppliers and employees and encourage their participation in environmental best practices.

Our Environmental Policy is available on our website at xppower.com/company/policies.

The Company has an Environmental Management System with accredited certification to international standard ISO 14001:2015. Compliance is ensured through our internal audit process together with external assessments by our registrar, British Standards Institution (BSI). The Group has not had any environmental incidents in 2020 and has not received any environmental fines or improvement notices in the last 12 months.

We continue to collaborate annually with the Carbon Disclosure Project. We submit our environment performance data to the Carbon Disclosure Project and this data is accessible through the Carbon Disclosure Project website at www.cdproject.net.

Our Environmental Committee consists of a network of site representatives who drive improvement in our environmental performance and promote awareness of environmental and sustainability matters amongst our people. The Committee is chaired by Sean Ross, who is also our Vice President of Quality Assurance. We also publish a quarterly "Green Newsletter" publicising and encouraging environmental and community initiatives. The contributions our people made to local communities are set out in the Community Partnerships section of this report. Polly Williams is the Non-Executive Director who provides oversight for environmental and climate matters.



SUSTAINABILITY
CONTINUED

ENERGY AND GREENHOUSE GAS EMISSIONS

The Group has taken a number of actions to reduce its energy consumption as follows:

- Recycling of burn-in power used in manufacturing in China and Vietnam.
- Efficient building insulation and air conditioning system in Vietnam.
- We believe our Vietnam facility to be the most environmentally friendly in our industry and it was the first building in Vietnam to be accredited with the BCA Gold Mark+ relating to its environmental performance.
- We use high efficiency T6 or LED lighting in our facilities.
- Vietnam and the UK have PV solar panels generating electricity from sunlight.
- We provide electric car charging in our Californian and UK facilities for our employees to drive electric cars.

However, by far the largest impact the Group can have on reducing CO_2 emissions is by developing and promoting its "XP Green Power" products, which had ultra-high efficiency and low standby power. These products consume less power and therefore result in lower CO_2 emissions over the whole lifetime of the customer's equipment. We are producing high-efficiency products with efficiency rates up to 95% while historical efficiencies in the industry have typically only been around 80%.

As we have demonstrated in the past, the example below helps convey the significance of this delta in efficiency rating:

- XP Power supplies a 95% efficient product to power a 100 watt load. 105 watts of input power is required to deliver 100 watts at this level of efficiency.
- Competitor supplies an 80% efficient product to power a 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.

"XP Green Power" products also have functionality that enables them to consume less energy when on standby mode while not powering the customers' application. 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.

We measure our CO_2 emissions in accordance with the internationally recognised Greenhouse Gas (GHG) Protocol and our metrics include Scope 1 and Scope 2 emissions. Scope 3 CO_2 emissions represent estimated CO_2 emissions from air travel and paper usage. As the Group's sustainability programmes develop we will capture more of our Scope 3 emissions and aim to reduce them and will disclose them in our annual sustainability report.

The Group is targeting a 3% annual reduction in our CO_2 emissions intensity metric. Actions in order to achieve this are reduction in burn in times for mature products, reduction of air freight to use more sea and rail and evaluation of packaging. However, our biggest contribution to reduction in CO_2 emissions is from adoption of our "XP Green Power" products. The CO_2 emission savings from these products consistency exceed the combination of our Scope 1 and Scope 2 CO_2 emissions.

"We shipped "XP Green Power" products in 2020 with estimated lifetime CO_2 savings of over 117,000 tonnes."

ENERGY CONSUMPTION AND EMISSIONS DATA

	FY20			FY19		
	UK	Global (excl UK)	Total	UK	Global (excl UK)	Total
			Emissions			
Scope 1 (tCO_2e)	**–**	**9**	**9**	–	12	12
Scope 2 – location based (tCO_2e)	**68**	**6,283**	**6,351**	58	5,321	5,379
Total scope 1 and 2 (location)	**68**	**6,292**	**6,360**	58	5,333	5,391
Scope 3 (tCO_2e)	**19**	**550**	**569**	187	429	616
Intensity ratio (per Group turnover) (tCO_2e/£M)			**29.7**			30.0
Estimate lifetime savings from “XP Green Power” products (tCO_2e)			**117,000**			108,000
			Energy (kWh)			
Oil	**–**	**32,300**	**32,300**	–	44,450	44,450
Gas	**11,710**	**956,293**	**968,003**	9,671	1,296,433	1,306,104
Total non-renewable fuels consumption (kWh)	**11,710**	**988,593**	**1,000,303**	9,671	1,340,883	1,350,554
Total non-renewable electricity consumption (kWh)	**123,725**	**10,668,213**	**10,791,938**	150,511	9,907,011	10,057,522
Total non-renewable energy consumption (kWh)	**135,435**	**11,656,806**	**12,792,241**	160,182	11,247,894	11,408,076
Total renewable energy consumption (kWh)						
Solar-generated electricity	**3,346**	**39,605**	**42,951**	1,862	43,644	45,506
Total operational energy consumption (kWh)	**138,781**	**11,696,411**	**12,835,192**	162,044	11,291,538	11,453,582

ESTIMATED LIFETIME SAVINGS FROM “XP GREEN POWER” PRODUCTS

We have included the estimated lifetime savings from the “XP Green Power” products that we have shipped during 2020 which is significant and even in one year more than offsets our Scope 1 and Scope 2 CO_2 emissions. This is a significant positive impact we are having on reduction of CO_2 emissions.

These “XP Green Power” product are our high efficiency products, which consume less electricity while powering the load and while in standby mode when compared to the average power converter. In estimating these savings we have assumed the following:

- An average power converter is 80% efficient (“XP Green Power” products are generally around 90% efficient).
- The power converter will run for 8 hours a day, 5 days a week, 50 weeks a year for 7 years in the customers’ equipment.
- The customer will run the power converter at 75% of its rated power.
- One kWh of electricity produces 0.418 kg of CO_2.

A power converter operating at 90% efficiency is actually wasting less than half what a power supply operating at 80% efficiency does. Consequently, the savings in energy and therefore CO_2 emissions of the lifetime of the product are very compelling.

THIRD-PARTY VERIFICATION

For 2019 and 2020, we engaged 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.

SUSTAINABILITY
CONTINUED

WATER CONSUMPTION

We have determined that our operations are considered as low water usage and we do not have operations in any regions with high water-stress. Water is not used in the design, manufacturing or services of our products. However, XP Power recognises water is finite and therefore considers water management throughout all activities of the Company and that water should be treated in a manner that will protect it for future generations. We therefore try to limit water use and employ best practices to reduce its usage in all our facilities. This includes rainwater capture and reuse in our Vietnam facility and the deployment of reduced flush toilets in a number of our facilities.

Our water usage is tracked and monitored as one of our key environmental metrics across the business.

Our Water policy is to:

- Employ best practices to maximise the efficient use of water and minimise pollution and waste.
- Regularly review and report on the water use of our facilities and activities.
- Commit to continuous improvement in responsible water management through identifying objectives and setting measurable goals.
- Involve and educate employees, contractors and customers in our water use programmes.
- Engage with suppliers to encourage their participation in responsible water management best practices.
- Disengage with any suppliers who may be found to be negligent or non-compliant with responsible water management and who do not aggressively implement corrective actions.

Our Environmental Committee has ultimate oversight of the Water policy.

Our water policy is also available on our website at xppower.com/company/policies.

WATER CONSUMPTION AND INTENSITY METRICS

	2020	2019	2018	2017	2016
Freshwater usage (m^3)	**43,429**	30,478	39,605	39,480	32,582
Intensity ratio (m^3 per £m revenue)	**186**	152	203	237	251
Intensity ratio (m^3 per employee)	**20.6**	16.4	20.1	20.2	21.6
Average number of employees	**2,108**	1,859	1,972	1,953	1,506

The reduction in water consumed in 2019 was the result of not requiring extra shifts of production at our China facility and a faulty water meter not recording the total amount of water used. We aim to reduce our water usage per employee by 3% per annum.

WASTE MANAGEMENT

XP Power is committed to be the world leader in our industry by reducing its impact on the environment. Our Environmental Committee is responsible for our Environmental Policy (available on our website at xppower.com/company/policies) including waste management.

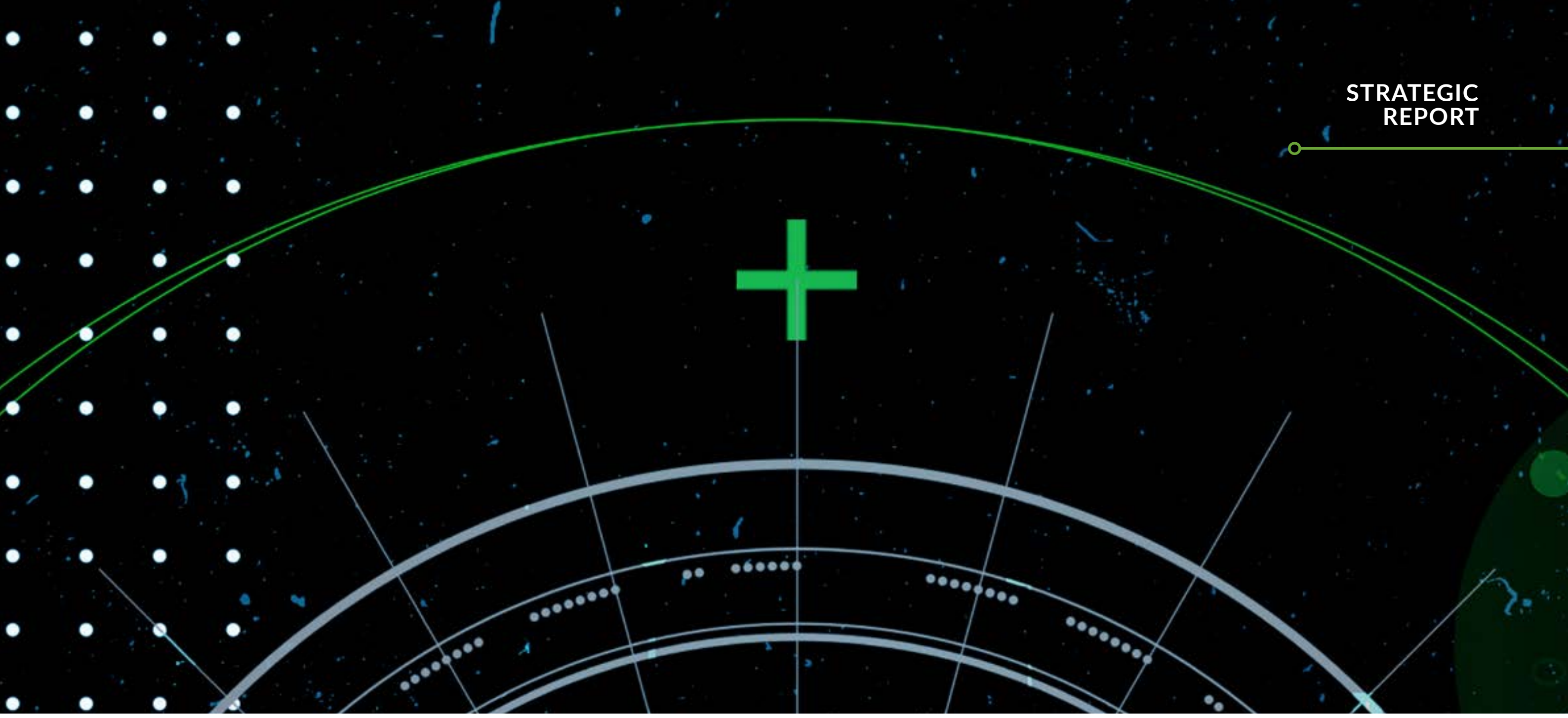
Our manufacturing processes produce relatively little waste. The main single source of waste is the excess solder from the wave solder machines, so called "solder dross". This is returned to the manufacturer to be recycled into new solder. In 2020, we sent 8,579 kg of solder dross for recycling and received back 5,602 kg of recycled solder, which is a 65% recovery rate.

We also use certain chemicals to clean flux from printed circuit boards, which is itself cleaned using activated carbon. We dispose of these chemicals and the containers in which they are delivered through a certified professional third party who is licensed to deal with safe disposal of these materials. Paper and other packaging is collected by recycling providers.

2020 WASTE MANAGEMENT

	Solder	Hazardous waste	Total waste
Sent for recycling (kg)	8,579	–	8,579
Recycled solder received (kg)	5,602	–	5,602
Net waste professionally disposed	2,977	10,415	13,392
Recovery rate	65%	0%	42%
Intensity ratio (kg per £m revenue)	13	44	57

The Group also recycled 301 (2019: 269) tonnes of paper and packaging during the year.



SECTION 5:
SUSTAINABLE PRODUCTS

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Our Sustainable Business Goal is to reduce the CO_2 emissions resulting from the use of our products and minimise the impact we and our products have on the environment. This aligns to the UNSDG 9 "Industry, innovation and infrastructure" and 12 "Responsible consumption and production".

BOOSTING INNOVATION

In order to have a sustainable business, we need to continue to develop products and solutions that are innovative and solve our customers' power problems. When we engaged with our key customers in 2020 regarding sustainability, product design was their top material impact and scored even higher than customer experience and satisfaction.

Power conversion technology has been evolutionary rather than revolutionary advancing as new materials and components become commercially available rather than driven by completely new ways of rectifying or converting voltages.

We consider that we have the broadest and most up-to-date product portfolio in our industry. Our engineering teams monitor and evaluate new components as they become available and their price points drop to a level where they become commercially viable in our products. We continue to integrate sustainability into our product design as follows:

- **Energy efficiency** – We have consistently led the industry in developing high-efficiency "XP Green Power" products, in the industrial and medical sectors, which consume and therefore waste less electricity. This is while powering the application or while the application is on standby mode. This results in significantly reduced CO_2 emissions over the lifetime of the customer's equipment, which is often seven to eight years. We estimate that our high-efficiency products shipped in 2020 alone will reduce CO_2 emissions by over 117,000 tonnes over their lifetime of use.
- **Novel materials** – We have incorporated novel components into our higher-end products where economic to do so such as highly efficient silicon carbide devices. We have also made use of new semiconductor components for the control of our power supplies, which allow "soft switching" to obtain very high-efficiency rates and allow low standby power ratings to be achieved. There are some exciting developments in power transistor technology, which we will be using as soon as price points allow. This will allow significant reduction in the size of power converters and increase their efficiency in some applications.
- **Product lifecycle management** – Our design processes consider the complete product lifecycle of our power conversion products from the outset. This means we are considering how the product will be disposed of and recycled at the end of its useful life before we design it. Interestingly the characteristics of a product which make it more energy efficient also increase its reliability and its useful lifetime. Highly efficient products run cooler, which increases the lifetime of the key components, which are sensitive to heat such as electrolytic capacitors. They also frequently allow the product to operate without an electromechanical fan to exhaust the waste heat – one of the most unreliable components of a traditional power conversion system.
- **Hazardous substances** – We avoid the use of hazardous substances in our products facilitating their recycling at the end of their lifetime and reducing their impact on the environment.
- **Low carbon manufacturing** – As well as designing our products so they are highly efficient, we also consider the manufacturing process. Traditionally products undergo "burn-in" after manufacture to eliminate early failures by running them under stress. When we burn-in our products we recycle the power in the manufacturing facility to significantly reduce our carbon footprint. Burn-in cycles are monitored and reduced based on the defect data further reducing CO_2 emissions.
- **Product safety** – A power converter is a safety critical part of any electrical system or application as it provides the isolation barrier between the user of the end equipment and the potentially lethal high voltage mains electricity. A drug delivery system is an excellent example where a steel needle could be inserted into a vein of a patient, directly connected to the mains via a conducting solution containing the drug, passing through the drug delivery machine, connected to the mains via the power converter. All our products are 100% tested for isolation using a high voltage. In addition, all our medically approved products are 100% tested for mains leakage current to ensure their absolute safety. All XP Power products come under the remit of our ISO9001 registration.

RESPONSIBLE SOURCING

Code of Conduct

We have a comprehensive Code of Conduct that we regularly refresh. All of our employees are trained regarding our Code of Conduct to ensure they are aware and understand its contents (refer to page 66 for more information). We also require our suppliers to adhere to this Code of Conduct, which covers, amongst other things, diversity, modern slavery and human trafficking, health and safety, business integrity and ethics, environment and sustainability. Our supplier qualification and ongoing audit programme review compliance with our Code of Conduct and we will disengage with suppliers who do not meet these standards.

XP POWER'S CODE OF CONDUCT IS AVAILABLE ON OUR WEBSITE AT XPPOWER.COM/COMPANY/POLICIES

Conflict Minerals

XP Power supports the initiatives and regulations to avoid the use of any "conflict minerals", which originate from mining operations in the Democratic Republic of the Congo (DRC) and adjoining countries. These involve tantalum, tin, tungsten and gold. We only purchase our electronic components from reputable sources and purchases of materials such as solder are only purchased from vendors who are on the Conformant Smelter & Refiner Lists. We also obtain information from our suppliers concerning the origin of the metals used in the manufacture of XP Power products. In this way, we can assure ourselves and our customers that we are not knowingly using conflict minerals in our products.

Our supply chain organisation is responsible for the qualification and ongoing monitoring or our suppliers.

XP POWER'S POLICY ON CONFLICT MINERALS IS SET OUT ON OUR WEBSITE AT XPPOWER.COM/COMPANY/POLICIES

SECTION 6:
ETHICS AND COMPLIANCE

Our Sustainable Business Goal is to have zero breaches of our Code of Conduct and uphold the highest standard of ethics and integrity. This aligns to the UNSDG 16 "Peace, justice and strong institutions".

Business ethics and compliance are extremely important to XP Power. The first of our five core values is Integrity and this is, therefore, embedded into our culture. It is also embedded into our Code of Conduct and the policies outlined in the following sub-sections.

We ensure compliance with our Code of Conduct firstly by ensuring all employees are trained on its contents so they are aware of it and understand it. This occurs through our online Learning Management System on an annual basis. The Company also relies on our general financial controls, authority matrix and by general management oversight and review of financial and other reporting. In addition, we have an independent whistleblowing service available to employees who do not feel able to raise issues of concern to their line manager or their superior. The Audit Committee is responsible for monitoring and compliance matters are regularly reviewed by the Board of Directors.

Over the last three years, only one breach of our Code of Conduct was substantiated. This occurred in 2019 in our Chinese manufacturing facility and was brought to light through our whistleblowing process. The incident was investigated by a third party and involved collusion between two employees and a supplier, and resulted in the individuals concerned being summarily dismissed from the Company.

MODERN SLAVERY

XP Power supports the Modern Slavery Act 2015 and this is explicitly included within our Code of Conduct. We do not engage in any slavery or human trafficking activities and we are 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 through our Code of Conduct.

THIS POLICY IS AVAILABLE ON OUR WEBSITE AT XPPOWER.COM/COMPANY/POLICIES

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 Code of Conduct.

This policy is supported by all levels of the XP Power organisation. Any abuse of human rights would be acted upon immediately and appropriate action taken.

All of our employees are trained regarding our modern slavery policy through the annual Code of Conduct training managed through our online Learning Management System.

WHISTLEBLOWING

XP Power is committed to an environment where open, honest communications are the expectation. Employees should be comfortable in bringing any concerns forward where they believe violations of policies or standards have occurred in the secure knowledge that they will be taken seriously and there will be no adverse repercussions where they have acted in good faith. This is embedded into our Code of Conduct.

We operate an internally well publicised confidential whistleblowing programme through an independent third party called "Speak Up" in every country in which we operate in the local language whatever that might be. This service allows employees to raise concerns over a website or phone in their local language on an anonymous basis if they wish. Any whistleblowing report is automatically reported to the Senior Non-Executive Director by the independent third-party provider.

Our whistleblowing policy encourages our employees to report issues that they are not comfortable raising with their line manager or their superior where they have a reasonable belief:

- Our Code of Conduct has been breached.
- A criminal offence has been committed, is being committed, or is likely to be committed.
- A person has failed, is failing, or is likely to fail to comply with a legal obligation.
- A miscarriage of justice has occurred, is occurring, or is likely to occur.
- The Health and Safety of any individual has been, is being or is likely to be, endangered.
- The environment has been, is being or is likely to be damaged.
- Information tending to show any matter falling within any one of the above categories has been, is being or is likely to be deliberately concealed.

The "Speak Up" process is completely confidential and the Company protects employees who are whistleblowers from any detrimental treatment resulting from any whistleblowing providing they acted in good faith.

In 2019 there were two whistleblowing events, one of which could not be substantiated after thorough investigation. The other incident was investigated by a third party and involved collusion between two employees and a supplier and resulted in the individuals concerned being summarily dismissed from the Company. There were no whistleblowing events in 2020.

XP is proud to have a culture of openness and honesty; we have developed this independent 'Speak Up' process to guarantee that employee experiences of legal or ethical misconduct will be heard and acted upon quickly wherever it occurs within the business. The Company is committed to taking appropriate action with respect to all qualifying disclosures which are upheld.

ANTI-BRIBERY AND CORRUPTION

It is the XP Power's policy to conduct all of its business in an honest and ethical manner. We will not at any time take or give bribes or other means of inducement to obtain improper advantage. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates and implementing and enforcing effective systems to counter bribery.

Our policy on anti-bribery and corruption is embedded in our Code of Conduct on which all our employees receive annual training. Our Code of Conduct's section on bribery and corruption is detailed and includes numerous examples so that our employees can clearly understand what is acceptable and what is not acceptable. The requirements of our Code of Conduct are communicated to our suppliers and they are required to comply with its provisions.

We use our online Learning Management System which was rolled out worldwide in 2020 to manage and monitor the training of our employees. Our Code of Conduct was refreshed in 2020 and all employees were required to complete our Code of Conduct training and acknowledge that they understand the Code.

The Board of Directors is ultimately responsible for compliance with all aspects of our Code of Conduct. There were no instances of bribery or corruption in 2020 to which the executive management or Board were aware.

HUMAN RIGHTS

In accordance with our commitment to the United Nations Universal Declaration of Human Rights, we support and respect internationally recognised labour rights, including freedom of association, the avoidance of discrimination, the abolition of forced and child labour and antislavery legislation. We do not support forced and child labour and we expect the same commitment from our stakeholders.

Our policy on human rights is set out in our Code of Conduct and all employees are trained on this on an annual basis.

The Board of Directors is ultimately responsible for compliance with all aspects of our Code of Conduct including human rights.

INFORMATION SYSTEMS AND TECHNOLOGY

The Group considers that it has appropriately robust and secure information technology (IT) systems while acknowledging that no IT system can be absolutely secure.

The Group IT Director is responsible for the integrity and security of the IT systems and communications network. The Group has processes in place for penetration testing, data back-up and recovery. It also has various processes, software and hardware in place to prevent data security breaches and unauthorised access to the Group's systems and data.

The Group also conducts regular cyber security training and awareness to ensure that our employees remain alert to cyber security threats.

TAX TRANSPARENCY

The Group is committed to compliance with all applicable tax laws and regulations in all the jurisdictions in which it operates or is required to make filings. All required tax filings are made accurately and on time with the relevant authorities. It is the Group's policy not to engage in any aggressive tax planning or tax avoidance schemes.

GOVERNMENT CONTRACTS

The Group has no direct relationships where it sells products or services to any government entity.

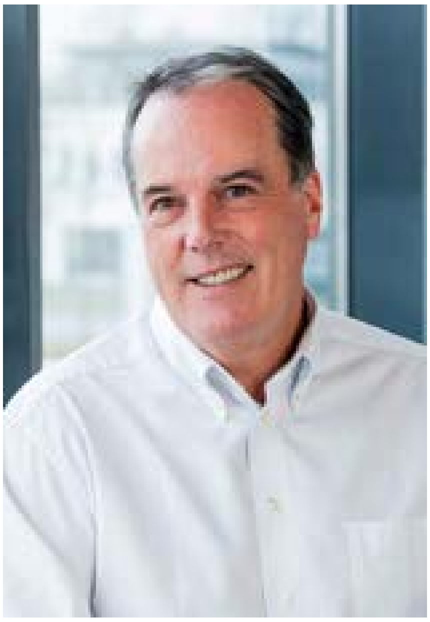
GOVERNANCE

READ ABOUT OUR LEADERSHIP STRUCTURE ON PAGe 92

READ ABOUT HOW WE DELIVER AN EFFECTIVE BOARD ON page 105

Contents

LETTER FROM THE CHAIRMAN INTRODUCTION TO GOVERNANCE



James Peters
Chairman

I am pleased to introduce our Governance Report for the financial year ended 31 December 2020. This report provides detailed information on how the Group is managed and the governance, culture and framework under which XP Power operates.

The Board remains committed to high standards of governance across the Group. We have reported against the UK Corporate Governance Code 2018 (the "Code") issued by the Financial Reporting Council and our Governance Report, along with the information in the Strategic and Remuneration Reports, explains how we have applied its principles and provisions. Except for the independence of the Chairman, which we explain on page 99, each principle was applied and provision complied with throughout 2020 as required by the Listing Rules.

The Board considers that the Annual Report taken as a whole is fair, balanced and understandable. It provides the information necessary for Shareholders to assess the Group's position, performance, business model and strategy. The February 2021 Audit Committee meeting confirmed to us that the 2020 Annual Report and Accounts were true and fair, that the work of the external Auditor was effective, and that the process supporting the viability statement was robust. The Board asked the Executive Directors to provide evidence around the content and process for preparing the 2020 Annual Report and Accounts at our February 2021 Board meeting. Consequently, the Board is able to confirm that the 2020 Annual Report and Accounts taken as a whole are fair, balanced and understandable.

COVID-19

COVID-19 has brought unprecedented challenges to the world and to XP Power. We quickly established the clear priorities of:

1. Ensuring the safety and wellbeing of our people;
2. Keeping our customers supplied with product; and
3. Preserving our cash.

These priorities immediately became the guiding principles of how we managed through 2020. The pandemic resulted in strong demand from our customers who provide critical care equipment to treat COVID-19 patents. This placed significant strain on our supply chain, which itself was constrained due to supply issues early in the pandemic. We were able to respond decisively to get product rapidly flowing to these customers to enable lives to be saved. Our people are very proud of what we were able to achieve in the most challenging of circumstances and we are proud of their outstanding efforts.

READ MORE ON PAGE 39

"The Board remains committed to high standards of governance across the Group."

PURPOSE AND CULTURE

The role of the Board is to promote the long-term sustainable success of the Company, generating value for Shareholders. In order to achieve this, we have established a clear vision: "To be the first-choice power solutions provider delivering the ultimate experience to our customers and our people", and a clear purpose of "Powering the world's critical systems". We have defined the core values, which shape our culture and contribute to our success, which are: Integrity, Knowledge, Speed, Flexibility and Customer Focus. The Board have reviewed our culture with the Executive Directors and are satisfied that the Company's culture and workforce policies and practices are consistent and align with its purpose, strategy and values.

READ MORE ON PAGE 95

DIVISION OF RESPONSIBILITIES

It is the responsibility of the Chairman to manage the Board and ensure it is effective. We encourage a culture of openness and debate to ensure all views are heard and taken into consideration. The CEO and CFO ensure that Directors receive accurate, timely, clear and relevant information in order to discharge their duties.

There is clear division of responsibility between the Chairman, who responsible for the management of the Board, and the CEO, who is responsible for the day-to-day running of the Company and execution of our strategy.

STRATEGY

We have deployed a consistent strategy over many years, which we continue to refine, review and constructively challenge as a Board as the business continues to grow and develop. We have reviewed this strategy again in 2020 and made refinements where appropriate. We are pleased to report that we have, again, executed well against our strategy as evidenced by the results we have achieved and progress we have made.

READ MORE ON PAGES 32 AND 36

WORKFORCE ENGAGEMENT

Workforce engagement has been particularly important in 2020 due to the COVID-19 pandemic. Despite the restrictions on international travel, we have endeavoured to stay close to our employees and support them during this difficult time. We have ensured that our managers take extra time to check in with their teams who are working from home.

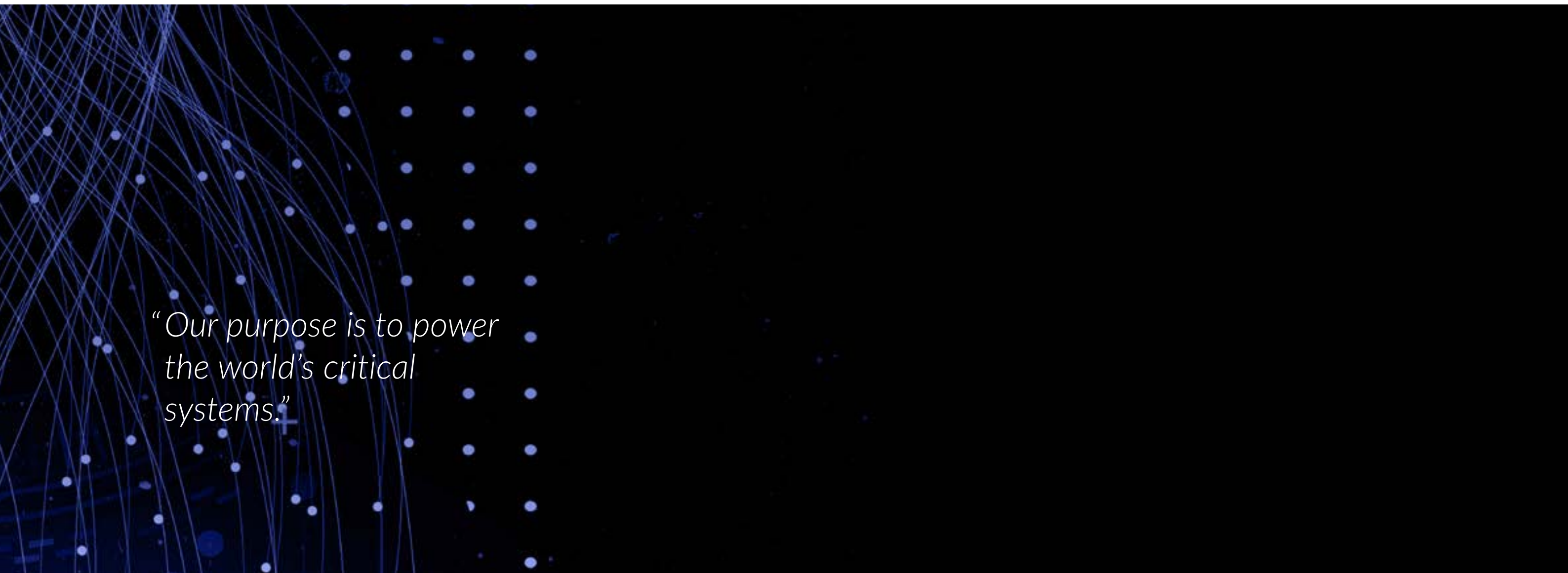
Many of our employees have been working from home and we have stayed connected with them through frequent all hands employee meetings over video with questions and answers. We have also conducted a number of employee surveys. Two of these surveys specifically related to COVID-19 and the challenges of working from home.

FUTURE OF XP POWER

We have confidence in our strategy and business model and the Management team in place to execute our strategic plans. The business has performed strongly over a significant period of time despite numerous external challenges. We remain confident and excited regarding the long-term prospects for the future of XP Power.

James Peters
Chairman

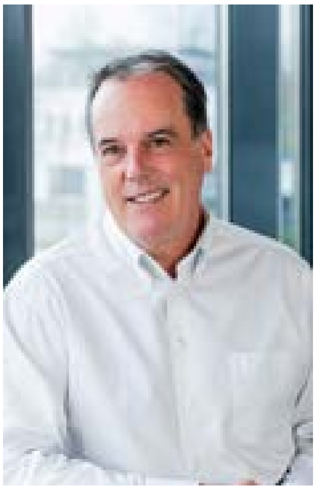
2 March 2021



BOARD OF DIRECTORS

BOARD ROLE

■ Chairman ■ Executive Director Senior Non-Executive Director □ Non-Executive Director



JAMES PETERS

■ CHAIRMAN

Date of appointment:
30 June 2014

Executive/Non-Executive:
Non-Executive

Committee Membership:
Nomination (Chair)

Independent: No

SKILLS AND 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.

EXTERNAL APPOINTMENTS:

None

DUNCAN PENNY

■ EXECUTIVE DIRECTOR

Date of appointment:
Duncan joined the Group in April 2000 as Group Finance Director and became Chief Executive Officer on 3 February 2003 until 31 December 2020. Duncan will be stepping down from the Board at the Company's AGM scheduled for 20 April 2021.

Executive/Non-Executive:
Executive

Committee Membership:
None

SKILLS AND 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.

EXTERNAL APPOINTMENTS:

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

GAVIN GRIGGS

■ CHIEF EXECUTIVE OFFICER

Date of appointment:
Gavin joined the Group on 31 October 2017 as Chief Financial Officer. Gavin was appointed Chief Executive Officer with effect from 1 January 2021.

Executive/Non-Executive:
Executive

Committee Membership:
None

SKILLS AND 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.

EXTERNAL APPOINTMENTS:

None

ANDY SNG

■ EXECUTIVE VICE PRESIDENT, ASIA

Date of appointment:
24 April 2007

Executive/Non-Executive:
Executive

Committee Membership:
None

SKILLS AND EXPERIENCE:

- Over 16 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, held technical and commercial roles with companies such as Silicon Systems (Singapore) and Advanced Micro Devices (Singapore).

EXTERNAL APPOINTMENTS:

None

TERRY TWIGGER

SENIOR NON-EXECUTIVE DIRECTOR

Date of appointment:
1 January 2015

Executive/Non-Executive:
Non-Executive

Committee Membership:
Audit (Chair), Nomination, Remuneration

Independent: Yes

SKILLS AND 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.

EXTERNAL APPOINTMENTS:

None

POLLY WILLIAMS

☐ **NON-EXECUTIVE DIRECTOR**

Date of appointment:
1 January 2016

Executive/Non-Executive:
Non-Executive

Committee Membership:
Audit, Nomination, Remuneration

Board representative for ESG

Independent: Yes

SKILLS AND EXPERIENCE:

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

EXTERNAL APPOINTMENTS:

Polly is currently a non-executive director at:

- Jupiter Fund Management 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**

Date of appointment:
3 December 2019

Executive/Non-Executive:
Non-Executive

Committee Membership:
Remuneration (Chair), Audit, Nomination

Independent: Yes

SKILLS AND EXPERIENCE:

- Pauline was formerly 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.

EXTERNAL APPOINTMENTS:

Pauline currently holds non-executive positions at:

- Centurion Group; and
- Scottish Event Campus Limited (SEC).

CHANGES TO THE BOARD

Duncan Penny stepped down as Chief Executive Officer on 31 December 2020 and will step down from the Board at the Annual General Meeting scheduled for 20 April 2021.

Gavin Griggs was appointed Chief Executive Officer with effect from 1 January 2021.

As described in the Remuneration Committee report Pauline Lafferty took over the Chair and position of Designated Non-Executive Director from Polly Williams with effect from 1 December 2020.

CORPORATE GOVERNANCE REPORT

OUR APPROACH TO GOVERNANCE

Code principles

CORPORATE GOVERNANCE STATEMENT 2020

Compliance with the UK Corporate Governance Code 2018

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 updated The UK Corporate Governance Code and that new update came into effect for accounting periods beginning after 1 January 2019 (the "Code"). We were compliant with the new Code throughout 2020, with the exception of the independence of the Chairman, which we explain on page 101.

We have tried to clearly lay out on the following pages how we meet the five principles of the Code, namely: (1) Board leadership and Company purpose, (2) division of responsibilities, (3) composition, succession and evaluation, (4) audit, risk and internal control, and (5) remuneration.

Under the Singapore Companies Act, Chapter 50, the Company is not required to follow the Singapore Corporate Governance Code. The Company has voluntarily agreed to the principles of corporate governance contained in the UK Corporate Governance Code (the "Code") as required under the Listing Rules of the Financial Services Authority of the United Kingdom.

James Peters
Chairman

Gavin Griggs
Chief Executive Officer

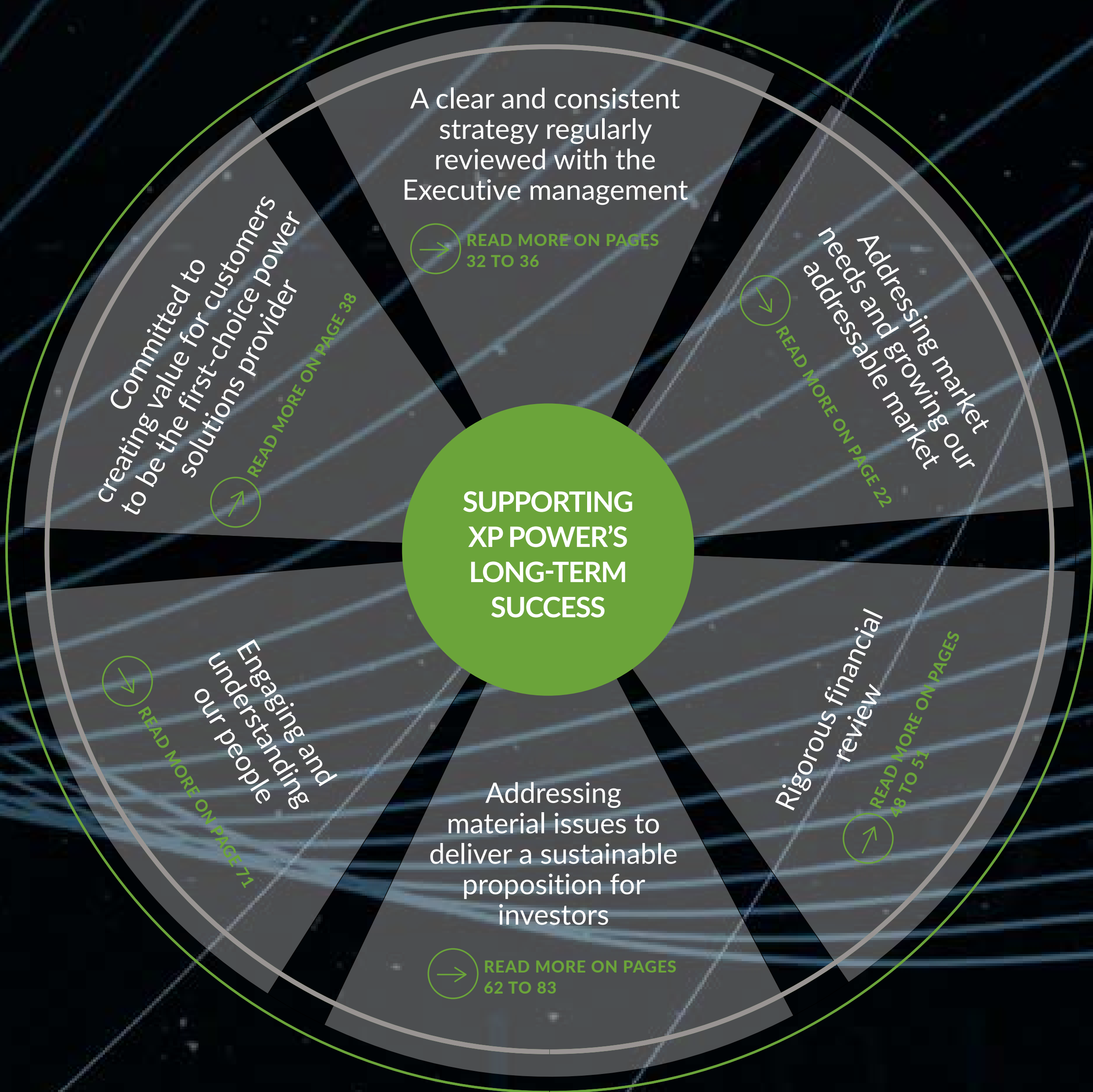
2 March 2021

BOARD LEADERSHIP AND COMPANY PURPOSE

DRIVING SUSTAINABLE GROWTH

XP Power's long-term success is founded upon a clear purpose of powering the world's critical systems and supporting strategy, which considers the views and needs of its many stakeholders.

The diagram below sets out the Board's contribution to the long-term success of the Company while ensuring responsible governance, strategy implementation and oversight of operations.



LEADERSHIP STRUCTURE

THE BOARD OF DIRECTORS

AUDIT COMMITTEE

CHAIR: TERRY TWIGGER

Provides oversight of the financial reporting, audit process, the Company's systems of internal controls and compliance with laws and regulations

INTERNAL AUDIT

Provide assurance that the Company's risk management, governance and internal controls are operating effectively

REMUNERATION COMMITTEE

CHAIR: PAULINE LAFFERTY

Sets the policy for the remuneration of the Executive Directors and Executive Leadership team

NOMINATION COMMITTEE

CHAIR: JAMES PETERS

Review and consider the appointment of new Directors and succession planning for the Board and Executive Leadership team

CHAIRMAN

Managing and providing leadership to the Board of Directors

SENIOR NON-EXECUTIVE DIRECTOR

Supporting the Chairman in his role and acting as an intermediary for other Directors

NON-EXECUTIVE DIRECTORS

Challenging and supporting the Executive Directors and acting in the best interest of the Company's stakeholders

DESIGNATED NON-EXECUTIVE DIRECTOR

Ensuring the views and concerns of the workforce are brought to the Board and taken into account in discussions and decisions

CHIEF EXECUTIVE OFFICER

Manages the overall operations and resources of the Company in accordance with the strategy approved by the Board

EXECUTIVE DIRECTORS

Design, develop and implement strategic plans and provide leadership to the organisation

READ MORE ABOUT THE BOARD'S RESPONSIBILITIES ON PAGE 100

BOARD MEETINGS

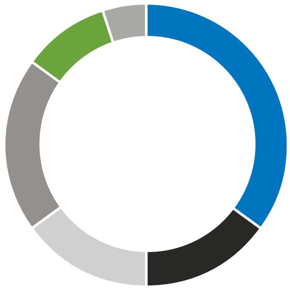
The Board met five times, excluding committee meetings, during 2020 and all Directors attended every meeting. In addition, there were a series of meetings with management outside of the formal Board meetings to review risk management, product lifecycle management, people plans, and the Corporate Governance Code.

An estimate of how the Board spent its time during 2020 is shown in the graphic.

BOARD MEETINGS AND ATTENDANCE 2020

	MEETINGS					ATTENDANCE (%)
JAMES PETERS	•	•	•	•	•	100%
DUNCAN PENNY	•	•	•	•	•	100%
GAVIN GRIGGS	•	•	•	•	•	100%
ANDY SNG	•	•	•	•	•	100%
TERRY TWIGGER	•	•	•	•	•	100%
POLLY WILLIAMS	•	•	•	•	•	100%
PAULINE LAFFERTY	•	•	•	•	•	100%

HOW THE BOARD SPENT ITS TIME



- Strategy, performance and operations (35%)
- Committee matters (15%)
- Governance and risk management (15%)
- Reviews with senior management (20%)
- Workforce/stakeholder engagement (10%)
- Reviewing implications of COVID-19 (5%)

BOARD ACTIVITIES IN 2020

Main areas:

STAKEHOLDER ENGAGEMENT

KEY ACTIVITIES AND DISCUSSIONS

- Reviewed results of employee surveys and Shareholder feedback

FUTURE PRIORITIES

- Review results of 2021 employee engagement survey and resulting actions and progress
- Review results of new stakeholder surveys and resulting actions
- Continue to consult with Shareholders on remuneration matters

STAKEHOLDERS CONSIDERED

STRATEGY AND OPERATIONS

KEY ACTIVITIES AND DISCUSSIONS

- Reviewed Company strategy with Executive Directors
- Reviewed business performance and strategic priorities at each Board meeting

FUTURE PRIORITIES

- Continue to monitor progress against strategic priorities at each Board meeting
- Further reviews with senior managers below Board level
- Annual review of strategy

STAKEHOLDERS CONSIDERED

COMMITTEE MATTERS

KEY ACTIVITIES AND DISCUSSIONS

- Search for new Chief Executive Officer
- Development of new remuneration policy
- Continuing to evolve the Group's risk and compliance framework and ongoing review of the new ERP system

FUTURE PRIORITIES

- Chief Financial Officer search
- Succession planning and talent management
- External audit tender

STAKEHOLDERS CONSIDERED

FINANCIAL AND RISK MANAGEMENT

KEY ACTIVITIES AND DISCUSSIONS

- Inventory and cost management during semiconductor manufacturing equipment and critical healthcare ramp
- Preservation of cash during COVID-19 pandemic

FUTURE PRIORITIES

- Operating cash conversion
- Maintaining and raising operating margins

STAKEHOLDERS CONSIDERED

COMMERCIAL MATTERS

KEY ACTIVITIES AND DISCUSSIONS

- Keeping customers supplied with product during the COVID-19 pandemic
- Geographical diversification of supply chain to build increased supply chain resilience
- Closure of Minden facility and production move to Vietnam

FUTURE PRIORITIES

- Transfer higher running engineering services production from North America to Vietnam to reduce costs
- Manage geographic impact of COVID-19
- Growth and product development opportunities

STAKEHOLDERS CONSIDERED

SUSTAINABILITY

KEY ACTIVITIES AND DISCUSSIONS

- Ensuring the safety and wellbeing of our people
- Engaging with our stakeholders to understand their sustainability issues to enhance our strategy

FUTURE PRIORITIES

- Maintaining the safety and wellbeing of our people
- Developing our sustainability strategy

STAKEHOLDERS CONSIDERED

KEY People Customers Investors Suppliers Communities The Environment

PROMOTING A POSITIVE CULTURE

OUR CULTURE JOURNEY

The Board is responsible for the culture of the Company. Its role is to influence and monitor culture to ensure we are emulating desired beliefs and behaviours in and outside the boardroom and identifying areas where culture is embedded strongly and where there are gaps. The Board has been on a journey to help influence the right culture throughout the Company, as set out below:

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

2020

January
Anonymous online cultural survey conducted

February
Board reviewed results and actions from the cultural survey

June
Chief People Officer appointed

October
People and organisational review process implemented

December
New employee engagement survey and process implemented

HOW THE BOARD MONITORED CULTURE IN 2020

ACTION	DESCRIPTION
REVIEWED RESULTS AND UPDATES FROM EMPLOYEE ENGAGEMENT SURVEYS	The Board have continued to review the results of cultural and engagement surveys during 2020. Despite the challenges of COVID-19, we have been able to monitor trends in employee satisfaction and understanding how the Company's core values have been embraced.
NEW CHIEF PEOPLE OFFICER	People and organisational reviews have been conducted with each member of the Executive Leadership Team. The new Chief People Officer presented to the Board in October 2020.
NEW ENGAGEMENT SURVEY	A new Gallup engagement survey was introduced in December 2020, which will be used to drive even higher employee engagement in 2021.
CODE OF CONDUCT TRAINING	Our Code of Conduct was refreshed and rolled out to all employees including reinforcement of our core values of: Integrity, Knowledge, Speed, Flexibility and Customer Focus.
SENIOR LEADERSHIP WORKSHOPS	The Executive Leadership Team engaged with all leaders in the organisation through a series of three workshops covering strategy and priorities for 2021 and beyond. Leaders communicated these materials and the outcome from these sessions back to their teams.
SUSTAINABILITY IMPACT ASSESSMENT	During Q4 of 2020, we engaged with our employees to understand what sustainability impacts are most important to them. This has been factored into our sustainability strategy. The Board will be reviewing this work in 2021.

READ MORE ABOUT XP POWER'S CULTURE AND VALUES ON PAGES 8 AND 9

ENGAGING WITH OUR STAKEHOLDERS

How the Board engaged with stakeholders this year

MATERIALITY ASSESSMENT

During the later part of 2020, we engaged a number of our key stakeholder groups through a comprehensive survey followed up by a number of discussions to understand what aspects of sustainability were most important to them. This included our employees, customers and suppliers. We are pleased to report that there is very close alignment between the Company's materiality assessment and those of our stakeholders.

"We are pleased to report that there is very close alignment between the Company's materiality assessment and those of our stakeholders."

EMPLOYEES

- We formally engage with our employees by conducting an annual cultural survey. We changed our survey partner to Gallup in December 2020 and focused this activity firmly on employee engagement.
- We also conducted numerous all hands meetings and specific surveys as we navigated the COVID-19 pandemic during the year.
- We also held a number of leadership workshops in during the year where the Executive Leadership Team presented strategy and priorities to our leaders and obtained their feedback.

WE IDENTIFIED THAT OUR EMPLOYEES' TOP THREE MATERIAL ISSUES WERE:

1. Attracting, retaining and rewarding talent
2. Customer experience and satisfaction
3. Product portfolio expansion and innovation

CUSTOMERS

- We surveyed our key customers in Q4 of 2020 to understand what their top material issues were. This was followed up in a number of meetings.
- In addition, we are able to engage with some of our larger key customers who hold regular business reviews to assess key performance indicators, product road maps and other developments.

WE IDENTIFIED THAT OUR CUSTOMERS' TOP THREE MATERIAL ISSUES WERE:

1. Product design, quality and safety
2. Customer experience and satisfaction
3. Manufacturing capability and flexibility

SUPPLIERS

- We surveyed our key suppliers in Q4 of 2020 to understand their top material issues using a similar process to that used with our customers.
- We also hold business reviews with our key suppliers to assess performance levels regarding on time delivery, quality and cost. We will also engage with them regarding their product road map and market dynamics as appropriate. Regular audits of our key suppliers are conducted to ensure compliance with our Code of Conduct.

WE IDENTIFIED THAT OUR SUPPLIERS' TOP THREE ISSUES WERE:

1. Customer experience and satisfaction
2. Product design, quality and safety
3. Brand value and reputation

ENGAGEMENT WITH SHAREHOLDERS

FORMAL INVESTOR MEETINGS

The CEO, CFO and investor relations have conducted numerous investor meetings during 2020, generally over video due to the situation with COVID-19. In addition, the CEO and CFO have attended a number of virtual investor conferences including one for North American based investors.

The Remuneration Committee Chair held discussions with major Shareholders to consult them regarding the Company's new remuneration policy put before Shareholders in April 2020.

The Chairman offered and attended a number of meetings with major Shareholders regarding CEO succession in October 2020.

FEEDBACK FROM BROKERS AND FINANCIAL PR

As well as obtaining feedback directly from Shareholders, the Board reviews formal feedback on various investor roadshows obtained from brokers and our financial PR company. The Board also reviews analyst notes and other financial articles concerning the Company.

ANNUAL REPORT AND ACCOUNTS

We review feedback from Shareholders and other stakeholders and take this into consideration when drafting our Annual Report and Accounts. We make our Annual Report and Accounts available on our website as soon as it is practicable following our final earnings release.

CORPORATE WEBSITE

The Company makes every effort to ensure that its corporate website contains material that is useful to Shareholders and other stakeholders. This includes an investor alert service and a number of short videos covering what our product does, our markets, our strategy, our business model, growth drivers and our investment proposition.

We also publish a video presentation of our interim and final results, so all our Shareholders can benefit from communication directly from the CEO and CFO.

KEY THEMES DISCUSSED

The following key themes have been discussed with Shareholders during 2020:

- CEO succession
- Managing with the backdrop of the COVID-19 pandemic
- Supply chain consequences of COVID-19 and the challenges of ramping capacity to meet Healthcare and Semiconductor Equipment Manufacturing demand
- Cycles within the Semiconductor Equipment Manufacturing sector and changes in technology
- Drivers for 2020 and 2021 within the Company's Healthcare customer base
- The Company's remuneration policy
- The Company's dividend policy
- Our longer-term prospects

DESIGNATED NON-EXECUTIVE DIRECTOR FOR WORKFORCE ENGAGEMENT

Pauline Lafferty
Designated Non-Executive Director for Workforce Engagement

WORKFORCE ENGAGEMENT PROCESS

THE BOARD

AUDIT COMMITTEE

ENGAGEMENT WITH THE WORKFORCE

– DNED, Pauline Lafferty

LIVE COMMUNICATION MEETINGS

SPECIFIC ANONYMOUS EMPLOYEE SURVEYS

CONFIDENTIAL, INDEPENDENT WHISTLEBLOWING HOTLINE

HOW WE ENGAGED WITH OUR WORKFORCE THIS YEAR

The COVID-19 pandemic meant that it was not possible for us to travel freely and engage with our employees around the world in the same way we could do in previous years. We were able to continue to conduct and review the various cultural and engagement surveys as we have done in prior years. In addition, we reviewed specific pulse surveys conducted by Executive management to determine how our people were coping during the pandemic, particularly those who were working from home.

WORKFORCE PRACTICES AND POLICIES

We have been very supportive of the clear priorities set by Executive management from the very start of the pandemic. These were: (1) ensuring the safety and wellbeing of our people; (2) keeping product flowing to our customers; and (3) conserving our cash. We were also highly supportive of the frequent (multiple per week) all hands meetings held by management to keep our employees connected. The results of the surveys show these were well received and our employees considered that we were managing the pandemic well.

Q HOW DO YOU ENSURE THE EMPLOYEE VOICE IS HEARD ON THE BOARD?

With my background as a Chief People Officer, this is a matter to which I give great importance and I always ensure the voice of employees is considered in any Board discussions or decisions that could affect them.

We have a number of processes to ensure the views of employees are solicited.

As well as the various surveys that we review, we also have a confidential whistleblowing service that is administered by an independent third party and available in multiple languages. We did not have any whistleblowing events in 2020.

Q WHAT WERE SOME OF THE KEY HIGHLIGHTS IN 2020?

2020 has been extremely challenging due to the COVID-19 pandemic; not only the challenges in managing the strong demand we experienced by our customers supplying critical care devices but also the pressure our employees were under due to the pandemic and adjusting to working from home. I believe the results of our surveys have shown we managed this very well. Another key highlight in 2020 was the appointment of Anna Mealings as Chief People Officer in June. Anna comes with a wealth of experience and this appointment demonstrates the Board's ambition for the business and the importance that our people play in the future development of the business.

Q WHAT AREAS DOES THE BOARD WANT TO FOCUS ON IN FUTURE?

We have not been able to have the same face-to-face engagement with employees that we had in previous years due to COVID-19. I hope that travel restrictions will ease in 2021 and we will be able to resume this type of engagement. The business has grown significantly over the past few years and we have invested in the systems and processes to ensure we can support that growth. There is more work to do to continue to upgrade and develop the talent of our people.

INTERNAL CONTROL

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.

SHAREHOLDER COMMUNICATION

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 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 including the Company's new remuneration policy put before Shareholders at the April 2020 Annual General Meeting.

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING

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.

DIVISION OF RESPONSIBILITIES

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

The Chairman 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 (Gavin Griggs) are separate and clearly defined. The Chairman is responsible for the running of Board meetings. 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 as set out below. These principles are demonstrated through the skills matrix on the following page.

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 performed.

EXECUTIVE DIRECTORS

Other than their normal attendance and participation in discussions at Board meetings the Executive Directors are responsible for the day-to-day running of the Company and the implementation of the agreed strategy.

SENIOR NON-EXECUTIVE DIRECTOR

The senior Non-Executive Director supports the Chairman in their role. They also lead the Non-Executive Directors in the annual evaluation of the Chairman. The senior Non-Executive Director is also available to Shareholders in the event they have concerns that contact through the Chairman, CEO or CFO has failed to resolve.

Terry Twigger is the senior Non-Executive Director.

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.

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

- Opinion on 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.

DESIGNATED NON-EXECUTIVE DIRECTOR

The designated Non-Executive Director is responsible for engaging with the workforce and ensuring that their views and interests are considered in Board discussions and decision making.

Pauline Lafferty is the designated Non-Executive Director.

Polly Williams is the designated Non-Executive Director for ESG matters.

CONFLICTS OF INTEREST AND TIME COMMITMENT

It is important that Non-Executive Directors have sufficient time to meet their Board responsibilities. The Non-Executive Directors provided constructive challenge, strategic guidance, specialist advice and held management to account during 2020.

While it is recognised that the Chairman and retiring Chief Executive Officer have significant shareholdings, none of the Board have any conflict of interest with those of the Company.

No Directors had any significant changes to their outside commitments during 2020 and each devoted significant time to their XP Power Board responsibilities during 2020.

All Directors attended all Board meetings.

CHANGE IN DIRECTORS' RESPONSIBILITIES

As described in the Remuneration Committee Report, with effect from 1 December 2020, Pauline Lafferty took over as Chair of the Remuneration Committee and designated Director to ensure the views of the workforce were considered in Board discussions and decisions from Polly Williams.

On 1 January 2021, Gavin Griggs, formerly CFO, took over the role of CEO from Duncan Penny who will retire from the Board at the 2021 Annual General Meeting.

The Company has an ongoing executive search for a CFO.

BOARD INDEPENDENCE

The Board consists of four Non-Executives including the Chairman and three Executives. Of the Non-Executives, three (75%) are considered independent. There is clear division of responsibilities between the Executives and Non-Executives.

The Chairman, James Peters, is not considered independent based on the 2018 UK Corporate Governance Code. However, the Board's view is that his material shareholding in the Company aligns his interests closely with Shareholders as a whole and that this, combined with his knowledge of the business and industry, and the fact that there are clear divisions of responsibility between the Chairman and CEO means that this is advantageous to Shareholders as a whole and does not present a problem.

James Peters holds 1,254,279 shares in the Company representing 6.6% of the issued share capital. No other Non-Executive Directors have a sharing in the Company.

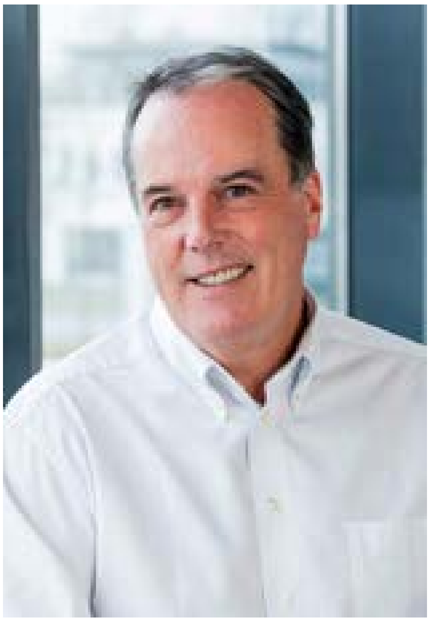
ANTI-TAKEOVER MEASURES

As a policy, we do not have any devices that would limit the ability to perform a takeover of XP Power. This includes devices that would limit share ownership and/or issue new capital for the purpose of limiting or stopping a takeover.

VOTING

Our capital structure is such that one vote is afforded per common share.

NOMINATION COMMITTEE REPORT



James Peters
Nomination Committee Chair

DEAR SHAREHOLDER

2020 was an extremely active year for the Nomination Committee as we conducted a search for a new CEO to replace Duncan Penny who retires as an Executive Director at the 2021 Annual General Meeting. In October 2020, we were delighted to announce that, after a thorough executive search company-led process, Gavin Griggs, formerly our CFO, was to succeed Duncan as CEO on 1 January 2021. We were pleased that we were able to appoint a strong internal candidate to facilitate a smooth succession. We are confident that our selection process for a new CEO was a formal, rigorous, and transparent process.

Pauline Lafferty joined the Board in December 2019 and, given her background in strategic human resources and remuneration matters, she agreed to take over as Chair of the Remuneration Committee with effect from 1 December 2020.

In December 2020, we completed a review of the effectiveness of the Nomination Committee and no material issues were noted from this review.

In 2021, our primary focus will be the appointment of a new CFO. We will also continue to review the strength and depth of the talent within our business to ensure we have the relevant capabilities on board to support the continued growth of the business and continue to review our succession plans.

James Peters
Chairman

2 March 2021

COMMITTEE MEMBERSHIP

James Peters
Chair

Terry Twigger

Pauline Lafferty

Polly Williams

Committee highlights in 2020

- New CEO search
- Appointment of Pauline Lafferty as Remuneration Committee Chair and designated Director for workforce engagement
- Effectiveness review

Area of focus for 2021

- Appointment of a new CFO
- Review of talent and capabilities
- Continued review of succession plans

NOMINATION COMMITTEE MEMBERSHIP

Given the importance of Board and other senior management appointments all Non-Executive Directors are members of our Nomination Committee. The Chief Executive will also attend meetings on request to present to the Nomination Committee or to be consulted where appropriate.

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 and 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 formally twice during the year. The attendees were as follows:

Date	Attendees
31 July 2020	All and Duncan Penny (guest)
5 October 2020	All and Duncan Penny (guest)

Committee responsibilities

The Nomination Committee's main responsibilities are:

- To regularly review the structure, size and composition of the Board including skills, knowledge and capabilities;
- To review succession planning for Directors and other senior executives, taking account of the skills and expertise needed on the Board in the future;
- To be responsible for identifying and nominating for approval by the Board, candidates to fill Board vacancies when they arise; and
- To keep under review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.

The terms of reference of the Nomination Committee is available on the Company's website at xppowerplc.com.

NOMINATION COMMITTEE REPORT
CONTINUED

COMPOSITION, SUCCESSION AND EVALUATION

What has been on the Committee's agenda during the year?

Board succession: We were pleased to be able to appoint a strong internal candidate as our new CEO. Gavin Griggs became CEO on 1 January 2021 and succeeds Duncan Penny who will retire as an Executive Director at the 2021 Annual General Meeting. We appointed Gavin after a rigorous executive search process, which is set out in some detail later in this report. This process occupied a significant amount of time for the Nomination Committee in 2020. Having appointed Gavin as CEO, we are now actively searching for CFO to succeed Gavin. This search will be conducted with similar rigor and process as that for the CEO.

As the business continues to grow in size and complexity, we will continue to review succession plans for Board and senior management positions in 2021.

Remuneration Committee Chair: Pauline Lafferty joined the Board on 3 December 2019. Given her background in strategic human resource management and remuneration matters, she agreed to take over the Chair of the Remuneration Committee and be designated Director responsible for engaging with the workforce with effect from 1 December 2020.

Committee evaluation: As with our other Board committees, we performed an anonymous online evaluation survey using an external consultant to gain feedback regarding the effectiveness of the Nomination Committee. There were no significant issues identified in the survey and the results were very positive and indicated that the Committee was operating effectively.

Board diversity: Becoming a truly diverse and inclusive company is not only the right thing to do, it is crucial to helping us grow our business, innovate, attract and retain talent, and engage the customers who buy our power solutions.

We operate globally and recognise the cultural differences that may exist in the countries in which we do business. We recognise that a truly diverse workforce reflects our markets and will help us succeed in those markets. We will not tolerate any form of discrimination.

The Company supports the Hamilton-Alexander and Parker reviews.

We are committed to equality of opportunity in all our employment practices, procedures and policies. When we hire or promote someone, we choose the best candidate irrespective of age, race, national origin, disability, religion, gender, gender reassignment, sexual preference, marital status or membership/non-membership of any trade unions. We apply the same standards when selecting business partners and regarding appointments to the Board.

Our Diversity Policy is available on our website at xppower.com

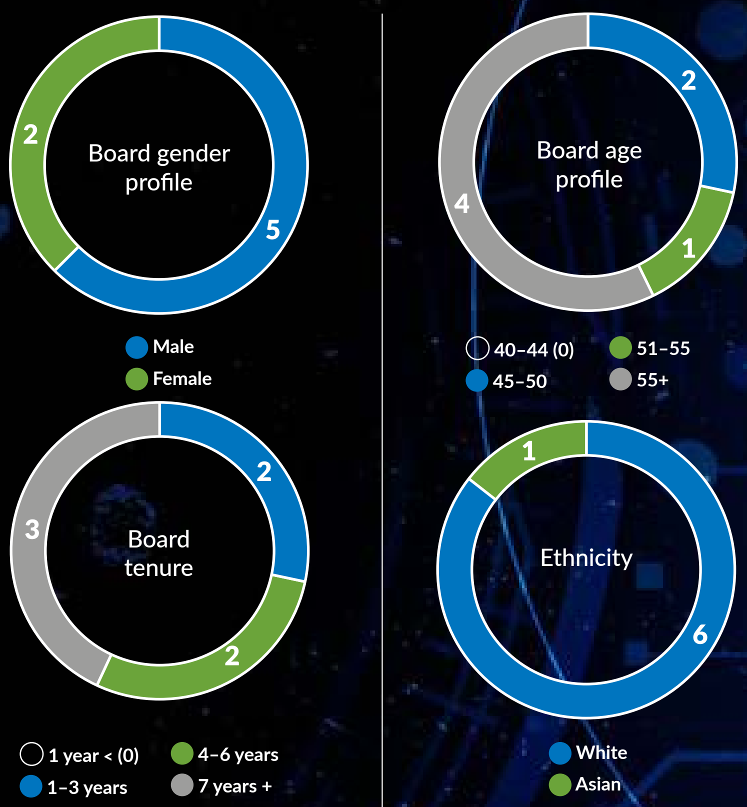
Board skills and experience: In searching for and selecting Board Directors we have ensured that we have a strong balance of the necessary skills, experience and specific capabilities required based on the markets we serve and our chosen strategy and business model. A matrix summarising the skills of our Board is set out on page 105. This includes specific industry skills, as well as non-specific industry skills, such as strategic human resource management, business development and managing growth.

DELIVERING AN EFFECTIVE BOARD

BOARD COMPOSITION

We continue to review the size, structure and composition of the Board to ensure it can continue to be effective in executing our strategy and to deliver sustainable profitable growth over the cycle of the markets in which we operate. We consider that the Board has an appropriate structure and balance of skills and diversity as demonstrated below.

BOARD CHARACTERISTICS



BOARD SKILLS MATRIX

	NUMBER OF DIRECTORS				
POWER ELECTRONICS EXPERIENCE	•	•	•		
RISK MANAGEMENT	•	•	•		
ELECTRONICS AND INDUSTRIAL TECHNOLOGY EXPERIENCE	•	•	•	•	•
STRATEGIC HUMAN RESOURCE MANAGEMENT	•				
BUSINESS DEVELOPMENT AND MANAGING GROWTH	•	•	•	•	
PRIOR PUBLIC COMPANY EXPERIENCE	•	•	•	•	•
INVESTOR RELATIONS	•	•	•	•	

APPOINTMENTS TO THE BOARD AND DIRECTOR RE-ELECTION

Each Director offers themselves for re-election each year. A majority of votes cast at the Annual General Meeting is required for the re-election of each Director. No new appointments to the Board were made in 2020.

CHIEF EXECUTIVE OFFICER

Our process for the search and appointment of a new CEO is set out on the infographic below.

CHIEF EXECUTIVE OFFICER SEARCH AND APPOINTMENT TIMELINE

Overview of candidate specification and search criteria

A detailed candidate specification was developed with the chosen executive search firm that encompassed the desired experience and expertise, leadership capabilities, cultural fit and impact. The initial long list of candidates was selected from a diverse range of potential candidates from various industries so our diversity policy was considered from the outset of the search.

2020

MAY

Selection of executive search firm

Selection of an executive search firm after members of the Nomination Committee met with a three potential firms. Candidate profile developed in collaboration with the selected executive search firm. Search strategy agreed and long list of candidates developed.

JUNE TO SEPTEMBER

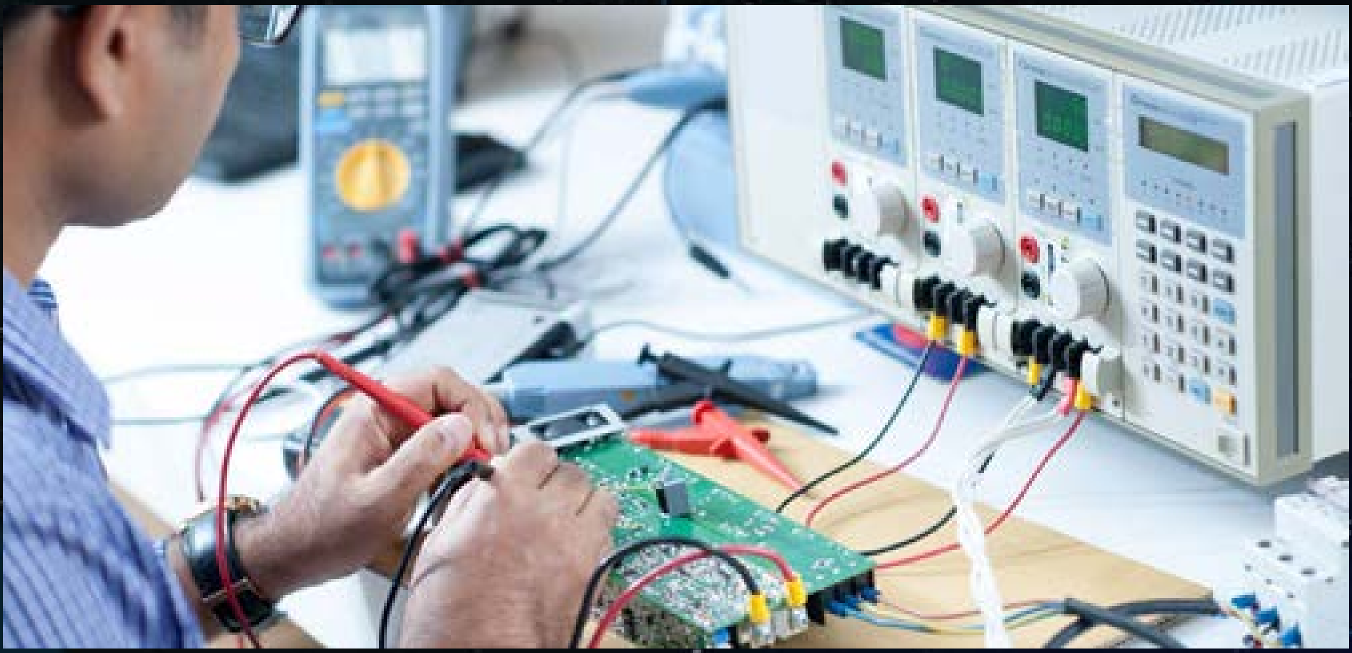
Interviews and assessments

Shortlist of ten candidates developed and interviewed by the Chairman. Shortlist reduced to four candidates. Executive search firm conducts psychometric assessment and three shortlisted candidates interviewed by all Non-Executive Directors. Chairman conducts additional interviews with the final two candidates in a more informal setting.

OCTOBER

Final decision

Interview of final two candidates. Nomination Committee meeting to review final candidates resulting in the appointment of Gavin Griggs.



BOARD INDUCTION AND TRAINING

Directors receive a full induction on joining the Board. The induction programme is tailored to the individual needs of each Director and includes meeting a number of Executive Leadership Team and training regarding the product and markets.

An example of a Board induction process is outlined in the infographic.

BOARD TRAINING IN 2020

In normal circumstances the Board would physically visit a number of sites to engage with the work force and receive face-to-face presentations from functional heads. This was not possible during 2020 due to the COVID-19 epidemic. However, the Board were able to meet members of the Executive Leadership Team over video and attended presentations relating to product development and product lifecycle management together with a presentation from the new Chief People Officer relating to people and organisational planning. We hope that site visits can recommence in 2021 as the virus subsides.

BOARD INDUCTION PROCESS

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 Executive Leadership Team 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

BOARD EVALUATION

The 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 a number of anonymous online Board effectiveness questionnaires 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.

BOARD EVALUATION PROCESS

STAGE 1	Directors complete an anonymous 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 reviews the results and produces a report for the Board.
STAGE 3	The results of the evaluation report are discussed by the Board and actions for improvement are determined.

Every three years the discussion is facilitated by an independent third party.

BOARD EVALUATION FINDINGS 2020

There were no significant issues or concerns identified in the 2020 Board effectiveness questionnaires. The benefits of having more presentations from the executive leaders of the key functions was highlighted and the Board agreed that this would occur in 2021. It was also agreed that more time and resources would be applied to succession planning.

FINDING 1

More presentations to the Board from functional leaders

ACTIONS FOR 2021

A number of additional presentations to the Board are earmarked for 2021. These already include supply chain management and strategic marketing.

FINDING 2

Further development regarding succession planning and talent management

ACTIONS FOR 2021

New Chief People Officer appointed in June 2020 who presented people and organisational plans for 2021 to the Board.

2019 BOARD EVALUATION PROGRESS

No significant issues or concerns were identified as a result of the Board effectiveness review, which was conducted by an independent third party in 2019. The output from this review and actions taken in 2020 as a result are set out below.

2019 EVALUATION FINDING

Improving Shareholder/potential investor communications

ACTIONS TAKEN THIS YEAR

Despite COVID-19 restrictions, the number of Shareholder meetings and investor conferences have increased in 2020, albeit via video. Three separate virtual investor conferences also occurred in 2020.

2019 EVALUATION FINDING

Continued medium to long-range strategy development and review

ACTIONS TAKEN THIS YEAR

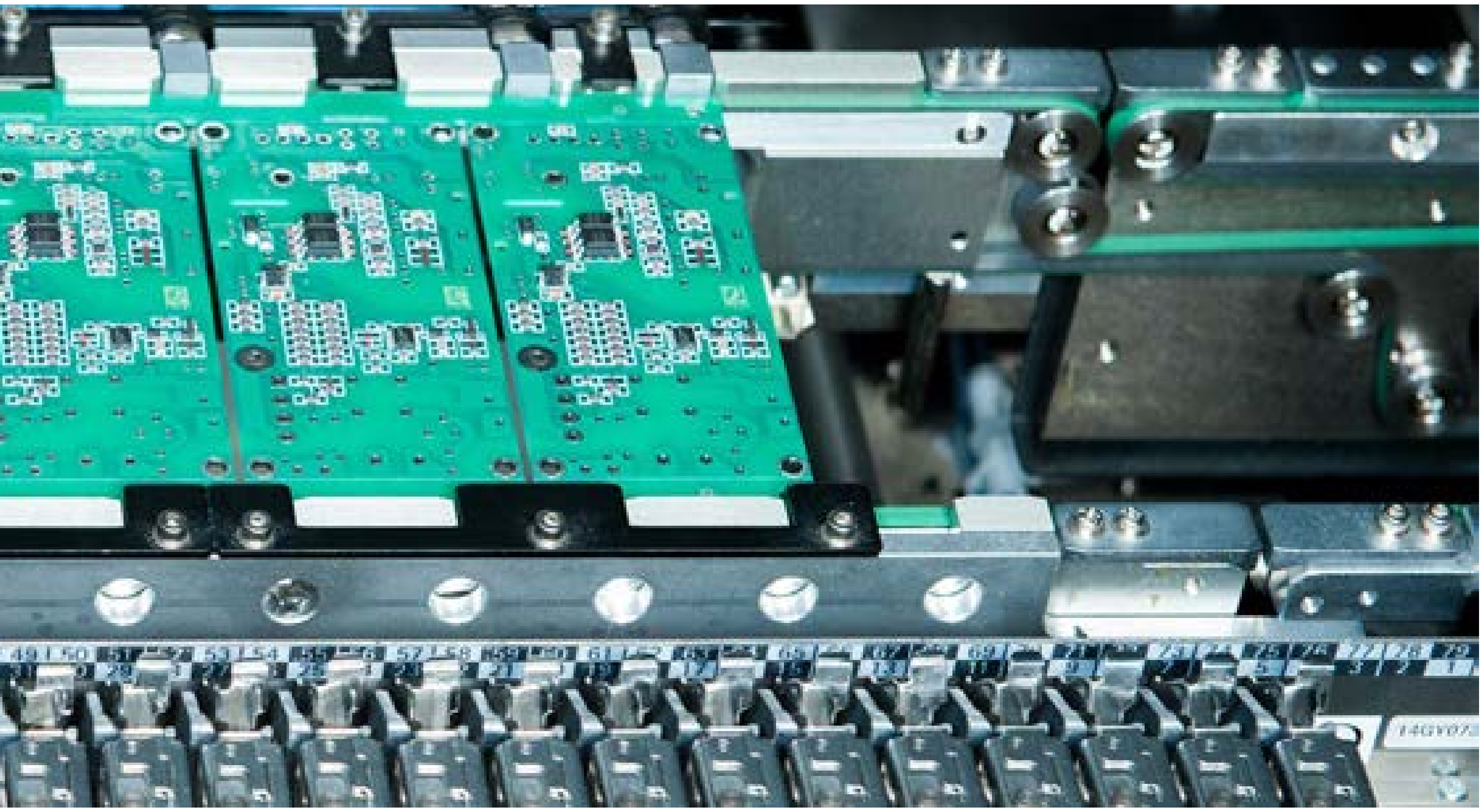
The Board reviewed progress against the strategy in 2020 with the Executive Directors. Some refinements were made but no significant changes were considered necessary.

2019 EVALUATION FINDING

Further development regarding succession planning and talent management

ACTIONS TAKEN THIS YEAR

New Chief People Officer appointed in June 2020 who presented people and organisational plans for 2021 to the Board.



AUDIT COMMITTEE REPORT

Terry Twigger
Audit Committee Chair

“The Committee maintained oversight of the Group’s internal controls and risk management framework and the integrity of the financial reporting process, with particular focus to the impact of COVID-19 on the business.”

DEAR SHAREHOLDER

As Chairman of the XP Power Audit Committee, I am pleased to present the 2020 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 2020.

As covered elsewhere in the Annual Report, 2020 was dominated by the global healthcare crisis caused by the COVID-19 pandemic. The pandemic has led to new ways of working and the Committee had to adjust its agenda whilst still maintaining oversight of the Group’s internal controls and risk management framework and financial reporting. The Committee has continued to scrutinise the Group’s internal control framework, specifically focusing on the internal audit agenda and ensuring that this continues despite the challenges brought by the pandemic. Particular focus was given to the impact of COVID-19 on the business and in particular the going concern and viability statements.

The report aims to provide the following information:

- The Audit Committee’s principal responsibilities and its governance.
- The key activities that 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.

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.

In last year’s report, I anticipated that the external audit would be retendered in 2021 after the completion of the upgrade of the Group’s ERP system. Because of the COVID-19 pandemic, the upgrade of the ERP system has been deferred until 2021. In addition, the promotion of the CFO to CEO and hence the need to appoint a new CFO, together with the COVID-19 travel restrictions, means that we have decided to delay the retender of the audit. As a result, the Audit Committee has recommended to the Board that the reappointment of PricewaterhouseCoopers LLP should be proposed at the forthcoming Annual General Meeting and I hope you will support me in this resolution.

Terry Twigger
Audit Committee Chair

2 March 2021

MEMBERS OF THE AUDIT COMMITTEE

Terry Twigger
(Chair) Independent Non-Executive Director

Pauline Lafferty
Independent Non-Executive Director

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 anonymous online survey managed by an independent third party as part of the Board's updated evaluation process.

The Committee considered it has adequate qualifications and skills to perform its responsibilities, particularly through Terry Twigger's financial and management background and Polly Williams' financial and audit experience, but felt that in future the assessment of the internal and external auditors performance could be more rigorous.

MEETINGS OF THE AUDIT COMMITTEE

The Audit Committee met four times during 2020 with attendance on the dates as follows:

Date	Attendees
27 February 2020	All
7 May 2020	All
29 July 2020	All
1 December 2020	All

Although not members of the Audit Committee, the Chief Executive Officer, the Chief Financial Officer and Group Finance Director 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 auditor.

The Terms of Reference of the Audit Committee are available in the Corporate Governance section of the Company's investor relations website xppowerplc.com.

ACTIVITIES OF THE AUDIT COMMITTEE

In 2020, the Audit Committee's activities included:

- Examining the 31 December 2020 Annual 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.
- Received reports from management and the external auditor on the key accounting issues and areas of significant judgement, reviewing and challenging these areas and the level of disclosure. The principal matters discussed 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.
- Approved the going concern and viability statements, including the impact of COVID-19.
- Reviewing the 30 June 2020 Half-Year Report and received reports from management and the external auditor on the key accounting issues and areas of significant judgement, reviewing and challenging these areas and the level of disclosure. This included an assessment of the impact of COVID-19 on the Group's results and the going concern assessment.
- Continuing to evolve the Group's risk and compliance framework by directing the outsourced internal auditor, Deloitte LLP, and reviewing the work scopes of the target areas within the total audit universe.
- Reviewing the internal audit plan.
- Reviewing the findings of the internal audit work and the follow-up of reviews performed in the previous year.

- Ongoing review of the development and implementation of the Company's new ERP system.
- Reviewing the external audit plan; and updates on delivery of the external audit plan and reports from the external auditor on the Group's financial reporting and observations made on the internal financial control environment in the course of their work.
- Reviewing the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Financial Statements, considering the impact of COVID-19.
- Assessing the accounting principles to be adopted in the preparation of the 2020 accounts.
- Reviewing any material issues of fraud, whistleblowing, and litigation.

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

SIGNIFICANT RISKS AND JUDGEMENTS IN THE FINANCIAL REPORTING

In relation to the 31 December 2020 Annual Financial Statements included in this report on pages 141–179, the Audit Committee considered the following topics. It considered these areas to be significant, considering 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.

Significant matters for the year ended 31 December 2020	How the Audit Committee addressed these matters
COVID-19 IMPACT	The COVID-19 pandemic has had a minimal negative impact on the Group; however, the Committee still considered how the impact of COVID-19 was addressed throughout the Annual Report, in terms of consistency and clarity of reporting, as well as management's assessment of the impact on potential impairment of goodwill, inventory and receivables.
IMPAIRMENT ASSESSMENT OF 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 in management's impairment assessment. In particular, the Committee enquired and challenged the assumptions made with regard to forecasted operating margins and understanding the discount rates calculated separately by management and the external auditor. 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 expands 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.

Significant matters for the year ended 31 December 2020	How the Audit Committee addressed these matters
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	Exposure to the risk of inventory obsolescence remains an area of ongoing review. Inventory levels increased during the year as the Group's manufacturing facilities increased production to meet demand. The Committee considered the provision policy, provision levels and the nature and condition of inventory at the balance sheet date. The Committee was satisfied that appropriate provisions for loss and delinquency were made. Physical inventory was validated through a combination of wall-to-wall stock counts, and where comprehensive physical counts were not possible sample counts held at year-end and cycle counts conducted through the year, covering all sites where the Group holds inventory. These counts were reviewed by the external auditor and the results reported to the Committee. The Committee was satisfied that the counts were conducted appropriately.
VIABILITY STATEMENT AND GOING CONCERN	The Committee reviewed management's process for assessing the Group's longer-term viability to in advising the Board in making the Group's viability statement. The Committee considered and challenged the determination of the period over which viability should be assessed, and which of the Group's principal risks should be reflected in the modelling of sensitivity analysis for liquidity and solvency. It reviewed the results of management's scenario modelling and the reverse stress-testing of these models. In addition, the Committee considered additional testing over key assumptions to determine the resilience of the business model to specific stresses with additional disclosure being included in the 2020 Annual Report to this effect. The impact of COVID-19 was also considered in the modelling of underlying performance. Based on this review, the Committee confirmed to the Board that we considered it reasonable for the Directors to make the going concern and viability statements, which can be found on pages 145 and 60 respectively.
FAIR, BALANCED AND UNDERSTANDABLE REPORTING	The Committee considered the Annual Report and Interim Report, on behalf of the Board, to ensure that they were fair, balanced and understandable, in accordance with requirements of the UK Corporate Governance Code. In particular, the Committee considered the impact of COVID-19 on the Group and the reporting of these impacts throughout the Annual Report. To assist in this process, the Committee also considered comments raised by the external auditors. The Committee also considered the use of alternative performance measures by the Group, including the appropriateness of their current use and their disclosure in the Financial Statements and Strategic Report. The Committee concluded that their current use was fair, balanced and understandable.

FAIR, BALANCED AND UNDERSTANDABLE

The Committee considered the Annual Report and Interim Report, on behalf of the Board, to ensure that they were fair, balanced and understandable, in accordance with requirements of the UK Corporate Governance Code. In particular, the Committee considered the impact of COVID-19 on the Group and the reporting of these impacts throughout the Annual Report.

To assist in this process, the Committee also considered comments raised by the external auditors. The Committee also considered the use of alternative performance measures by the Group, including the appropriateness of their current use and their disclosure in the Financial Statements and Strategic Report. The Committee concluded that their current use was fair, balanced and understandable.

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 52.

In 2020 the Committee, on behalf of the Board and with the assistance of the internal audit function, monitored, reviewed and assessed the effectiveness of the Group's internal control systems and principal financial risks. The Committee reviewed the outcome of the audits of key financial controls included in the internal audit programme at each of its meetings during the year. Management also provided the Committee with an update of key accounting issues and financial controls at each meeting.

INTERNAL AUDIT

The internal audit function, performed by Deloitte LLP, provides independent and objective assurance of the effectiveness of the Group's risk management, control, and governance processes. The Committee reviewed the scope and the nature of the internal audit work performed by Deloitte LLP at the start of the year and reviewed updates to the plan at subsequent meetings, including changes to the plan to reflect the impact of COVID-19. These reviews also ensure that the internal audit framework 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 2020, these included a review of the IT General Controls around the Group's ERP system, an assessment of key treasury processes and controls, a global review of the Group's Business Continuity and IT Disaster Recovery processes, and an assessment of the adequacy of the key health and safety controls operated by the Group. The Group has continued with a programme of Controls Self-Assessments completed for all sites and this was reviewed by the internal audit team. 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 EFFECTIVENESS AND INDEPENDENCE

The Committee assesses audit effectiveness continually through the financial year. The assessment includes reviewing the detailed audit plan and the key audit risks included in it, the amount and composition of resources on the audit and the use of specialists where appropriate. In addition, the amount of resources devoted to training of staff and PricewaterhouseCoopers LLP's internal quality processes, including internal and external inspections was reviewed. The Committee also reviewed the results from the Singapore Accounting and Corporate Regulatory Authority (ACRA) and PCAOB external inspections of PricewaterhouseCoopers

LLP. Particular focus was given in 2020 to PricewaterhouseCoopers LLP's ability to adapt their audit approach to the risks posed by COVID-19 and the need to conduct some audit procedures remotely. The Committee reviewed and agreed issues that arose during the course of the audit and agreed the resolution of these issues with the external auditor.

The Committee also received feedback from management evaluating the performance of the external audit teams. Consideration was specifically given to the quality of the audit, communication and interaction with the various finance teams across the Group. Management concluded that the relationship with the external auditor continued to be effective.

The Committee has concluded that the external auditor and the audit process were effective and that audit teams had provided effective challenge. The Committee has therefore reported to the Board that the reappointment of PricewaterhouseCoopers LLP should be proposed at the forthcoming Annual General Meeting.

The current external auditor, PricewaterhouseCoopers LLP, was appointed in 2007. In line with best practice, as recommended by the Financial Reporting Council, the external audit is expected to be retendered no later than 2022, COVID-19 permitting. This has been rescheduled from previous expected timing due to continued travel restrictions resulting from COVID-19 and the ERP Implementation planned for 2021, which will improve the embedded controls and change the approach to the audit and the change in senior management.

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 Chair of the Audit Committee, who, in his decision to approve, will consider 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 Chair 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 Chair of the Audit Committee.

During the year, non-audit fees of £0.02 million (2019: £0.1 million) were paid to the auditor for review of the 30 June 2020 interim financial statements.

REMUNERATION COMMITTEE REPORT

Pauline Lafferty
Remuneration Committee Chair

"The Board has been impressed by the stamina and resilience of the Leadership team and by the tenacity and dedication of all our employees."

DEAR SHAREHOLDER

I took over as Chair of the XP Power Remuneration Committee from 1 December 2020, after a year serving on both the XP Power Board and on the Remuneration Committee. My thanks go to Polly Williams, my predecessor, who has chaired the Remuneration Committee since 2016. We are fortunate that she is continuing as a member of the Committee.

The circumstances brought about by the COVID-19 pandemic made 2020 a particularly challenging year. The business was exposed very early on in 2020 to the pandemic due to our significant manufacturing presence in China. From the outset we had three clear priorities:

1. Ensuring the safety and wellbeing of our people.
2. Keeping product flowing to our customers especially those customers involved in the production of critical healthcare equipment for the treatment of patients with the virus.
3. Preserving our cash and maintaining liquidity.

Despite the difficulties, the performance of the business has been very strong. Revenue and profit growth have been driven by the recovery in the Semiconductor Equipment Manufacturing sector, with revenue up 86% on the prior year and the demand for critical healthcare equipment to support the treatment of COVID-19 was 51% ahead in revenue terms. This more than offset a 19% decline in the Industrial Technology sector due to COVID-19 and weakness in non-critical care medical applications. Our Total Shareholder Return was 54.5% over the year and 46.8% over the three years ended 31 December 2020.

The Board has been impressed by the stamina and resilience of the Leadership team and by the tenacity and dedication of all our employees. When the supply chain was severely compromised because of government restrictions in China, production was shifted to Vietnam to deal with the significant order backlog. This placed intense pressure on the organisation, particularly in the supply chain and sales teams. Even so, XP Power has delivered excellent results in terms of profit, cash generation and Shareholder value and was promoted to the FTSE 250 in March 2020.

MEMBERS OF THE REMUNERATION COMMITTEE

Pauline Lafferty
(Chair), Independent Non-Executive Director

Terry Twigger
Independent Non-Executive Director

Polly Williams
Independent Non-Executive Director

THE CONTEXT TO THE MAJOR DECISIONS AND ACTIVITIES MADE IN THE YEAR

Every year shareholders are required to vote on the executive remuneration as proposed by the Board. The Remuneration Committee was grateful that the majority of Shareholders supported the three resolutions on remuneration that were put to the vote at the Annual General Meeting ("AGM") in 2020. The Directors' Remuneration Report was supported by 82.96% of Shareholders voting and the Directors' Remuneration Report and the Restricted Share Plan by 79.15% and 78.80% respectively. We consulted extensively with our largest Shareholders in the months leading up to the AGM and afterwards.

It is clear that views among our Shareholders on the Restricted Share Plan ("RSP") were mixed and others questioned the timing of the base salary increases for the Executive Directors. We shall continue to engage extensively with our Shareholders and strive to strike the right balance of interest. The decisions we have taken on annual bonus payments for 2020, the vesting of the October and November 2017 LTIP awards and 2018 LTIP award under the Long-Term Incentive Plan and the approach to the salary levels on appointment of our new Chief Executive Officer and the future appointment of our new Chief Financial Officer, have been made with our stakeholders very much in mind as follows and are summarised as follows:

FURLOUGH	• The Company did not benefit from any furlough schemes.
REDUNDANCIES	• No redundancies were made due to COVID-19.
STATE AID OR FUNDING	• No voluntary state funding was taken. • XP Power received circa £0.6 million predominantly in Singapore for COVID-19 assistance payments, all these payments were made to all companies regardless of need. • The Group also incurred circa £0.9 million of incremental COVID-19 related costs.
EMPLOYEE EXPERIENCE	• Health and Safety is a top priority at XP Power, and we were quick to implement rigorous epidemic prevention and control measures in all our sites. • We have instigated working from home for all employees where their work allows them to do so and ensured they have the appropriate tools and materials to do so. • At sites in areas with high instances of the virus, which included a number of our facilities in North America, we have also implemented mandatory weekly testing for employees who need to work on site. • Across the business we have held 'all hands' meetings, often multiple times a week, to keep our employees connected to what is happening in the business and to each other.
CUSTOMER EXPERIENCE	• China resumed production on 17 February 2020, which was 16 days later than planned, following the annual shutdown for the Chinese New Year, due to the Chinese governmental restrictions. Apart from this, all facilities remained operational throughout 2020 supplying our customers with product. • There were short shutdowns in each of the USA facilities for deep cleaning following COVID-19 cases, but these did not materially affect customer deliveries. • Deliveries to customers providing critical healthcare devices were prioritised and accelerated.
SHARE PRICE AND DIVIDENDS	• The share price has performed well over the year and over the last three years. The share price was £31.00 on 31 December 2019 and increased to £46.90 on 31 December 2020 representing a 51% increase. • Out of caution, the final dividend for 2019 of 36 pence per share was cancelled to preserve cash in the face of extreme uncertainty at the beginning of the pandemic. • The Q1 2020 dividend (Q1 2019: 17 pence per share) was not paid for the same reason. • Dividends resumed from Q2 2020 onwards.

KEY REMUNERATION DECISIONS FOR 2020

Annual bonus

The annual bonus for 2020 is based on adjusted profit before tax, adjusted operating cash conversion measured at each quarter end and the attainment of strategic goals. The details of the financial measures and targets and the achievement against them is shown on page 120.

Bonus payments for 2020, as a percentage of maximum, were 98.0%, 99.5% and 91.0% of maximum for Duncan Penny, Gavin Griggs and Andy Sng, respectively. The Remuneration Committee debated whether, taking stakeholders' interests into account, including not paying a dividend in Q1 2020 and the 51% increase in share price over the last 12 months as well as the Remuneration Committee's objective of paying for performance, any adjustment should be made but decided that no adjustment should be made to the formulaic bonus outturns and bonuses should be paid in full. It also considered the bonus payments made to XP Power employees, including the general employee bonus, all XP Power employees of 6% of salary at a cost of £3.4 million. Half the bonuses earned by the Executive Directors are deferred into shares for two years, and clawback provisions may be invoked up to three years after the date of payment.

The vesting of the October and November 2017 LTIP awards

Awards that were made in October and November 2017 under the LTIP, vested in equal tranches based on adjusted EPS growth and relative Total Shareholder Return (TSR).

- The EPS three-year Compound Annual Growth Rate ("CAGR") of EPS was 10.51% and the target CAGR range was 5% to 10%, resulting in 100% vesting of the EPS portion of the awards.
- XP Power's TSR performance was above the upper quartile and hence this portion of the shares vested in full.

The overall percentage of shares that vested was 100% of the total award. Half of the shares vested on 31 December 2020 and the remainder on 12 October 2021 for the October 2017 awards and 31 December 2021 for the November 2017 award.

The vesting of the 2018 LTIP award

The 2018 awards made under the LTIP vested in equal tranches on the basis of adjusted EPS growth and relative Total Shareholder Return (TSR).

- The three-year compound annual growth rate of EPS was 10.51% and the target CAGR range was 6% to 12%, resulting in 81.40% vesting of the EPS portion of the awards.
- XP Power's TSR performance was above the upper quartile and hence this portion of the shares vested in full.

The overall percentage of shares that vested was 90.70% of the total award. Half of the shares vest three years after the grant date and the remainder a year later.

The implications of Board changes

We announced in October that Duncan Penny would be stepping down as CEO at the end of the year and that Gavin Griggs would succeed him from 1 January 2021. At that time, we said that Duncan would leave the Board and the Group at the Annual General Meeting in April 2021.

In keeping with the UK Corporate Governance Code and as per our XP post-employment shareholding policy, Duncan will retain shares, with an after-tax value of 200% of his 2020 base salary for the first year of his leaving and 100% for the second year. Duncan has sufficient awards that have been granted but have yet to vest that fall due for vesting during this period to cover this requirement. Exercise of these shares during this time will require authorisation by the current CEO and either the Board Chair or the Chair of the Remuneration Committee.

Both Duncan and Gavin's salaries were increased last year by 12% as the first part of a two-year market adjustment. The Remuneration Committee decided that Gavin's new salary on his promotion to CEO should be £500,000. The Committee will review his salary again next year (at the earliest from 1 April 2022) considering the circumstances at the time and with the intention of moving Gavin closer to market levels for companies of a similar size and scope.

The new salary is 11% higher than Duncan Penny's. The Remuneration Committee was mindful that this is Gavin Griggs' first appointment as a CEO. However, as stated in the Nomination Committee Report we undertook a thorough executive search company-led process and were delighted to appoint a strong internal candidate. Gavin's knowledge of the business, acquired over the last three years, coupled with his values-based leadership approach, in the Committee's view, justify this level of pay. Moreover, in relative terms, his new salary (which is a considerable increase on his previous salary of £323,000 effective from 1 April 2020), is between the lower quartile and median of the companies in the bottom half of the FTSE 250. His new annual bonus maximum is 125% of salary and the face value of his LTIP award for 2021 is 150%. His resulting total target remuneration is at the lower quartile of the companies in the bottom half of the FTSE 250.

The Remuneration Committee also took the opportunity of reviewing Andy Sng's salary and made the decision to increase his salary from S$265,225 to S$300,000 (13%). This decision was based on benchmarking his salary in the Singaporean market and in recognition of the additional activities Andy performs over and above his role. The average market base salary movement in Singapore is anticipated to be in the region of 3% for 2021.

The Chair's fee

The Chair's fee was reviewed during the year for the first time since 2014 and increased by £10,000 from £50,000 to £60,000 a year. The Chair will continue to receive this level of fee in 2021 at his request, notwithstanding that this is materially below typical fees paid to the Chair of FTSE 250 companies. The basic fees of the Non-Executive Directors, which are decided by the Chair and the Executive Directors, were also increased by £10,000 to £50,000 a year.

The views of our Shareholders are important to us. I hope that you will support the Directors' Remuneration Report. If you have any questions or comments, I can be reached at ir@xppower.com.

Pauline Lafferty
Remuneration Committee Chair

2 March 2021

ANNUAL REPORT ON REMUNERATION

Single total figure of remuneration

The table below shows the total remuneration receivable for each Executive Director with respect to the financial year ended 31 December 2020.

£'000		Salary/fees	Benefits[3]	Pension	Total fixed pay	Annual bonus[5]	Long-term incentives[4]	Total variable pay	Total
Executive Directors									
Duncan Penny	2020	438	4	30	472	441	444	885	1,357
	2019	399	4	15	418	43	101	144	562
Gavin Griggs	2020	314	23	23	360	321	197	518	878
	2019	286	23	12	321	31	–	31	352
Mike Laver[1]	2020	–	–	–	–	–	–	–	–
	2019	76	12	3	91	8	50	58	149
Andy Sng	2020	149	38	10	197	137	100	237	434
	2019	147	42	10	199	130	20	150	349
Chair and Non-Executive Directors									
James Peters	2020	58	2	–	60	–	–	–	60
	2019	50	2	–	52	–	–	–	52
Pauline Lafferty[2]	2020	48	–	–	48	–	–	–	48
	2019	3	–	–	3	–	–	–	3
Polly Williams	2020	51	–	–	51	–	–	–	51
	2019	40	–	–	40	–	–	–	40
Terry Twigger	2020	56	–	–	56	–	–	–	56
	2019	45	–	–	45	–	–	–	45

1. Mike Laver retired from the Board on 16 April 2019. Total remuneration for Mike in 2019 reflects pay for the portion of the year in which he was an Executive Director.
2. Pauline Lafferty was appointed to the Board on 3 December 2019. Total remuneration for Pauline in 2019 reflects pay for the portion of the year in which she was an Executive Director.
3. Benefits include life insurance, private medical cover, housing allowance in China for Andy Sng and car allowance.
4. The value of long-term incentives represents share options and LTIP that vested during the year. The value was determined based on the gain on vesting date, being the difference between the XP Power share price on vesting date and the grant price, and the dividend equivalent due on vesting date.
5. The value of the annual bonus represents performance over the relevant financial year, 50% of the payout was deferred into shares. Futher details of the annual bonus, including performance measures, actual performance and bonus payouts, can be found on pages 120 to 121.

Notes to the single total figure table

BASE SALARY IN THE YEAR ENDED 31 DECEMBER 2020

Executive Directors' base salaries are reviewed by the Remuneration Committee with effect from 1 April 2020 each year and when an individual changes position or responsibility. Changes in Executive Directors' base salaries during the year are shown below:

	Base salary from 1 April 2019	Base salary from 1 April 2020	Percentage increase
Duncan Penny	£401,700	£450,000	+12%
Gavin Griggs	£288,400	£323,000	+12%
Andy Sng	S$257,496	S$265,225	+3%

These changes were the first phase of a two-stage process to bring the level of their salaries nearer to the market range. The CEO's new salary is below the lower quartile of equivalent roles in FTSE 250 companies of similar size.

CHAIR'S AND NON-EXECUTIVE DIRECTORS' FEES

Fees for the Chair and the Non-Executive Directors were reviewed and increased with effect from 1 April 2020. The changes in fees during the year are shown below (as disclosed last year). This was the first change since 2014.

	Fee from 1 January 2020	Fee from 1 April 2020
Chair's fee	£50,000	£60,000
Base fee	£40,000	£50,000
Additional fee for chairing a Committee	–	£5,000
Additional fee for acting as Senior Independent Director	£5,000	£5,000

Due to the current Chair's shareholding, he has agreed to take the same fee as the Senior Independent Director which, from April 2020, was £60,000. This represented an increase of £10,000 from his previous fee but remains materially below the fees for the Chair of other UK-listed companies of a similar size.

PENSIONS IN THE YEAR ENDED 31 DECEMBER 2020

Executive Directors' pension contributions are aligned to those offered to all XP Power employees in their respective countries of employment. This is 8% of base salary for UK Executive Directors and 6% of base salary for Any Sng, who is based in Singapore.

ANNUAL BONUS IN THE YEAR ENDED 31 DECEMBER 2020

The maximum annual bonus opportunity for Executive Directors in 2020 was 100% of base salary. The table below summarises performance against the Group performance targets set by the Remuneration Committee for the year.

	Weighting	Threshold (25%)	On-target (50%)	Maximum (100%)	Actual	% achieved
Adjusted profit before tax[1]	50%	£38.0m	£41.3m	£44.0m	£44.3m	50%[1]
Adjusted operating cash conversion[2]	25%	90%	100%	110%	133%	25%
Strategic objectives	25%		See below			23.0%–24.5%
Total					Duncan Penny	98.0%
					Gavin Griggs	99.5%
					Andy Sng	91.0%

1. Andy Sng's adjusted profit before tax targets are set with reference to divisional performance, and the targets are considered to be commercially sensitive. Performance against these targets was between on-target and stretch, resulting in 42.8% out of 50% becoming payable for this element of his annual bonus.
2. Calculated as adjusted operating cash flow as a percentage of adjusted operating profit measured at the end of each quarter and the average performance taken. This is to ensure cash conversion is an ongoing focus throughout the year, The full year adjusted operating cash conversion was 117% which also exceeded the maximum of the target range set.

The table below summarises the strategic team objectives for each Executive Director in the year.

	DP	GG	Performance assessment in 2020
To drive XP Powers' strategic priorities as agreed by the Board	12%/15%	9%/10%	• Strong leadership shown by the Executive Directors in the challenging context of the year • All new design win targets were exceeded in key Asia markets • Performance against objectives of the regional teams was well managed, closely monitored and effectively communicated across the year, which ensured strong performance
To review and implement the new organisational design	30%/30%	20%/20%	• The new Global Organisational Design for the next three years were signed off and implemented during 2020 • Through recruitment to key central function roles, the Executive Directors increased XP Power's depth of talent and organisational capability
To embed a series of process and system improvements as agreed by the Board	–	49%/50%	• Significant improvements were made to how we work, including business simplification through process redesign and optimisation and the introduction of new tools and systems to reduce manual work • An effective Business Intelligence tool was implemented in the year to improve efficiency of the supply chain and other functions (including Product Development)
To institutionalise Product Lifecycle Management	20%/20%	–	• Key milestones were achieved against the Capability Maturity Model Integration (CMMI) in all engineering design centres and supply chain management to improve Product Lifecycle Management

	DP	GG	Performance assessment in 2020
To lead key product development and milestones	15%/20%	–	• Key milestones were achieved on time and on budget relating to the largest two product developments for new platforms • Some adjustments in approach were required during the year due to COVID-19, and aspects of the new platforms were integrated into existing products for proof of concept rather than prototypes
To develop a new strategy and approach to investor relations	–	10%/10%	• A new Investor Relations plan was designed and executed in the year to support existing and new investors • XP Power delivered two US investor conferences in the Autumn and a targeted US roadshow • The high number of investor engagements undertaken during 2020 were well received, with positive feedback from investors and brokers
To manage the Company through the COVID-19 pandemic	15%/15%	10%/10%	• The Executive Directors managed the global XP business through the COVID-19 pandemic, achieving strong financial performance (as outlined above) while working to the Board's agreed priorities – Employees, Customers and Cash • Employee safety and engagement was a key priority during the year, and all COVID-19 cases within the Company have been effectively and safely managed • XP continued to support the Customer through the pandemic, with effective supply chain management and customer engagement • XP was able to deliver on all critical care orders while faced with a significant backlog due to the pandemic

Andy Sng's strategic performance objectives are set with reference to divisional performance and are considered to be more sensitive than the Group objectives. The Remuneration Committee was impressed with his leadership during a challenging year, particularly in the early stages of the COVID-19 pandemic in China. His strategic objectives largely reflected the priorities set out above for Duncan Penny and Gavin Griggs.

Half of the Executive Directors' annual bonuses in 2020 is deferred in shares for two years. The Remuneration Committee considered carefully whether this outturn was appropriate and, reflecting strong performance in difficult circumstances, the Committee did not apply its discretion to reduce the formulaic outturn in the year.

LONG-TERM INCENTIVE AWARDS VESTED OR DUE TO VEST WITH RESPECT TO PERFORMANCE IN THE YEAR ENDED 31 DECEMBER 2020

November 2017 LTIP awards

LTIP awards granted to Gavin Griggs on 1 November 2017 were measured over three financial years from 1 January 2018, based 50% on compound annual EPS growth and 50% on TSR compared with companies in the FTSE 250 index excluding investment trusts. Awards were shares worth 100% of salary. The table below summarises performance against the performance targets.

	Weighting	Threshold (25%)	Maximum (100%)	Actual	% achieved
EPS growth	50%	5%	10%	10.51%	100%
TSR	50%	Median	Upper quartile	Above upper quartile	100%
Total					**100%**

Half of the shares under award vested on 31 December 2020 and half will vest on 31 December 2021.

	Date of grant	Type of award	Number of shares awarded	% vesting	Dividend equivalent payments per share[1]	Number of shares vested or due to vest	Value of shares vested or due to vest[1]
Gavin Griggs	1 November 2017	Nominal-cost options	8,000	100%	2.25	8,000	£380,858

1. The value of long-term incentives represents LTIP awards that vest with respect to performance periods ending during the year. As half of these awards were not due to vest until 31 December 2021, the value of these has been estimated using the average share price in the last three months of 2020, being £43.8344, and an estimate of dividend equivalents.

2018 LTIP awards

The 2018 LTIP awards granted on 16 May 2018 were measured over three financial years from 1 January 2018, based 50% on compound annual EPS growth and 50% on TSR compared with companies in the FTSE 250 index excluding investment trusts. Awards were granted to Duncan Penny and Andy Sng over shares worth 101% and 72% of salary, respectively. The table below summarises performance against the performance targets.

	Weighting	Threshold (25%)	Maximum (100%)	Actual	% achieved
EPS growth	50%	6%	12%	10.51%	81.40%
TSR	50%	Median	Upper quartile	Above upper quartile	50%
Total					**90.70%**

Half of the shares under award vested on 16 May 2021 and half on 16 May 2022.

	Date of grant	Type of award	Number of shares awarded	% vesting	Dividend equivalent payments per share[1]	Number of shares due to vest	Value of shares due to vest[1]
Duncan Penny	16 May 2018	Nominal-cost options	11,200	90.70%	2.14	10,158	£466,906
Andy Sng	16 May 2018	Nominal-cost options	2,857	90.70%	2.14	2,591	£119,094

1. The value of long-term incentives represents LTIP awards that vest with respect to performance periods ending during the year. As these awards were not due to vest until May 2021 and May 2022, the value of these has been estimated using the average share price in the last three months of 2020, being £43.8344, and an estimate of dividend equivalents

SCHEME INTERESTS AWARDED IN THE YEAR ENDED 31 DECEMBER 2020

The following awards were granted to Executive Directors in 2020:

	Date of grant	Plan	Type of award	Face value of award[4]	Number of shares awarded	End of performance period
Duncan Penny	22 April 2020	LTIP 2017[1]	Nominal-cost options	£450,000	14,563	31/12/2022
	22 April 2020	RSP 2020[2]	Nominal-cost options	£56,250	1,820	n/a
	04 March 2020	DBP 2017[3]	Nil-cost options	£21,555	657	n/a
Gavin Griggs	22 April 2020	LTIP 2017[1]	Nominal-cost options	£323,000	10,453	31/12/2022
	22 April 2020	RSP 2020[2]	Nominal-cost options	£40,375	1,307	n/a
	04 March 2020	DBP 2017[3]	Nil-cost options	£15,475	471	n/a
Andy Sng	22 April 2020	LTIP 2017[1]	Nominal-cost options	£100,000	3,236	31/12/2022
	22 April 2020	RSP 2020[2]	Nominal-cost options	£12,500	405	n/a
	04 March 2020	DBP 2017[3]	Nil-cost options	£65,147	1,931	n/a

1. 2020 awards were granted under the LTIP 2017 based on the share price for 21 April 2020, being £30.90.
2. 2020 awards were granted under the RSP 2020 based on the share price for 21 April 2020, being £30.90.
3. 2020 awards were granted under the DBP 2017 based on the share price for 4 March 2020, being £32.80.
4. The face value of the award has been calculated using the share price of each award stated in Note 1 to 3.

LONG-TERM INCENTIVE MEASURES AND TARGETS

The performance targets for the 2019 and 2020 LTIP awards are summarised below.

		2019 award (67% EPS and 33% TSR)	2020 award (67% EPS and 33% TSR)
Earnings Per Share	Operation	Growth in adjusted EPS over three financial years	**Cumulative EPS over three financial years**
	Threshold (25% vest)	6% p.a.	**523.4p**
	Maximum (100% vest)	12% p.a.	**586.0p**
Total Shareholder Return	Operation	Relative TSR compared with that for the constituents of the FTSE 250 index (excluding investment trusts)	**Relative TSR compared with that for the constituents of the FTSE 250 index (excluding investment trusts)**
	Threshold (25% vest)	Median (50th percentile)	**Median (50th percentile)**
	Maximum (100% vest)	Upper quintile (80th percentile)	**Upper quintile (80th percentile)**

Awards of restricted shares which were granted to Shareholders in 2020 are not subject to performance conditions on vesting.

EXECUTIVE DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

A shareholding guideline applies to Executive Directors, which requires them to build and maintain a shareholding equal to 200% of base salary. The guideline will continue to apply in full for one year post-cessation, with 50% of the guideline level (100% of base salary) applying for a second year. Deferred bonus shares, Restricted Shares, vested Share Options and LTIP shares that are still in their holding period will be counted against these requirements on a net of tax basis.

The table below summarises the Executive Directors' beneficial interests (including that of their connected persons) in the Company's shares.

	Beneficially owned shares at 31 December 2019	Beneficially owned shares at 31 December 2020	Interest in share awards			Shareholding guideline (% of salary)	Shareholding guideline met?
			Subject to performance measures	Not subject to performance measures	Vested but unexercised		
Duncan Penny	206,990	**106,990**	33,587	16,241	52,395	200%	Y
Gavin Griggs	–	**–**	24,112	5,778	8,864	200%	N
Andy Sng	24,000	**24,000**	8,114	6,048	1,449	200%	Y

The table below summarises the outstanding share awards for Duncan Penny.

Date of grant	Exercise price	Interest as at 31/12/19	Granted in the year	Forfeited in the year	Exercised in the year	Interest as at 31/12/20	Vesting date	Expiry date
2012 Share Options								
10/10/12	£9.46	60,750	–	–	(60,750)	**–**	–	10/10/22
23/02/16	£15.425	39,800	–	–	–	**39,800**	23/02/20	23/02/26
2017 LTIP								
30/05/17	£0.01	6,000	–	(873)	–	**5,127**	30/05/20	30/05/22
16/05/18	£0.01	11,200	–	–	–	**11,200**	16/05/21	16/05/23
08/03/19	£0.01	19,024	–	–	–	**19,024**	08/03/22	08/03/24
22/04/20	£0.01	–	14,563	–	–	**14,563**	22/04/23	22/04/24
2020 RSP								
22/04/20	£0.01	–	1,820	–	–	**1,820**	22/04/25	22/04/26
Deferred Bonus								
02/03/18	–	3,975	–	–	–	**3,975**	31/12/19	–
06/03/19	–	6,057	–	–	–	**6,057**	31/12/20	–
04/03/20	–	–	657	–	–	**657**	28/02/22	–

The table below summarises the outstanding share awards for Gavin Griggs.

Date of grant	Exercise price	Interest as at 31/12/19	Granted in the year	Forfeited in the year	Exercised in the year	Interest as at 31/12/20	Vesting date	Expiry date
2017 LTIP								
01/11/17	£0.01	8,000	–	–	–	**8,000**	31/12/20	01/11/22
08/03/19	£0.01	13,659	–	–	–	**13,659**	08/03/22	08/03/24
22/04/20	£0.01	–	10,453	–	–	**10,453**	22/04/23	22/04/24
2020 RSP								
22/04/20	£0.01	–	1,307	–	–	**1,307**	22/04/25	22/04/26
Deferred Bonus								
02/03/18	–	515	–	–	–	**515**	31/12/19	–
06/03/19	–	4,349	–	–	–	**4,349**	31/12/20	–
04/03/20	–	–	471	–	–	**471**	28/02/22	–

The table below summarises the outstanding share awards for Andy Sng.

Date of grant	Exercise price	Interest as at 31/12/19	Granted in the year	Forfeited in the year	Exercised in the year	Interest as at 31/12/20	Vesting date	Expiry date
2012 Share Options								
23/02/16	£15.425	7,960	–	–	(7,900)	60	23/02/20	23/02/26
2017 LTIP								
30/05/17	£0.01	2,000	–	(291)	(854)	855	30/05/20	30/05/22
16/05/18	£0.01	2,857	–	–	–	2,857	16/05/21	16/05/23
08/03/19	£0.01	4,878	–	–	–	4,878	08/03/22	08/03/24
22/04/20	£0.01	–	3,236	–	–	3,236	22/04/23	22/04/24
2020 RSP								
22/04/20	£0.01	–	405	–	–	405	22/04/25	22/04/26
Deferred Bonus								
02/03/18	–	420	-	–	(420)	–	31/12/19	–
06/03/19	–	1,389	-	–	–	1,389	31/12/20	–
04/03/20	–	–	1,931	–	–	1,931	28/02/22	–

The closing share price of the Company's shares as at 31 December 2020 was £46.90 (£31.00 at 31 December 2019) and the price range fluctuated between £21.30 and £47.90 over the financial year.

PAYMENTS TO PAST DIRECTORS

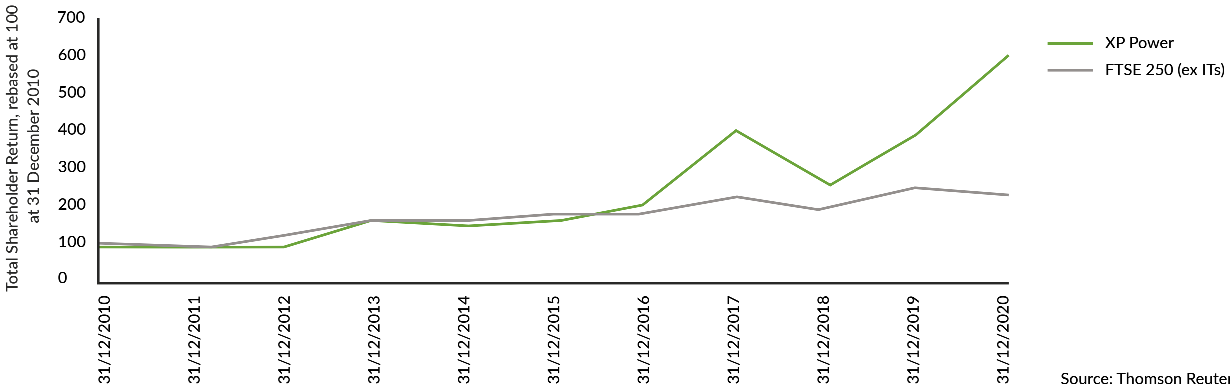
Payments of £0.2 million were made in 2020 to Mike Laver following his retirement.

PAYMENTS FOR LOSS OF OFFICE

Duncan Penny stepped down as CEO on 31 December 2020 and will leave the Board at the AGM. Duncan will continue to receive his base salary, benefits and pension until he steps down from the Board and will be eligible to receive an annual bonus in respect of 2021. If any bonus is earned it will be pro-rated for the period worked.

ASSESSING PAY AND PERFORMANCE

The chart below shows the Total Shareholder Return for XP Power since 31 December 2010 compared with that of the FTSE 250 (excluding investment trusts), rebased at 100.



Source: Thomson Reuters Datastream

The table below shows total remuneration, annual bonus outturn and long-term incentive outturn for the CEO over the same period.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO total remuneration (£'000)	£328	£274	£271	£271	£310	£800	£531	£684	£562	**£1,357**
Annual bonus (% of maximum)	0%	0%	0%	0%	15%	27%	100%	71%	11%	**98%**
Long-term incentives (% of maximum)	n/a	n/a	n/a	n/a	n/a	81%	n/a	n/a	80%	**81%**

CHAIR'S AND NON-EXECUTIVE DIRECTORS' SHARE INTERESTS

The table below summarises the Chair's and Non-Executive Directors' beneficial interests (including that of their connected persons) in the Company's shares.

	Beneficially owned shares at 31 December 2019	Beneficially owned shares at 31 December 2020
James Peters	1,529,279	**1,254,279**
Terry Twigger	–	**–**
Polly Williams	–	**–**
Pauline Lafferty	–	**–**

ANNUAL PERCENTAGE CHANGE IN REMUNERATION OF DIRECTORS AND EMPLOYEES

The table below shows the percentage change in salary, taxable benefits and annual bonus earned between 2019 and 2020 in respect of each Director, compared to that of the average employee (excluding employees in China and Vietnam, where there has been significant salary inflation).

		Percentage change between 2019 and 2020		
		Base salary	**Taxable benefits**	**Annual bonus**
	Average employee	4%	3%	670%
Executive Directors	Duncan Penny	10%	3%	923%
	Gavin Griggs	10%	-2%	938%
	Andy Sng	1%	-9%	6%
Non-Executive Directors	James Peters	15%	1%	–
	Terry Twigger	25%	–	–
	Polly Williams	27%	–	–
	Pauline Lafferty[1]	1338%	–	–

1. Pauline Lafferty was appointed to the Board on 3 December 2019. Total remuneration for Pauline in 2019 reflects pay for the portion of the year in which she was an Executive Director.

CEO PAY RATIO

The table below shows the ratio of the CEO's total remuneration to that of the lower quartile, median and upper quartile UK employee and for the CEO.

Year	Method[1]	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2020	Option A	50 : 1	31 : 1	18 : 1
2019	Option A	21 : 1	13 : 1	7 : 1

1. Option A was selected because it is the best reflection of the underlying data. Because a large portion of the CEO's pay is variable, the pay ratio is heavily dependent on the outcomes of variable pay plans and, in the case of long-term share-based awards, share price movements.

The year-on-year difference in the ratio of the CEO's pay to the pay of UK employees is principally explained by the variable pay outturns paid in 2020 which were significantly higher than those paid in 2019. Annual bonus and long-term incentives make up a significant proportion of Executive remuneration while is only a relatively low proportion of total pay for the wider workforce.

The table below shows the total pay and benefits and the salary component of this for the employees who sit at each of the three quartiles in 2020.

Year	Total pay and benefits	Salary component of total pay
25th percentile	£26,924	£24,959
50th percentile	£43,210	£36,075
75th percentile	£74,903	£62,025
Chief Executive	£1,357,000	£437,925

The ratio of the CEO's pay to the median pay of employees in the UK is a function of XP Power's pay, reward and progression policies for the Company's UK employees indeed for all XP Power's employees. The Company aims to pay all employees including the CEO in accordance with both its values, a desire to pay for performance, internal relativities and the appropriate external market reference points.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below illustrates the relative importance of spend on pay compared to Shareholder dividends paid.

£m	2020	2019	% change
Distribution to Shareholder dividends[1]	**7.3**	16.7	(56)%
Group employment costs[2]	**70.3**	59.7	18%

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

Remuneration Committee membership and considerations in the year

MEMBERS OF THE REMUNERATION COMMITTEE

The Remuneration Committee met on 3 occasions during the year. Polly Williams acted as Chair of the Committee until 1 December 2020 and Pauline Lafferty was appointed as Chair of the Committee from that date. Polly remains a member of the Remuneration Committee.

	Meetings attended
Pauline Lafferty (Committee Chair from 1 December 2020)	3/3
Polly Williams (Committee Chair to 1 December 2020)	3/3
James Peters (Chair)	3/3
Terry Twigger (Senior Independent Director)	3/3

ADVICE RECEIVED IN THE YEAR

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 provided and totalled £34,700 in the year.

Following an external selection process undertaken in the year, the Remuneration Committee appointed FIT Remuneration Consultants LLP ("FIT") as its adviser. FIT provides no other services to the Remuneration Committee, has no further connection with the Company or individual Directors and is a signatory to the Remuneration Consultants Group's Code of Conduct. The fees paid by the Company to FIT in the year were £15,875. On this basis, the Remuneration Committee satisfied itself that the advice of FIT was objective and independent.

VOTING ON REMUNERATION

The table below sets out voting in respect of the approval of the Directors' Remuneration Policy and the Directors' Remuneration Report at the Annual General Meeting on 21 April 2020.

	Votes for	% of votes for	Votes against	% of votes against	Votes withheld
Approval of Directors' Remuneration Policy	11,125,326	79.15%	2,930,138	20.85%	299,852
Approval of Directors' Remuneration Report	11,660,119	82.96%	2,395,345	17.04%	299,852
Approval of the Restricted Share Plan 2020	11,075,541	78.80%	2,979,923	21.20%	299,852

We consulted extensively with our largest Shareholders in the months leading up the AGM and afterwards. It is clear that views among our Shareholders on restricted shares were mixed and others took the view that the timing of the increases in the base salaries of the Executive Directors were not ideal. We shall continue to engage extensively with our Shareholders on executive remuneration and seek to strike the right balance of interest among all our Shareholders.

Implementation of the Directors' remuneration policy in 2021

BASE SALARIES

Gavin Griggs' base salary was set at £500,000 on his appointment as Chief Executive Officer from 1 January 2021.

Duncan Penny agreed to remain on the Board until the 2021 AGM and the Remuneration Committee agreed that he would continue to receive a base salary of £450,000 pro-rated for the period worked during the year.

The Remuneration Committee undertook its regular review of Executive Directors' base salaries, with increases due to take effect from 1 April 2021. Andy Sng's base salary will increase from S$265,225 to S$300,000 (an increase of 13%). The other Executive Directors were not eligible to receive an increase from 1 April 2021.

ANNUAL BONUS

For 2021, the maximum bonus opportunity will be capped at 125% of salary for the Chief Executive Officer and 100% for other Executive Directors, with on-target pay outs of 50% of maximum. Andy Sng has a maximum bonus opportunity of 100%, with an on-target pay out of 50% of base salary. Duncan Penny will be eligible to receive a pro-rated annual bonus for the portion of the year worked.

Bonuses will continue to be based on a combination of financial and strategic performance measures. The precise targets are considered commercially sensitive and so the targets are not disclosed prospectively. The targets and performance achieved against these will be published in next year's Annual Report on Remuneration. The performance measures which will apply are:

- Adjusted profit before tax (50%)
- Adjusted operating cash flow as a percentage of adjusted operating income (25%)
- Strategic objectives (25%)

Andy Sng's strategic performance objectives are set with reference to divisional performance and largely reflect the priorities set out for Gavin Griggs.

LONG TERM INCENTIVE PLAN

Under the Directors' Remuneration Policy, Performance Share Plan (PSP) and Restricted Share Plan (RSP) awards can be made up to an aggregate award of 150% of base salary (or 200% of salary in exceptional circumstances). For the purpose of calculating the limit, RSP awards are multiplied by two to reflect that they do not have specific performance conditions attached. RSP awards are limited to 15% of salary (equivalent to PSP based awards of 30% of salary).

In 2021, the Remuneration Committee anticipates granting RSP awards of 9.2% of salary and PSP awards of 38% of salary for Andy Sng and RSP awards of 12.5% of salary and PSP awards of 100% of salary for the Chief Executive Officer.

The PSP awards will vest subject to a combination of (i) cumulative diluted adjusted EPS performance and (ii) TSR performance compared with the TSR of companies in the FTSE 250 excluding investment trusts, both measured over three financial years. The performance targets are set out below:

Cumulative diluted adjusted EPS performance 2021, 2022 and 2023 (67% of maximum)	Vesting
645.9 pence per share or above	100%
576.7 pence per share	25%
Below 576.7 pence per share	No vesting
Vesting between threshold and maximum will be measured on a straight-line basis	

TSR performance compared with constituents of the FTSE 250 excluding investment trusts (33% of maximum)	Vesting
Upper quintile (80th percentile) or above	100%
Median (50th percentile)	25%
Below median	No vesting
Vesting between threshold and maximum will be measured on a straight-line basis	

DIRECTORS' REMUNERATION POLICY

The table below summarises the key components of the Directors' Remuneration Policy as approved by Shareholders at the AGM on 21 April 2020. The full Directors' Remuneration Policy is available in the 2020 Directors' Remuneration Report and is available on our website at xppower.com.

Component	Purpose	Operation	Opportunity	Applicable performance measures
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
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 that would typically have been available to an Executive Director in an overseas jurisdiction when recruiting from outside of the UK.	n/a
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. 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.	Up to 125% of base salary for CEO and up to 100% for other Executive Directors (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
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. 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.	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.

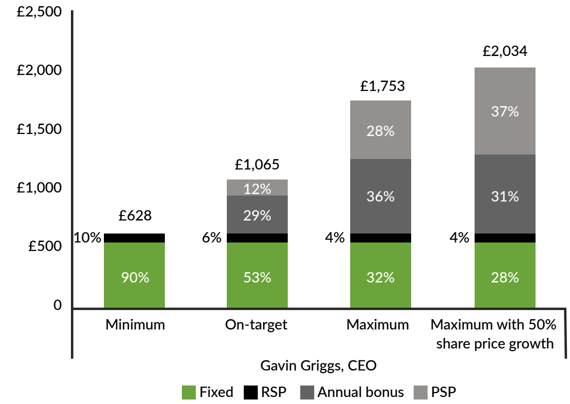
Component	Purpose	Operation	Opportunity	Applicable performance measures
PENSIONS	Provide a basic pension benefit that would be expected for the position.	Percentage of base salary paid into a defined contribution scheme.	In line with pension benefits offered to the XP Power workforce in the relevant geography, which is currently 8% in the UK. (Previous policy was 2–3% depending on geography).	n/a
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 LTIP is made up of a Performance Share Plan (PSP) that was approved at the 2017 Annual General Meeting and a Restricted Share Plan (RSP) that was approved at the 2020 Annual General Meeting. This replaced the Company's share option scheme for awards to Executive Directors.	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.	
		PSP awards may be made in the form of conditional share awards, nil or nominal cost. The PSP 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.		In respect of PSP awards, it is the Remuneration Committee's intention to set relative TSR targets for 33% of the award and cumulative adjusted EPS targets for 67%. (previous intention 50%: 50%).
		RSP awards may be granted without performance conditions. 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.	

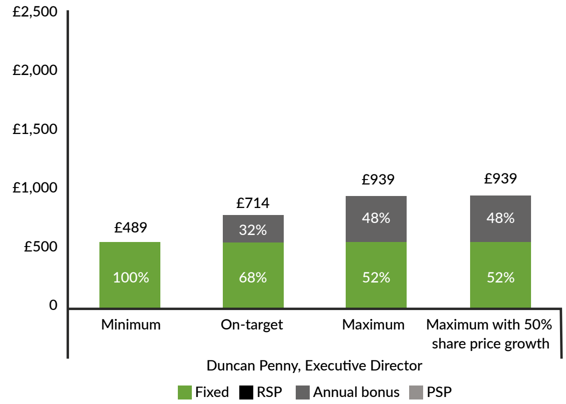
Component	Purpose	Operation	Opportunity	Applicable performance measures
LONG-TERM INCENTIVE PLAN ("LTIP") (CONTINUED)		Claw Back: The Remuneration Committee has the discretion to claw back some or all of the awards granted under the LTIP by reducing unvested awards or requiring the return of the net value of vested awards to the Company in circumstances set out below this table. Amounts equivalent to any dividends or Shareholder distributions made in respect of awards at vesting, are paid at the discretion of the Remuneration Committee.		Where a participant ceases to be an employee for good leaver reasons during the first three years of the performance or restricted share period, the number of shares vesting will be subject to a pro-rata reduction by reference to relevant performance achievement and the period of time elapsed between the award date and the date of cessation. Shares will vest 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 permit acceleration of vesting and to disapply pro-rating. Where participants cease employment after the first three years of the performance and / or 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 during the performance measurement or restricted period the Remuneration Committee has the discretion to determine the number of shares vesting by assessing the achievement of the relevant 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.
SHARE-HOLDING (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
POST EMPLOYMENT SHARE-HOLDING	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 that 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 that are still in their holding period will be counted against the percentage requirement on a net of tax basis	n/a	n/a
NON-EXECUTIVE DIRECTORS' 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

ILLUSTRATION OF THE APPLICATION OF THE DIRECTORS' REMUNERATION POLICY (UPDATED)

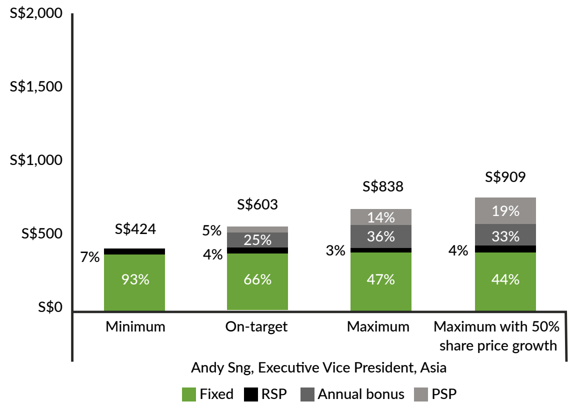
The charts below give an indication of the level of remuneration that would be received by each Executive in accordance with the approved Directors' Remuneration Policy, updated for 2021.

All figures are shown in thousands.





Amounts are shown on an annualised basis



The charts above illustrate the value of the remuneration package for each Executive in 2021, under four scenarios:

- Minimum: Fixed pay (consisting of base salary, benefits and pension) and full vesting under the RSP
- On-target: Fixed pay, full vesting under the RSP, on-target outturn under the annual bonus (50% of maximum) and threshold vesting under the PSP (25% of maximum)
- Maximum: Fixed pay, full vesting under the RSP, maximum outturn under the annual bonus and full vesting under the PSP
- Maximum (with 50% share price growth): As shown in the "maximum" scenario, with 50% share price appreciation assumed for the RSP and PSP

The fixed elements of remuneration are as follows (on an annualised basis):

Position	Name	Base salary	Benefits	Pension	Total fixed pay
Chief Executive Officer	Gavin Griggs	£500,000	£25,000	£40,000	£565,000
Executive Director	Duncan Penny	£450,000	£3,000	£36,000	£489,000
Executive Vice President, Asia	Andy Sng	S$300,000	S$77,000	S$19,500	S$396,500

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.

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.

OTHER GOVERNANCE AND STATUTORY DISCLOSURES

DIRECTORS

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

Gavin Griggs
James Peters
Terry Twigger
Pauline Lafferty
Polly Williams
Duncan Penny
Andy Sng

All Directors will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting on 20 April 2021.

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 2020 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	2,725,321	13.88
Kempen Capital Mgt	997,500	5.08
Mawer Investment Mgt	948,727	4.83
BlackRock Inc	837,311	4.26
Montanaro Investment Managers	757,214	3.86
Janus Henderson Group plc	652,612	3.32
Canaccord genuity Group Inc	598,777	3.05

During the period between 31 December 2020 and 2 March 2021, the Company did not receive any notice, under the Financial Conduct Authority's Disclosure Guidance & Transparency Rules, of any shareholding increasing to 3.00% or more.

DIVIDENDS

Dividends were paid and are proposed as follows:

Period	Payment date	Amount	2019 Comparative
First Quarter	–	–	17.0 pence
Second Quarter	9 October 2020	18.0 pence	18.0 pence
Third Quarter	15 January 2021	20.0 pence	20.0 pence
Fourth Quarter (proposed)	28 April 2021	36.0 pence	–
Total		74.0 pence	55.0 pence

The proposed final dividend of 36.0 pence per share, which would be paid on 28 April 2021 to members on the register as at 26 March 2021. This would make the total dividend for the year 74.0 pence (2019: 55.0 pence), which is an increase of 35%.

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 2020 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 that 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 159) Related tax relief is insignificant
Details of long-term incentive plans	Remuneration Committee Report (page 129)
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 118)
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 that were waived during the period under review.	Nothing to disclose
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 141 to 190 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 2020 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

Gavin Griggs
Chief Executive Officer

2 March 2021

FINANCIALS

Contents

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 2020, 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 financial year ended 31 December 2020;
- The balance sheet of the Group as at 31 December 2020;
- The balance sheet of the Company as at 31 December 2020;
- The consolidated statement of changes in equity of the Group for the financial year then ended;
- The consolidated statement of cash flows of the Group for the financial year then ended; and
- The notes to the financial statements, including a summary of significant accounting 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 £2.0 million, which represented 5.6% of profit before taxation. The overall materiality applied to the audit of the Company balance sheet amounted to £1.03 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 92% of Group revenues and 93% 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 £0.47 million to £1.99 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 £0.2 million 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 112 (Report from the Chair of the Audit Committee), page 155 (Critical accounting judgements and key sources of estimation uncertainty – Impairment of Goodwill) and page 162 (Note 11 – Goodwill). The Group has goodwill of £52.2 million at 31 December 2020 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 22% 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 112 (Report from the Chair of the Audit Committee), page 155 (Critical accounting judgements and key sources of estimation uncertainty – Recoverability and useful lives of Capitalised development costs) and page 163 (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 2020, the carrying value of product development costs capitalised as an intangible asset is £25.1 million, of which £7.7 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 133, 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 59. 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 17, "Strategic Report" section set out on pages 19 to 83, "Governance" section set out on pages 85 to 133, and the "Financials" section on page 191 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.

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

Public Accountants and Chartered Accountants

Singapore

2 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

£m	Note	2020	2019
Revenue	4	233.3	199.9
Cost of sales	7	(123.2)	(109.8)
Gross profit		110.1	90.1
Other income		0.6	–
Expenses			
Distribution and marketing	7	(52.4)	(43.2)
Administrative	7	(5.0)	(7.2)
Research and development	7	(15.9)	(13.0)
Operating profit		37.4	26.7
Finance charge	6	(1.7)	(2.7)
Profit before tax		35.7	24.0
Income tax expense	8	(4.0)	(3.2)
Profit after tax		31.7	20.8
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		–	(0.1)
Exchange differences on translation of foreign operations		(3.6)	(4.2)
		(3.6)	(4.3)
Items that will not be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation		*	(0.1)
Other comprehensive loss for the year, net of tax		(3.6)	(4.4)
Total comprehensive income for the year		28.1	16.4
Profit attributable to:			
Equity holders of the Company		31.5	20.5
Non-controlling interests		0.2	0.3
		31.7	20.8
Total comprehensive income attributable to:			
Equity holders of the Company		27.9	16.2
Non-controlling interests		0.2	0.2
		28.1	16.4
Earnings per share attributable to equity holders of the Company (pence per share)			
Basic earnings per share	10	163.0	107.0
Diluted earnings per share	10	160.3	105.0

* Balance is less than £100,000.

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2020

£m	Note	2020	2019
ASSETS			
Current assets			
Corporate tax recoverable		**3.8**	2.0
Cash and cash equivalents	16	**13.9**	11.2
Inventories	17	**54.2**	44.1
Trade receivables	18	**30.2**	34.8
Other current assets	19	**4.6**	3.3
Derivative financial instruments	23	**0.3**	0.6
Total current assets		**107.0**	96.0
Non-current assets			
Goodwill	11	**52.2**	53.2
Intangible assets	12	**46.6**	46.4
Property, plant and equipment	13	**28.4**	29.3
Right-of-use assets	14	**5.1**	6.6
Deferred income tax assets	24	**2.9**	1.8
ESOP loan to employees		*	0.1
Total non-current assets		**135.2**	137.4
Total assets		**242.2**	233.4
LIABILITIES			
Current liabilities			
Current income tax liabilities		**4.9**	3.1
Trade and other payables	20	**28.2**	25.2
Derivative financial instruments	23	**0.1**	–
Lease liabilities	22	**1.5**	1.6
Accrued consideration	21	**–**	0.5
Total current liabilities		**34.7**	30.4
Non-current liabilities			
Accrued consideration	21	**1.0**	1.2
Borrowings	22	**31.8**	52.5
Deferred income tax liabilities	24	**6.7**	5.5
Provisions		**0.1**	0.1
Lease liabilities	22	**3.4**	4.8
Total non-current liabilities		**43.0**	64.1
Total liabilities		**77.7**	94.5
NET ASSETS		**164.5**	138.9
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	**4.1**	3.9
Treasury shares reserve	25	**(0.1)**	(0.5)
Translation reserve	25	**(3.8)**	(0.2)
Other reserve	25	**3.6**	(0.8)
Retained earnings	25	**132.6**	108.4
		163.8	138.2
Non-controlling interests		**0.7**	0.7
TOTAL EQUITY		**164.5**	138.9

* Balance is less than £100,000.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

		Attributable to equity holders of the Company										
£m	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**
Balance at 1 January 2019		27.2	2.1	(1.0)	0.2	0.1	4.0	(0.8)	104.6	136.4	1.0	137.4
Exercise of share options		–	–	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
Exercise of share options		–	(1.2)	0.4	–	–	–	4.3	-	3.5	–	3.5
Employee share option plan expenses		–	1.5	–	–	–	–	–	–	1.5	–	1.5
Tax on employee share option plan expenses		–	(0.1)	–	–	–	–	–	–	(0.1)	–	(0.1)
Dividends paid	9	–	*	–	–	–	–	–	(7.3)	(7.3)	*	(7.3)
Future acquisition of non-controlling interest		–	–	–	–	–	–	(0.1)	–	(0.1)	–	(0.1)
Change in non-controlling interest		–	–	–	–	–	–	0.2	–	0.2	(0.2)	–
Exchange difference arising from translation of financial statements of foreign operations		–	*	–	–	–	(3.6)	–	*	(3.6)	*	(3.6)
Profit for the year		–	–	–	–	–	–	–	31.5	31.5	0.2	31.7
Total comprehensive income for the year		–	*	–	–	–	(3.6)	–	31.5	27.9	0.2	28.1
Balance at 31 December 2020		**27.2**	**4.1**	**(0.1)**	**0.2**	**–**	**(3.8)**	**3.6**	**132.6**	**163.8**	**0.7**	**164.5**

* 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 2020

£m	Note	2020	2019
Cash flows from operating activities			
Profit after tax		**31.7**	20.8
Adjustments for:			
– Income tax expense	8	**4.0**	3.2
– Amortisation and depreciation	7	**14.0**	12.7
– Finance charge	6	**1.7**	2.7
– Share option expense	5	**1.5**	0.7
– Fair value loss/(gain) of derivative financial instruments		**0.5**	(0.9)
– Loss on disposal of property, plant, and equipment		*	–
– Loss on disposal of intangible assets		**1.2**	–
– Unrealised currency translation loss		**0.2**	0.9
– Provision for doubtful debts	30 (d)	**0.4**	–
Change in working capital, net of effects from acquisitions:			
– Inventories	26	**(12.3)**	10.3
– Trade and other receivables	26	**2.7**	(3.7)
– Trade and other payables	26	**3.3**	4.5
– Provision for liabilities and other charges	26	*	(0.5)
Cash generated from operations		**48.9**	50.7
Income tax paid, net of refund		**(3.3)**	(4.5)
Net cash provided by operating activities		**45.6**	46.2
Cash flows from investing activities			
Purchases and construction of property, plant and equipment	13	**(4.0)**	(4.7)
Additions of development costs	12	**(7.7)**	(8.0)
Additions of intangible software and software under development	12	**(3.2)**	(3.6)
Proceeds from disposal of property, plant and equipment		**0.1**	*
Proceeds from repayment of ESOP loans		*	*
Payment of accrued consideration	21	**(0.6)**	–
Net cash used in investing activities		**(15.4)**	(16.3)
Cash flows from financing activities			
Repayment of borrowings	22	**(20.7)**	(8.8)
Principal payment of lease liabilities	22	**(1.7)**	(1.5)
Proceeds from exercise of share options		**3.5**	0.5
Interest paid	22	**(1.3)**	(2.7)
Dividend paid to equity holders of the Company	9	**(7.3)**	(16.7)
Dividend paid to non-controlling interests		*	(0.5)
Net cash used in financing activities		**(27.5)**	(29.7)
Net increase in cash and cash equivalents		**2.7**	0.2
Cash and cash equivalents at beginning of financial year		**11.2**	11.5
Effects of currency translation on cash and cash equivalents		*	(0.5)
Cash and cash equivalents at end of financial year	16	**13.9**	11.2

* Balances are less than £100,000.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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 22–23.

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 form 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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 22 to 27. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 48 to 51. The principal risks of the Group are set out on pages 54 to 59. The directors have considered these areas alongside the principal risks and how they may impact going concern.

The directors reviewed budgets and forecasts to assess the cash requirements of the Group to continue in operational existence for a minimum period of 12 months from the date of the approval of these financial statements.

The Directors also reviewed downside scenarios to the budgets and forecasts, which reflect the possible impact of risks identified in the risk management framework. The greatest consideration was given to those risks with the highest potential impact if they occurred and those with the highest probability of occurring. Throughout these downside scenarios, the Group continues to have significant headroom on its financial debt covenants.

Therefore, after making the above 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 2020, 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.

ii New standards and interpretations issued not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Foreign currency translation

a. FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Pounds Sterling, which is different from the Company's functional currency. The Company's functional currency is the US Dollar.

The financial statements are presented in Pounds Sterling, as the majority of the Company's Shareholders are based in the UK and the Company is listed on the London Stock Exchange. It is the currency that the Directors of the Group use when controlling and monitoring the performance and financial position of the Group.

b. TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions or valuation where items are 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment in the separate financial statements. This cost of investment is subsequently adjusted to reflect changes in contingent consideration, if any. In the separate financial statements, cost of investment in subsidiaries also includes directly attributable acquisition costs.

b. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity, and balance sheet.

Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment

Items of property, plant and equipment, including land and buildings, are stated at historical cost less accumulated depreciation and any recognised impairment losses.

The historical cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Freehold land and property under development are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

Plant and equipment	–	10–33%
Motor vehicles	–	20–25%
Building improvements	–	10–33%
Buildings	–	2–5%

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 ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs 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)

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 CGUs' 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 2019, 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 of "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 ("FVPL"): 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

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.

a. 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.

b. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 standalone 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.

Lease payments are presented as follows in the Group statement of cash flows:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities are presented within cash flows from operating activities;
- Payments for the interest element of recognised lease liabilities are included in 'interest paid' within cash flows from financing activities; and
- Payments for the principal element of recognised lease liabilities are presented within cash flows from financing activities.

c. 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.

d. 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

A derivative financial instrument for which no hedge accounting is applied is initially recognised at its fair value at the date the contract is entered into and is subsequently carried at its fair value. Changes in fair value are recognised in profit or loss. The Group does not apply hedge accounting for its derivative financial instruments.

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 manage the foreign currency exposures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 £7.7 million (2019: £8.0 million) of development costs were capitalised, bringing the total carrying amount of development costs capitalised as intangible assets as at 31 December 2020 to £25.1 million (2019: £23.4 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 2020 was £52.2 million (2019: £53.2 million) with no impairment adjustment required for 2020.

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 2020				Year to 31 December 2019			
£m	**Europe**	**North America**	**Asia**	**Total**	Europe	North America	Asia	Total
Semiconductor Manufacturing Equipment	**1.2**	**66.6**	**1.8**	**69.6**	0.4	36.6	0.4	37.4
Industrial Technology	**42.8**	**37.4**	**14.2**	**94.4**	52.0	47.7	16.9	116.6
Healthcare	**21.0**	**43.2**	**5.1**	**69.3**	12.0	31.2	2.7	45.9
Total	**65.0**	**147.2**	**21.1**	**233.3**	64.4	115.5	20.0	199.9

Revenues of £32.1 million (2019: £20.5 million) are derived from a single external customer. These revenues are attributable to the semiconductor manufacturing equipment sector.

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

£m	**2020**	2019
North America	**134.8**	107.5
United Kingdom	**33.4**	31.8
Singapore	**31.0**	29.1
Germany	**14.5**	13.9
Switzerland	**2.6**	2.7
France	**3.8**	3.7
Other countries	**13.2**	11.2
Total revenue	**233.3**	199.9

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 2020 and prior year comparatives is as follows:

Reconciliation of segment results to profit after tax:

£m	**2020**	2019[1]
Europe	**18.0**	16.4
North America	**43.7**	32.0
Asia	**7.3**	6.6
Segment results	**69.0**	55.0
Research and development	**(10.1)**	(9.4)
Manufacturing	**(0.3)**	(2.3)
Corporate cost from operating segment	**(12.6)**	(8.3)
Adjusted operating profit	**46.0**	35.0
Finance charge	**(1.7)**	(2.7)
Specific items	**(8.6)**	(8.3)
Profit before tax	**35.7**	24.0
Income tax expense	**(4.0)**	(3.2)
Profit after tax	**31.7**	20.8

1 Prior year comparatives were reclassified to ensure consistency with 2020 segmental presentation and the classification of fair value adjustment on currency hedge as a specific item.

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

£m	Year to 31 December 2020 Europe	North America	Asia	Total	Year to 31 December 2019 Europe	North America	Asia	Total
Other information								
Property, plant and equipment additions	0.1	1.8	2.1	4.0	0.2	2.3	2.2	4.7
Depreciation of property, plant and equipment	0.4	1.5	2.1	4.0	0.5	1.1	2.0	3.6
Right-of-use assets additions	0.4	*	0.4	0.8	0.3	1.4	*	1.7
Depreciation of right-of-use assets	0.5	1.1	0.3	1.9	0.3	1.1	0.3	1.7
Intangible assets additions	*	4.4	6.5	10.9	–	4.1	7.5	11.6
Amortisation	0.2	4.2	3.7	8.1	0.3	4.2	2.9	7.4
Balance sheet								
Segment assets	29.1	130.7	75.7	235.5	31.1	123.7	74.8	229.6
Unallocated deferred and current income tax				6.7				3.8
Consolidated total assets				242.2				233.4
Segment liabilities	(5.8)	(44.8)	(15.5)	(66.1)	(5.3)	(66.2)	(14.4)	(85.9)
Unallocated deferred and current income tax				(11.6)				(8.6)
Consolidated total liabilities				**(77.7)**				**(94.5)**

* Balance is less than £100,000.

Non-current assets, other than deferred income tax assets, by countries:

£m	2020	2019
North America	**81.6**	84.3
United Kingdom	**11.8**	13.1
Singapore	**25.2**	23.1
Germany	**0.5**	0.5
Switzerland	**0.1**	0.1
France	*	*
Other countries	**13.1**	14.5
Total non-current assets	**132.3**	135.6

* 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 changes, 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:

£m	2020	2019
Operating profit	37.4	26.7
Adjusted for:		
Acquisition costs	0.3	0.9
Costs related to ERP implementation	1.9	2.2
Amortisation of intangible assets due to business combination	3.2	3.2
Legal costs	0.4	1.9
Restructuring costs	2.3	1.0
Fair value loss/(gain) on currency hedge[2]	0.5	(0.9)
	8.6	8.3
Adjusted operating profit	**46.0**	35.0

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

£m	2020	2019
Profit before tax ("PBT")	35.7	24.0
Adjusted for:		
Acquisition costs	0.3	0.9
Costs related to ERP implementation	1.9	2.2
Amortisation of intangible assets due to business combination	3.2	3.2
Legal costs	0.4	1.9
Restructuring costs	2.3	1.0
Fair value adjustments on currency hedge[2]	0.5	(0.9)
	8.6	8.3
Adjusted PBT	**44.3**	32.3

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

£m	2020	2019
Profit after tax ("PAT")	31.7	20.8
Adjusted for:		
Acquisition costs	0.3	0.9
Costs related to ERP implementation	1.9	2.2
Amortisation of intangible assets due to business combination	3.2	3.2
Legal costs	0.4	1.9
Restructuring costs	2.3	1.0
Fair value adjustments on currency hedge[2]	0.5	(0.9)
Non-recurring tax benefits[1]	(1.1)	(1.2)
	7.5	7.1
Adjusted PAT	**39.2**	27.9

[1] Adjusted for tax on specific items relating to completed acquisitions of £0.1 million (2019: £0.2 million), costs related to ERP implementation of £0.3 million (2019: £0.4 million), legal costs of £0.1 million (2019: £0.5 million), restructuring costs of £0.5 million (2019: £0.2 million) and fair value loss on currency hedge of £0.1 million (2019: gain £0.1 million)

[2] From 2020 fair value adjustments on currency hedges are included as a specific item as they are not considered representative of the Group's performance and are excluded from adjusted results. For consistency, the comparative figures have been updated to include this item.

5. EMPLOYEE COMPENSATION (INCLUDING DIRECTORS)

£m	2020	2019
Wages and salaries	60.7	51.4
Employers' contribution to defined contribution plans (Note 27)	8.1	7.6
Share option expense	1.5	0.7
	70.3	59.7
Less: amount capitalised in intangible assets	(6.9)	(6.8)
Total	**63.4**	52.9

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

6. FINANCE CHARGE

£m	2020	2019
Interest income	*	*
Interest expense on bank loans and overdrafts		
— Bank borrowings	1.5	2.7
— Lease liabilities	0.3	0.3
	1.8	3.0
Unwinding of discount for asset retirement obligation	*	*
Unwinding of discount for accrued consideration	*	*
	1.8	3.0
Less: amount capitalised in intangible assets and property, plant and equipment	(0.1)	(0.3)
Amount recognised in profit or loss	1.7	2.7

* Balances are less than £100,000.

Finance expenses on general financing were capitalised at a rate of 1.2% per annum (2019: 4.0% per annum).

7. EXPENSES BY NATURE

£m	2020	2019
Profit after tax is after charging:		
Amortisation of intangible assets	8.1	7.4
Depreciation of property, plant and equipment	4.0	3.6
Depreciation of right-of-use assets	1.9	1.7
Employee compensation (Note 5)	63.4	52.9
Foreign exchange loss	1.0	0.8
Fair value adjustment on currency hedge	0.5	(0.9)
(Gain) on foreign exchange forwards	-	(0.4)
Purchases of inventories	110.1	78.6
Changes in inventories	(10.1)	12.4
Fees payable to the Group's Auditor for the audit of the Group's accounts	0.6	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	0.2	0.1
Lease expense (Note 14)	0.2	0.4
Finance charge (Note 6)	1.7	2.7
Recruitment	1.2	0.6
Information systems	2.9	2.5
Consultancy fees	3.7	3.0
Travel and entertainment	0.6	2.4
Costs related to ERP implementation	1.9	2.2
Legal costs	0.4	1.9
Restructuring costs	2.3	1.0
Other charges	3.6	2.4
Total	198.2	175.9

* Balances are less than £100,000.

8. INCOME TAXES

£m	2020	2019
Singapore corporation tax		
– current year	**4.5**	2.5
– over-provision in prior financial year	**(0.1)**	(0.2)
Overseas corporation tax		
– current year	**0.5**	0.9
– over-provision in prior financial year	**(1.4)**	(1.0)
Withholding tax	**0.1**	0.2
Current income tax	**3.6**	2.4
Deferred income tax		
– current year	**(0.1)**	1.0
– under/(over)-provision in prior financial years	**0.5**	(0.2)
Income tax expense	**4.0**	3.2

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

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

£m	2020	2019
Profit before tax	**35.7**	24.0
Tax on profit at standard Singapore tax rate of 17% (2019: 17%)	**6.1**	4.1
Tax incentives	**(0.6)**	(0.5)
Higher rates of overseas corporation tax	**0.5**	0.5
Deduction for employee share options	**(1.2)**	*
Non-deductible expenditure	**0.3**	0.3
Non-taxable income	**(0.2)**	–
Over provision of tax in prior financial years	**(1.0)**	(1.4)
Withholding tax	**0.1**	0.2
Income tax expense	**4.0**	3.2

There is no (2019: £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:

£m	2020	2019
Deferred tax asset – share option plan expenses	*	1.1
Total	*	1.1

* Balances are less than £100,000.

9. DIVIDENDS

Amounts recognised as distributions to equity holders in the period:

	2020		2019	
	Pence per share	£m	Pence per share	£m
Prior year third quarter dividend paid	**20.0***	**3.8**	19.0	3.6
Prior year final dividend paid	**–**	**–**	33.0	6.3
First quarter dividend paid	**–**	**–**	17.0*	3.3
Second quarter dividend paid	**18.0^**	**3.5**	18.0*	3.5
Total	**38.0**	**7.3**	87.0	16.7

* Dividends in respect of 2019 (55.0p).

^ Dividends in respect of 2020 (74.0p).

The third quarter dividend of 20.0 pence per share was paid on 15 January 2021. The proposed final dividend of 36.0 pence per share for the year ended 31 December 2020 is subject to approval by Shareholders at the Annual General Meeting scheduled for 20 April 2021 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 28 April 2021 to members on the register as at 26 March 2021.

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:

£m	2020	2019
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**31.5**	20.5
Earnings for earnings per share	**31.5**	20.5
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**19,326**	19,154
Effect of potentially dilutive share options (thousands)	**327**	368
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,653**	19,522
Earnings per share from operations		
Basic	**163.0p**	107.0p
Basic adjusted*	**201.8p**	144.1p
Diluted	**160.3p**	105.0p
Diluted adjusted*	**198.4p**	141.4p

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

£m	2020	2019
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**31.5**	20.5
Amortisation of intangible assets due to business combination	**3.2**	3.2
Acquisition costs	**0.3**	0.9
Non-recurring tax benefits	**(1.1)**	(1.2)
Costs related to ERP implementation	**1.9**	2.2
Legal costs	**0.4**	1.9
Restructuring costs	**2.3**	1.0
Fair value adjustments on currency hedge	**0.5**	(0.9)
Adjusted earnings	**39.0**	27.6

11. GOODWILL

£m	2020	2019
Cost		
At 1 January	**53.2**	54.1
Accrued consideration (Note 21)	**(0.3)**	0.3
Foreign currency translation	**(0.7)**	(1.2)
At 31 December	**52.2**	53.2
Accumulated impairment loss		
At 31 December	**–**	–
Carrying amount		
At 31 December	**52.2**	53.2

Goodwill arises on the consolidation of business/subsidiary undertakings.

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 2020			31 December 2019		
	Growth rate[1]	**Discount rate[2]**	**Terminal growth rate**	Growth rate[1]	Discount rate[2]	Terminal growth rate
North America	**5.3%**	**11.9%**	**2.0%**	8.4%	13.0%	2.0%
Europe	**2.4%**	**11.0%**	**2.0%**	4.0%	12.7%	2.0%
Asia	**7.8%**	**14.0%**	**2.0%**	8.8%	14.0%	2.0%

[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 North America 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 at 31 December 2020 for the Europe CGU, which includes 18.3% of the goodwill recognised on the balance sheet, has revealed that the recoverable amount of the CGU is £45.5 million or 97.2% higher than its carrying amount. A reasonably possible change of a 19.0% increase in the discount rate or a decrease in growth rate by 4.9% would result in the recoverable amount of the Europe CGU being equal to its carrying value.

The impairment test carried out at 31 December 2020 for the North America CGU, which includes 78.8% of the goodwill recognised on the balance sheet, has revealed that the recoverable amount of the CGU is £126.4 million or 28.0% higher than its carrying amount. A reasonably possible change of a 3.7% increase in the discount rate or a decrease in growth rate by 0.9% would result in the recoverable amount of the North America CGU being equal to its carrying value.

12. INTANGIBLE ASSETS

£m	Development costs	Brand	Trademarks	Technology	Customer relationships	Customer contracts	Intangible software	Intangible software under development	Total
Cost									
At 1 January 2019	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
Additions	7.7	–	–	–	–	–	0.3	2.9	10.9
Disposal	(1.2)	–	–	–	–	–	–	–	(1.2)
Transfer	–	–	–	–	–	–	1.3	(1.3)	–
Foreign currency translation	(1.3)	(0.1)	0.1	*	(0.6)	*	(0.3)	(0.1)	(2.3)
At 31 December 2020	**48.4**	**0.9**	**1.1**	**4.9**	**17.2**	**0.6**	**8.7**	**1.5**	**83.3**
Amortisation									
At 1 January 2019	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
Charge for the year	4.1	*	–	0.6	2.5	–	0.9	–	8.1
Transfer	–	–	–	–	–	–	–	–	–
Foreign currency translation	(0.6)	0.1	0.1	*	(0.4)	*	(0.1)	–	(0.9)
At 31 December 2020	**23.3**	**0.3**	**1.0**	**2.0**	**6.8**	**0.6**	**2.7**	**–**	**36.7**
Carrying amount									
At 31 December 2020	**25.1**	**0.6**	**0.1**	**2.9**	**10.4**	**–**	**6.0**	**1.5**	**46.6**
At 31 December 2019	23.4	0.8	0.1	3.5	13.1	–	5.5	–	46.4

* 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 (2019: £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

£m	Freehold land	Buildings	Plant and equipment	Motor vehicles	Building improvements	Projects under development	Total
Cost							
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
Additions	–	*	1.9	*	0.5	1.6	4.0
Disposals	–	–	(0.8)	(0.1)	*	–	(0.9)
Transfer	–	–	1.6	–	–	(1.6)	–
Reclassification to intangible assets	–	–	–	–	–	–	–
Foreign currency translation	(0.1)	(0.2)	(0.6)	*	(0.3)	*	(1.2)
At 31 December 2020	**1.5**	**17.1**	**26.6**	**0.3**	**6.3**	**–**	**51.8**
Depreciation							
At 1 January 2019	–	2.9	15.7	0.3	2.2	–	21.2
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
Charge for the year	–	0.5	2.8	0.1	0.6	–	4.0
Disposals	–	–	(0.7)	(0.1)	*	–	(0.8)
Transfer	–	–	–	–	–	–	–
Reclassification to intangible assets	–	–	–	–	–	–	–
Foreign currency translation	–	*	(0.2)	(0.1)	(0.1)	–	(0.4)
At 31 December 2020	**–**	**3.6**	**16.5**	**0.2**	**3.1**	**–**	**23.4**
Carrying amount							
At 31 December 2020	**1.5**	**13.5**	**10.1**	**0.1**	**3.2**	**–**	**28.4**
At 31 December 2019	1.6	14.2	9.9	0.1	3.5	–	29.3

* Balances are less than £100,000.

14. LEASES

a. Right-of-use assets

Carrying amounts and depreciation charge during the year

£m	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
Additions	0.5	0.3	0.8
Disposals	(0.3)	(0.1)	(0.4)
Depreciation charge during the year	(1.7)	(0.2)	(1.9)
Foreign currency translation	*	*	*
At 31 December 2020	**4.8**	**0.3**	**5.1**

* Balances are less than £100,000.

b. Lease expense not capitalised in lease liabilities

£m	2020	2019
Lease expense – short-term leases	**0.2**	0.3
Lease expense – low-value leases	*	0.1
Total (Note 7)	**0.2**	0.4

c. Total cash outflow for all leases in 2020 was £2.2 million (2019: £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 2020, all of which are consolidated, are as follows:

Name of Subsidiary	Place of incorporation/ ownership (or registration) and operation	Proportion of ownership 2020 (%)	Proportion of ownership 2019 (%)	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 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	Hong Kong	**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.[1]	Japan	**-**	100	Exempted to be audited by local statutory law
Hanpower Co., Ltd*	South Korea	**66**	51	Exempted to be audited by local statutory law

[1] XP Power Japan K.K. was dissolved and certified on 16 December 2020.

* Refer to Note 21.

16. CASH AND CASH EQUIVALENTS

£m	2020	2019
Cash at bank and on hand	**13.8**	11.1
Short-term bank deposits	**0.1**	0.1
Total	**13.9**	11.2

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

£m	2020	2019
Cash at bank balances (as above)	**13.9**	11.2
Cash and cash equivalents per consolidated cash flow statement	**13.9**	11.2

17. INVENTORIES

£m	2020	2019
Goods for resale	**24.6**	18.6
Raw materials	**22.2**	21.8
Work in progress	**7.4**	3.7
Total	**54.2**	44.1

The cost of inventories recognised as an expense and included in "cost of sales" amounts to £100.0 million (2019: £91.0 million).

18. TRADE RECEIVABLES

£m	2020	2019
Current assets		
Trade receivables	**30.7**	34.9
Loss allowance (Note 30 (d))	**(0.5)**	(0.1)
Total	**30.2**	34.8

The average credit period taken on sales of goods is 47 days (2019: 64 days). No interest is charged on the outstanding receivables balance. The carrying amounts of trade receivables approximate their fair values.

19. OTHER CURRENT ASSETS

£m	2020	2019
Prepayments	**3.0**	2.1
Deposits	**0.3**	0.3
VAT receivables	**0.5**	0.4
Rights to returned goods	**0.5**	0.2
Other receivables	**0.3**	0.3
Total	**4.6**	3.3

Other current assets are not impaired as at 31 December 2020 and 31 December 2019.

20. TRADE AND OTHER PAYABLES

£m	2020	2019
Trade payables	**12.0**	12.7
Other taxes	**3.5**	2.3
Other creditors and accruals	**11.8**	9.8
Refund liabilities	**0.9**	0.4
Total	**28.2**	25.2

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

£m	2020	2019
At 1 January	**1.7**	1.4
Movement in provision during the year	**(0.1)**	0.3
Payment	**(0.6)**	–
At 31 December	**1.0**	1.7

£m	2020	2019
Current portion	**–**	0.5
Non-current portion	**1.0**	1.2
At 31 December	**1.0**	1.7

The Group owns 89.9% (2019: 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. On 26 February 2021, the Group entered into a deed of variation to amend the purchase of the remaining 10.1% of shares in 2022 to purchase 0.7% of the shares in 2022 and another 9.4% in 2025.

The Group entered into an agreement on 20 May 2015 with Hanpower Co Ltd ("Hanpower") to purchase an additional 15.0% of the shares in 2020 and another 15% of the shares in 2025. During the year, the transaction to purchase the additional 15% of shares has been completed and the Group now owns 66% (2019: 51%) of the shares of Hanpower.

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 2025.

22. BORROWINGS AND LEASE LIABILITIES

a. Bank borrowings

The borrowings are repayable as follows:

£m	2020	2019
On demand or within one year	**–**	–
In the second year	**–**	–
In the third year	**–**	–
In the fourth year	**31.8**	52.5
Total	**31.8**	52.5

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

£m	2020	2019
Bank loans (in USD)	**31.8**	52.5
Total	**31.8**	52.5

UNDRAWN BORROWING FACILITIES

£m	2020	2019
Expiring beyond one year	**76.9**	37.1
Total	**76.9**	37.1

The facility has no fixed repayment terms until maturity. The revolving loan is priced at LIBOR plus a margin of 1.0%–1.2% (2019: 1.2%) for the utilisation facility and a margin of 0.4%–0.5% (2019: 0.4%–0.5%) for the unutilised facility.

There is no drawdown on bank overdrafts (2019: £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)

b. Lease liabilities

£m	2020	2019
Current	**1.5**	1.6
Non-current	**3.4**	4.8
Total	**4.9**	6.4

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

			Non-cash changes					
£m	**1 January 2020**	**Principal and interest payments**	**Adoption of IFRS 16**	**Addition during the year**	**Disposal during the year**	**Interest expense**	**Foreign exchange movement**	**31 December 2020**
Bank loans	**52.5**	**(21.7)**	**–**	**–**	**–**	**1.5**	**(0.5)**	**31.8**
Lease liabilities	**6.4**	**(2.0)**	**–**	**0.7**	**(0.4)**	**0.3**	**(0.1)**	**4.9**

			Non-cash changes					
£m	1 January 2019	Principal and interest payments	Adoption of IFRS 16	Addition during the year	Disposal 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

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. These 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 2020 £m	**Contract notional amount**	**Fair value asset**	**Contract notional amount**	**Fair value (liability)**
Forward foreign exchange contracts				
Current portion	**5.8**	**0.3**	**2.4**	**(0.1)**
Total	**5.8**	**0.3**	**2.4**	**(0.1)**

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

24. DEFERRED INCOME TAXES

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

Deferred income tax assets

£m	Share-based payment	Tax losses	Other temporary differences	Total
At 1 January 2019	0.6	–	–	0.6
Credit to statement of comprehensive income	0.1	–	–	0.1
Charge to equity	1.1	–	–	1.1
At 31 December 2019	1.8	–	–	1.8
Credit to statement of comprehensive income	0.5	0.4	0.2	1.1
At 31 December 2020	**2.3**	**0.4**	**0.2**	**2.9**

Deferred income tax liabilities

£m	Accelerated tax depreciation	Intangible assets amortisation	Capitalised development costs	Other temporary differences	Total
At 1 January 2019	(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)
(Charge)/credit to statement of comprehensive income	(0.8)	(0.3)	(0.6)	0.2	(1.5)
Foreign currency translation	*	*	0.2	*	0.3
At 31 December 2020	**(1.8)**	**(1.4)**	**(5.5)**	**1.9**	**(6.7)**

* Balance less than £100,000.

25. SHARE CAPITAL AND RESERVES

Called up share capital

£m	2020	2019
Allotted and fully paid 19,642,296 ordinary shares (2019: 19,242,296)	**27.2**	27.2

Reserve

The reserves of the Group comprise the following balances:

£m	2020	2019
Merger reserve	**0.2**	0.2
Share option reserve	**4.1**	3.9
Treasury shares reserve	**(0.1)**	(0.5)
Translation reserve	**(3.8)**	(0.2)
Other reserve	**3.6**	(0.8)
Retained earnings	**132.6**	108.4
Balance at 31 December	**136.6**	111.0

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.

Treasury shares held by the Group's Employee Share Ownership Plan (ESOP)	2020	2019	2020	2019
Beginning of the financial year	**46,090**	79,740	**(0.5)**	(1.0)
Shares issued and held on behalf by ESOP Trust	**400,00**	0	**–**	0.0
Employees shares purchase under the DPS held on behalf by ESOP Trust	**12,500**	0	**–**	0.0
Shares distributed in the year	**(301,630)**	(33,650)	**0.4**	0.5
End of the financial year	**156,960**	46,090	**(0.1)**	(0.5)

During the year, the Company issued 400,000 ordinary shares at 1 pence per share and held under ESOP Trust.

25. SHARE CAPITAL AND RESERVES (CONTINUED)

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. CASH FLOW FROM MOVEMENT IN WORKING CAPITAL

The following adjustments have been made to reconcile from the movement in balance sheet heading to the amount presented in the cash flow from the movement in working capital. This is in order to more appropriately reflect the cash impact of the underlying transactions.

2020 £m	**Inventories (Note 17)**	**Trade and other receivables (Note 18 and 19)**	**Trade and other payables**	**Provisions**	**Total working capital movement**
Trade and other payables (Note 20)	**–**	**–**	**(28.2)**	**–**	
Accrued consideration (Note 21)	**–**	**–**	**(1.0)**	**–**	
Provisions	**–**	**–**	**–**	**(0.1)**	
At 31 December 2020	**54.2**	**34.8**	**(29.2)**	**(0.1)**	
At 31 December 2019	**44.1**	**38.1**	**(26.9)**	**(0.1)**	
Balance sheet movement	**(10.1)**	**3.3**	**2.3**	*****	**(4.5)**
Provision for doubtful debts	**–**	**(0.4)**	**–**	**–**	**(0.4)**
Payment of accrued considerations	**–**	**–**	**0.6**	**–**	**0.6**
Effects of currency translations	**(2.2)**	**(0.2)**	**0.4**	**–**	**(2.0)**
Movements as shown in Consolidated Cash Flow Statement	**(12.3)**	**2.7**	**3.3**	*****	**(6.3)**

2019 £m	Inventories (Note 17)	Trade and other receivables (Note 18 and 19)	Trade and other payables	Provisions	Total working capital movement
Trade and other payables (Note 20)	–	–	(25.2)	–	
Accrued consideration (Note 21)	–	–	(1.7)	–	
Provisions	–	–	–	(0.1)	
At 31 December 2019	44.1	38.1	(26.9)	(0.1)	
At 31 December 2018	56.5	36.3	(23.8)	(0.5)	
Balance sheet movement	12.4	(1.8)	3.1	(0.4)	13.3
Increase in interest accruals	–	–	0.3	–	0.3
Accrued considerations on acquisitions	–	–	(0.2)	–	(0.2)
Effects of currency translations	(2.1)	(1.9)	1.3	(0.1)	(2.8)
Movements as shown in Consolidated Cash Flow Statement	10.3	(3.7)	4.5	(0.5)	10.6

27. DEFINED CONTRIBUTION PLANS

The total cost recognised is £8.1 million (2019: £7.6 million) for the Group.

In the USA, the total cost charged to the statement of comprehensive income of £4.8 million (2019: £4.1 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 £2.0 million (2019: £2.1 million).

In Asia, the Group contributes to the defined contribution plans regulated and managed by the governments of the countries in which the Group operates. The Group's contribution to the defined contribution plans is charged to the statement of comprehensive income in the period to which the contributions relate. The total cost charged to the statement of comprehensive income was £1.3 million (2019: £1.4 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 2020, the Company's Employee Share Ownership Plan provided nil (2019: 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 116–131.

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 116–131.

£m	2020	2019
Short-term employee benefits	**1.9**	1.3
Post-employment benefits	**0.1**	*
Share option expense	**0.6**	0.5
Total Directors' remuneration	**2.6**	1.8

* 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
10,000	946	10 October 2012*	10 October 2022
105,145	1,543	23 February 2016#	23 February 2026
115,145			

* 2012 Approved option scheme has been fully vested.
# 50% of 2016 Approved option scheme vested in 2019 and 50% vested in 2020.

	2020		2019	
	Number of share options	**Weighted average exercise price (pence)**	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of the year	**389,583**	**1,358**	510,750	1,391
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(4,798)**	**–**	(89,120)	–
Exercised during the year	**(269,640)**	**(1,301)**	(32,047)	(1,346)
Outstanding at the end of the year	**115,145**	**1,491**	389,583	1,358
Exercisable at the end of the year	**115,145**	**1,491**	252,392	1,261

The weighted average share price at the date of exercise for the share options exercised during the period was £38.44 (2019: £25.37). The options outstanding at 31 December 2020 had a weighted average exercise price of £14.91 (2019: £13.58), and a weighted average remaining contractual life of 4.8 years.

For options granted in 2016, the Group has taken a charge of £14,000 (2019: £0.1 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.

29. SHARE-BASED PAYMENTS (CONTINUED)

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
55,107	1	16 May 2018	16 May 2023
800	1	4 September 2018	4 September 2023
124,216	1	8 March 2019	8 March 2024
71,996	1	22 April 2020	22 April 2024
301,769			

* 50% of May, October and November 2017 LTIPs vested in 2020 and 50% will vest in 2021.

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 £1.2 million (2019: £0.3 million) for the LTIPs granted in 2017, 2018, 2019, and 2020. 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			
	2020	2019	2018	2017
Options granted	**71,996**	123,747	54,999	49,650
Fair value at grant date	**£22.26**	£13.94	£24.84	£17.13
Assumption used:				
Share price	**£30.90**	£20.50	£35.50	£26.77
Exercise price	**£0.01**	£0.01	£0.01	£0.01
Expected volatility	**36.56%**	29.44%	27.66%	27.69%
Expected option life	**3 years**	3 years	3 years	3 years
Expected dividend yield	**1.78%**	3.74%	2.59%	3.75%
Risk-free interest rate	**0.33%**	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.

	2020		2019	
	Number of LTIP options	**Weighted average exercise price (pence)**	Number of LTIP options	Weighted average exercise price (pence)
Outstanding at beginning of the year	**223,766**	**1**	104,649	1
Granted during the year	**73,373**	**1**	123,747	1
Forfeited during the year	**(9,933)**	**(1)**	(4,630)	(1)
Exercised during the year	**(12,234)**	**(1)**	–	–
Outstanding at the end of the year	**274,972**	**1**	223,766	1
Exercisable at the end of the year	**15,295**	**1**	–	–

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.

29. SHARE-BASED PAYMENTS (CONTINUED)

Restricted Share Plan ("RSP")

Restricted shares award has been granted under the Company's RSP 2020. Under the RSP, restricted shares will not have performance conditions.

Number of shares	Exercise price (pence)	Grant date	Expiry date
3,673	1	22 April 2020	22 April 2024
3,532	1	22 April 2020	22 April 2026
7,205			

The award will vest between three to five years from the date of award. The Group has taken a charge of £32,000 (2019: £nil) for the RSPs granted in 2020. The fair value of the equity-settled RSP options was calculated at the grant date using the Black–Scholes model based on the assumptions below.

	RSP	
	2020 (Three-year vesting period)	**2020 (Five-year vesting period)**
Options granted	**3,673**	**3,532**
Fair value at grant date	**£28.24**	**£26.60**
Assumption used:		
Share price	**£30.90**	**£30.90**
Exercise price	**£0.01**	**£0.01**
Expected volatility	**36.56%**	**36.56%**
Expected option life	**3 years**	**5 years**
Expected dividend yield	**3.00%**	**3.00%**
Risk-free interest rate	**0.33%**	**0.33%**

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

	2020	
	Number of RSP options	**Weighted average exercise price (pence)**
Outstanding at beginning of the year	–	–
Granted during the year	**7,205**	**1**
Forfeited during the year	–	–
Exercised during the year	–	–
Outstanding at the end of the year	**7,205**	**1**
Exercisable at the end of the year	–	–

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.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

Group's risk management policy is to hedge known and certain forecast transactions exposures based on historical experience and projections.

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 that 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.

The Group's transactional currency exposure based on the information provided to key management is as follows:

£m	GBP	EUR	USD	Others	Total
At 31 December 2020					
Financial assets					
Cash and cash equivalents	4.6	0.8	7.2	1.3	13.9
Trade receivables	1.8	2.2	25.7	0.5	30.2
Other current assets	0.1	*	0.3	0.2	0.6
ESOP loan to employees	*	–	–	–	–
Subtotal	6.5	3.0	33.2	2.0	44.7
Financial liabilities					
Borrowings	–	–	(31.8)	–	(31.8)
Trade and other payables	(4.2)	(0.9)	(18.9)	(3.6)	(27.6)
Lease liabilities	(0.3)	(0.5)	(3.6)	(0.5)	(4.9)
Other financial liabilities	(0.7)	–	–	(0.4)	(1.1)
Subtotal	(5.2)	(1.4)	(54.3)	(4.5)	(65.4)
Net financial assets/(liabilities)	1.3	1.6	(21.1)	(2.5)	(20.7)
Currency forwards	8.2	–	–	–	8.2
Currency profile excluding non-financial assets and liabilities	9.5	1.6	(21.1)	(2.5)	(12.5)
Financial (assets)/liabilities denominated in the respective entities' functional currencies	(2.4)	(0.8)	26.8	0.1	23.7
Currency exposure of financial assets/(liabilities)	7.1	0.8	5.7	(2.4)	11.2

* Balance is less than £100,000.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

£m	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)
Currency forwards	11.3	–	–	–	11.3
Currency profile excluding non-financial assets and liabilities	11.0	2.1	(37.1)	(3.1)	(27.1)
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/(liabilities)	10.3	(0.1)	7.0	(2.8)	14.4

* Balance is less than £100,000.

If the US Dollar and Euro change against Sterling by 1% and 1% respectively (2019: US Dollar 5%, Euro 0.4%) with all other variables, including tax rates, being held constant, the effects arising from the net financial asset/(liability) position will be as follows:

£m	2020 Profit after tax	2019 Profit after tax
Group		
EUR against GBP		
— strengthened	*	*
— weakened	*	*
USD against GBP		
— strengthened	*	0.3
— weakened	*	(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 1.0% (2019: 0.5%) with all other variables, including tax rates, being held constant, the profit before tax will be lower/higher by £318,000 (2019: £262,000) 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.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 that 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.

As at 31 December 2020, management has identified a group of debtors from the North America region to be credit impaired as they experienced significant financial difficulties or the aged balances can neither be matched nor acknowledged by the customers. Hence, management has assessed the recoverability of the outstanding balances separately from the provision matrix.

DEBTORS SEPARATELY IDENTIFIED AS CREDIT-IMPAIRED

£m	2020
Gross carrying amount	0.5
Less: loss allowance	(0.5)
Carrying amount net of allowance	–

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

		Past due					
£m	**Current**	**1–30 days**	**31–60 days**	**61–90 days**	**91–120 days**	**>120 days**	**Total**
At 31 December 2020							
North America region							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	37.8%	
Trade receivables	15.5	1.2	0.3	0.1	0.1	*	17.2
Loss allowance	–	*	*	*	*	*	*
Europe region							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	24.0%	
Trade receivables	7.0	1.4	0.3	0.2	0.1	0.1	9.1
Loss allowance	–	*	*	*	*	*	*
Asia region							
Expected loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Trade receivables	3.6	0.2	0.1	*	*	*	3.9
Loss allowance	–	–	–	–	–	–	–

		Past due					
£m	Current	1–30 days	31–60 days	61–90 days	91–120 days	>120 days	Total
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	–	–	–	–	–	–	–

* Balances are less than £100,000.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

£m	2020	2019
Beginning of financial year	**(0.1)**	(0.1)
Restated allowance for impairment under IFRS 9	**(0.1)**	(0.1)
Loss allowance[a] recognised in profit or loss during the year on assets acquired/originated	**(0.4)**	*
Receivables written off as uncollectible	*	*
Foreign currency translation	*	*
End of the financial year	**(0.5)**	(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. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows. All significant subsidiaries prepare weekly cash forecast on a 13-weeks outlook basis and reviewed it on a weekly basis with the management.

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 Group has sufficient credit facilities to meet both its long and short-term requirements. The Group's credit facilities are provided by a revolving credit facility at the year-end. 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. In October 2020, the Group exercised US$30.0 million additional accordion option increasing the size of the bank facility from US$120.0 million to US$150.0 million. At the same time, the Group also exercised the option to extend the bank facility for a further one year to November 2024.

The Group's US$150m Revolving Credit Facility ("RCF") is due to mature in November 2024. The main features of the RCF are as follows:

- The interest rate on the amounts drawn under the facility is determined as US LIBOR plus margin depending on leverage ratio .
- Market standard financial covenants of the facility, as discussed below.
- A US$30.0 million accordion feature, providing the Group with additional flexibility to increase the size of the banking facility to US$180.0 million, subject to approval of its bank lending group.

The Group had undrawn committed borrowing facilities available at the year-end totalling US$105.0 million (2019: US$49.0 million) expire in four years from 31 December 2020.

The covenants to 31 December 2020 include:

- The ratio of net debt to consolidated EBITDA permitted under the revolving credit facility must not exceed a multiple of three times.
- Consolidated EBITDA must also cover relevant finance charges by a minimum of four times.

For covenant testing purposes, the Group's definition of consolidated EBITDA is adjusted to exclude specific items. Consolidated EBITDA, for covenant test purposes, is based on the previous 12-month period, measured on the last day of each financial quarter of the Group. Throughout the year and at 31 December 2020 both of these covenants were met.

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.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

£m	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Group					
At 31 December 2020					
Trade and other payables	**27.6**	**–**	**–**	**–**	**27.6**
Lease liabilities	**1.8**	**1.4**	**2.0**	**0.3**	**5.5**
Accrued consideration	**–**	**0.1**	**0.9**	**–**	**1.0**
Borrowings, including interest	**0.7**	**0.7**	**33.0**	**–**	**34.4**
Total	**30.1**	**2.2**	**35.9**	**0.3**	**68.5**
At 31 December 2019					
Trade and other payables	24.6	–	–	–	24.6
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	28.9	4.8	58.3	0.9	92.9

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

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 2020.

2020 £m	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments	**–**	**0.3**	**–**	**0.3**
Liabilities				
Derivative financial instruments	**–**	**(0.1)**	**–**	**(0.1)**
2019				
Assets				
Derivative financial instruments	–	0.6	–	0.6
Liabilities				
Derivative financial instruments	–	–	–	–

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 2020

£'000	Note	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	35	**4,336**	5,016
Trade and other receivables	36	**46,132**	42,437
Other current assets	37	**845**	565
Derivative financial instruments	38	**300**	632
Inventories	39	**15,827**	10,949
Total current assets		**67,440**	59,599
Non-current assets			
Investment in subsidiaries	34	**43,484**	44,892
Property, plant and equipment	40	**1,561**	1,626
Right-of-use assets	41	**336**	333
Intangible assets	41	**17,738**	16,377
Long-term receivable	45	**6,593**	6,806
Total non-current assets		**69,712**	70,034
Total assets		**137,152**	129,633
LIABILITIES			
Current liabilities			
Trade and other payables	44	**39,016**	46,509
Current income tax liabilities	46	**4,794**	2,449
Derivative financial instruments	38	**111**	–
Lease liabilities		**263**	167
Total current liabilities		**44,184**	49,125
Non-current liabilities			
Deferred income tax liabilities	43	**2,832**	2,479
Lease liabilities		**96**	173
Total non-current liabilities		**2,928**	2,652
Total liabilities		**47,112**	51,777
NET ASSETS		**90,040**	77,856
EQUITY			
Share capital	47	**29,774**	29,770
Share option reserve	47	**565**	404
Translation reserve	47	**15,530**	18,868
Retained earnings	47	**44,171**	28,814
TOTAL EQUITY		**90,040**	77,856

NOTES TO THE COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2020

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 2020, 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:

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

£m	2020	2019
Cost at carrying value		
At 1 January	**44,892**	46,951
Exchange differences on translation	**(1,408)**	(2,059)
At 31 December	**43,484**	44,892

Name of Subsidiary	Place of incorporation/ Ownership (or registration) and operation	Proportion of ownership % 2020	Proportion of ownership % 2019	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	2020	2019
Cash at bank	**4,336**	5,016
Total	**4,336**	5,016

The Company's cash at bank is denominated in the following currencies:

	GBP £'000	USD £'000	EUR £'000	SGD £'000	JPY £'000	TOTAL £'000
At 31 December 2020						
Cash at bank	495	3,000	687	130	24	4,336

	GBP £'000	USD £'000	EUR £'000	SGD £'000	JPY £'000	TOTAL £'000
At 31 December 2019						
Cash at bank	197	4,548	6	264	1	5,016

NOTES TO THE COMPANY BALANCE SHEET CONTINUED

AS AT 31 DECEMBER 2020

36. TRADE AND OTHER RECEIVABLES

£m	2020	2019
Trade receivables	**3,408**	6,223
Trade receivables from related parties	**29,100**	13,219
Other receivables from related parties	**6,980**	12,482
Loan receivables from a related party	**6,644**	10,513
Total	**46,132**	42,437

The average credit period taken on sales of goods to third party is 40 days (2019: 78 days). No interest is charged on the outstanding receivables balance.

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.

Trade and other receivables from related parties are interest-free.

37. OTHER CURRENT ASSETS

£m	2020	2019
Prepayments	**578**	408
Deposit	**72**	65
VAT receivables	**148**	92
Other receivables	**47**	–
Total	**845**	565

Other current assets are not impaired as at 31 December 2020 and 31 December 2019.

38. DERIVATIVE FINANCIAL INSTRUMENTS

The total notional amount of outstanding currency forward contracts that the Company has committed is £8.2 million (2019: £11.3 million). These contracts are to hedge against exchange movements on future sales and hedge accounting has not been applied to these contracts.

	Assets		**Liabilities**	
December 2020 £'000	**Contract notional amount**	**Fair value asset**	**Contract notional amount**	**Fair value (liability)**
Current portion	**5,800**	**300**	**2,400**	**(111)**
Total	**5,800**	**300**	**2,400**	**(111)**

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

39. INVENTORIES

£m	2020	2019
Goods for resale	**15,827**	10,949

40. PROPERTY, PLANT AND EQUIPMENT

£'000	Freehold land	Building	Plant and equipment	Motor vehicles	Building improvements	Total
Cost						
At 1 January 2019	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
Additions	–	–	64	–	32	96
Disposals	–	–	(7)	–	–	(7)
Transfer from related party	–	–	65	–	–	65
Foreign currency translation	(7)	(54)	(60)	(1)	(14)	(136)
At 31 December 2020	**213**	**1,713**	**1,637**	**40**	**496**	**4,099**
Depreciation						
At 1 January 2019	–	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
Additions	–	55	101	9	13	178
Disposals	–	–	(7)	–	–	(7)
Foreign currency translation	–	(24)	(48)	(2)	(14)	(88)
At 31 December 2020	**–**	**623**	**1,429**	**33**	**453**	**2,538**
Carrying amount						
At 31 December 2020	**213**	**1,090**	**208**	**7**	**43**	**1,561**
At 31 December 2019	220	1,175	192	15	24	1,626

41. RIGHT-OF-USE ASSETS

£'000	Leasehold land and buildings
At 1 January 2019	546
Depreciation charge during the year	(202)
Foreign currency translation	(11)
At 31 December 2019	333
Depreciation charge during the year	(224)
Additions	241
Foreign currency translation	(14)
At 31 December 2020	**336**

42. INTANGIBLE ASSETS

£'000	Development costs	Trademarks	Intangible software	Intangible software under development	Total
Cost					
At 1 January 2019	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
Additions	3,565	–	3	2,911	6,479
Disposals	(1,180)	–	–	–	(1,180)
Transfer	–	–	1,252	(1,252)	–
Foreign currency translation	(707)	(3)	(194)	(118)	(1,022)
At 31 December 2020	**21,260**	**84**	**6,232**	**1,541**	**29,117**
Amortisation					
At 1 January 2019	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
Charge for the year	2,805	–	598	–	3,403
Foreign currency translation	(445)	–	(42)	–	(487)
At 31 December 2020	**10,657**	**–**	**722**	**–**	**11,379**
Carrying amount					
At 31 December 2020	**10,603**	**84**	**5,510**	**1,541**	**17,738**
At 31 December 2019	11,285	87	5,005	–	16,377

* 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 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 2019	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)
Charge to statement of comprehensive income	(135)	60	(356)	(29)	(460)
Exchange difference	8	56	38	5	107
At 31 December 2020	**(104)**	**(1,802)**	**(805)**	**(121)**	**(2,832)**

44. TRADE AND OTHER PAYABLES

£'000	2020	2019
Trade payables and other creditors	6,480	5,056
Amount payable to related parties	32,536	41,453
Total	**39,016**	46,509

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	2020	2019
Loans to related parties	6,593	6,806
Total	**6,593**	6,806

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. CURRENT INCOME TAX LIABILITIES

Movement in current income tax liabilities:

£'000	2020	2019
At 1 January	2,449	3,784
Currency translation differences	(339)	(231)
Income tax paid (net of refund)	(1,648)	(3,233)
Current year tax expense	4,332	2,350
Over provision in prior financial year	–	(221)
At 31 December	**4,794**	2,449

47. SHARE CAPITAL AND RESERVES

Share capital £'000	2020	2019
Allotted and fully paid 19,242,296 ordinary shares	29,774	29,770

The movement in 2020 relates to transaction costs incurred in anticipation of an equity issuance.

Share option reserve £'000	2020	2019
Balance at 1 January	404	179
Share option expense	174	232
Exchange differences on translation	(13)	(7)
Balance at 31 December	**565**	404

Hedging reserve £'000	2020	2019
Foreign exchange risk		
Balance at 1 January	–	42
Net change in cash flow hedges	–	(42)
Balance at 31 December	**–**	–

47. SHARE CAPITAL AND RESERVES (CONTINUED)

Translation reserve £'000	2020	2019
Balance at 1 January	**18,868**	22,502
Exchange differences on translation	**(3,338)**	(3,634)
Balance at 31 December	**15,530**	18,868

Retained earnings £'000	2020	2019
Balance at 1 January	**28,814**	31,326
Dividends paid	**(7,360)**	(16,675)
Profit for the year	**22,717**	14,163
Balance at 31 December	**44,171**	28,814

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 known and certain forecast transactions exposure based on historical experience and exposure.

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)

The Company's currency exposure based on the information provided to key management is as follows:

At 31 December 2020 £'000	**GBP**	**EUR**	**USD**	**Others**	**Total**
Financial assets					
Cash and cash equivalents	**495**	**687**	**2,999**	**155**	**4,336**
Trade and other receivables	**866**	**357**	**43,655**	**1,254**	**46,132**
Other current assets	**–**	**–**	**47**	**72**	**119**
Long-term receivables	**–**	**–**	**6,593**	**–**	**6,593**
Subtotal	**1,361**	**1,044**	**53,294**	**1,481**	**57,180**
Financial liabilities					
Trade and other payables	**(10,208)**	**(232)**	**(28,006)**	**(474)**	**(38,920)**
Lease liabilities	**–**	**–**	**–**	**(359)**	**(359)**
Subtotal	**(10,208)**	**(232)**	**(28,006)**	**(833)**	**(39,279)**
Net financial (liabilities)/assets	**(8,847)**	**812**	**25,288**	**648**	**17,901**
Currency forwards	**8,200**	**–**	**–**	**–**	**8,200**
Currency profile excluding non-financial assets and liabilities	**(647)**	**812**	**25,288**	**648**	**26,101**
Less: Financial assets denominated in the entity's functional currency	**–**	**–**	**25,288**	**–**	**25,288**
Currency exposure of financial (liabilities)/assets	**(647)**	**812**	**–**	**648**	**813**

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	–	14,501
Currency exposure of financial assets/(liabilities)	2,999	1,384	–	109	4,492

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 1.45% (2019: 0.76%) with all other variables, including tax rates, being held constant, the profit before tax will be lower/higher by £394,140 (2019: £152,738) 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 ageing brackets at each financial year end.

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

		Past due					
£'000	**Current**	**1–30 days**	**31–60 days**	**61–90 days**	**91–120 days**	**>120 days**	**Total**
At 31 December 2020							
Expected loss rate	0%	0%	0%	0%	0%	0%	
Trade receivables	7,637	2,969	3,385	4,188	4,413	9,916	32,508
Loss allowance	–	–	–	–	–	–	–

		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	–	–	–	–	–	–	–

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.

FINANCIAL ASSETS AT AMORTISED COSTS

Category of internal credit rating	**Performing**	**Underperforming**	**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

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2020					
Trade and other payables	**38,920**	**–**	**–**	**–**	**38,920**
Lease liabilities	**275**	**89**	**–**	**–**	**364**
Total	**39,195**	**89**	**–**	**–**	**39,284**

£'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	46,290	–	–	–	46,290
Lease liabilities	176	174	–	–	350
Total	46,466	174	–	–	46,640

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

The Group's debt is sourced from a Revolving Credit Facility ("RCF") provided by HSBC UK Bank PLC, J.P. Morgan Securities PLC and DBS Bank Ltd. The Group's exercised an option in the RCF agreement in October 2020 to extend the facility expiry date by a year to November 2024. The Group also converted US$30 million of accordion to committed facilities, increasing the facility to US$150 million, with a further US$30 million accordion option. The facility has no fixed repayment terms until maturity. The revolving loan is priced at US LIBOR plus a margin of 1.0% for the utilisation facility and a margin of 0.4% for the unutilised facility.

f. Fair value measurements

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(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 2020:

£'000	**Level 1**	**Level 2**	**Level 3**	**Total**
2020				
Assets				
Derivative financial instruments	**–**	**300**	**–**	**300**
Liabilities				
Derivative financial instruments	**–**	**(111)**	**–**	**(111)**
2019				
Assets				
Derivative financial instruments	–	632	–	632
Liabilities				
Derivative financial instruments	–	–	–	–

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

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	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
At 31 December 2020						
Trade receivables	**–**	**–**	**–**	**29,100**	**–**	**29,100**
Total	**–**	**–**	**–**	**29,100**	**–**	**29,100**
At 31 December 2019						
Trade receivables	–	–	–	13,219	–	13,219
Loan receivables from a related parties	10,845	(332)	10,513	–	–	–
Total	10,845	(332)	10,513	13,219	–	13,219

(ii) FINANCIAL LIABILITIES

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	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
At 31 December 2020						
Trade payables	**–**	**–**	**–**	**(32,536)**	**–**	**(32,536)**
Total	**–**	**–**	**–**	**(32,536)**	**–**	**(32,536)**
At 31 December 2019						
Trade payables	–	–	–	(41,453)	–	(41,453)
Total	–	–	–	(41,453)	–	(41,453)

FIVE-YEAR REVIEW CONSOLIDATED INFORMATION

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Results					
Revenue	**233.3**	199.9	195.1	166.8	129.8
Profit from operations	**37.4**	26.7	39.3	32.5	28.0
Profit before tax	**35.7**	24.0	37.6	32.2	27.8
Assets employed					
Non-current assets	**135.2**	137.4	129.2	88.1	73.2
Current assets	**107.0**	96.0	105.1	83.5	65.7
Current liabilities	**(34.7)**	(30.4)	(26.8)	(25.1)	(25.8)
Non-current liabilities	**(43.0)**	(64.1)	(70.1)	(29.6)	(6.2)
Net assets	**164.5**	138.9	137.4	116.9	106.9
Financed by					
Equity	**163.8**	138.2	136.4	116.0	106.1
Non-controlling interests	**0.7**	0.7	1.0	0.9	0.8
	164.5	138.9	137.4	116.9	106.9
Key statistics (pence)					
Earnings per share	**163.0**	107.0	157.8	148.3	112.0
Adjusted earnings per share	**201.8**	144.1	176.1	149.4	116.2
Diluted earnings per share	**160.3**	105.0	154.9	146.0	111.2
Diluted adjusted earnings per share	**198.4**	141.4	172.8	147.0	115.3
Share price in the year (pence)					
High	**4,790.0**	3,110.0	3,740.0	3,626.0	1,845.0
Low	**2,130.0**	1,965.0	2,090.0	1,725.0	1,410.0
Dividends per share (pence)	**74.0**	55.0	85.0	78.0	71.0

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