XP Power

BUILDING RESILIENCE

Growing Sustainably

ANNUAL REPORT & ACCOUNTS

for the year ended 31 December 2022

XP Power

We provide our customers with solutions to power the world’s critical systems.

We design and manufacture a diverse portfolio of power converters, with unrivalled customer service and support. Our enduring relationships are built on a reputation for quality.

Building resilience, growing sustainably – we have:

- continued to strengthen our supply chain throughout a challenging year, and focused on deepening our relationships with suppliers and customers;
- continued to gain market share in growing markets through our proven business model and acquisitions;
- focused on what matters most to our people and our stakeholders;
- acquired FuG and Guth to complement our existing high voltage product portfolio and accelerate our strategy in this attractive market; and
- implemented ERP in our Asian manufacturing facilities and in our supply chain giving end-to-end visibility of our supply chain.

WE HAD A STRONG PERFORMANCE LAST YEAR AND HAVE GOOD LONG-TERM PROSPECTS

SEE OUR **CEO Q&A** FOR MORE INFORMATION ON PAGES 16-17

SUSTAINABILITY IS AT THE HEART OF XP POWER

SEE OUR **SUSTAINABILITY** FOR MORE INFORMATION ON PAGES 62-79

Find us online at xppower.com

> *2022 has been a challenging year for XP Power. I am pleased that we overcame many of these challenges in the second half with a significantly improved performance. This resulted in XP delivering strong orders and growing revenue, whilst continuing to invest in the business by adding capacity, developing new products and expanding our global workforce.*

GAVIN GRIGGS
CHIEF EXECUTIVE OFFICER

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WHAT WE DO

We provide our customers with solutions to power the world's critical systems.

XP Power has moved up the value chain over the last 20 years from a specialist distributor, to designer, to design manufacturer of power control systems.

Power control systems are 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. What makes XP Power different is we focus on sectors where power is mission critical and failure is not an option.

XP Power 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.

How we differentiate

As one of the world's leading providers of power converter solutions, we ensure that critical electrical and electronic equipment is powered as safely, reliably and efficiently as possible.

Our customers provide mission-critical systems to service their relevant sectors. Therefore, our products need to be reliable, resilient and safe. We have built a product portfolio of over 250 product families that give us the broadest product offering in the industry.

Our global network gives us a strong competitive advantage over both our smaller competitors, who do not have the scale and geographical reach to serve global customers, and our larger competitors, who often lack the operational flexibility to provide the excellent services and speed that customers seek.

As the capabilities of electronic devices evolve, so do the complexities of their systems. Instead of trying to deliver expensive, time-consuming power solutions from scratch, our engineers are often able to transform the products and technologies in our existing portfolio.

Our customers come to us because they know our solutions are the highest quality – but they also come to us because they know that if they have a specific and challenging power problem, we will work to overcome it.

Our customers

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

We provide this expertise and assist our customers to design-in a suitable power supply from our extensive range of products that meet the customers' cost and technical requirements. These technical requirements often involve helping the customer meet the equipment safety standards that operate in their industry, such as relevant medical or electrical safety standards, as well as electromagnetic compatibility (conducted and radiated electrical noise).

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

READ MORE ABOUT OUR **OUR CUSTOMERS** ON PAGES 23–25

SEMICONDUCTOR MANUFACTURING EQUIPMENT

Examples of end-user products:

- Deposition
- Etch
- Semiconductor test
- Ion implantation
- Lithography

INDUSTRIAL TECHNOLOGY

Examples of end-user products:

- Analytical instrumentation
- 3D and industrial printing
- Test and measurement
- Robotics
- Security
- Wind farms

HEALTHCARE

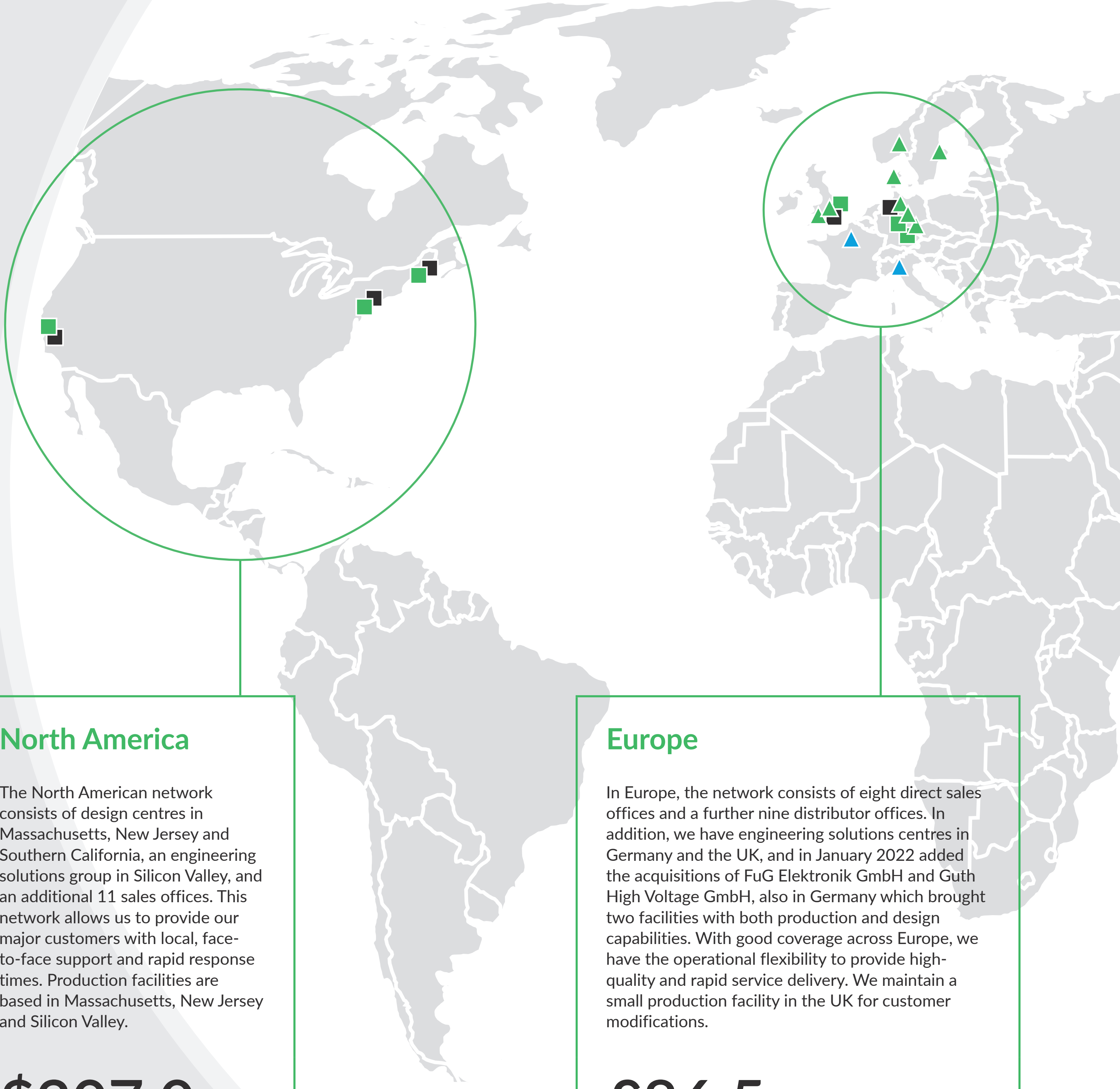
Examples of end-user products:

- Diagnostics
- Surgical tools
- Patient monitoring
- Analytics and imaging

THE POWER OF OUR GLOBAL REACH

Our global reach and target sectors help mitigate market volatility.

Our network of sales, engineering and manufacturing provides us with the flexibility of a global organisation and the ability to partner with our customers locally.



North America

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

$207.0m

OF TOTAL REVENUE

↑ 6% CER COMPARED TO FY 21

Europe

In Europe, the network consists of eight direct sales offices and a further nine distributor offices. In addition, we have engineering solutions centres in Germany and the UK, and in January 2022 added the acquisitions of FuG Elektronik GmbH and Guth High Voltage GmbH, also in Germany which brought two facilities with both production and design capabilities. 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.

£86.5m

OF TOTAL REVENUE

↑ 4% COMPARED TO FY 21 (LIKE FOR LIKE)

Asia

We have five direct sales offices in Asia operating 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. We have production facilities in China and Vietnam and are building a third facility in Malaysia to serve our Asian and customers globally.

$45.3m

OF TOTAL REVENUE

↑ 3% CER COMPARED TO FY 21

Our market sectors

Semiconductor manufacturing equipment

Connected devices are becoming increasingly prevalent. From wearable technology that monitors a patient's health in real time, to in-vehicle devices that can help regulate dangerous driving habits, semiconductors are everywhere and their applications are transforming the way we live.

We are one of the few global companies able to provide the complete spectrum of power solutions that semiconductor equipment manufacturers demand.

Healthcare

We are an attractive partner for healthcare customers because our engineers understand the nuanced power needs of a wide range of medical applications required in healthcare environments from the operating theatres to intensive care units.

We are one of the largest global providers of medical power conversion products, with a portfolio that meets the specific high safety standards that the sector understandably demands.

We are helping our customers usher in a new generation of increasingly connected and effective medical devices.

Industrial technology

We focus on power solutions for sectors with high-growth potential. Our engineers envision how the industrial technologies of tomorrow need to be powered and deliver the solutions to enable them to come to market today.

From additive manufacturing and robotics to smart grid infrastructure, our power converters are helping facilitate a digital future.

KEY

🟩 Manufacturing

■ Warehouse

▲ Sales Offices

▲ Head Offices

READ MORE ABOUT OUR **GROWING OUR BUSINESS** ON PAGES 12–13

CHAIR'S STATEMENT

> *2022 while challenging was a year of further strategic progress that positions us well for the long term.*

JAMES PETERS
CHAIR

Our progress in 2022

While demand remained strong throughout the year, the Group enjoyed mixed fortunes in 2022. A combination of supply chain factors and inflationary pressures impacted our performance in the first half, but conditions improved progressively through the second half and we ended the year strongly.

In what continued to be a challenging global environment, we made good strategic progress in the year. Key developments included the acquisitions of FuG Elektronik GmbH (FuG) and Guth High Voltage GmbH (Guth) in January, the ongoing investment in supply chain capacity and resilience, including further enhancements of our existing facilities, and the start of work on a new major manufacturing site in Malaysia, our third in Asia. Beyond this, we continued to further develop our product range with design-in activity levels – a good medium term leading indicator of customer demand – remaining high.

2022 saw the continuation of ongoing challenges resulting from COVID-19, with a five-week shutdown of our Kunshan facility in China when production was suspended. In addition, labour and component inflationary pressures, global supply chain and logistics challenges led to extended lead-times being faced by the electronics industry worldwide, particularly in the first half of the year. However, it was a year of two halves: the first half was severely impacted by these challenges leading to a delay in conversion of orders to revenue and inventory build up. In the second half of the year trading improved significantly, both sequentially and year-on-year; supply chain conditions stabilised allowing manufacturing facilities' throughput to increase materially; the impact of higher selling prices began to work through and logistics and freight costs reduced. I would like to thank all colleagues for their ongoing commitment, perseverance and adaptability during this difficult period.

£362.9m
ORDER INTAKE AND MOVEMENT
↓ -2% CER
COMPARED TO FY 21

The clear highlight of the year was our record revenue, driven by an acceleration in the second half where we delivered significant growth over the prior year. The Group enters 2023 with a strong order book which underlines the strength of demand for XP Power's products.

We saw continued momentum in the Semiconductor Manufacturing Equipment sector, part of a multiyear upcycle that slowed towards year-end, strong growth in Industrial Technology and encouraging growth in Healthcare for the full year. The second half of 2022 saw very strong growth, versus the prior year, particularly in the Industrial Technology and Healthcare sectors.

Although we have seen a material increase in our net debt year on year reflecting the acquisitions of FuG and Guth, at the beginning of the year, investment in inventory to support delivery of the backlog, higher capital investment, and the collateral payment and legal fees relating to the ongoing Comet litigation, we continue to expect the Group's financial leverage to reduce in 2023.

Our confidence in the Group's long-term prospects allows the Board to propose a final dividend of 36p for 2022 (2021: 36p), which would, if approved by shareholders, brings the total 2022 dividend per share to 94p (2021: 94p).

Our Board

In March 2022, I announced that I would be retiring from the Board following the AGM in April 2023, after almost 35 years with the Group. Our succession plans were implemented and we were delighted to welcome Jamie Pike to the Board as Non-Executive Director and Chair designate in March 2022. Jamie and I continue to work together closely in this handover period ahead of the formal transfer of responsibilities.

We were delighted to announce in October 2022 Sandra Breene and Amina Hamidi joining as Non-Executive Directors, together bringing deep knowledge of operations, engineering and international business experience to the Board.

Following the year end Oskar Zahn, Chief Financial Officer, resigned from the Board to take up the position of Chief Financial Officer at W.A.G payment solutions plc. Oskar will leave the group at the end of March and a further announcement on his departure is being made separately today. On behalf of the Board, I would like to thank Oskar for his contribution to XP over the last two years and wish him well in his new role.

Our people and our values

The success of any organisation is dependent on its culture and the people and talent within it. The Board engages regularly with the Executive Leadership Team and colleagues throughout the Group to ensure we are continuing to identify and develop our key people and bringing new talent and capabilities into the business to help underpin our growth ambitions. We made a number of key hires in engineering, manufacturing and product management during the year as we looked to further enhance our capabilities in these critical areas and to support the growth ambitions we have for the Group.

Strategy review

We recently completed our annual review of our strategy which confirmed it remains appropriate and robust. We continue to evolve individual elements to improve their effectiveness and to ensure they take account of changes in the operating environment. Today, we are one of a few power companies in the world with a broad product portfolio spanning the power and voltage spectrum. We remain focused on growth, both organically and inorganically, and despite many years of strong performance, our expanded addressable market and the opportunity to further grow our market share in the markets in which we operate and the sectors we focus on remains encouraging. Looking ahead, we will continue to use our product portfolio and engineering services capabilities to provide customers with a broader range of power solutions and to continue to increase our market share.

Our strategy is devised to deliver sustainable long-term earnings growth through both revenue growth and market share gains in our target sectors and customers. This success is demonstrated by our consistent performance and resilience over the cycle 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 backlog and pipeline, to continue to deliver organic growth.

The acquisitions of FuG and Guth at the beginning of 2022 are highly complementary to our existing high voltage portfolio and significantly enhance our capabilities in this attractive area. In the short term, our focus is on bedding in these recent acquisitions and positioning them to deliver upon their full organic growth potential within the Group. Integration is progressing well and performance was in line with expectations in 2022.

READ MORE ABOUT OUR **BUSINESS STRATEGY** ON PAGES 28–29

READ MORE ABOUT OUR **SUSTAINABILITY STRATEGY** ON PAGES 33–34

> *I am extremely proud of what XP Power has achieved in the past 35 years and excited by the opportunities for the Company that lie ahead.*

Outlook

We delivered a robust performance in the second half of 2022, particularly Q4, demonstrating the Group's potential. Demand remains solid and a record order book gives excellent visibility into 2023. There continues to be external factors that could impact on 2023 including the semiconductor market slowdown, ongoing supply chain challenges, inflationary cost pressures and recessions in a number of our operating regions. Longer term, the Board believes XP remains very well positioned to grow ahead of its end markets, recover profitability and deliver strong cash generation.

As I close my last statement as Chair, I am extremely proud of what XP Power has achieved in the past 35 years and excited by the opportunities for the Company that lie ahead. I would like to thank all our stakeholders for their commitment and support over many years and wish them and the business every future success.

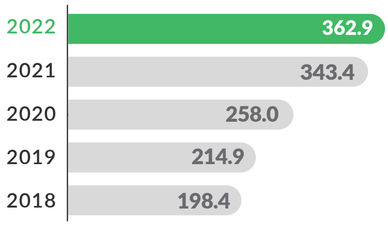
JAMES PETERS
CHAIR

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Financial highlights

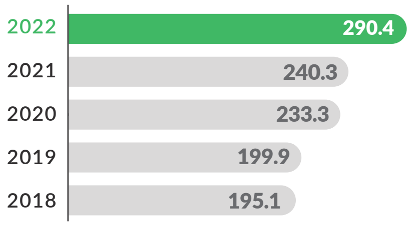
ORDER INTAKE (£M)

£362.9m



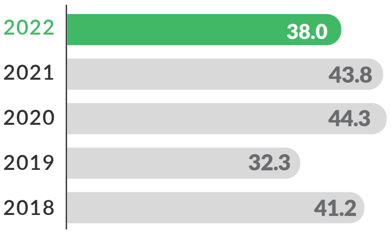
TOTAL REVENUE (£M)

£290.4m



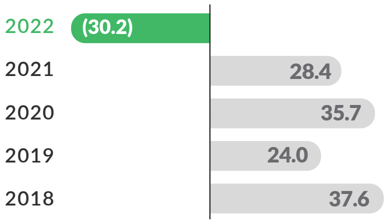
ADJUSTED PROFIT BEFORE TAX (£M)

£38.0m



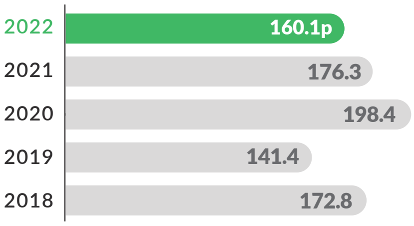
LOSS/PROFIT BEFORE TAX (£M)

£(30.2)m



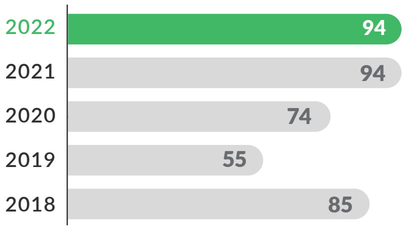
ADJUSTED EARNINGS PER SHARE (P)

£160.1p



DIVIDEND PER SHARE (P)

94p



Operational highlights

SEE OUR **PERFORMANCE**
FOR MORE INFORMATION
ON PAGES 36–41

- Record order intake increased by 6% to £362.9 million, driven by all three sectors that we focus on – continued momentum in the semiconductor manufacturing equipment sector, a strong recovery in industrial technology and strong demand from our healthcare customers.
- Reported revenue grew 21% to £290.4 million and 6% on an organic constant currency basis, mainly due to a strong second half of the year as supply chain conditions stabilised. H2 revenues increased 39% on prior year, a record level.
- Gross margin decreased to 41.5% due to lower production volumes in H1 and compounded by component and wage inflation and global logistics challenges particularly in the first half of the year. H1 gross margin of 40.2%, increasing to 42.5% in H2.

REASONS TO INVEST

We are driving sustainable growth to create long-term value for all stakeholders. We have a clear ESG framework, and our talented workforce help us develop the right products and capability to achieve financial success.

01

Sustained organic growth

A growing penetration of global, blue-chip customers has enabled sustained organic growth and provides exposure to high-growth markets.

SEE **MARKETPLACE** FOR MORE INFORMATION ON PAGES 21-25

02

Global supply chain operations

Our robust supply chain operations have a global footprint that gives us flexible manufacturing capacity and the ability to engineer close to our customers.

SEE **BUILDING RESILIENCE** FOR MORE INFORMATION ON PAGES 10-11

03

Attractive margins and cash generation

More attractive operating margins and lower capital investment requirements than other manufacturing industries enable us to deliver strong free cash flows.

SEE PAGES 46-49 FOR MORE INFORMATION

04

Capital allocation policy

We have a business model that allows for a progressive dividend, which is paid quarterly, and continued investment in capability and capacity.

SEE PAGES 46-49 FOR MORE INFORMATION

05

Long-term customer relationships

Once our power converters are approved for use in our customer's equipment, XP Power receive revenues over the lifetime of the customer's equipment, which is typically seven years.

SEE PAGES 23-25 FOR MORE INFORMATION

06

Focus on sustainability

We aim to lead the industry on sustainability by reducing energy consumption, prioritising our people and enhancing our product design process. We aim to reach net zero by 2040.

SEE **SUSTAINABILITY** FOR MORE INFORMATION ON PAGES 33-34

BUILDING RESILIENCE, GROWING SUSTAINABLY

BUILDING RESILIENCE

We are building resilience across our supply chain and continue to strengthen relationships with our suppliers and customers. We are also committing to achieve and maintain high standards of sustainability across all business activities.

Our customers

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

We build strong and long lasting relationships with our customers, driven by our large and technically capable sales engineering teams and backed up by our highly skilled power systems engineers and the safety and reliability benefits of our manufacturing.

This structure was crucial during 2022 as we continued to navigate the supply chain issues affected by ongoing global challenges, and had to provide the same solutions with different components due to shortages.

Quality and reliability are paramount to our customers who often provide critical healthcare or industrial systems. For that reason, we need reliable 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 includes prospective suppliers' quality systems and standards, their financial viability, 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 deals with environmental standards, treatment of people, health and safety, and business ethics.

Our strong supply chain

Our main production facilities are in China and Vietnam and we are building a third facility in Malaysia. We proactively manage these sites to optimise our supply chain and provide resilience of supply for our customers. Our total Asian manufacturing capacity is more than US$350 million per year. We have significantly expanded our low cost Asian manufacturing base and continue to do so, investing in new capacity in Vietnam and, from 2024, in Malaysia, where we broke ground to begin construction of our new manufacturing site in 2022.

The new facility in Malaysia will become approximately twice the size of our existing Vietnam factory, to complement both Vietnam and our original China plant to meet the demand across the world and allow for further expansion. Our overall objective is to provide a resilient and flexible supply chain with the capability to manufacture the majority of products in China, Vietnam and Malaysia to provide enhanced business continuity planning.

We also have three smaller, specialist manufacturing facilities in North America. These include a customer-focused engineering services facility in California, a site in New Jersey focused on high-voltage products, and an radio frequency focused facility in Massachusetts.

Vietnam is now qualified to produce a total of 2,746 different low-voltage products as we continue the transfer of production capabilities. In addition, there are now 813 different high-voltage modules capable of being manufactured in Vietnam, now that the transfer of low-power, high-voltage DC-DC modules.

In China, we are also developing capability to manufacture RF products for the Asia market, and will continue to invest in this in 2023, supporting the growth of our RF business overall.

In Europe, the acquisitions of FuG and Guth in January 2022 added further high voltage capacity and strengthens the Group's position in Germany, the largest market for power solutions in Europe.

Throughout the year, we have seen supply issues for certain components and increased safety stocks of key components to manage through any future supply issues. We monitor market dynamics closely working with our supply partners. We have also designed out some particularly problematic components using our engineering team.

Focus on sustainability

We aim to lead the industry on sustainability and believe it is fundamental to driving our growth, managing risk and living our values

We have a clear ESG framework, and in July 2022, we submitted our commitment of net zero of emissions by 2040 and have registered with the Science Based Target initiative (SBTi) and have established a number of initiatives to meet this target. These include low carbon products, renewable electricity and responsible supply chain.

Our employees are the heart of our organisation and we continue to support them through training and development and promoting a fair working environment with equal opportunities. We ensure our workplace is where our people can be at their best, ensuring an environment that is safe, diverse, inclusive and attracts and retains the best talent. We uphold the highest standard of business ethics and integrity.

READ OUR **FULL SUSTAINABILITY REPORT**
ON PAGES 62-79

GROWING OUR BUSINESS

Utilising our proven growth model to grow our business sustainably and create more value for our stakeholders.

£362.9m

ORDER INTAKE -2% CER COMPARED TO FY 21

Maintaining our strong financial position to support our growth

Despite short term challenges in 2022, we expect to return to our long term financial framework, reflecting a strong balance sheet with high levels of cash conversion above 90% that allows us to drive further growth through organic investment, including R&D, people, and targeted and complementary acquisitions.

READ MORE ABOUT OUR **FINANCIAL POSITION** IN OUR STRATEGY ON PAGES 28–29

Our proven growth model: gaining market share in growing markets

We are exposed to attractive long-term growth markets.

Market growth is driven by increasing global GDP, growth in the use of electronics all of which require a power converter, pace of innovation, global shortage of semiconductors driving investment in capacity, increase in new technologies such as Internet of Things, smart technology and Artificial Intelligence, as well as the global population that is both increasing and ageing, coupled with advances in medical technology.

We have a track record of **gaining market share** through greater penetration of existing blue chip customers, providing power solutions for customers and ongoing product innovation to build share and expand addressable market.

We deliver **operational excellence** through supply chain optimisation, high-quality and highly adaptable operations, with good operating performance and margins.

READ MORE ABOUT OUR **PROVEN GROWTH MODEL** IN OUR STRATEGY ON PAGES 28–29

Growing our product portfolio

New products are fundamental to our revenue growth. Our teams work closely with our customers to develop the right products to meet future requirements.

We continue to move our product portfolio up the power and voltage scale, and away from our historic low-power/low-voltage offering, to protect our margins and expand our addressable market. The FuG and Guth acquisitions are highly complementary to XP Power's existing high voltage product portfolio and accelerates our strategy in this attractive market.

We have directed more of our internal product development resources away from low-power/low-voltage applications, and are servicing demand in the low-power segment with more third-party products designed to our specifications and quality standards. Our design engineers focus on more technically challenging and complex product opportunities.

We add significant value to our customers through our engineering solutions groups who work closely with the customer's engineering teams to provide 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.

READ MORE ABOUT OUR **GROWING PORTFOLIO** IN OUR STRATEGY ON PAGES 28–29

Building on our competitive strengths and growth drivers

We focus our development experts and engineers to capitalise on our strengths and are well positioned to capitalise on growth drivers:

- Power supplies are increasingly part of the customer ecosystem, with increased connectivity of the power converter to the customer's equipment
- Higher power and higher levels of customisation driving higher engineering services content with Industry 4.0 accelerating these trends
- Increased legislation and safety regulations
- Increasing environmental demands driving higher efficiency

READ MORE ABOUT OUR **COMPETITIVE STRENGTHS** IN OUR STRATEGY ON PAGES 28–29

OUR PURPOSE, VISION, STRATEGY, VALUES AND CULTURE

Our purpose underpins everything we do and links our vision and values with our strategy.

We link our purpose, vision, strategy, values and culture to clearly communicate to our colleagues and drive our business forward.

Our vision

Where we want to be:

To be the first-choice power solutions provider, and to deliver 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.

Our sustainability strategy

Our sustainability strategy focuses on some of the most material issues across our business, ensuring that the value we create is for the long term.

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 how we create value for the customer.

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

Our culture

Our culture places our people and customers at the heart of the business. Most importantly, it is driven by our sustainable mindset, which allows us to amplify our goals across XP Power by developing our talent and empowering our people to deliver sustainable value.

Q&A WITH CEO

> *The Group starts 2023 with a significant order book, which provides good visibility for the year.*

GAVIN GRIGGS
CHIEF EXECUTIVE OFFICER

01

What factors have contributed to XP Power's impressive order book accomplishment this year?

XP Power has benefited from the global recovery post COVID-19 that has driven strong demand for our products across all sectors.

The global requirements for more electronic equipment in all aspects of our day to day lives that are more connected, more resilient and more reliable plays to the sweet spot of our product capabilities.

The lengthening of the supply chain has also increased lead times for our raw materials, which has in turn temporarily extended delivery times for our products. We expect this to normalise as lead times reduce in the coming years.

02

How do XP Power's two recent acquisitions, FuG and Guth in Germany, add to its HV portfolio?

FuG and Guth complement our existing high voltage portfolio bringing new products and new technologies that expand our addressable market.

Combining all of XP Power's high voltage technology brings exciting opportunities across the breadth of a growing, innovative marketplace.

03

What would you say about the short-term market challenges such as component shortages and increase in lead times, as well as the external environment?

The global supply chain challenges remain, although have abated in the second half of the year as the electronics industry comes to terms with working within this new normal.

The semiconductor shortages that originated during the pandemic are showing signs of recovery but supplies of specific components are still inconsistent and prone to schedule change.

We expect this to continue for some time and we are highly skilled in operating in this new environment.

04

What's your action plan on the Comet legal action judgement?

We are still waiting for the Judges ruling on the case, and when we receive this the Board will consider our next steps.

We continue to view the RF market as an attractive opportunity and respect the rulings of the Court but intend to compete in this market within the rules outlined by the Court.

05

Is the business highly leveraged?

The net debt to EBITDA leverage is higher than we have historically operated at as a result of acquisitions, the legal case and inventory build.

We will manage this carefully but remain confident that given the well proven, cash generative nature of the business we can continue to invest in the business while reducing the leverage levels.

06

Sustainability underpins the focus for the business. What have been the stand out achievements in the past 12 months?

2022 was another year of building on our sustainability heritage. It was pleasing to receive the first ESG award from Lam Research, one of our largest customers, being recognised for our commitment to strong ESG goals over many years and proactively aligning with Lam on these priorities.

This follows the PRISM award we received from ASM in 2021 for sustainability.

We are committed to a sustainable future and have signed up to the Science Based Targets Initiative (SBTi).

07

Elaborate on XP Power's future plans and long-term prospects?

We are excited by the opportunities we see in front of us, to work more closely with our customers to address their power problems.

By doing this and continuing to expand our product solutions and engineering capability we are confident we can grow ahead of the market and continue to deliver strong results to all our stakeholders.

STRATEGIC REPORT

CONTENTS

GROWING OUR ADDRESSABLE MARKETS

We operate in a highly diverse market with great opportunity to grow market share.

US$ BILLIONS

ESTIMATED MARKET

LOW VOLTAGE	3.6
PROCESS POWER	2.8
TOTAL	6.4

XP POWER ESTIMATED MARKET

LOW VOLTAGE	7.8%
PROCESS POWER	2.9%
TOTAL	5.7%

Source: Microtech Consultants and XP Power management estimates

Overview

Our end markets can be broken down to the low voltage market, 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 particular 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 low.

Low voltage

$3,600m

TOTAL MARKET VALUE

OVERVIEW

The low voltage market principally powers electronic systems and is highly fragmented globally.

OUR RESPONSE

Our broad, easily modified, up-to-date product portfolio combined with our engineering capability allow us to provide effective solutions to diverse range of applications.

High voltage

$700m

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

RF power

$2,042m

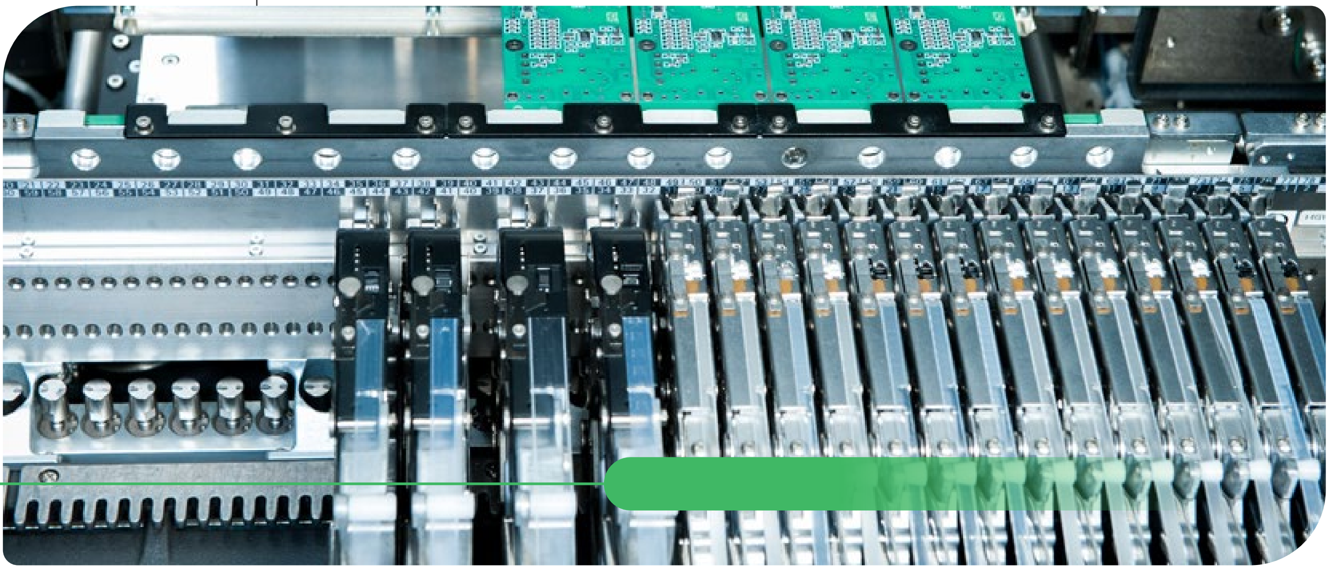
TOTAL MARKET VALUE

OVERVIEW

The RF Power market is substantial and has attractive growth prospects. The semiconductor equipment manufacturers are significant users of this product, but 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.



THE MARKET SECTORS WE SERVE

Our products serve markets in multiple sectors and across three market regions.

Semiconductor manufacturing equipment

The semiconductor manufacturing equipment market continued to grow in 2022. This is an attractive sector for our long-term growth as the demand for semiconductor devices is driven by multiple factors such as pace of innovation, global shortage of semiconductors driving investment in capacity, artificial intelligence (AI), big data, smart technology and autonomous vehicles.

MARKET OVERVIEW

We are one of the few companies in the world that can offer the whole spectrum of power and voltage products required for semiconductor manufacture, and have capability to combine these into a complete power solution. This is important to our customers as the latest generation of devices become more capital intensive to manufacture as they become multi-layered and dimensions continue to shrink.

PERFORMANCE THIS YEAR

We have benefited from ongoing demand and market share gains as several new programme wins, driven by technology advances, have entered production.

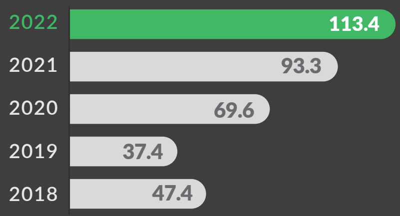
25%

FIVE-YEAR CAGR

REVENUE (£M)

39% total revenue

£113.4m



Industrial technology

The industrial technology market is the most diversified of our markets. There are no large individual programmes even though we are dealing with many blue-chip industrial customers.

MARKET OVERVIEW

We focus on fast growing niches, such as robotics, test and measurement, 3D printing and additive manufacturing, smart grid and analytical instruments.

PERFORMANCE THIS YEAR

Demand in industrial technology has remained strong despite supply chain challenges having a major impact during 2022. Revenue from the distribution channel has seen a strong increase as we continue to grow market share with the high service level distributors we use to support the mid-tier and smaller customers of the market.

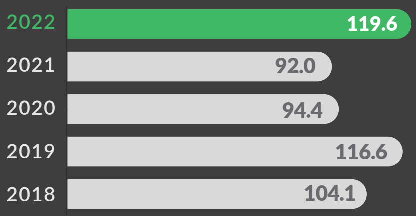
4%

FIVE-YEAR CAGR

REVENUE (£M)

41% total revenue

£119.6m



Healthcare

The healthcare market tends to be less cyclical than our other sectors, which adds resilience to our business model. We have a broad medical power converter offering with full traceability of components and high-quality in-house manufacturing.

MARKET OVERVIEW

Healthcare remains an attractive market for us, given the long-term demand growth dynamics and the safety critical nature of products. Our broad medical product range and high level of customer service make our value proposition very attractive.

PERFORMANCE THIS YEAR

Demand from our healthcare remains encouraging as the operation procedures normalised to pre-COVID-19 levels and a healthy pipeline of innovation, especially in robotics.

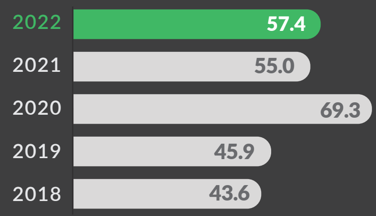
7%

FIVE-YEAR CAGR

REVENUE (£M)

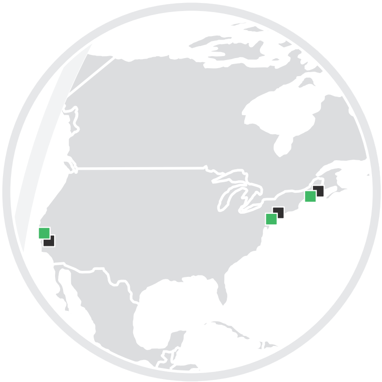
20% total revenue

£57.4m



THE MARKET SECTORS WE SERVE

KEY
🟩 Manufacturing
⬛ Warehouse
▲ Sales Offices
▲ Head Offices



North America

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

MARKET OVERVIEW

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 having strong long-term growth prospects for XP Power.

PERFORMANCE THIS YEAR

North America produced strong growth in 2022 as the semiconductor manufacturing equipment sector continued to grow, and demand in industrial technology sector was strong, especially from the distribution channel. Healthcare performance was flat mainly due to component shortages impacting shipments.

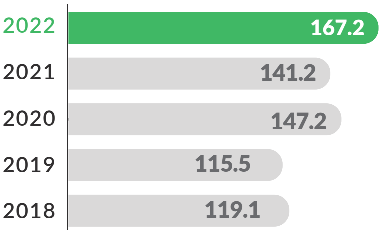
9%

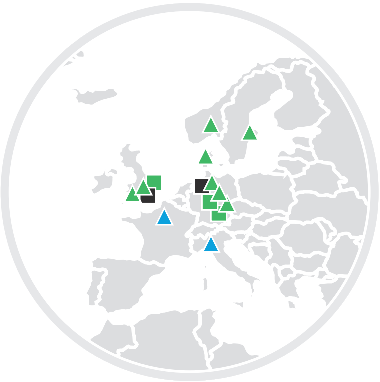
FIVE-YEAR CAGR

REVENUE (£M)

57% total revenue

£167.2m





Europe

The European market is more fragmented than North America or Asia, as it contains numerous smaller industrial technology companies and several larger healthcare companies.

MARKET OVERVIEW

Our European customers are principally involved in industrial technology with some healthcare, but very little semiconductor manufacturing equipment. It is our most diverse market.

PERFORMANCE THIS YEAR

Europe produced strong growth in industrial technology and healthcare in 2022.

Europe did not benefit from the semiconductor manufacturing equipment exposure that Asia and North America have.

We successfully completed the acquisitions of FuG and Guth in January 2022, and performance has been strong for both businesses.

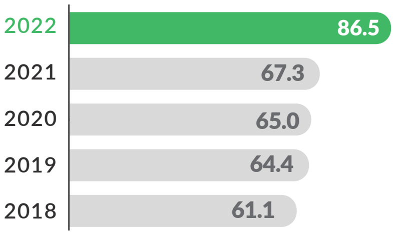
9%

FIVE-YEAR CAGR

REVENUE (£M)

30% total revenue

£86.5m



Asia

Although Asia is a large market, much of it is not available to XP Power as many customers value cost over service and support. Nevertheless, there are several significant niches where our proposition is compelling. Asia's up-and-coming semiconductor manufacturing equipment market is particularly attractive.

MARKET OVERVIEW

Markets in Asia are generally growing faster than in North America and Europe. There are many attractive areas that we can service with our more complex high-power and high-voltage products.

PERFORMANCE THIS YEAR

Asia produced growth across all three market sectors.

The acquisition of Comdel and Glassman meant we have benefited from the addition to the product portfolio – increased RF and high-voltage high-power capabilities – which has created new revenue opportunities.

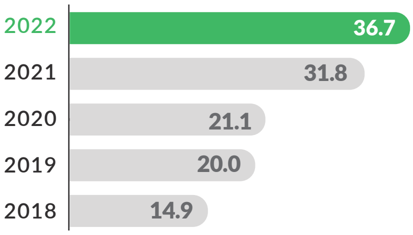
24%

FIVE-YEAR CAGR

REVENUE (£M)

13% total revenue

£36.7m



GROWTH DRIVERS AND MARKET CHALLENGES

We see many opportunities to expand our addressable market and customer base.

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.

These customers demand the ultimate quality and reliability, and appreciate and value our 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	Risks
	3, 9

Proliferation of electronic devices

Electronic devices are becoming increasingly pervasive in our lives as new technologies and innovation develop. This trend is accelerating by multiple factors such as pace of innovation, global shortage of semiconductors driving investment in capacity, AI, big data, smart technology and autonomous vehicles.

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, which are designed to be easily modified to power the customer's 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	Risks
	3, 9

Connectivity and industrial revolution 4.0

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

Power supplies are increasingly part of the customer ecosystem, with increased connectivity of the power converter to the customer's equipment.

HOW WE ARE RESPONDING

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

LINK TO

Strategy	Risks
	2, 4, 5

STRATEGIC 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

RISKS KEY

① An event causes a disruption to our manufacturing facilities

② Product recall

③ Competition from new market entrants and new technologies

④ Fluctuations of revenues, expenses and operating results due to an economic shocks

⑤ Dependence on key customers

⑥ Cybersecurity/information systems failure

⑦ Risks relating to regulation, compliance and taxation

⑧ Strategic risk associated with valuing or integrating new acquisitions

⑨ Loss of key personnel or failure to attract new personnel

⑩ Exposure to exchange rate fluctuations

⑪ Risk associated with supply chain

⑫ Climate-related risks

GROWTH DRIVERS AND MARKET CHALLENGES

Customer penetration

Our blue-chip customer base provides opportunities to win additional 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 capitalising on these to win more business available to those customers by expanding our product offering.

HOW WE ARE RESPONDING

RF and high-voltage power solutions from previous acquisitions have helped to increase our available market over US$6.0 billion. The acquisitions of FuG and Guth further enhances our ability to grow in these markets.

LINK TO

Strategy	Risks
	5, 6, 9

Climate change

Climate change and greenhouse gas emissions is becoming an increasingly significant issue as emerging countries develop and urbanise. We have 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 products with class-leading efficiencies and have the most environmentally friendly manufacturing facility in our industry.

LINK TO

Strategy	Risks
	1, 4, 7, 9, 11, 12

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 alongside reliability for critical applications, as ultra-high efficiency products require reliable 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 products with class-leading efficiencies and low standby power, which can operate without fan cooling.

LINK TO

Strategy	Risks
	1, 7, 9, 12

Legislation

Our industry continues to be subject to increasing legislation from numerous countries and standards relating to areas such as environmental impacts, safety requirements and, above all, energy efficiency. The compliance costs of keeping up with this legislation is significant. We sizeable enough to dedicate significant resources to this area, yet agile enough 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	Risks
	3, 7, 9, 10

Capital equipment

Our products are designed into and power capital equipment, so are subject to 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 the medium and long-term opportunities to 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 are well positioned to take advantage of growth in the capital equipment markets. We are targeting newer and faster growth industrial sectors such as 3D printing, analytical instruments, robotics and smart grid infrastructure.

LINK TO

Strategy	Risks
	2, 5, 11

Innovation

Our customers possess a competitive need to launch new products that offer 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

We have five design centres around the globe that offer a diverse range of products, and have added new capability through the acquisitions of FuG and Guth.

LINK TO

Strategy	Risks
	8, 9

STRATEGIC 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

RISKS KEY

① An event causes a disruption to our manufacturing facilities

② Product recall

③ Competition from new market entrants and new technologies

④ Fluctuations of revenues, expenses and operating results due to an economic shocks

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⑨ Loss of key personnel or failure to attract new personnel

⑩ Exposure to exchange rate fluctuations

⑪ Risk associated with supply chain

⑫ Climate-related risks

OUR BUSINESS MODEL

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

Key activities

Our purpose and why we exist:

WE **POWER** THE WORLD'S CRITICAL SYSTEMS

Our values:

Integrity

Customer Focus

Speed

Flexibility

Knowledge

Our vision and 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 RELATIONSHIP
with our suppliers, employees and Shareholders.

OUR PEOPLE AND LEADERSHIP
An experienced and committed workforce, and a strong Executive team with a clear strategic vision.

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

GLOBAL REACH AND SCALE
Operational flexibility, speed, and the ability to reach global customers.

RESEARCH AND DEVELOPMENT
We continue to focus on innovation when developing new products.

01
Identify

Our customers are at the heart of what we do. We work closely with our key customers to understand their requirements and sell to them when we can add genuine value. We offer 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.

02
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 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-increasing 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.

03
Manufacture and distribute

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 includes a prospective suppliers' quality systems and standards, their financial viability, their environmental performance, and treatment of their people.

Our global footprint and robust, multi-site, low cost manufacturing and our network of sales, engineering and manufacturing provides us with the flexibility of a global organisation and the ability to partner with our customers locally.

Our impact and social-economic contribution

OUR APPROACH

A new design programme is identified by 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.

OUR APPROACH

We can provide modified product solutions, which allow the customer to easily integrate the power converter into their equipment.

OUR APPROACH

We manufacture our own products, and this provides us with the ability to ensure excellent quality, and an agile supply chain to meet customer's needs.

Aligned to the United Nations Sustainable Development Goals

We have aligned our sustainability strategy to the United Nations Sustainable Development Goals to ensure that as we develop our strategy we are clear on how our efforts can be aligned to the wider sustainability agenda.

Value generated for our stakeholders

OUR PEOPLE

We provide a safe and healthy working environment that is stimulating and collegiate. We take the approach: if we look after our people, they will look after our customers.

3.83

EMPLOYEE ENGAGEMENT SCORE LAST YEAR

OUR CUSTOMERS

We solve our customers' power problems and help them to get to market quickly. We provide innovative solutions that are reliable and reduce the running costs of our customers' equipment.

OUR SUPPLIERS

We behave ethically and build long-term relationships with our key suppliers. We abide by our rigorous Code of Conduct dealing with ethics, health and safety employee relations and environmentally friendly practices, and require our suppliers to do the same.

118

NEW PRODUCT FAMILIES RELEASED OVER A FIVE-YEAR PERIOD

OUR COMMUNITIES AND THE ENVIRONMENT

We produce XP Green Power products that consume less energy and materials, and avoid the use of hazardous substances. We have the most environmentally friendly manufacturing facility in our industry, and support our people with paid leave to contribute in the communities we operate.

OUR SHAREHOLDERS

We execute our published strategy on a consistent basis that has produced excellent Total Shareholder Returns over a significant period. We allocate our capital appropriately and maintain a dividend policy.

10%

DIVIDEND INCREASE OVER A FIVE-YEAR PERIOD

OUR STRATEGY

We have a clear and consistent strategy of ascending the value chain through our internally developed products, and adding complementary products through acquisitions. We 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. This range also needs to be broad due to the fragmented nature of the markets we serve, which have several 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/GOAL

To release sufficient products to achieve at least 10% organic revenue growth at attractive margins.

PAST PERFORMANCE

Over the past few years, we have been expanding our product portfolio and have developed several highly efficient, leading-edge products.

PLANNED FUTURE ACTIONS

We are focused on developing product platforms that are easy to modify and can be reused over multiple sectors and applications, and on expanding our portfolio of XP Green Power products with class-leading efficiencies and low standby power.

LINK TO

Material issues	KPIs	Risks
1, 3	A, D, E	3, 5

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, particularly with a power problem due to either heat dissipation or electrical noise. These are our target customers.

TARGET/GOAL

Organic revenue growth 10+%.

PAST PERFORMANCE

We have targeted customers where reliability is key or where their equipment is in harsh environments. These customers value the support and service our highly trained sales force and power systems engineers deliver.

PLANNED FUTURE ACTIONS

We are prioritising our resource on 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, reliability or engineering support during the design phase.

LINK TO

Material issues	KPIs	Risks
1, 3, 8, 9, 11	A, B, C	3, 4, 5

Vertical penetration of focus accounts

We have a relatively small share of available business in some accounts we call on. We continue to expand our product portfolio to address more opportunities available to grow our revenues.

TARGET/GOAL

Organic revenue growth of 10+%.

PAST PERFORMANCE

We have spent the last few years gaining approved or preferred supplier status with key customers in healthcare, industrial technology, and semiconductor manufacturing equipment sectors. We are focused on existing customer bases to grow our revenues.

PLANNED FUTURE ACTIONS

As we expand our product offering through continued product development augmented by acquisitions, we aim to address our customers' requirements with excellent service and support.

LINK TO

Material issues	KPIs	Risks
2, 3, 7, 8	A, B, C	1, 3, 4, 11

MATERIAL ISSUES KEY

① Product responsibility (safety and quality)
② Responsible supply chain
③ Product solutions and innovation
④ Attracting retaining and rewarding talent
⑤ Employee welfare
⑥ Health and safety (inc. occupational)
⑦ Ethical conduct and compliance
⑧ Energy efficiency
⑨ Waste management
⑩ Diversity and equal opportunity
⑪ Emissions

KPI KEY

Ⓐ Revenue growth
Ⓑ Revenue from top 30 customers
Ⓒ Adjusted operating cash conversion
Ⓓ Adjusted diluted earnings per share growth
Ⓔ New product families released
Ⓕ Employee engagement score
Ⓖ Lifetime CO_2 emission savings from products

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, along with our product portfolio and excellent customer service, has allowed us to take market share and grow significantly. As the Company grows, we need to upgrade our systems and processes, especially our supply chain processes, to scale and run a larger business as we continue to grow.

TARGET/GOAL

Reduction in manufacturing costs, freight and logistics, alongside consistent improvement in lead time and on-time delivery.

PAST PERFORMANCE

We have evolved from a distributor to a manufacturer, with manufacturing facilities in China, Vietnam and North America, and we have invested to increase capacity and flexibility.

Our new ERP system went live in 2022 and will enable the Company to scale more effectively and integrate recent and future acquisitions more easily.

We broke ground to begin construction of our new manufacturing site in Malaysia in 2022.

PLANNED FUTURE ACTIONS

Continue support and optimisation of the ERP implementation across the Group.

The new facility in Malaysia is expected to be operational in 2024 and it will complement our plants in Vietnam and China to meet global demand and allow for further expansion.
Our overall objective is to provide a resilient and flexible supply chain with the capability to manufacture most products in China, Vietnam and Malaysia and enhanced business continuity planning.

LINK TO

Material issues	KPIs	Risks
1, 3, 7, 8, 11	A, B, C, G	4, 7, 11

Lead our industry on environmental matters

Strong corporate social responsibility is important to our customers, employees and the communities we operate in. This incorporates environmental performance, health and safety, treatment of our people and business ethics.

TARGET/GOAL

Excellent health and safety performance and consistent reduction in our CO_2 intensity.

PAST PERFORMANCE

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

Registered our near and long-term targets with the Science Based Target initiative (SBTi).

Established a Sustainability Council to meet regularly to ensure our sustainability targets are met.

PLANNED FUTURE ACTIONS

We will remain a committed member of the RBA.

We will take the necessary steps in our carbon transition plan to meet net zero targets.

LINK TO

Material issues	KPIs	Risks
1, 2, 3, 8, 11	G	1, 3, 4, 12

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.

TARGET/GOAL

Bolt-on acquisitions driving inorganic revenue growth of 5+%.

PAST PERFORMANCE

Through recent acquisitions, we have added both RF power and high power/high voltage to our product range, including through acquisitions of FuG and Guth in January 2022.

PLANNED FUTURE ACTIONS

We will integrate acquisitions into our global supply chain, product development and sales structures to maximise growth opportunities, whilst continuing to develop a pipeline of potential acquisitions to expand our product offering and engineering capabilities.

LINK TO

Material issues	KPIs	Risks
4, 5, 6, 7, 10	A, B, C, F	1, 3, 8

RISKS KEY

① An event causes a disruption to our manufacturing facilities

② Product recall

③ Competition from new market entrants and new technologies

④ Fluctuations of revenues, expenses and operating results due to an economic shocks

⑤ Dependence on key customers

⑥ Cybersecurity/information systems failure

⑦ Risks relating to regulation, compliance and taxation

⑧ Strategic risk associated with valuing or integrating new acquisitions

⑨ Loss of key personnel or failure to attract new personnel

⑩ Exposure to exchange rate fluctuations

⑪ Risk associated with supply chain

⑫ Climate-related risks

OUR STRATEGY IN ACTION:

An important part of our strategy is to make selective acquisitions where we believe they are complementary to our existing business, expand our product offering and enhance our capability to provide market-leading solutions for our customers.

READ MORE ABOUT OUR **BUSINESS STRATEGY** ON PAGES 28–29

READ MORE ABOUT OUR **SUSTAINABILITY STRATEGY** ON PAGES 33–34

What we've done this year

In January 2022, we made two acquisitions in Germany, adding FuG Elektronik GmbH (FuG) and Guth High Voltage GmbH (Guth) to the XP Power Group.

The acquisitions significantly enhanced our high voltage capability and strengthened our position in strategically important German and European markets. They have also provided additional design and manufacturing centres, complementing XP's existing footprint.

In 2022, the businesses contributed combined revenues of €20.0 million and EBITDA of €5.5 million, and we have integrated c.150 existing employees whilst retaining the management team and capabilities that have built these successful businesses.

Together we exhibited at Electronica in 2022, the world's leading trade fair for the electronics industry.

Ambitions for 2023

In 2023, we aim to further integrate the businesses into the XP Power group, and create a platform for future revenue growth. In the short term, our focus is on positioning them to deliver upon their full organic growth potential within the Group.

There are future opportunities from cross-selling FuG and Guth's products to the Group's wider global customer base through our industry leading sales teams and distribution network which we will be able to take advantage of more fully once integration is complete.

In addition, the wholly new and complementary high voltage technologies that FuG and Guth bring to the Group will enable further development of our new product roadmap, under a newly appointed Director of High Voltage Technology who will oversee this globally.

The new higher power and higher voltage products we now offer also allow us to service considerably more of the opportunities in the semiconductor manufacturing equipment sector, significantly expanding our addressable market, and the acquisitions of FuG and Guth will further strengthen our position in this market by adding access to new sub-sectors including lithography.

Link to sustainability

The businesses operate with a sustainable mindset, including taking advantage of solar technology, investing in talent through apprenticeships and empowering our people as part of the combined Group. Employee engagement has been a focus of the integration, including all-employee surveys, English lessons and technical training.

Link to values and culture

FuG and Guth were businesses that we knew and admired, and part of our due diligence was ensuring a good fit with the XP Power values of integrity, customer focus, speed, flexibility and knowledge. We have built upon this throughout the integration so far with both businesses adopting the XP values and beginning to integrate within regional and leadership communities across the Group.

OUR SUSTAINABILITY REPORT 2022

INTRODUCTION TO SUSTAINABILITY FROM THE CEO

> *Sustainability is an integral part of our strategy. We have invested in our operations, infrastructure, technology, people and communities, and will continue to do so.*
>
> **GAVIN GRIGGS**
> CHIEF EXECUTIVE OFFICER

READ MORE ABOUT **OUR MARKETPLACE** ON PAGES 21–25

READ MORE ABOUT OUR **STRONG FINANCIAL POSITION** ON PAGES 46–49

Sustainability is important to XP Power and all our stakeholders. We have a proud legacy on which to build being the first power converter manufacturer to be admitted into the Responsible Business Alliance, and it remains an integral part of our Company strategy.

First and foremost, sustainability is about 'doing the right thing' for our planet and each other. We have a moral obligation to act now with pace and purpose. This remains our primary motivator. Our biggest focus is on dramatically reducing our impact across the whole value chain from everything we buy, to everything we do and everything we sell, with an emphasis on efficiency and achieving net zero by 2040. To this end, we have signed the letter of commitment with The Science Based Targets initiative (SBTi) and have developed targets that we intend to submit for verification in the first half of 2023. Our net zero pathway will reduce greenhouse gas emissions from our operations, the raw materials used to make our products, and our products in use. It will be an enabler of good business in using resources more efficiently, to do more with less, and act as a guiding principle in refreshing our product portfolio. XP Power has a strong history of innovation and engineering excellence in creating highly efficient products. These provide an ongoing commercial opportunity whilst progressing our own sustainability agenda and supporting customers to reduce their own carbon footprint. This is a key path to strengthening our market leadership and building our reputation with customers. We have invested in our operations, infrastructure, technology, people and communities, and will continue to do so. This will help to embed sustainability into the everyday operational fabric of our business, influencing all our decisions and actions across the Group. All our colleagues will have a part to play and the shared diversity of thoughts, ideas, experience and skills, in the Group will help embed sustainability as business as usual.

GAVIN GRIGGS
CHIEF EXECUTIVE OFFICER

28 February 2023

OUR SUSTAINABILITY STRATEGY IS TO:

01

Produce quality products that are safe and solve our customers’ power problems

Our power converters are the safety critical element of the end application providing the isolation barrier between the end user and the relatively high voltage mains electricity.

LINK TO

Material issues

1, 3

SEE PAGES 62–63 FOR OUR PERFORMANCE AGAINST THIS STRATEGIC PILLAR, METRICS, TARGETS AND PRIORITIES FOR NEXT YEAR

02

Minimise the impact we and our products have on the environment and adopt responsible sourcing practices considering social and environmental impacts

Our sustainable business goal is to be the leader of our industry regarding environmental matters, and to minimise the impact we and our products have on the environment.

LINK TO

Material issues

8, 9, 11

SEE PAGES 64-69 FOR OUR PERFORMANCE AGAINST THIS STRATEGIC PILLAR, METRICS, TARGETS AND PRIORITIES FOR NEXT YEAR

03

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

Our sustainable business goal is to improve the physical and mental health of our employees, provide them with a safe place to work and to create an environment where our people can be their best.

LINK TO

Material issues

4, 5, 6, 10

SEE PAGES 70–77 FOR OUR PERFORMANCE AGAINST THIS STRATEGIC PILLAR, METRICS, TARGETS AND PRIORITIES FOR NEXT YEAR

04

Uphold the highest standard of business ethics and integrity

Our sustainable business goal is to have zero breaches of our Code of Conduct and uphold the highest standard of ethics and integrity.

LINK TO

Material issues

2, 7

SEE PAGES 78–79 FOR OUR PERFORMANCE AGAINST THIS STRATEGIC PILLAR, METRICS, TARGETS AND PRIORITIES FOR NEXT YEAR

OUR SUSTAINABILITY STRATEGY CONTINUED

Our sustainability strategy is to:

- produce quality products that are safe and efficient, and solve our customers' power problems;
- minimise the impact we and our products have on the environment;
- adopt responsible sourcing practices while considering social and environmental impacts;
- make XP Power a workplace where our people can be at their best to ensure an environment that is safe, diverse, inclusive, and attracts and retains the best talent; and
- uphold the highest standard of business ethics and integrity.

We have used our materiality analysis results from 2021, which was conducted in 2020 (Annual Report 2021, p54) to focus our sustainability strategy on issues that matter most to the Group from a financial and business purpose perspective, and that impact society and our stakeholders. The material issues we identified shape our sustainability strategy, priorities, approach and reporting. We group our material issues into four areas, aligned to the UN Sustainable Development Goals (SDGs) that are supported by each area.

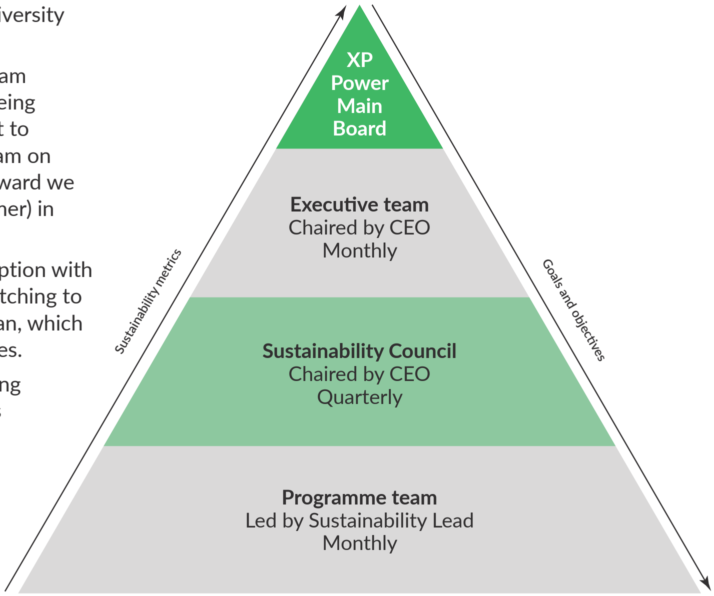
As sustainability is core to the XP Power business strategy, we have a robust structure of sustainability oversight in place. Responsibilities and reporting lines were enhanced this year through the creation of a Sustainable Development Working Group, which sits below the Sustainability Council formed in 2021. The Working Group meets monthly and takes an active role in managing Group sustainability projects and progress. Full details of our sustainability governance model and its responsibilities are outlined in the task force on climate-related financial disclosures (TCFD) Report (page 80).

ACHIEVEMENTS IN PAST 12 MONTHS

- Signed a letter of commitment to the Science Based Targets Initiative (SBTi) and have developed targets for verification for our long-term target of net zero across our value chain for 2040 and interim targets for Scope 1 and 2 and for Scope 3 for 2030 based off a 2022 base year.
- Creation of the Sustainable Development Working Group (see TCFD Report).
- In recognition of our credentials as a responsible and sustainable business, XP Power has maintained its position in the FTSE4Good Index.
- Achieved a C grade in CDP Climate Change (2021: grade D).
- End-to-end carbon footprint methodology established, which includes a full Scope 3 analysis for 2022.
- Enhanced our reporting against the TCFD.
- Creation of Group Supply Chain and Biodiversity policies.
- Received the inaugural ESG award from Lam Research, one of our largest customers, being recognised for our long-term commitment to ESG goals and proactively aligning with Lam on these priorities. This follows the PRISM award we received from ASM (another major customer) in 2021 for sustainability.
- Aligned our employees' default pension option with our ESG values, with our new scheme switching to Standard Life's Sustainable Multi-asset Plan, which invests in responsible investment strategies.
- Shipped XP Green Power products resulting in minimum lifetime CO_2 emission savings of 134,000 tonnes.

PRIORITIES FOR 2023

- We intend to submit our emissions reduction targets for verification by the Science Based Targets Initiative (SBTi) in the first half of 2023.
- Develop and publish our net zero transition plan aligned to the Transition Plan Taskforce (TPT) draft standards.
- Further embed sustainability throughout the Group's strategic decisions.
- Continue to enhance the Group's ISO 14001 coverage to include our sites at FuG, Gloucester and High Bridge.
- All Sustainable Development Working Group members to complete the Cambridge Institute for Sustainability Leadership course in 2023.
- Set new performance targets for our material topics.



PERFORMANCE: OPERATIONAL REVIEW

> *The Group continued to make strategic progress in the year despite facing significant supply chain and inflationary headwinds, particularly in the first half.*
>
> **GAVIN GRIGGS**
> CHIEF EXECUTIVE OFFICER

Review of our year

The Group continued to make strategic progress in the year despite facing significant supply chain and inflationary headwinds, particularly in the first half. The second half saw a much improved performance, that better reflects the Group's capabilities, and we have carried that momentum into the new financial year. Demand across all sectors was strong and has resulted in our order book being at high levels as we entered 2023.

The Semiconductor Manufacturing Equipment sector performed strongly throughout 2022. The performance was underpinned by a combination of increased end market demand and our market share gains from design wins on new tools. These ongoing design wins are being supported by the development of closer relationships with our customers. The Industrial Technology sector maintained the momentum we saw at the end of 2021. Demand from our Healthcare customers steadily improved during the year, ending with a strong second half.

Our diversified manufacturing footprint and supply chain is recognised as an important strategic differentiator by our key customers, many of whom are otherwise concerned about USA/China trade relations and general supply chain resilience. In the last couple of years we have been able to demonstrate this resilience by maintaining product shipments throughout very challenging operating conditions. Continuing shipments to customers remained our priority in 2022 and the Group faced a variety of specific challenges as it worked to meet this objective.

In H1 2022, our Chinese factory was impacted by a five-week long COVID-19 imposed lock-down by the Chinese Government. This, in turn, resulted in logistics challenges which impacted the overall supply chain.

Global supply chains continued to be under significant pressure in 2022 and this impacted both our financial performance, particularly in the first half of the year, but also the service we, and our competitors, could provide to customers. Many components were in short supply with lead-times exceeding 52 weeks. As in 2021, supply issues and material shortages impacted not only semiconductors, but also other components critical to the manufacture of XP Power's products. We continue to manage the situation proactively; working closely with our suppliers and customers, redesigning some products where shortages have been significant, and we continued to pay premium prices to secure and expedite supply. The overall supply chain has now stabilised and we expect this situation to be maintained during 2023.

A second supply chain challenge we faced in H1 2022 related to global logistics, partly related to the ongoing COVID-19 restrictions in China. This resulted in disruption around ports, and tight air and sea freight supply, which led to increased transit times and significant cost increases. In the second half of 2022 these conditions improved significantly, and we have seen logistic costs reduce. While our air to sea freight ratio was higher during 2022 as we strove to meet customer delivery schedules, we expect to move to more normalised levels in 2023.

£290.4m
TOTAL REVENUE
↑ 13% CER
COMPARED TO FY 21

Expansion of our product portfolio by acquisition remains an important element of our growth strategy. In January 2022 we completed the acquisitions of FuG and Guth. The acquisitions have added speciality high voltage capabilities to our portfolio, strengthened our position in the important German market and are an excellent fit with our existing operations, adding wholly new and highly complementary product portfolios and technical capabilities to the Group.

Marketplace

The Group delivered revenue growth of 21% in 2022 on a reported basis, with revenue of £290.4 million (2021: £240.3 million) or 6% growth on an organic constant currency basis.

Order intake was up 6% on a reported basis to £362.9 million (2021: £343.4 million). Orders and revenue for 2022 represent a full year, book-to-bill ratio of 1.25 (2021: 1.43). The Group had a record opening order book of £308.4 million on 31 December 2022 (31 December 2021: £217.0 million), providing excellent visibility for 2023.

Marketplace: sector dynamics

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 22% to £113.4 million (2021: £93.3 million) or 9% growth at constant currency. We believe we not only benefited from ongoing demand but also from market share gains as a number of new programme wins, driven by technology advances, entered production. Revenue from Semiconductor Manufacturing Equipment sector customers represented 39% of overall revenue (2021: 39%). The new higher power and higher voltage products we now offer allow us to service considerably more of the opportunities in this sector, significantly expanding our addressable market. The acquisitions of FuG and Guth further strengthen our position in this market adding access to new sub-sectors including lithography.

Investment in semiconductor manufacturing capacity has been growing rapidly worldwide in recent years as the industry responds to a structural supply shortage and to meet demand for ever more technologically sophisticated semiconductors. Demand for semiconductor manufacturing equipment remains strong with c.81 new semiconductor manufacturing facilities expected to be commissioned by 2025 which will continue to drive demand as they are equipped for production, although there is likely to be a global slowdown in parts of this sector, particularly the leading edge products in the memory segments in 2023. Given XP's exposure is more focused on the deposition and etch segments, its deep penetration in trailing edge and our backlog, we expect performance to be more resilient than the market.

Revenue from the Industrial Technology sector increased by 18% on a constant currency basis (increase of 30% as reported) to £119.6 million (2021: £92.0 million) and represented 41% (2021: 38%) of overall revenue. Demand in Industrial Technology remains robust. The sector is extremely well diversified with only a few customers in our top 30 customer list by revenue. Customer 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 of our revenue in this sector include analytical instruments, test and measurement equipment, robotics, displays, industrial printing, renewable energy, and smart grid. Industrial Technology is a resilient, highly diversified, long-term growth market for XP Power with innovation a key driver of growth. Our Distribution business, which represents 12% (2021: 10%) of our overall revenue and has a very diverse range of end markets, is also included within our Industrial Technology sector. Distribution remains an attractive growth market where we have been increasing market share with existing customers and adding new distributors to expand our geographic reach and increase our market penetration of small and mid-tier customers.

> *Demand across all sectors was strong and has resulted in our order book being at high levels as we entered 2023.*

Revenue from Healthcare customers declined by 7% at constant currency (increased by 4% as reported) to £57.4 million (2021: £55.0 million) representing 20% of overall revenue (2021: 23%). The revenue decline in 2022 was driven by critical component availability. Demand was steady in the first half but increased materially in the second half, both sequentially and year on year, with growth coming from markets such as robotic surgical tools, dentistry, endoscopy and medical imaging. Healthcare remains an attractive market for XP Power given the long-term demand growth dynamics, the safety critical nature of products, the breadth of our medical product range and the high level of customer service required by 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.

→
READ MORE ABOUT OUR **BUSINESS STRATEGY** ON PAGES 28–29

→
READ MORE ABOUT OUR **SUSTAINABILITY STRATEGY** ON PAGES 33–34

Marketplace: North America

Our North America revenue was US$207.0 million in 2022 (2021: US$194.5 million), an increase of 6%. North America represented 57% of overall revenue (2021: 59%).

Order intake in North America was US$276.1 million (2021: US$270.2 million), an increase of 2% resulting in a healthy book-to-bill ratio of 1.33x.

Marketplace: Europe

Our European revenue grew by 29% to £86.5 million (2021: £67.3 million). FuG and Guth contributed £16.5 million of revenue in 2022, therefore Europe grew 4% on an organic basis. With the new acquisitions, Europe's revenues now account for over 50% of the Industrial Technology sector total and represented 30% of overall revenues (2021: 28%).

Order intake in Europe was £103.1 million (2021: £93.1 million), an increase of 11%, resulting in a strong book-to-bill ratio of 1.20x.

Marketplace: Asia

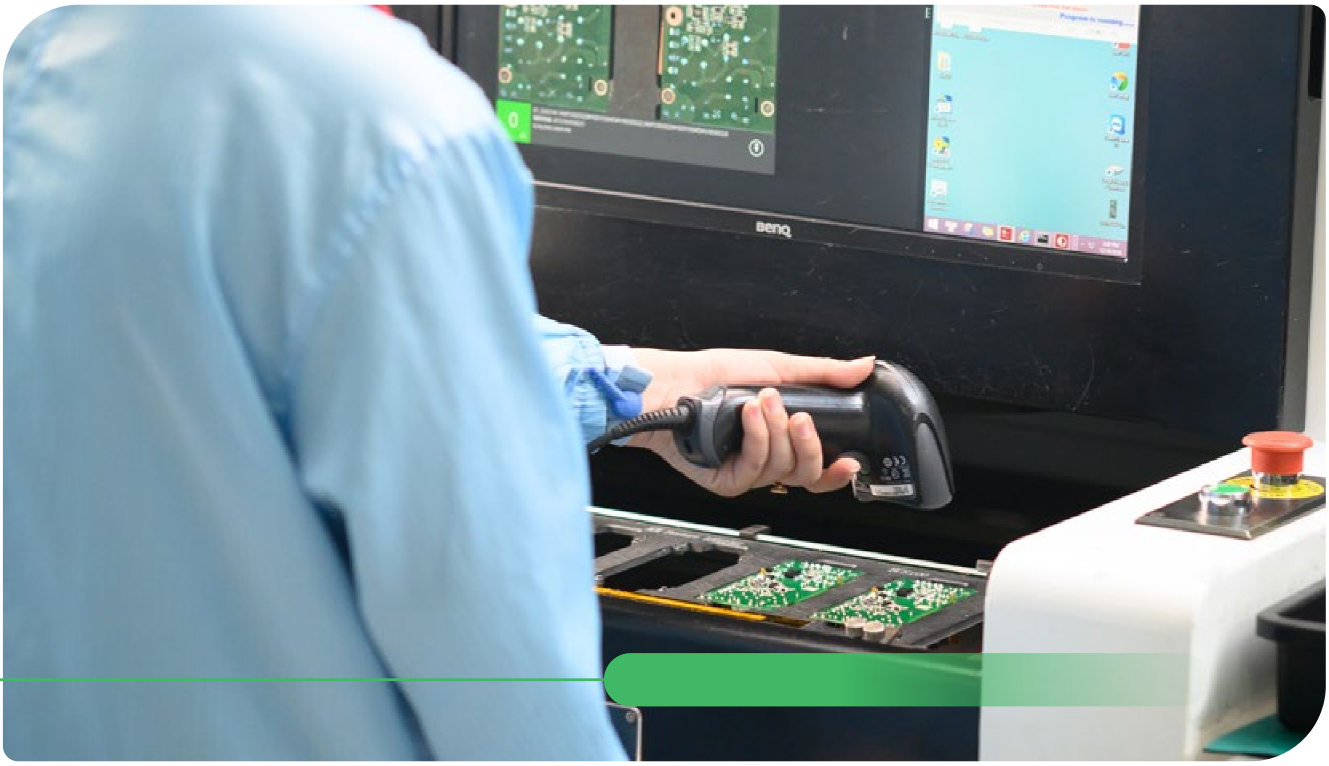
Asian revenues were US$45.3 million (2021: US$43.8 million), an increase of 3%, with growth seen in Industrial Technology. Asia represented 13% of overall revenue (2021: 13%).

Order intake in Asia was US$50.0 million (2021: US$74.8 million), a decline of 33% with a reduction in Semiconductor Manufacturing Equipment and Healthcare partially offset by higher Industrial Technology orders, resulting in a book-to-bill ratio of 1.10x.

Litigation update

On 24 March 2022, a jury in the US legal action brought by Comet Technologies USA Inc., Comet AG, and YXLON International (Comet) concerning alleged trade secret misappropriation by three individuals found in favour of Comet. The jury awarded damages of $20 million based on unjust enrichment, and a further $20 million for punitive damages against XP Power. On 30 September 2022, the judge ruled that there should be an injunction upon XP Power in relation to trade secrets. Since this date, the Group and our appointed lawyers have been working to resolve the situation including filing motions with the Court of the Northern District of California against the validity and level of the damages imposed and against the quantum of legal fees claimed by Comet.

As previously announced, XP has not launched any products based on the Radio Frequency technology that is the subject of the legal action, and there is therefore no impact on the Group's orders or revenue. The full damages and estimated fees are accounted for in the 2022 financial statements along with the impairment of associated product development assets. The case is ongoing and upon receipt of the ruling of motions filed the Board will consider next steps including potentially applying for an appeal with the Appellate Court. While XP believes it has provided for the worst case situation, with the pending motions and potential future appeals there remains a broad range of potential outcomes. A further update will be provided in due course.



Our strategy and value proposition

Our vision is to be the first-choice power solutions provider and deliver the ultimate experience for our customers and our people. Over time, we have expanded our product portfolio up the power and voltage scale to enhance our margins and provide our customers with a broader offering to solve their power problems. We have added high voltage and RF technology and increased our engineering resource to provide enhanced engineering services capabilities and deliver a complete power solution to our key customers. We are now one of 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 specific application. This makes us an extremely attractive partner to our key customers and is a key driver of our market share gains.

We have followed a consistent strategy that has enabled us to produce strong results over a sustained period. The fundamental element of this strategy is targeting key accounts where we can add value and gain more of the customer's available business, combined with moving our product line up the power, voltage, and complexity spectrum. Although this strategy continues to remain appropriate and effective, we constantly challenge and refine it, as we have done so again in 2022.

Our strategy can be summarised as follows:

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

We have a clear and compelling financial framework:

- c.10% organic revenue growth through the cycle
- c.20% operating margin supported by a gross margin >45%
- >20% return on capital employed
- >90% operating cash conversion, a low capital expenditure model
- 1–2x net debt to EBITDA financial leverage

The industry wide challenges we have faced in recent years have not diverted us from our strategic path and we continue to invest for the medium and long term in new product development, new capabilities and capacity. 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 through our increased focus on engineering solutions. Whilst gross and operating margins have been temporarily impacted, principally by industry wide challenges experienced in the period following the pandemic, by increasing operational leverage the Group is confident of its ability to return to historic levels over the medium term.

Acquisitions have been a key part of our growth strategy, expanding our product portfolio and addressable market. The FuG and Guth acquisitions completed in January 2022 are the latest examples of this strategy in action.

Our value proposition to customers is to solve their power problems, reduce their overall cost of design and manufacture, 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 effective 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

Control of our own, low cost, high quality and geographically well-diversified manufacturing assets remains an important component of XP's competitive advantage and the Group actively reviews and invests in its network to ensure it remains well-placed to meet growing customer demand reliably and cost competitively.

XP Power's principal production facilities are located in China and Vietnam. We proactively manage the sites to optimise our supply chain and provide resilience of supply for our customers. Our total Asian manufacturing capacity is more than US$350 million per year at this time. During 2022, we invested in additional capacity in Vietnam to meet our current and future levels of demand and to support the transfer of more products into Vietnam from China and our North American manufacturing facilities, as we seek to benefit from lower production costs and increase supply chain resilience and flexibility.

The Group commenced construction of a new manufacturing facility in north-west Malaysia in 2022 to increase capacity to meet the growing demand across the Group. We expect to commission this new facility in H2 2024. Our overall objective is to provide a resilient and flexible supply chain with the capability to manufacture the majority of products in China, Vietnam and Malaysia and provide enhanced business continuity planning. The increased level of capital expenditure that the Group will incur during construction of the new third Asian site will be phased in line with the building of the facility and will be spread across 2023 and 2024.

READ MORE ABOUT OUR **BUSINESS STRATEGY** ON PAGES 28–29

READ MORE ABOUT OUR **SUSTAINABILITY STRATEGY** ON PAGES 33–34

£38.0m

ADJUSTED PROFIT BEFORE TAX

↓ -20% CER COMPARED TO FY 21

We expect this important strategic capability of having production facilities in Vietnam, China and, in time, Malaysia, to enable us to win more design mandates from key customers. The benefit of dual supply was highlighted when China was in lockdown in 2020 and then again in 2022, as when conditions in Vietnam were restricted in 2021, and we were able to effectively redirect production to maintain a continuity of supply for our customers.

We also have three smaller, more technically specialist manufacturing facilities in North America. These include a customer focused engineering services facility in California, a site in New Jersey focused on high voltage ('HV') products and a radio frequency ('RF') focused facility in Massachusetts. High demand for RF and HV products has led to some supply challenges and we are increasing capacity to meet increased demand levels, including investment in increased capacity in China. Following the acquisitions of FuG and Guth, we now also have two manufacturing facilities in Germany predominantly focused on high voltage products.

Control of our own, low cost, high quality and geographically well-diversified manufacturing assets remains an important component of XP's competitive advantage.

We monitor market dynamics intently, working closely with our supply partners and maintaining a level of safety stocks of key components. Throughout the year, we continued to see significant supply constraints for certain components and increased our safety stocks to manage through any future supply issues and also designed out some particularly problematic components using our engineering team. Uncertainty in the marketplace, in combination with long lead times, led us to order higher quantities than normal to secure supply. Overall supply chain conditions stabilised late in 2022 but we do expect some issues to persist in 2023.

Research and development

New products are fundamental to our longer-term revenue growth. The broader our product offering, the higher the probability that we will have a product which will work in the customer's application with or without a modification by our engineering team. By expanding into RF power in 2017 and high voltage in 2018 and 2022, we estimate that our addressable market is over US$6.0 billion and growing.

The design-in times 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, often peaking a number of years later through the product lifecycle, which can typically be c.seven years. The positive aspect of this characteristic is that our business has a strong annuity base where programmes typically last five to seven years but can last much longer. 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 as they enter production.

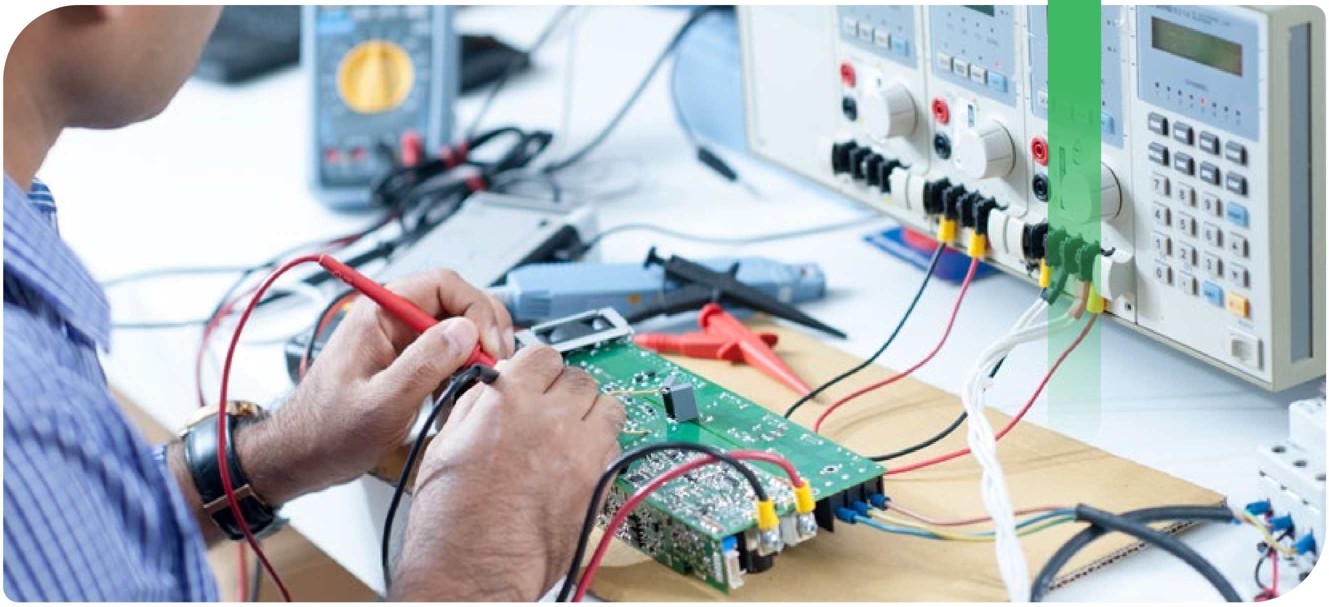
We continue to move our product portfolio up the power and voltage scale and away from our historic low-power/low voltage offering, to protect our margins and expand our addressable market. RF power is a long-term opportunity and is a market which contains many interesting and significant niches beyond the Semiconductor Manufacturing Equipment sector including medical equipment, induction and dielectric heating, and industrial lasers, and we are expanding our RF development resources. In tandem, we have directed more of our internal product development resources away from low-power/low-voltage applications and are servicing demand in the low-power segment with more third-party products designed to our specifications and quality standards.

Engineering solutions

As well as growing our product offering, we have continued to expand our engineering solutions groups, particularly in Asia and North America. As we continue to move our capabilities up to higher power and higher voltages, we are becoming an increasingly attractive partner for customers whose applications are becoming more and more demanding. These demands include not only power delivery and management, but also sophisticated connectivity involving software and firmware which enables 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.

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 it 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 which 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 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 incorporated 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. These industry-leading practices will also be incorporated into our new Malaysian facility.

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 £59.3 million in 2022, 21% higher than last year and represented 20% of total revenue.

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.

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 net zero by 2040. During 2022 we calculated XP Power's full carbon footprint including Scope 1, 2 and 3 emissions. Initial findings show the majority of emissions are outside of our operations – mostly from components we purchase and our products in use. Future product design and efficiency as well as supplier engagement is key in driving these emissions down. Also critical is that governments continue to rapidly decarbonise national electricity grids. XP Power will be submitting targets in line with Science Based Targets Initiative (SBTi) in 2023, following our commitment which was submitted in July 2022.

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

In 2022, we were delighted to receive the first ESG award from Lam Research, the leading global supplier of semiconductor manufacturing equipment and one of our largest customers, being recognised for our commitment to strong ESG goals and proactively aligning with Lam on these priorities. This follows the PRISM award we received from ASM in 2021 for sustainability.

GAVIN GRIGGS
CHIEF EXECUTIVE OFFICER

28 February 2023

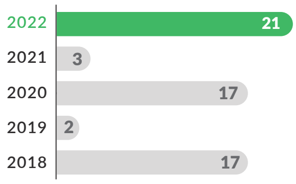
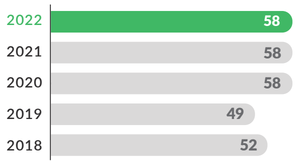
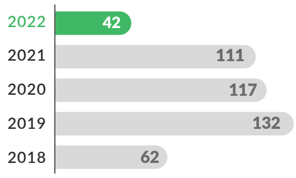
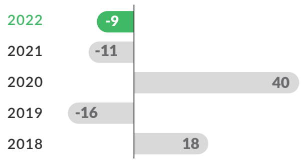
READ MORE ABOUT OUR **BUSINESS STRATEGY** ON PAGES 28–29

READ MORE ABOUT OUR **SUSTAINABILITY STRATEGY** ON PAGES 33–34

OUR KEY PERFORMANCE INDICATORS

We monitor progress against the delivery of our strategic goals using both financial and non-financial key performance indicators (KPIs).

Financial KPIs

KPI	PERFORMANCE	DEFINITION	TARGET ACHIEVED	OUR PROGRESS IN 2022
Revenue growth (%)		We target revenue growth of 10% per annum, measured at actual exchange rates. Whether we achieve this or not can depend on market cyclicality and exchange rates.	Yes	• Revenue growth of 21% was impacted by exchange rates, decreasing to 11% on a constant currency basis. • Trading performance improved significantly in H2 as supply chain conditions improved. • Strong demand for semiconductor manufacturing equipment and industrial technology.
Revenue from top 30 customers (%)		We expect revenue from our top 30 customers to increase as we pursue our strategy.	No	• This metric remained at 58% in 2022 (2021: 58%).
Adjusted operating cash conversion (%)		We target adjusted operating cash conversion of 100%.	No	• Lowered strong cash conversion performance due to increased working capital requirement and the Comet legal case damage payment partially offset by lower capital expenditure. • Focused cash flow forecasting made better use of available cash to meet requirements across the Group.
Adjusted diluted earnings per share (EPS) growth (%)		We aim to grow this metric by a double-digit percentage each year.	No	• Improved gross margin offset by one-off legal costs and other specific items. Improved revenue driven largely by the semiconductor manufacturing equipment market.

OUR PLANS FOR 2023	LINK TO STRATEGY	LINK TO CORE VALUES	LINK TO RISKS	LINK TO REMUNERATION
• Continue to utilise our broad product offering through all sales regions. • Provide increasing support to our customers through our engineering solutions group.	• Target accounts where we can add value.	👥 ⏱	1, 2, 3, 4, 5, 6 7, 8, 9, 10, 11	Revenue growth drives the annual growth of our adjusted profit before tax, which is a target in our Group bonus plan.
• Continue to increase shares of our large customers.	• Vertical penetration of focus accounts.	👥 🔀	1, 2, 4, 5	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).
• Continue to seek opportunities to reduce working capital by reducing lead times and improved inventory management.	• Build a global supply chain that balances high efficiency with market-leading customer responsiveness.	🧠	1, 2, 4, 5, 11	Operating cash conversion is a metric in our Group bonus plan.
• Revenue and earning outcome for 2023 is dependent on continued demand in the semiconductor manufacturing equipment and industrial technology sectors.	• Target customers where we can add value. • Vertical penetration of focus accounts.	👥 ⏱	1, 2, 3, 4, 5, 6 7, 8, 9, 10, 11	Growth in adjusted EPS is a performance condition in our Long-Term Incentive Plan.

CORE VALUES KEY

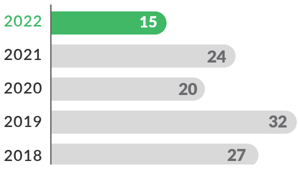
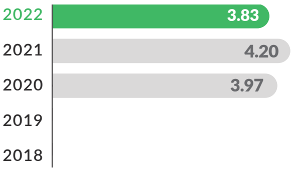
🤝 Integrity
👥 Customer Focus
⏱ Speed
🔀 Flexibility
🧠 Knowledge

RISKS KEY

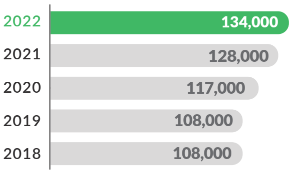
① An event causes a disruption to our manufacturing facilities
② Product recall
③ Competition from new market entrants and new technologies
④ Fluctuations of revenues, expenses and operating results due to an economic shocks
⑤ Dependence on key customers
⑥ Cybersecurity/information systems failure
⑦ Risks relating to regulation, compliance and taxation
⑧ Strategic risk associated with valuing or integrating new acquisitions
⑨ Loss of key personnel or failure to attract new personnel
⑩ Exposure to exchange rate fluctuations
⑪ Risk associated with supply chain
⑫ Climate-related risks

OUR KEY PERFORMANCE INDICATORS CONTINUED

Non-financial KPIs

KPI	PERFORMANCE	DEFINITION	TARGET ACHIEVED	OUR PROGRESS IN 2022
New product families released		In assessing new product opportunities, we consider the potential revenue from new product families and the absolute number of new product introductions. We target 30 new releases per annum.	No	• We released 15 new product families in 2022 (2021: 24). • Eight of these can be classified as XP Green Power products.
Employee management score		We target to improve this score and be at least above the benchmark for similar-sized international companies.	No	• We continue to undertake an annual employee engagement survey provided by Gallup to identify areas our people tell us can improve to deliver the ultimate employee experience.

Sustainability KPI

Lifetime CO_2 emission savings from green products (tonnes)		We have a target to increase the lifetime CO_2 emissions savings from XP Green Power products by at least 5% per annum.	Yes	• Lifetime emission savings exceeded target in 2021.

OUR PLANS FOR 2023	LINK TO STRATEGY	LINK TO CORE VALUES	LINK TO RISKS	LINK TO REMUNERATION
• Focus our design engineering on developing product platforms that are easily shared and reused over numerous applications and sectors.	• Develop a broad range of competitive products.	⇄ ⚙	3, 7	
• Use the results of the Gallup survey to enhance employee morale, increase productivity and improve communication.	• Supports all aspects of our strategy.	⇄ ⚙	6, 7, 9	
• Continue to release products with class-leading efficiency. • Continue to promote environmental awareness and adopt environmentally friendly practices.	• Leading our industry regarding sustainability matters.	✚ 👥	12	

CORE VALUES KEY

✚ Integrity
👥 Customer Focus
⏱ Speed
⇄ Flexibility
⚙ Knowledge

RISKS KEY

① An event causes a disruption to our manufacturing facilities
② Product recall
③ Competition from new market entrants and new technologies
④ Fluctuations of revenues, expenses and operating results due to an economic shocks
⑤ Dependence on key customers
⑥ Cybersecurity/information systems failure
⑦ Risks relating to regulation, compliance and taxation
⑧ Strategic risk associated with valuing or integrating new acquisitions
⑨ Loss of key personnel or failure to attract new personnel
⑩ Exposure to exchange rate fluctuations
⑪ Risk associated with supply chain
⑫ Climate-related risks

PERFORMANCE: FINANCIAL REVIEW

> *The Group's performance improved significantly in the second half of the year, after the extreme challenges of the first half, as supply chain conditions began to stabilise and we were able to increase production from our facilities.*
>
> **OSKAR ZAHN**
> CHIEF FINANCIAL OFFICER

The Group's performance improved significantly in the second half of the year, after the extreme challenges of the first half, as supply chain conditions began to stabilise and we were able to increase production from our facilities. Our improved trading performance reflects the hard work of our team and better reflects the Group's potential. While we remain aware of ongoing challenges and economic uncertainty, we have good momentum into 2023.

Adjusted results

Throughout this results announcement, as is our normal practice, 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 that are one-off in nature, or not representative of the Group's performance, such as the costs relating to the Comet case and implementation of the new ERP system. These are therefore excluded from the 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, and between statutory profit after tax and adjusted profit after tax at Group level for both 2022 and 2021.

Statutory results

Revenue was £290.4 million (2021: £240.3 million), representing organic constant currency growth of 6% or 21% on a reported basis. The statutory operating loss was £(24.1) million, compared to a profit of £29.7 million in the prior year, with the loss primarily driven by the damages and legal costs from the Comet case.

Net finance costs were £6.1 million (2021: £1.3 million), resulting in a loss before tax of £(30.2) million (2021: profit £28.4 million). The higher net finance cost reflects the higher average gross debt and increased interest rates. This resulted in an income tax credit of £10.6 million compared to a £5.4 million expense in 2021. The basic loss per share was 102.0 pence whereas in 2021 the Group had earnings per share of 115.8 pence.

Trading performance

The Group's revenue growth was primarily driven by the Semiconductor Manufacturing Equipment and Industrial Technology sectors, which increased 9% at constant currency (22% as reported) to £113.4 million, and 18% at constant currency (30% as reported) to £119.6 million respectively (Semiconductor Manufacturing Equipment 2021: £93.3 million; Industrial Technology 2021: £92.0 million).

The Healthcare sector increased revenue 4% as reported to £57.4 million (2021: £55.0 million) but was down 7% at constant currency but with demand and revenue increasing materially in the second half.

2022 revenue includes £14.4 million in Industrial Technology and £2.1 million in Healthcare sectors from the FuG and Guth businesses acquired at the end of January.

By region, North America continued to benefit from the growth in demand for Semiconductor Manufacturing Equipment along with Industrial Technology, increasing revenue by 6% to US$207.0 million from US$194.5 million in 2021. Europe delivered growth of 4% (like-for-like, excluding the acquisitions of FuG and Guth) to £70.0 million (2021: £67.3 million) and Asia revenue grew by 3% to US$45.3 million (2021: US$43.8 million), both driven by the Industrial Technology sector.

Gross margin decreased to 41.5% (2021: 45.1%), reflecting the continued supply chain pressures impacting overhead absorption in factories throughout H1, including COVID-19 related lockdowns in China which reduced manufacturing output. As management of component shortages stabilised, Q3 and Q4 manufacturing output grew significantly, and resulting revenue increased, delivering improved gross profit in the final months of 2022.

Higher freight costs during 2022 also impacted margin, with increased proportion of higher cost air freight used to support on time customer delivery and increased underlying cost per Kg, which began to ease during Q4.

We continue to expect gross margins to recover to historic levels over the medium term.

Operating costs

Adjusted operating expenses benefitted from c.£2 million foreign exchange gains in 2022, which partly offset the additional operating expense from the acquired FuG and Guth businesses, people and other cost inflation and, the impact of a return to travel following the pandemic. Total adjusted operating expense of £77.7 million was an increase of 16% on a like-for-like basis.

Gross R&D expenditure charged to the income statement (excluding the impairment of previously capitalised development costs associated with the legal case) was £20.4 million (2021: £16.8 million), representing 7% of revenue; an absolute increase of 21% over the prior year and in line as a proportion of revenue. Innovation is a key part of the Group's strategy and, as a result, R&D investment is expected to continue to grow as the Group extends its engineering capabilities with a particular focus on RF and high-power, high-voltage product development activities.

The Group capitalised £8.1 million of R&D costs (2021: £8.3 million), which reflects the development of new products as the Group expands its product portfolio. In 2023 we are expecting this investment to increase to c.£9 million.

Adjusted profits

The resulting adjusted operating profit of £42.9 million was a decrease of 12% at constant currency (2021: £45.1 million) and translated to adjusted operating margin of 14.8% (2021: 18.8%). In H2 2022 the adjusted operating margin was 16.7%.

Adjusted net finance costs increased to £4.9 million on an adjusted basis (2021: £1.3 million) as a result of increasing external interest rates incurred on the Group's US dollar denominated debt, along with higher levels of total gross debt which climbed to £174.4 million.

The Group generated adjusted profit before tax before specific items of £38.0 million (2021: £43.8 million), which represented a decline of 20% at constant currency (13% as reported) compared to last year.

The effective tax rate on adjusted profit before tax was 16.1%, a reduction of 310bps (2021:19.2%) reflecting the benefit of R&D credits and assessment of deferred tax assets and liabilities in North America, more than offsetting the impact of profits from FuG and Guth, our German businesses, added to the Group in 2022.

Adjusted basic and adjusted diluted earnings per share decreased by 10% to 160.6 pence and 9% to 160.1 pence respectively (2021: 179.4 pence and 176.3 pence).

READ MORE ABOUT OUR **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** ON **PAGE 149**

READ MORE ABOUT OUR **SEGMENTAL REPORTING** ON **PAGES 163–167**

> *Our improved trading performance reflects the hard work of our team and better reflects the Group's potential. While we remain aware of ongoing challenges and economic uncertainty, we have good momentum into 2023.*

Specific items

In 2022, the Group incurred £68.2 million (2021: £15.4 million) of specific items, £67.0 million of which was excluded from adjusted operating profit with a further £1.2 million relating to interest costs and therefore also excluded from adjusted profit before tax.

The adjusted items were primarily driven by a provision made for damages of $40 million (£32.1 million) awarded against the Group following the Comet legal case, along with other related costs and an estimate of opposing counsel legal costs which impact the income statement. Whilst the case remains ongoing, the Group has placed collateral of US$44 million (£36.9 million) for a court bond against the damages, which is reflected in cash flow and net debt.

42%

ADJUSTED OPERATING CASH CONVERSION

↓ -62% COMPARED TO FY 21

Whilst we do not believe we have used any third party IP in our designs, a conservative approach was taken to write down previously capitalised development costs associated with these products of £7.5 million. This non-cash charge was booked in H1 2022.

Specific items in 2022 also include the costs to complete the ERP implementation in Asia manufacturing sites (£3.8 million), acquisition related costs (£2.4 million) and a credit from FX benefit on an acquisition loan (£3.2 million). Other specific items also include acquisition related amortisation of £4.1 million (non-cash).

Cash flow and net debt

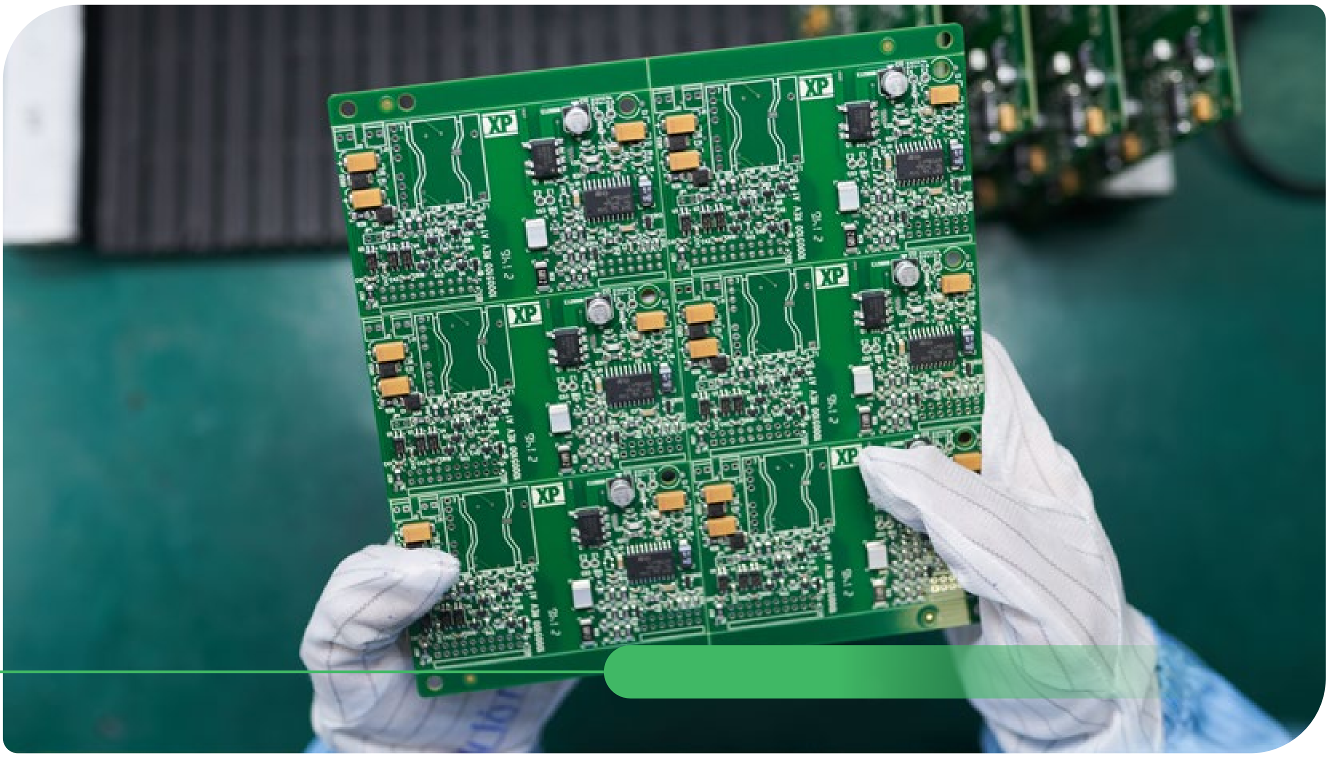
Net debt at 31 December 2022 was £151.0 million, compared with £24.6 million at 31 December 2021, including the acquisitions of FuG and Guth in January 2022 (£33.0 million), higher capital expenditure (£22.9 million, including Malaysia), working capital investment (£33.5 million), to support revenue growth, and the impact of a US$44.0 million (£36.9 million) collateral payment in Q4 for a bond held against the damages awarded against the Group in the Comet Legal Action in the US plus legal fees. The working capital investment represents a £24.8 million increase in inventory and an £9.5 million increase in receivables.

Accordingly, cash from operations was significantly impacted by the investment in inventory and a Q4 increase in receivables because of the increase in Q4 revenue compared to 2021 (Q4 revenue 2022: £87.4 million, Q4 2021: £58.9 million). This resulted in a cash inflow from operations of £2.1 million (2021: £40.6 million).

The inventory increase was driven by adapting to the new market dynamics combined with an increase in raw materials to support the delivery of the order backlog as logistics disruptions and increased component lead times led to a delay in conversion of orders to revenue and subsequent inventory build-up. Total inventory of £114.4 million was an increase of £40.4 million, including £8.8 million impact of foreign exchange on US dollar balances.

Working capital benefited from inventory beginning to unwind in Q4 2022 and although the pace of that unwind was slower than expected, it is expected to accelerate in H1 2023 as supply chain conditions further stabilise. Inventory is well above historic levels in absolute and percentage of sales terms and we are working hard to reduce it even as supply chains remain challenging.

As planned, capital investment enhanced capacity and flexibility at our manufacturing sites, and work commenced at our new manufacturing facility in Malaysia with plans to go live in H1 2024. The Group spent £14.9 million in 2022 (2021: £13.6 million), which included the completion of our ERP system implementation in £3.9 million of software additions, and £3.5 million for the land in Malaysia.



As we continue to build capacity and resilience in our Asian supply chain and address capital requirements to support our growth in North America, we expect 2023 to be a year of significantly higher expenditure. We will invest c.£30 million in 2023, including on the new manufacturing facility in Malaysia, before returning to historic levels of c.£10-15 million per annum in 2024. The expenditure is necessary to meet our longer-term growth plans and will generate attractive returns.

Free cash before acquisitions, dividends and borrowings was an outflow of £69.6 million (2021: £12.5 million inflow) and the Group finished 2022 with net debt of £151.0 million (2021: £24.6 million), comprising cash and cash equivalents of £23.4 million and gross debt of £174.4 million. Net debt to EBITDA leverage was 2.68x. The Group expects financial leverage to reduce during 2023.

XP secured greater banking covenant flexibility from its lenders in Q4 2022 with the net debt to EBITDA covenant now required to be less than 3.50x in December 2022, 3.25x in June 2023 and 3.0x in December 2023. Group expects to remain well inside these covenants during 2023 and beyond. The greater flexibility also highlights the ongoing support from our lending banks.

Capital allocation

In 2023 the Group will prioritise strengthening the balance sheet whilst also continuing to focus on investing in the business to drive medium term organic growth. We expect operating cash flow to improve in 2023 allowing for organic investment to be made, which will support our medium term plans, while de-leveraging the balance sheet. The Group plans to operate in a range of between 1–2x net debt to adjusted EBITDA in the medium term.

Our strong confidence in the Group's long-term prospects allows the Board to propose a final dividend of 36.0 pence per share for the fourth quarter of 2022. This dividend will be payable to members on the register on 24 March 2023 and will be paid on 27 April 2023. When combined with the interim dividends for the previous three quarters, the total dividend for the year will be 94.0 pence per share (2021: 94.0 pence).

Foreign exchange

The Group reports its results in Pounds Sterling, but the US dollar continues to be our principal trading currency, with approximately 84% (2021: 87%) of our revenue denominated in US dollars. The average pounds sterling to US dollar exchange rate decreased by 10% from 1.38 to 1.25 resulting in £1.9 million impact to adjusted operating profit. At current exchange rates there would only be a minimal impact in 2023.

Outlook

The Group starts the new financial year with a significant order book, which provides good visibility for 2023, particularly the first half. We remain mindful of the ongoing uncertainties relating to component supply, inflation and recessionary concerns and are continuing to monitor the situation closely. That said, we are generally optimistic on the Group's prospects for the current year based on our strong H2 2022 trading momentum and the benefits of price increases coming through our order book to a greater extent during 2023.

Longer term, the Board believes XP Power to be very well positioned to grow ahead of its end markets, supported by its improving cash generation and a reduced level of debt.

OSKAR ZAHN
CHIEF FINANCIAL OFFICER

28 February 2023

READ MORE ABOUT OUR **CONSOLIDATED BALANCE SHEET** ON PAGE 150

READ MORE ABOUT OUR **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** ON PAGE 151

MANAGING OUR RISK

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 where risk mitigation or reduction can be tracked and managed. This facilitates further discussions regarding risk appetite and identifies the risks that require a greater level of attention.

Our risk assessment

Identified key risks and their mitigating actions are summarised as follows, and are 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.
- The direction they are trending in – risks are classified according to whether they are assessed as becoming more or 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 but does include all risks, which are assessed as having a severe or moderate impact to the business if they occurred.

Our risk management framework

Top down

Existing and emerging macroeconomic and business risks that could seriously affect performance, future growth or reputation are assessed by the Board to ensure there is the appropriate level of oversight, mitigation and risk appetite across the Group.

Bottom up

Day-to-day operational risks that influence daily decision making are identified, assessed and mitigated across functional and geographic areas.

The Board

A robust risk assessment has been carried out at Board level and actions have been set to mitigate and/or reduce the identified risk. The Board acknowledges that it is responsible for the Group's internal controls and reviewing their effectiveness. We have 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 regular 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; and
- 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 to clearly define who can authorise 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; and
- business continuity and disaster recovery plans are in place for all key facilities, and documented and communicated to key personnel to help cope with unexpected material events.

Risk appetite

The Board determines the amount and types of risk that the Company is willing to take to achieve its strategic and operational objectives. Our approach has been refined in the year, with a risk appetite rating applied to each risk.

A key focus for the Board is minimising the Group's exposure to financial, operational, human, legislative and reputational risks.

The experience and learnings of the pandemic, and the ongoing impact on the global supply chain, are reflected in our risk reviews and will enhance our response to the next disruptive event.

Emerging risks

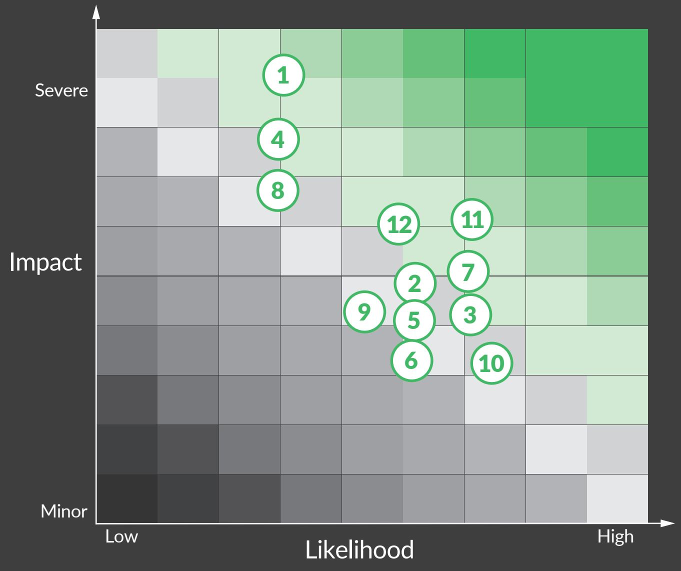
We continue to monitor and assess emerging risks throughout our risk processes.

The macroeconomic challenges causing inflationary pressure, foreign exchange volatility and rapid increases in interest rates, along with geo-political events and pressures that impact cross-border trading, are monitored closely for potential financial and operational impact.

We also continue to enhance our supply chain resilience, with multi-site manufacturing in Asia, where most of our products can now be produced in either our Chinese or Vietnamese facilities to reduce dependency on single sources or regions. In addition, work has started on a new manufacturing facility in Malaysia, which is expected to be commissioned in 2024 to increase capacity and meet the demand from across the Group, as well as further strengthen our supply chain.

The impact of climate-related change and severe weather events are assessed through our Sustainability Committee and included in our Sustainability Report, and are an increased area of focus for our emerging risks.

Heat map of the identified risks indicating the likelihood and level of impact



①	An event causes a disruption to our manufacturing facilities
②	Product recall
③	Competition from new market entrants and new technologies
④	Fluctuations of revenues, expenses and operating results due to an economic shocks
⑤	Dependence on key customers
⑥	Cybersecurity/information systems failure
⑦	Risks relating to regulation, compliance and taxation
⑧	Strategic risk associated with valuing or integrating new acquisitions
⑨	Loss of key personnel or failure to attract new personnel
⑩	Exposure to exchange rate fluctuations
⑪	Risk associated with supply chain
⑫	Climate-related risks

MANAGING OUR RISKS CONTINUED

RISK	EXPLANATION OF RISK	POTENTIAL IMPACT
① **An event causes a disruption to our manufacturing facilities**	An event that results in the temporary or permanent loss of a manufacturing facility would be a serious issue. This could include climate-related events such as severe weather or government-imposed restrictions.	As the Group manufactures 74% 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.
② **Product recall**	A product recall due to a quality or safety issue.	This would have serious repercussions to the business in terms of potential cost and reputational damage as a supplier to critical systems.
③ **Competition from new market entrants and new technologies**	The power supply market is diverse and competitive. The Directors believe that the development of new technologies could encourage significant new competition, 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 a risk that competition could quickly increase, particularly from emerging low-cost manufacturers in Asia. Improvements in power conversion technology have been incremental as more high-performing components become available.

KPI KEY

- Ⓐ Revenue growth
- Ⓑ Revenue from Top 30 customers
- Ⓒ Adjusted operating cash conversion
- Ⓓ Adjusted diluted earnings per share growth
- Ⓔ New product families released
- Ⓕ Employee engagement score
- Ⓖ Lifetime CO_2 emission savings from products

TREND KEY

- ○—○ No change to risk
- ↑ Increase to risk
- ↓ Decrease to risk

MITIGATION	PRIORITIES FOR 2023	LINK TO STRATEGIC PILLAR	LINK TO KPI	ASSESSED TREND
• We have two facilities (China and Vietnam) where we can produce most of our power converters. • We have disaster recovery plans in place for both facilities. • We have conducted a risk review with the manufacturing management to identify and assess risks that could cause a serious disruption to manufacturing, and identified and implemented actions to reduce or mitigate these risks where possible.	• Commence construction of a new manufacturing facility in Malaysia. • Continued transfer of products from China to Vietnam and from North America.	⛬	A, B, C, D	○—○
• We perform 100% functional testing on all own manufactured products and 100% hipot 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 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.	• Continue to enhance our product design processes. • Expand supplier quality capabilities.	⛬	A, B, C, D	○—○
• The Group reviews activities of its competition, particularly product releases, and stays up to date with new technological advances in our industry, especially new components and materials. The Group 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 to reduce the inherent market competitiveness. • The Group ensures its own and external intellectual properties are protected.	• We continue to develop higher power, higher voltage and high-complexity product platforms, and de-emphasising low-power, low-voltage low-complexity areas of the market. • We continue to have a clear recruitment process, and the code of ethics are well documented and communicated.	↗ ⧉	A, C, D, E	○—○

STRATEGIC KEY

↗ Develop a market-leading range of competitive products	⇅ Vertical penetration of focus accounts	❦ Lead our industry on environmental matters
💼 Target accounts where we can add value	⛬ Build a global supply chain that balances high efficiency with market-leading customer responsiveness	⧉ Make selective acquisitions of complementary businesses to expand our offering

MANAGING OUR RISKS CONTINUED

RISK	EXPLANATION OF RISK	POTENTIAL IMPACT
④ **Fluctuations of revenues, expenses and operating results due to an economic shocks**	The revenues, expenses and operating results of the Group could vary significantly from period to period due to several factors, some outside of our 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 its competitors.	In response to a changing competitive environment, the Group may elect 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.
⑤ **Dependence on key customers**	The Group is dependent on retaining its key customers.	If the Group lost some key customers, this could have a material impact on its financial condition and results of operations. However, for FY 22, no single customer accounted for more than 17% of revenue, which was spread over several individual programmes.
⑥ **Cybersecurity/information systems failure**	The Group is reliant on information technology in multiple aspects of the business from communications to data storage. Assets accessible online are potentially vulnerable to theft and customer channels are vulnerable to disruption.	Any failure or downtime of these systems, or any data theft, could have a significant adverse impact on the Group's reputation or operations.
⑦ **Risks relating to regulation, compliance and taxation**	The Group operates in multiple jurisdictions with applicable trade and tax regulations that vary.	Failing to comply with local regulations or a change in legislation could impact the profits of the Group. In addition, the effective tax rate of the Group is affected by where its profits fall geographically. The Group's effective tax rate could fluctuate over time and impact earnings, and potentially share price.

KPI KEY

Ⓐ Revenue growth
Ⓑ Revenue from Top 30 customers
Ⓒ Adjusted operating cash conversion
Ⓓ Adjusted diluted earnings per share growth
Ⓔ New product families released
Ⓕ Employee engagement score
Ⓖ Lifetime CO_2 emission savings from products

TREND KEY

○—○ No change to risk
⫯ Increase to risk
⫰ Decrease to risk

MITIGATION	PRIORITIES FOR 2023	LINK TO STRATEGIC PILLAR	LINK TO KPI	ASSESSED TREND
• 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 helps mitigate risks from these external factors.	• We will transfer the manufacture of products from North America to Asia to reduce costs. • We will extend our product portfolio to protect against sector-specific shocks. • We will explore outsourcing of appropriate products and subassemblies to reduce our fixed costs. • We will continue to analyse the cost benefits of interest rate hedging to mitigate the interest rate risks.	↗	A, B, C, D	○—○
• The Group mitigates this risk by providing excellent service. Customer complaints and non-conformances are dealt with the sales team and the Executive Leadership team will be involved if required.	• 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, as each customer revenue stream is made up of many individual programmes that are designed in, the loss of an entire customer is unlikely. We will continue to ensure we provide excellent service to our customers at competitive price points.	💼 ⇅	A, B	○—○
• 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 back-up process in place and a robust anti-malware solution on our networks. • Internally produced training materials are used to educate users on good IT security practice and to promote the Group's IT policy. • All recommendations from an outsourced internal auditor assessment have been implemented to further mitigate cyber risk and safeguard the Group's assets.	• We will continue to enhance our cybersecurity tools and processes, and continue to promote heightened awareness of cybersecurity risks among our people.	↗	A, D, F	○—○
• 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 to remain compliant. • The Group establishes clear health and safety policies and procedures.	• We will continue to ensure we stay current with the latest legislation and that we have the necessary contemporaneous documentation for compliance and tax purposes. • We will establish a health and safety structure and responsibility matrix to ensure the policies are adhered to across the organisation.	🌱	A, D, E, F	○—○

STRATEGIC 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 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

MANAGING OUR RISKS CONTINUED

RISK	EXPLANATION OF RISK	POTENTIAL IMPACT
⑧ Strategic risk associated with valuing or integrating new acquisitions	The Group may elect to make strategic acquisitions. A degree of uncertainty exists in valuation, particularly in evaluating potential synergies.	Post-acquisition risks arise in the form of change of control and integration challenges. Any of these influence the Group's revenues, results of operations and financial condition.
⑨ Loss of key personnel or failure to attract new personnel	The future success of the Group is substantially dependent on the continuing services and contributions of its Directors, senior management and other key personnel.	The loss of key employees could have a material adverse effect on the Group's business.
⑩ Exposure to exchange rate fluctuations	The Group deals in many currencies for both its purchases and sales including US dollars, euros and its reporting currency pounds sterling. 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 has an exposure to foreign currency fluctuations. This could lead to material adverse movements in reported earnings and cash flows.
⑪ Risk associated with supply chain	The Group is dependent on retaining its key suppliers and ensuring that deliveries are on time and materials supplied are of sufficient quality.	As the proportion of our own-manufactured products remain high, 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.
⑫ Climate-related risks	The Group is exposed to climate-related risks that can have a negative impact on the business.	Severe weather events could affect the supply chain operations or suppliers. Mandated power shutdowns in China could result in reduced ability to meet demand. Not meeting net zero targets could result in reputational damage and reduced revenue.

KPI KEY

Ⓐ Revenue growth
Ⓑ Revenue from Top 30 customers
Ⓒ Adjusted operating cash conversion
Ⓓ Adjusted diluted earnings per share growth
Ⓔ New product families released
Ⓕ Employee engagement score
Ⓖ Lifetime CO_2 emission savings from products

TREND KEY

No change to risk
Increase to risk
Decrease to risk

MITIGATION	PRIORITIES FOR 2023	LINK TO STRATEGIC PILLAR	LINK TO KPI	ASSESSED TREND
• 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".	• For further acquisitions, we will ensure we have robust integration plans and integrate learnings from post-acquisition reviews of current integration projects.	⧉	A, D	○—○
• The Group conducts performance evaluations and reviews to stay close to its key personnel, along with annual employee engagement surveys. Where appropriate, the Group makes use of financial retention tools such as equity awards.	• We will continue to focus on people management and leadership development, including the roll out of performance management training and ongoing reviews of engagement surveys.	↗	A, D, F	○—○
• The Group reviews balance sheet and cash flow currency exposures and, where appropriate, uses forward exchange contracts to hedge these exposures. • The Group does not hedge any translation of its subsidiaries' results to sterling for reporting purposes.	• We will continue to regularly review our balance sheet and cash flow exposures and take action to mitigate exposures as appropriate.	⁂	A, C, D	○—○
• We have ongoing contacts of our key suppliers and keep large amounts of safety inventory of key components, which we also regularly review. • We 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 conduct a review of all approaches to component management following recent component shortages. • We will develop outsourced resource for various subassemblies and finished goods as appropriate.	⁂	A, B, C, D	⫯
• We conduct regular reviews of safety inventories to ensure we have sufficient stocks. • We ensure resources are in place to transfer production capability to switch production sites. • We implement relevant policies and KPIs to ensure set targets are deliverable.	• We will conduct a supply chain review. • We will conduct regular reviews to ensure back-up power is available. • We will set up working groups to ensure the entire organisation is engaged to meet the net zero targets.	🌱	G	⫯

STRATEGIC 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 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

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, strategy and business model (pages 23–26), and the principal risks and uncertainties (page 51).

The Directors have determined the three-year period to December 2025 to be an appropriate period 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 that the Group has visibility of. In making the assessment, the Directors considered a three-year financial model including the Group annual plan for 2023 and strategic financial plan for the following years.

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 conservative scenarios against the controls in place to prevent or mitigate principal risks of the Group.

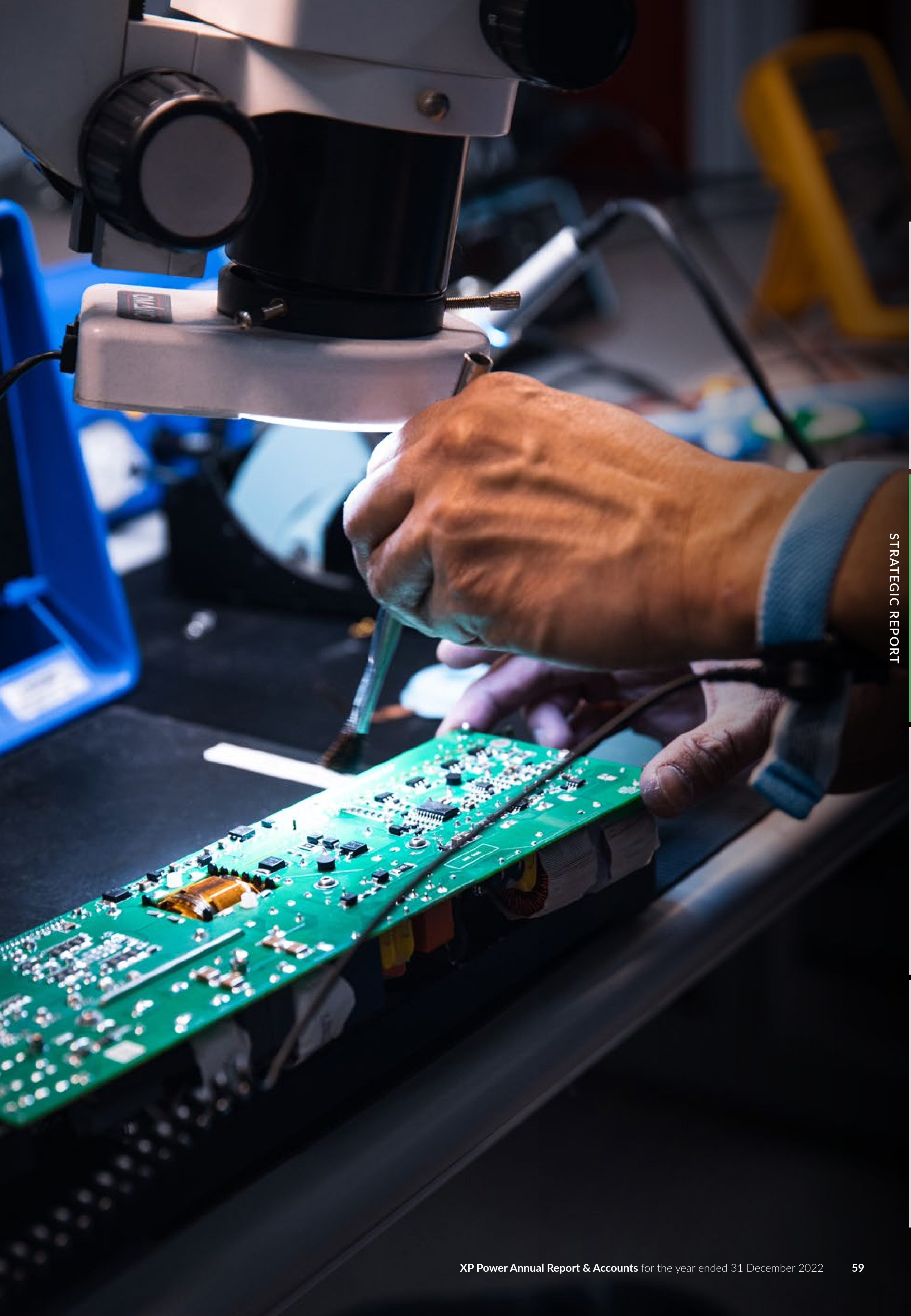
It also considered them against the Group's current banking facilities, a revolving credit facility of US$255 million, with an accordion option of US$75 million, maturing in June 2026 with an option of a further year to June 2027.

In forming the viability statement, the Directors carried out an assessment of the principal risks and uncertainties facing the Group that could impact the business. 2022 has seen continued impact of COVID-19, which whilst short term in nature, have increased uncertainty around supply chain capacity and logistics. Particular focus has also been given to the longer-term impact of climate change and weather-related events, including manufacturing downtime from natural events such as storms and wildfire, and the potential economic 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. A reverse-stress test was also performed, modelling how long the business could withstand a period without revenue, to demonstrate the impact required to breach available headroom.

The unlikely event of more than one risk occurring at the same time was also considered. A combination of a temporary or permanent disruption at one of our facilities, 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 2025.



SECTION 172(1) STATEMENT:

HOW WE ENGAGE WITH OUR STAKEHOLDERS

Section 172(1) Engaging with our stakeholders is fundamental, so we focus on what matters

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, consider:

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 between members of the company.

In the process of making key decisions, the Board and management consider all stakeholders that are likely to be impacted.

We have a Code of Conduct that all our employees and key suppliers sign up to, which covers our expectations from those stakeholders on business ethics, responsible environmental behaviour, health and safety, and treatment of people.

Our people

WHY WE ENGAGE

Our workforce is our most valuable asset, and their health, safety and wellbeing are of paramount importance. Having engaged teams is important to us and we want our colleagues to be committed to our vision.

HOW WE ENGAGE

We believe communication is best from line managers to teams – while we have regular town halls with senior management, we work to ensure messages are cascaded and discussed. We track our performance with all-staff surveys and our designated Non-Executive Director holds several engagement sessions to gain a view from the workforce.

The Audit Committee receives updates on any whistleblowing matters.

KEY TOPICS DISCUSSED

- Diversity at XP Power.
- Health and safety.
- Diversity in engineering.
- Business performance.
- Results from annual Groupwide engagement survey.
- Relocation of Singapore Head Office.

HOW WE RESPONDED

- Enhanced retention and succession planning.
- Cascaded the engagement survey results – we know our colleagues are happy working at XP Power and would recommend it as a great place to work.
- Relocated the Singapore Head Office based on employees' needs: the new office provides a shorter commute time and better collaboration among teams in a single location.

FOR MORE INFORMATION SEE **ESG SOCIAL SECTION** ON PAGES 70–77

FOR MORE INFORMATION SEE **EMPLOYEE ENGAGEMENT METRICS** ON PAGE 72

Customers

WHY WE ENGAGE

Consideration of customer requirements is a top priority during the new product development.

Customer needs play a central role in shaping the design and development process, enabling our customers to deliver power products and solutions to enhance their businesses' sustainability, while delivering economic value to all parties in the value chain.

HOW WE ENGAGE

We focus on two-way engagement to ensure we have effective partnerships in place and listen to their technology roadmaps so we can partner them effectively.

Our sales teams frequently engage with our focus customers to understand our performance and their issues.

We use anonymous customer surveys to further understand our performance.

KEY TOPICS DISCUSSED

- Strategy decision for new factory in Malaysia.
- Solving power problems and embedding our power solutions into customer processes.
- Clear engagement on delivery timing and how deliveries can be expedited during the supply chain challenges.

HOW WE RESPONDED

- The Board considered the proximity to customers as a factor in assessing the new manufacturing location.
- Working with customers to get the most effective solution.
- Increasing development spend.
- Product and technology roadmaps based on customers' feedback.
- Tactical used of air freight to improve delivery time to customers.

FOR MORE INFORMATION SEE **ESG ENVIRONMENT SECTION** ON PAGES 64–69

FOR MORE INFORMATION SEE **PERFORMANCE: OPERATIONAL REVIEW** ON PAGES 36–41

Suppliers

WHY WE ENGAGE

Our suppliers are critical to our supply chain, and we work in partnership with them to increase the strength of the supplier base.

We are committed to maintaining high standards among our suppliers to reduce operational risks and foster long-term partnership success.

HOW WE ENGAGE

We have ongoing contacts with our key suppliers to monitor performance and understand their concerns.

We conduct supplier audits to ensure adherence to our standards.

We collaborate with our crucial suppliers to mitigate supply shortages caused by the global challenges.

KEY TOPICS DISCUSSED

- XP Power Code of Conduct.
- Supplier performance.
- Component shortages and mitigation and expediting.
- Updated supply chain policy.

HOW WE RESPONDED

- Consolidated our supplier base focusing on quality provision to give greater confidence in delivery.
- Used our supplier and customer networks to address component shortages.
- Worked with distributors to secure long-term demand for key components.

FOR MORE INFORMATION SEE
ESG ENVIRONMENT SECTION
ON PAGES 64–69

Communities and our environment

WHY WE ENGAGE

We engage with the communities we operate in to build trust and understand their important local issues.

Minimising the impact we have on the environment is a priority as we work towards our public near-term and long-term targets registered with the SBTi.

HOW WE ENGAGE

Key areas of focus include how we can support local causes and issues, create opportunities to recruit and develop local people, and help to look after the environment. The impact of environmental decisions, both locally and nationally, is considered, with such issues as waste management being addressed wherever possible.

We implement measures to minimise our environmental impact. Our commitment to sustainability is long standing and is detailed in the sustainability report.

KEY TOPICS DISCUSSED

- Strategy decision for new factory in Malaysia.
- Understanding which local charities can be supported by our employees to have the biggest impact.
- Sharing XP Power's sustainability strategy.

HOW WE RESPONDED

- The Board considered several environmental factors as part the new manufacturing location analysis: manufacturing sector emphasis, legal and regulatory systems, physical infrastructure quality, sustainability support, geopolitical risks and supply chain flexibility.
- Introduction of a biodiversity policy to identify our approach and commitments.
- Our people supported their local communities with charitable and fundraising initiatives across the Group.

FOR MORE INFORMATION SEE
ESG ENVIRONMENT SECTION
ON PAGES 64–69

Shareholders

WHY WE ENGAGE

Engagement with Shareholders and receiving their support is key to achieving our ambitions.

We are committed to transparent engagement with Shareholders to ensure clear understanding of how the Company performs in all areas, from strategic and financial performance to environmental, social and governance.

HOW WE ENGAGE

We engage with Shareholders throughout the year and are transparent in all areas of the business.

Our CEO, CFO and IR team have regular sessions with current and prospective investors to ensure they understand our investment proposition, ESG performance and current performance.

Our Chair and Remuneration Committee Chair have had discussions with our key Shareholders regarding executive remuneration to ensure we can consider their views.

KEY TOPICS DISCUSSED

- Impact of prevailing market conditions on the Group.
- Strategic rationale for FuG and Guth acquisition and its integration.
- Executive remuneration.
- ESG priorities and strategy.

HOW WE RESPONDED

- Due diligence completed for the FuG and Guth acquisition.
- Engagement to explain our approach to sustainability to address their ESG requirements.
- Engagement with top Shareholders on retaining the existing Remuneration Policy.

FOR MORE INFORMATION SEE
ESG GOVERNANCE ON PAGES 78–79

FOR MORE INFORMATION SEE
KEY PERFORMANCE INDICATORS
ON PAGES 42–45

FOR MORE INFORMATION SEE **CORPORATE GOVERNANCE REPORT** ON PAGES 96–106

1. SUSTAINABLE PRODUCTS

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

How this strategic pillar links to the UN SDGs

This aligns with UN SDG 9 “Industry, innovation and infrastructure” in promoting sustainable industrialisation, and UN SDG 12 “Responsible consumption and production” in the efficient use of natural resources.

We have embedded sustainability, specifically carbon reduction, reduction via efficiency and component count, into our New Product Introduction (NPI) processes and will be setting internal targets in this area this year. Such innovation is by its nature commercially sensitive and so we will not be disclosing these specific targets externally, however they will form a key part of our SBTi commitment to achieving net zero emissions across the value chain by 2040.

Estimated lifetime savings from XP Green Power products

One of our biggest contributors to reduction in CO_2 emissions is from adoption of our XP Green Power products, which have high efficiency and low standby power. The CO_2 emission savings from these products consistently exceed our scope 1 and 2 CO_2 emissions combined. XP Green Power products consume less electricity than the average power converter both while powering the load and when on standby and not powering the customers’ applications. A power converter operating at 90% efficiency wastes less than half of a power supply operating at 80% efficiency. Consequently, the savings in energy and, therefore, CO_2 emissions of the lifetime of the product are very compelling.

To achieve these efficiency gains requires more higher cost components and complex circuits, but the return on investment of a higher efficiency product can be captured in consumption of electricity with full payback on electricity costs usually within the first year of use. Therefore, we continue to promote and encourage the use of these high-efficiency products and anticipate that the trend for higher efficiency products will continue in the electronics industry. These legislative requirements are projected to extend across various industries from consumer equipment to the healthcare and industrial markets we serve.

We introduced 8 XP Green Power product families in 2022. The estimated lifetime savings[1] from the XP Green Power products that we have shipped during 2022 is 134,000 tonnes CO_2.

Boosting innovation

Our ambition is to be an industry leader on sustainability – this also includes our products. We were the first to introduce greener, safer converters and we believe that we have the broadest product portfolio in our industry. Product design is our customers’ top material impact and scored even higher than customer experience and satisfaction. Our R&D investment is a key part of the Group’s strategy, with particular focus on energy efficiency and delivering to our clients’ needs in RF, High Voltage, Low Voltage and Low Power.

This year, we undertook a full lifecycle analysis of our products. This has enabled us to better understand our carbon footprint and start to look at ways to reduce our embedded emissions in purchased goods and use phase emissions, which are the two biggest sources of our scope 3 emissions. To have a sustainable business, we need to be more deliberate in developing low carbon products and solutions that solve our customers’ power problems, within the balance of cost and efficiency. Our engineers bring ideas, skills and innovation to reducing energy usage for our customers, and we integrate sustainability into our product design as new materials and components become available. We consider and respond to environmental issues throughout every stage of our product lifecycle, and our high-efficiency products play a role in helping the economy move to a low-carbon future. Our new product design process considers:

- **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 use less electricity in both powering the application or on standby. This results in significantly reduced CO_2 emissions over the lifetime of the customers’ equipment, which is often seven to ten years.
- **Novel materials** – Wherever possible, we introduce novel materials into our higher-end products, like ultra-efficient silicon carbide devices. We have also used new semiconductor components for the control of our power supplies, which allow soft switching to reach very high-efficiency rates and low standby power ratings. Future developments in power transistor technology are expected to allow significant reduction in the size of power converters and increase their efficiency in some applications. We use over 4,000 key materials and components within our products such as Power FET, IGBT and ceramic capacitors which enable us to produce durable and quality products and will investigate opportunities to reduce component count.

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[1] In estimating these savings, we have assumed the following:
- XP Green Power product efficiency of 90% versus average power converter efficiency of 80%.
- The power converter will run for eight hours a day, five days a week, 50 weeks a year, for seven years, in the customers’ equipment.
- The customer will run the power converter at 75% of its rated power; and
- 1kWh of electricity produces 0.418kg of CO_2.

- **Product lifecycle management** – Our design processes consider the complete product lifecycle of our power conversion products from the outset, and we aim to always extend the useful product life where possible. The characteristics of a product that make it more energy efficient also increases its reliability and useful lifetime – highly efficient products run cooler, which increases the lifetime of key components that are sensitive to heat, such as electrolytic capacitors. Efficient products also avoid the need for 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 testing (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 end-user and the potentially lethal high voltage mains electricity. An example of this is a main powered drug delivery system which connects directly to a patient and relies on the safety isolation within our power supply to keep the patient safe. All of our products come under the remit of our ISO 9001 registration.

Responsible sourcing and supply chain

It is important that our suppliers apply the same principles of value, transparency and respect as we do. We require all suppliers to adhere to our Code of Conduct and our Supply Chain Policy, which covers diversity, modern slavery and human trafficking, health and safety, business integrity and ethics, environment and sustainability. Our supplier qualification and ongoing audit programme reviews supplier compliance with our Code of Conduct and Supply Chain Policy, and we will disengage with suppliers who do not meet these standards. XP Power's Code of Conduct and Supply Chain Policy are available at corporate.xppower.com/sustainability/environment. In addition, we will expand our engagement with suppliers and component distributors in managing our upstream emissions as part of our net zero plan.

Conflict minerals

We support 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 our products. This way, we can assure our stakeholders that we are not knowingly using conflict minerals in our products. Our supply chain organisation is responsible for the qualification and ongoing monitoring of our suppliers. We can confirm that 100% of our products' minerals come from suppliers that have been verified as conflict-free. XP Power's policy on conflict minerals is set out at xppower.com/company/policies.

READ MORE ABOUT OUR **BUSINESS STRATEGY** ON PAGES 28–29

READ MORE ABOUT OUR **SUSTAINABILITY STRATEGY** ON PAGES 33–34

In 2022, XP Power were honoured with the 2022 Supplier Excellence Award by Lam Research.

XP Power was one of 13 receivers of an award this year, for demonstrated success across four categories: Scaling, Resiliency, Rapid Prototype Materials Performance, and Environmental, Social and Governance. We were the sole recipient of Lam Research's first Environmental, Social and Governance Award and recognised as an "extension of Lam's guiding principle to act with purpose for a better world", and "excellence in commitment to strong ESG goals and proactive aligning with Lam on these priorities". Lam Research is a valued customer and a leading global supplier of innovative wafer fabrication equipment and services to the semiconductor industry. Like us, they are strong advocates of sustainability and have enhanced their products and manufacturing operations to help combat climate change.

2. ENVIRONMENTAL LEADERSHIP

13 CLIMATE ACTION

How this strategic pillar links to the UN SDGs

Taking urgent action to combat climate change aligns with UN SDG 13 "Climate action".

XP Power recognises the significance of climate change, and we aim to reduce our climate impact across all our operations through managing and reducing our carbon emissions. In 2021, we announced our ambition for net zero. Having signed the letter of commitment with The Science Based Targets initiative (SBTi) in 2022, we intend to submit targets for verification in the first half of 2023. This will reaffirm our long-term target of net zero across our value chain by 2040 and introduce interim targets for 2030 which we will publish once validated. Further details of our pathway to net zero will be included in our transition plan, which aim to develop following our target validation.

Our commitment to transparency includes the regular public disclosure of our carbon emissions, collaboration with CDP Climate Change, and reporting against the TCFD recommendations (page 80), which includes details of our oversight, risk assessment and strategy of climate-related issues.

Managing environmental performance

The Group has a comprehensive environmental policy, as well as an internationally accredited Environmental Management System (ISO 14001) at seven (58%) of our 12 sites, which include our main production centres and accounts for around 84% of the Group's employees. The change in coverage of our ISO 14001 certification is due to the closure of our Jackson, CA site as well as our design centre in Southern California not supporting certification due to the nature of the site having a low environmental impact. Amongst other issues, our ISO 14001 certified management system includes our handling of waste and hazardous materials. 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 fines in the last 12 months (2021: nil).

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 we operate.
- Employing best practices to maximise the efficient use of resources to minimise waste and prevent pollution.
- Minimising the impact we and our products have on the environment.
- Focusing on promoting an environment of continuous improvement and risk mitigation through identifying objectives and setting measurable goals.
- Considering and responding 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 at corporate.xppower.com/sustainability/environment.

Energy and greenhouse gas emissions

We measure our CO_2 emissions in accordance with the internationally recognised Greenhouse Gas (GHG) Protocol and our metrics include scope 1, 2 and now scope 3 emissions. We have made minor revisions to our previously reported emissions and energy use figures and allocation and have revised certain preliminary grid and emissions factors. All of our scope 1, scope 2 and scope 3 (Purchased good and services, Fuel- and energy-related activities, Upstream Transportation and distribution, Business travel, Employee commuting and Use of sold products) Greenhouse Gas (GHG) Emissions have been verified in accordance with requirements of 'Limited Assurance' procedures by Intertek Assuris for the fiscal year 2022. The verification was performed in accordance with the International Standard on Assurance Engagements (ISAE) 3410.

The table below outlines our emissions and energy usage across the whole Group accounting for all XP Power sites. The figures include full year data for both FuG and Guth sites that were acquired on 31st January 2022, which will enable a year-on-year comparison for 2023 and future years.

Absolute scope 1 and 2 emissions increased 9% and absolute energy consumption increased 13%, in part due to the purchase of FuG and Guth. Excluding both FuG and Guth sites, our absolute scope 1 and 2 emissions increased 6% and absolute energy consumption increased 7% due to an increase in output from our manufacturing sites across the Group, more employees returning to office spaces to work following the lifting of remaining restrictions on COVID-19 and ongoing growth in headcount.

Both emissions and energy intensity are reported as tonnes CO_2e/£m revenue and kWh/£m revenue. Our overall emissions intensity increased 9% this year. Our energy intensity has decreased 6% this year on the back of general energy efficiency measures and the incorporation of more efficient sites. While no new projects and improvements were implemented in the 2022 financial year, XP Power continues to identify opportunities for energy improvement.

Emissions and energy

	FY22			FY21			FY20		
	UK	Global (excl UK)	Group Total	UK	Global (excl UK)	Group Total	UK	Global (excl UK)	Group Total
Intensity measure									
Group turnover £m	–	–	290.4	–	–	240.3	–	–	233.3
GHG Emissions (tCO$_2$e)									
Total Scope 1 (tCO$_2$e)	**25.7**	**314.5**	**340.2**	**1.9**	**210.4**	**212.3**	**2.1**	**186.5**	**188.6**
Scope 2 location based (tCO$_2$e)	26.4	6,442.3	6,468.8	28.7	6,001.2	6,029.9	28.8	5,908.9	5,937.8
Scope 2 purchased heat and steam (tCO$_2$e)	–	12.3	12.3	–	18.1	18.1	–	5.4	5.4
Total Scope 2 (tCO$_2$e)	**26.4**	**6,454.7**	**6,481.1**	**28.7**	**6,019.3**	**6,048.0**	**28.8**	**5,914.3**	**5,943.1**
Total scope 1 + 2 (tCO$_2$e)	**52.2**	**6,769.1**	**6,821.3**	**30.6**	**6,229.7**	**6,260.3**	**31.0**	**6,100.8**	**6,131.7**
Upstream Scope 3 (tCO$_2$e)	–	–	178,929.9	–	–	505.1	–	–	569.0
Downstream Scope 3 (tCO$_2$e)	–	–	496,038.2	–	–	–	–	–	–
Total scope 3 (tCO$_2$e)	**–**	**–**	**674,968.1**	**–**	**–**	**505.1**	**–**	**–**	**569.0**
Total scope 1, 2 & 3 (tCO$_2$e)	**–**	**–**	**681,789.4**	**–**	**–**	**6,765.4**	**–**	**–**	**6,700.8**
Scope 1 + 2 GHG Emissions Intensity ratio (per Group turnover) £m	–	–	23.5	–	–	21.6	–	–	26.3
Energy consumption (kWh)									
Total renewable fuels consumption (kWh)	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Diesel	–	117,962	117,962	–	155,906	155,906	–	35,401	35,401
Gas	142,066	1,135,890	1,277,956	10,672	511,866	522,538	11,710	589,214	600,924
Propane	–	376,693	376,693	–	374,741	374,741	–	374,741	374,741
Total non-renewable fuels consumption (kWh)	**142,066**	**1,630,545**	**1,772,612**	**10,672**	**1,042,513**	**1,053,185**	**11,710**	**999,356**	**1,011,066**
Total fuels consumption (kWh)	**142,066**	**1,630,545**	**1,772,612**	**10,672**	**1,042,513**	**1,053,185**	**11,710**	**999,356**	**1,011,066**
Consumption of purchased or acquired electricity renewable	–	125,669	125,669	–	–	–	–	–	–
Consumption of self-generated non-fuel renewable energy (solar)	30,116	34,009	64,125	23,506	37,266	60,772	3,347	39,604	42,951
Consumption of purchased or acquired electricity non-renewable	136,657	11,537,308	11,673,965	135,191	10,749,647	10,884,838	123,725	10,668,213	10,791,938
Total electricity consumption (kWh)	**166,773**	**11,696,986**	**11,863,759**	**158,697**	**10,786,913**	**10,945,610**	**127,072**	**10,707,817**	**10,834,889**
Consumption of purchased or acquired heating	**–**	**72,266**	**72,266**	–	**106,030**	**106,030**	–	**31,221**	**31,221**
Total renewable energy consumption (kWh)	**30,116**	**159,678**	**189,794**	**23,506**	**37,266**	**60,772**	**3,347**	**39,604**	**42,951**
Total non-renewable energy consumption (kWh)	**278,723**	**13,240,119**	**13,518,842**	**145,863**	**11,898,190**	**12,044,053**	**135,435**	**11,698,790**	**11,834,225**
Total energy consumption (kWh)	**308,839**	**13,399,797**	**13,708,636**	**169,369**	**11,935,456**	**12,104,825**	**138,782**	**11,738,394**	**11,877,176**
% renewable electricity from total electricity	18%	1%	2%	15%	0%	1%	3%	0%	0%
% grid electricity from total electricity	82%	99%	98%	85%	100%	99%	97%	100%	100%
Energy Intensity ratio (per Group turnover) £m	–	–	47,206	–	–	50,374	–	–	50,909

Scope 3 emissions

This year we conducted our first full assessment of our value chain emissions. This evaluation confirmed that our value chain emissions are many times greater than our operational carbon footprint, with our largest scope 3 category being emissions associated with the use phase of our products, followed by embedded carbon in our purchased goods with transportation-related emissions being a distant third. The data has helped us identify our carbon hotspots and we are developing an internal decarbonisation roadmap and scope 3 targets aligned to SBTi criteria to manage our value chain emissions going forward.

- **Use of sold products (73% of scope 3)** – For our most material category, the energy "used" by our products relates to the electrical energy lost by our power units through e.g., heat or noise as defined by their efficiency profile. We have calculated the lifetime energy waste for our key product ranges, taking into account sales volume, average power in range, efficiency profile and hours in use. International Energy Agency (IEA) 2022 emissions factors for our key sales regions were then applied to this data to calculate emissions across the assumed lifetime of the products.
- **Purchased goods and services (25% of scope 3)** – We used component level purchase data, by quantity and/or weight, to map our component categories and then applied lifecycle assessment based emissions factors for representative components. Spend-based analysis was used for less than 5% of the category's emissions, where representative products could not be identified.
- **Upstream transportation and distribution (1% of scope 3)** – All inbound, intragroup and outbound logistics under the Group's control were mapped against mode, weight and transportation distance to calculate emissions based on Department for Environment Food and Rural Affairs (DEFRA) weight.distance factors. It is not always possible to distinguish outbound transportation paid for by the Group or by customers, so categories 4 and 9 should be considered in aggregate.

Category	Status	FY22 tCO_2e
1. Purchased goods and services	Relevant, calculated	**167,275**
2. Capital goods	Not relevant, immaterial	**n/a**
3. Fuel-and-energy-related activities (not included in Scope 1 or 2)	Relevant, calculated	**2,190**
4. Upstream transportation and distribution	Relevant, calculated	**6,254**
5. Waste generated in operations	Not relevant, immaterial	**n/a**
6. Business travel	Relevant, calculated	**517**
7. Employee commuting	Relevant, calculated	**2,694**
8. Upstream leased assets	Not relevant, not applicable	**n/a**
Total Upstream Scope 3		**178,930**
9. Downstream transportation and distribution	Not relevant, not applicable	**n/a**
10. Processing of sold products	Not relevant, immaterial	**n/a**
11. Use of sold products	Relevant, calculated	**496,038**
12. End-of-life treatment of sold products	Not relevant, immaterial	**n/a**
13. Downstream leased assets	Not relevant, not applicable	**n/a**
14. Franchises	Not relevant, not applicable	**n/a**
15. Investments	Not relevant, not applicable	**n/a**
Total Downstream Scope 3		**496,038**
Total Scope 3		**674,968**

Water

We have a low water intensity in operations, and water is not used in the design, manufacture or services of our products. However, in recognition of water being a finite resource, we consider water management throughout Group activities, and we 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, installing water-saving appliances and deployment of reduced flush toilets in our facilities. Our water withdrawal is tracked and monitored as one of our key environmental metrics across the business. Although water is not a material issue to XP Power, we undertook a water risk assessment using the WRI Aqueduct Tool to understand which sites may be at risk of water stress[2]. Only our design centre in Southern California is located in an area of extremely high-water stress, but this site's activities exclusively pertain to R&D and therefore has minimal water requirements and other environmental impacts.

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; and
- 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 water policy is also available at xppower.com/company/policies.

[2] Assessed using the World Resources Institute's (WRI) Aqueduct Water Risk Atlas tool. Areas of extremely high-water stress, according to the WRI definition, are areas where human demand for water exceeds 80% of resources

Freshwater withdrawal (m^3)

	FY22	FY21	FY20
UK	**1,024.9**	544.5	568.3
Germany	**2,268.7**	46.0	46.7
China	**12,785.4**	9,615.0	10,930.0
USA	**6,529.4**	5,427.3	5,743.3
Vietnam	**35,887.0**	37,430.0	26,141.0
Singapore	**2,084.7**	–	–
Global (excl UK)	**59,555.2**	**52,518.3**	**42,861.0**
Group Total	**60,580.1**	**53,062.8**	**43,429.3**
Water Intensity ratio (per Group turnover) £m	**208.6**	220.8	186.2
Water Intensity ratio (per employee)	**23.4**	**23.8**	**20.6**

The table above outlines freshwater withdrawal from all XP Power sites. The figures include full year data for both FuG and Guth sites that were acquired on 31st January 2022, which will enable a year-on-year comparison for 2023 and future years.

We aim to reduce our water withdrawal per employee over time, and this year overall freshwater withdrawal per employee decreased 2%. Absolute freshwater withdrawal increased 14% in 2022. This was in part due to the Group acquiring two new sites in Germany, Guth and FuG, the first year of reporting of water withdrawal at our Singapore site and the return to normal production processes in our Chinese sites post COVID-19. Excluding Guth, FuG and Singapore sites, absolute water consumption increased 7% due to an increase in output from our manufacturing sites and ongoing growth in headcount.

2. ENVIRONMENTAL LEADERSHIP CONTINUED

Waste management

Our manufacturing processes produce relatively little waste, but we are committed to reducing both non-hazardous and hazardous waste where possible across all of our operations. One major source of waste is the excess solder from the wave solder machines, so-called "solder dross". This is recycled into new solder and reused by our operations. In 2022, we sent 12.3 tonnes of solder dross for recycling and received back 8.9 tonnes of recycled solder, which is a 72% recovery rate. We use certain chemicals to clean flux from printed circuit boards, which is cleaned using activated carbon. We dispose of these chemicals and the containers they are delivered in through a certified, licensed professional third party who safely disposes of these. In 2022 we had zero reportable spills. Our paper, other packaging and e-waste is collected by recycling providers. The Group recycled 417 tonnes (2021: 315 tonnes) of paper and packaging during the year.

The tables below outline waste generation and treatment from our sites in China and Vietnam, which account for 72% of the Groups employees.

Waste generation (tonnes)	**FY22**	**FY21**	**FY20**	**FY19**
Hazardous waste	**7.0**	7.4	1.9	5.1
Non-hazardous waste	**150.9**	150.8	161.5	99.2
Total waste	**157.9**	158.2	163.4	104.2
Hazardous waste intensity ratio (per Group turnover) £m	**0.02**	0.03	0.01	0.52

Waste treatment/disposal (tonnes)	**FY22**	**FY21**	**FY20**	**FY19**
Hazardous waste recycled	–	–	–	–
Hazardous waste incinerated	**7.0**	7.4	1.9	5.1
Hazardous waste sent to landfill	–	–	–	–
Non-hazardous waste recycled	**90.4**	108.8	123.1	87.8
Non-hazardous waste incinerated	–	–	–	–
Non-hazardous waste sent to landfill	**60.5**	42.0	38.4	11.4
Solder sent for internal recycling	**12.3**	8.8	9.2	6.1
Recycled waste (solder) received and used	**8.9**	4.7	5.6	2.5
Internal rate of recovery of solder (%)	**72%**	53%	61%	41%
Solder dross disposed*	**1.9**	1.6	2.8	1.3
Total waste **recycled**	**90.4**	108.8	123.1	87.8
Total waste **incinerated**	**7.0**	7.4	1.9	5.1
Total waste **sent to landfill**	**60.5**	42.0	38.4	11.4
Total waste **non-recycled**	**67.5**	49.4	40.4	16.5
Total waste	**157.9**	158.2	163.4	104.2

*transferred to treatment contractor for recycling

	FY22	**FY21**	**FY20**	**FY19**
Total Group paper and packaging recycled (tonnes)	**416.7**	314.7	300.9	269.4

Biodiversity

We understand the importance the natural environment plays in preserving biodiversity and wherever possible we are committed to protecting the environment. XP Power is committed to protecting biodiversity and minimising the potential negative impact that our business may have on the natural environment. We recognise that climate change, deforestation, land degradation and water pollution each pose a severe threat to the sustainability of important ecosystems, and that business and industry sometimes contribute to these negative effects. Our biodiversity policy is also available at corporate.xppower.com/sustainability/environment.

OUR SUSTAINABILITY STRATEGY

3. PEOPLE AND WORKPLACE

3 GOOD HEALTH AND WELL-BEING

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

How this strategic pillar links to the UN SDGs

This aligns with UN SDG 3 “Good health and wellbeing”, 5 “Gender equality”, 8 “Decent work and economic growth”, and 10 “Reduced inequalities”.

At XP Power, health and safety is of paramount importance to us as a responsible employer. We strive to safeguard the health, safety and wellbeing of all our people (including contractors), whether working on site or working from home. Our health and safety programme is driven from the top, with the Board having ultimate responsibility. Health and safety is managed locally but coordinated globally, benefitting from shared experience. Our corporate health and safety framework below defines those 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 incidents and near misses, and these are reported and analysed. The Board reviews these metrics at each Board meeting;
- Metrics relating to walkthrough safety audits, fire drills and update of risk assessments are 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.

We are committed to maintain a healthy and safe working environment to minimise the number of occupational accidents, diseases and illnesses, and ultimately achieve an accident-free workplace. We encourage our people to look out for each other to keep us all safe. We have enhanced health and safety through 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.

Board of Directors
Reviews health and safety performance

CEO
Responsible for health and safety programme at XP Power

Site leaders across 17 different sites
Responsible for health and safety at the site and that appropriate resources are available

Site health and safety representatives
Responsible for day-to-day health and safety programme through a cross-functional team

We provide all our employees with health and safety training appropriate to their role. The number of employees trained on health and safety standards within 2022 are:

	FY22	FY21
Europe	**268**	82
Asia	**2,030**	1,444
US	**232**	237
Global	**2,530**	**1,763**

Safety performance

We report all health and safety incidents, including near misses, whether they resulted in lost time, and we actively encourage the reporting of near misses so we can learn from these events. 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 2022, we had 13 health and safety incidents (2021: 19), including one near misses (2021: 4). Of these, nine incidents (2021: 9) resulted in lost time, with a total lost time of 48 days (2021: 119 days) resulting in a reduction in our Lost-time Incident Rate (LTIR)[1] to 0.31 (2021: 0.76). Zero incidents resulted in death of any employees or contractors in 2022 (2021: zero). We continue to review all accidents and near misses to ensure we learn from them and make improvements to keep all employees safe from harm or injury. The figures in the table below cover 100% employees and contractors.

Health and safety incidents

	FY22	FY21	FY20	FY19	FY18
Asia	**2**	3	10	7	6
Europe	**3**	3	0	3	8
US	**8**	13	12	11	3
Global	**13**	19	22	21	17
Average number of permanent employees	**2,590**	2,229	2,108	1,859	1,972
Incident rate per 1,000 employees	**5.02**	8.5	10.4	11.3	8.6
LTIR[1]	**0.31**	0.76	0.87	0.57	–

[1] Lost-time Incident Rate (LTIR) is defined as total number of lost time incidents in a year, divided by the total number of hours worked, multiplied by 200,000. We define a lost time incident as an incident that occur when a worker sustains a lost time injury that results in time off from work, or loss of productive work.

Returning to normal post-COVID-19 (2022)

Throughout the year, COVID-19 restrictions have eased and we have returned to more normal working practices. However, we have continued to monitor the ongoing situation across all our global sites. We have adapted our business based on learnings from the pandemic to continue with hybrid working in certain locations. Where relevant, we have considered the recommendations of local authorities where we operate. At our China sites, the zero-COVID policy presented operational challenges and we worked very closely with local authorities to ensure that operational disruption was kept to an absolute minimum.

Health and wellbeing

We encourage our employees to have active lifestyles and we provide facilities and programmes designed to improve their wellbeing. These include the provision of sports facilities (e.g., basketball courts, football pitches and shower facilities at sites) and the facilitation of group events (e.g., softball leagues, yoga sessions and five-a-side football leagues). In keeping with our focus to create an environment where people can be their best and our commitment to improve the mental wellness of our teams, we gave an additional “Wellness”day off for all employees at a time convenient for each location through the year.

We also operate a comprehensive Employee Assistance Programme (EAP), which 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 resources for our employees and their families.

Our people

We look after our employees, support their training and development, recognise cultural differences, respect their human rights and promote a fair working environment with equal opportunities for all. As a global business, we capitalise on our cultural differences and strive to make XP Power a fulfilling place to work.

3. PEOPLE AND WORKPLACE CONTINUED

Engagement

Our vision is to deliver the ultimate experience for our stakeholders. Through workforce engagement, the views of our employees are heard at Board level and are considered in Board discussions and decision making. Pauline Lafferty is the designated Non-Executive Director responsible for workforce engagement and, as a former Chief People Officer, is passionate about employee engagement.

We use several methods to engage with our people but derive high value from our Gallup engagement survey, which was first conducted in 2020 and is used to drive further employee programmes and enhancements to our engagement and retention. In 2022, we again had excellent survey participation rates across the workforce of 92% (2021: 93%), which we want to maintain. This year, our engagement has decreased albeit to a still strong score of 3.83 out of 5.00, putting XP Power at the 31st percentile in the Gallup database. We acknowledge the decrease in our levels of engagement year-on-year which is also reflected in increased voluntary turnover figures below, particularly in North America. This region has been widely reported as experiencing exceptionally high attrition, 'The Great Resignation' during 2022 and unfortunately XP is among many businesses which have seen the impact of this. The increase in Asia attrition rate from 2021 to 2022 is a result of rapid expansion of the Vietnam plant, where some new entrants to manufacturing found initial training to meet our performance standards challenging. However, the survey still highlighted our organisation remains resilient and has a strong foundation of engagement across the businesses. We still see a clear sense of respect, ethics and integrity across employees and we aim to address the issues highlighted in the survey to improve our manager interaction to enhance our score in future years.

Full-time employee voluntary turnover percentage (%)

		2022	2021
Europe	Total average number of employees	**338**	154
	Voluntary Leavers	**27**	17
	Voluntary Turnover	**8.0%**	11.1%
Asia	Total average number of employees	**1,781**	1,606
	Voluntary Leavers	**811**	602
	Voluntary Turnover	**45.5%**	37.5%
US	Total average number of employees	**472**	411
	Voluntary Leavers	**91**	48
	Voluntary Turnover	**19.3%**	11.7%
Global	Total average number of employees	**2,590**	2,171
	Voluntary Leavers	**929**	667
	Voluntary Turnover	**35.9%**	30.7%

Labour

We are committed to fair treatment of our employees, and our goal is to pay competitively and reward exceptional performance. All employees are paid fair salaries and other terms of conditions of employment as appropriate. We recognise that a work/life balance is important and, where appropriate, we offer flexible working arrangements to allow employees to balance their work with their other priorities. As a Group, we also aim to eliminate excessive working hours and respect national legislation and industry referenced standards on maximum working hours.

Diversity and inclusion

Becoming a truly diverse and inclusive company is not only the right thing to do, but also crucial to helping us grow our business, innovate, attract and retain talent, and engage the people who buy our products. Different experiences, views and opinions allow us to explore more options when considering decisions, which we believe generates better outcomes for the business and our stakeholders. We operate globally and recognise the cultural differences that may exist in the countries we do business in. A diverse workforce reflects our markets and will help us succeed in those markets. We are committed to non-discrimination and offer equal opportunities in all our employment practices, procedures and policies. We operate an externally hosted whistleblowing hotline, which enables our employees to report any concerns or violations relating to discrimination or any other aspect of our Code of Conduct. When we hire or promote someone, we choose the best candidate irrespective of age, race, national origin, disability, religion, gender, gender reassignment, sexual preference, social background, political opinion, marital status or membership/non-membership of any trade unions. We apply the same standards when selecting business partners. The Board has oversight of the Company's Diversity Policy, which is also available on our website at corporate.xppower.com/about-us/corporate-governance. Our Diversity Policy is embedded in our Code of Conduct.

We aim to:

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

The Group is supportive of flexible working such as working from home, part-time and flexible hours according to the requirements of the position. The Group employs contract and temporary workers across many locations to fill local requirements, sometimes for short periods. This is particularly the case in our manufacturing facilities globally, to ensure we are meeting our customer requirements. Many of our temporary staff choose to become permanent employees.

Number and percentage (%) of contract or temporary workers to total employees

		FY22	FY21
Europe	Total average number of employees	**376**	169
	Average number of permanent employees	**338**	154
	Average number of temporary or contract employees	**38**	15
	Percentage of temporary or contract employees to permanent	**10.1%**	8.9%
Asia	Total average number of employees	**2,706**	2,337
	Average number of permanent employees	**1,781**	1,606
	Average number of temporary or contract employees	**925**	731
	Percentage of temporary or contract employees to permanent	**34.2%**	31.3%
US	Total average number of employees	**524**	450
	Average number of permanent employees	**472**	411
	Average number of temporary or contract employees	**52**	39
	Percentage of temporary or contract employees to permanent	**9.9%**	8.7%
Global	Total average number of employees	**3,605**	2,956
	Average number of permanent employees	**2,590**	2,171
	Average number of temporary or contract employees	**1,015**	785
	Percentage of temporary or contract employees to permanent	**28.2%**	26.6%

OUR SUSTAINABILITY STRATEGY

3. PEOPLE AND WORKPLACE CONTINUED

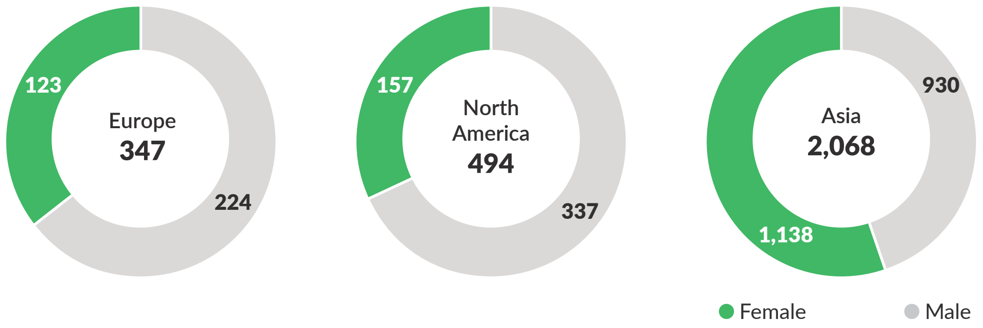
In the UK, for employees with more than two years of service, we pay maternity or adoption leave for three months at 100% of salary compared to the statutory six weeks at 90% of salary. We also provide two weeks of paid paternity leave at 100% of salary compared to statutory paternity leave of two weeks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

We have undertaken analysis based around gender representation to help understand our gender pay gap, including an equal pay assessment. We report our UK gender pay gap 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.

UK gender pay gap – 2022

	FY22					FY21		FY20	
	Male	Female	Total	Male	Female	Male	Female	Male	Female
Lower quartile pay band	10	20	30	33%	67%	38%	62%	40%	60%
Lower middle quartile pay band	10	20	30	33%	67%	36%	64%	58%	42%
Upper middle quartile pay band	21	9	30	70%	30%	70%	30%	77%	23%
Upper quartile pay band	23	7	30	77%	23%	74%	26%	92%	8%

Employees by gender and region as at 31 December 2022



Gender diversity statistics

	Male	Female	Total	Male	Female
Board	5	4	9	56%	44%
Executive Management	5	2	7	71%	29%
Management	83	18	101	82%	18%
All other	1,403	1,398	2,801	50%	50%
Total	1,496	1,422	2,918	51%	49%

XP Power is committed to meeting the recommendations of the FTSE Women Leaders and Parker Review. Women now make up 44% of our Board, including roles such as chair of the Remuneration Committee, Senior Independent Director, Chair of Audit Committee and Designated Director for Workforce Engagement. The composition of our Board meets the recommendations set by the Parker Review Committee and the FTSE Women Leaders (formerly the Hampton-Alexander review).

Talent and career management

With a wealth of talented individuals working across the business, we recognise the importance of supporting and developing the skills, knowledge and experience of our teams. From a more structured onboarding process which ensures managers identify a day-one buddy and build a detailed initial training plan, to career conversations as part of the annual review process, we are committed to promoting training and career development.

Developing our talent is key to our ongoing success and is a key leadership responsibility, with line managers identifying their high potential employees, creating opportunities for further development and supporting internal progression. Talent management and succession planning for the Executive Directors and Senior Leadership team is reviewed and discussed at Board level. Personalised people and organisation plans aligned to the attainment of the Group's strategy are agreed with all our executive leaders, and our people leaders (with more than four direct reports) receive a people leadership programme with particular emphasis on employee engagement, and the need for clarity of expectations to drive high performance.

Our online learning management system was rolled out to all employees in 2021 and in 2022 this has allowed us to roll out further training in new systems and processes, such as S4HANA and Our Management System, as well as compliance training. This tool is also used for onboarding new employees and for training on new information technology tools such as our various cybersecurity applications. Our training statistics are outlined below.

It is our policy that all employees receive regular feedback on their performance, captured in an annual performance review meeting where agreed objectives, aligned with key business priorities are set for the year ahead. All non-production employees participated in this process during 2022, with those directly employed in production roles evaluated against standard operating procedures to ensure they continue to deliver to required quality standards. 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 several spot recognition award schemes which are occasionally given to teams rather than individuals to recognise and promote collaboration. As well as recognition schemes, we also provide healthcare benefits and life assurance according to the customs in the regions we operate.

We had a total of 20 apprenticeships in 2022 and run apprenticeship programmes in areas such as finance, human resources, information technology and logistics. We have seen a rise in training time per employee in 2022 due to increased usage of our Learning Management System (Litmos), the provision of English classes every Monday and Wednesday at our FuG site and a real focus on production and R&D training at our High Bridge site.

Average training time (in days) per employee

		FY22	FY21
Asia	Average number of permanent employees	**338**	154
	Total hours worked in year	**8,192**	2,101
	Hours per employee	**24.3**	13.7
	Days per employee	**3.0**	1.7
Europe	Average number of permanent employees	**1,781**	1,606
	Total hours worked in year	**25,292**	14,426
	Hours per employee	**14.2**	9.0
	Days per employee	**1.8**	1.1
US	Average number of permanent employees	**472**	411
	Total hours worked in year	**10,318**	747
	Hours per employee	**21.9**	1.8
	Days per employee	**2.7**	0.2
Global	Average number of permanent employees	**2,590**	2,171
	Total hours worked in year	**43,802**	17,273
	Hours per employee	**16.9**	8.0
	Days per employee	**2.1**	1.0

Freedom of association

We allow our employees to freely associate with any relevant unions, but only our employees in Vietnam are members of the local union. The number and percentage of employees covered by collective agreements is:

		FY22	FY21	FY20
Asia (Vietnam)	Average number of permanent employees	**1,781 (1,495)**	1,606 (1,089)	1,483 (1,024)
	Average number of employees covered by collective agreements	**1,406 (1,406)**	1,063 (1,063)	939 (939)
	Percentage of employees covered by collective agreements	**79.0% (94.0%)**	66.2% (97.7%)	63.3% (91.6%)
Europe	Average number of permanent employees	**338**	154	153
	Average number of employees covered by collective agreements	**0**	0	0
	Percentage of employees covered by collective agreements	**0.0%**	0.0%	0.0%
US	Average number of permanent employees	**472**	411	397
	Average number of employees covered by collective agreements	**0**	0	0
	Percentage of employees covered by collective agreements	**0.0%**	0.0%	0.0%
Global	Average number of permanent employees	**2,590**	2,171	2,033
	Average number of employees covered by collective agreements	**1,406**	1,063	939
	Percentage of employees covered by collective agreements	**54.3%**	49.0%	46.2%

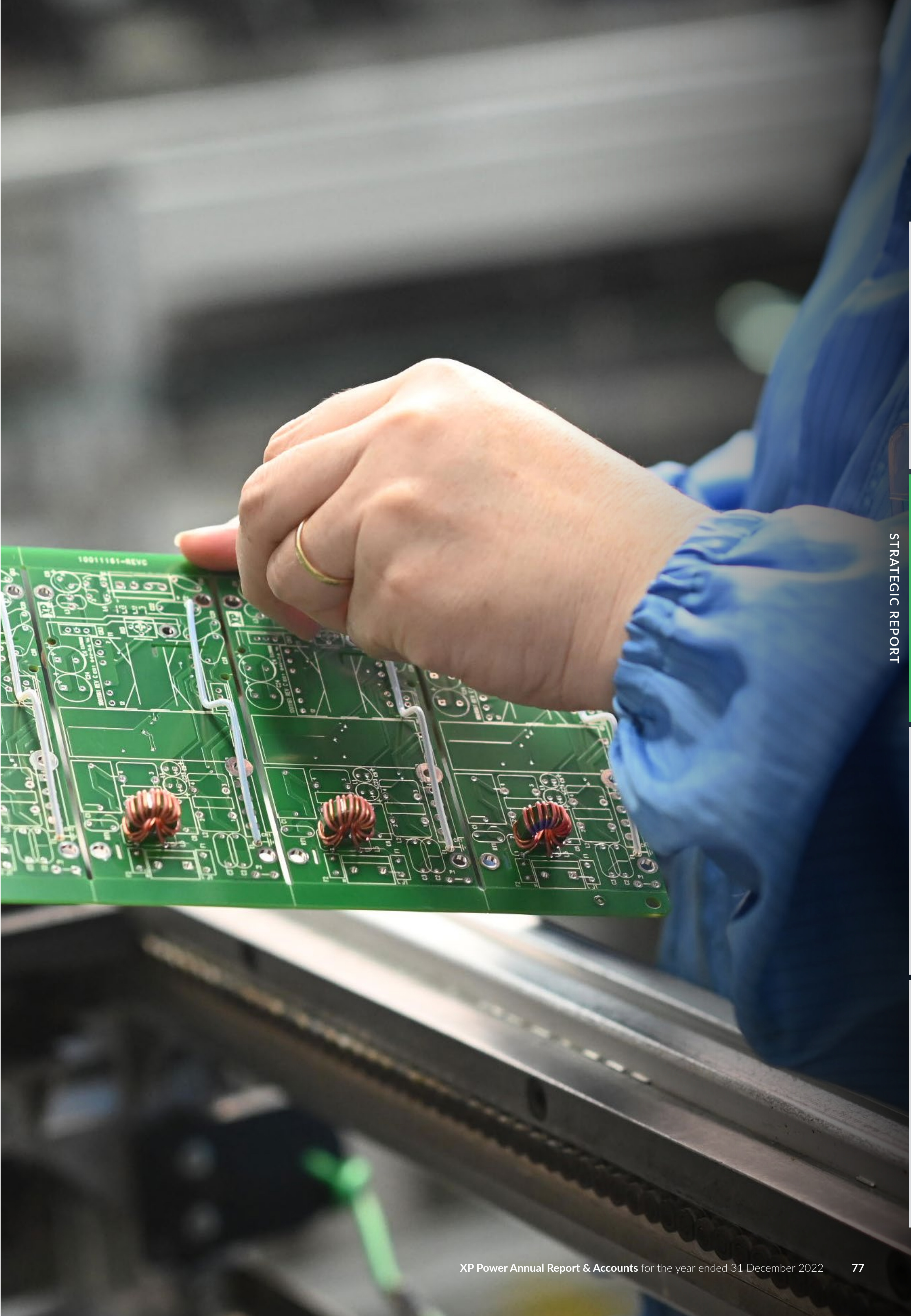
Community partnerships

We believe that we should give back to the communities we work in as they make up an integral part of our lives. All employees are encouraged to get involved in environmental and community activities. We allow every employee to take a day's paid leave to contribute to a charitable or worthy cause in the community.

Our activities in 2022 included:

- Sunnyvale participated in XP Power's Q4 Community Outreach, with our collection donated to Joey's Toy Drive.
- XPSG Cycling team cycled all round Singapore and raised more than SGD$10,000 for Food Bank Singapore.
- In aid of the Ukraine crisis, our UK employees donated non-perishable food items.
- We offered our Singapore employees massages from the visually handicapped with donations collected in aid of the Singapore Association of Visually Handicapped.
- Our Gloucester site held an additional charity event in aid of The Open Door, an organisation that provides food security and household stability to children, families and seniors in Essex County, MA. Through XP Power's support, The Open Door has been able to provide an online ordering system that vastly improves choice and access to the service, and biodegradable containers to help reduce waste.

The Group and our employees made donations to local charities totalling £8,563.4 in 2022 (2021: £14,291).



4. ETHICS AND COMPLIANCE

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

How this strategic pillar links to the UN SDGs

This aligns with UN SDG 16 "Peace, justice and strong institutions" through internationally promoting of the rule of law and reducing corruption and bribery in all forms.

It is the Company's policy to conduct all business in an honest and ethical manner. 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. To ensure awareness and understanding of our Code of Conduct, we use our learning management system to monitor all employees on their annual training on the Code of Conduct and its contents. Employee compliance with the annual Code of Conduct training is 72%. The Group also relies on its general financial controls, authority matrix, 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.

Whistleblowing

XP Power is committed to an environment where open, honest communications are the expectation. Employees should feel comfortable bringing forward any concerns 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 when they have acted in good faith. This is embedded into our Code of Conduct. We operate an internal, well publicised, confidential whistleblowing programme administered through an independent third party, which is available 24/7. "Speak Up" runs in every country we operate in, and in their chosen language. This guarantees that employees' experiences of legal or ethical misconduct will be heard and acted upon quickly wherever it occurs within the business. Concerns can be raised through a website or by phone, on an anonymous basis and in any chosen local language. The Company protects employees who are whistleblowers from any detrimental treatment resulting from any whistleblowing, providing they acted in good faith.

Our whistleblowing policy encourages our employees to report issues where they have a reasonable belief that:

- our Code of Conduct has been breached such as an incident of discrimination
- 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 /or
- information to show any matter falling within any one of the above categories has been, is being or is likely to be deliberately concealed

A whistleblowing report is automatically distributed to the Chair of the Audit Committee by the independent third-party provider, where it is reviewed and assigned to management or an independent third party for further investigation and response as required. Whistleblowing is a scheduled agenda item at Audit Committee meetings. The Company is committed to taking appropriate action regarding all qualifying disclosures that are upheld. In 2022 there was one whistleblowing reports and in 2021 there were no whistleblowing reports.

Anti-bribery and corruption

It is our policy to conduct all business in an honest and ethical manner. We will not accept 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 business dealings and relationships, and enforces effective systems to counter bribery. Our policy on anti-bribery and corruption is embedded in our Code of Conduct, which all employees receive annual training on. Last year, 100% of employees received training on anti-bribery and corruption. Our Code of Conduct's section on bribery and corruption is detailed and includes numerous examples, so employees can clearly understand what is acceptable and unacceptable. The requirements of our Code of Conduct are communicated to our suppliers, and they are required to comply with its provisions. There were no instances of bribery or corruption in 2022 that executive management or the Board were aware of.

Modern slavery

We support the Modern Slavery Act 2015, and this is explicitly included within our Code of Conduct. We do not engage in any form of slavery or human trafficking activities, and we are strongly against any offences of slavery, servitude forced labour and/or human trafficking. We have also adopted a corporate policy, which has been communicated to all employees through our Code of Conduct, and is supported by all levels of the organisation. The policy can be found here: corporate.xppower.com/about-us/corporate-governance. Any abuse of human rights will be acted upon immediately and appropriate action taken. All employees are trained on our Modern Slavery Policy through the annual online Code of Conduct training.

Human rights

Human rights are at the heart of sustainable business. We are committed to respecting human rights in accordance with international human rights principles including the UN Guiding Principles on Business and Human Rights, the UN Universal Declaration of Human Rights, and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work. We can confirm that there were no reported incidents of human rights violations during the past year. The policy can be found here: corporate.xppower.com/about-us/corporate-governance. Training on human rights is included in our annual online Code of Conduct training.

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, and there are various processes, software and hardware in place to prevent data security breaches and unauthorised access to the Group's systems and data. The Group holds regular cybersecurity training and awareness to ensure that our employees remain alert to threats.

Tax transparency

The Group is committed to compliance with all applicable tax laws and regulations in all areas it operates in 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 to not engage in any aggressive tax planning or tax avoidance schemes.

We believe that our tax activities should adhere to the spirit and the letter of all relevant tax laws and regulations where we operate. We are committed to a transparent and open approach to reporting on tax. Our policy, as part of our governance framework, is to file all tax returns on time, and to pay tax as it falls due.

The Group has a low-risk tolerance for uncertain tax positions where it operates. We do not undertake any aggressive or unreasonable tax planning schemes for the purpose of tax avoidance, and broadly aim to align tax payments to revenue generation. We do not knowingly help others avoid their tax obligations.

We prohibit tax avoidance through transfer pricing. All intra-group transactions are required to be priced on an arm's length basis in accordance with the Group's internal transfer pricing policies, which reflect internationally accepted transfer pricing standards and local tax laws. We commit to not transfer value created to low tax jurisdictions and not use tax structures intended for tax avoidance. We do not operate in countries considered as partially compliant or non-compliant according to the OECD tax transparency report, or in any countries blacklisted or grey listed by the EU for tax avoidance and harmful tax practices (as at 14 February 2023), apart from Vietnam, where our site is based due to availability of suitable labour and not located to tax purposes.

Our commitments on taxation are implemented through a system of procedures and controls in place across the Group. Tax is a regular agenda item for the Audit Committee, which meets at least four times a year, and reports to the main Board. Tax compliance risks are managed through the Group's governance framework, overseen by the Audit Committee, and supported by the CFO.

Government contracts

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

COMMITMENT TO REDUCING CLIMATE CHANGE
TCFD REPORT

In 2021, we announced our ambition for net zero. Having signed the letter of commitment with The Science Based Targets initiative (SBTi) in 2022, we intend to submit targets for verification in the first half of 2023.

This will reaffirm our long-term target of net zero across our value chain by 2040 and introduce interim targets for 2030 which we will publish once validated. In conjunction with and aligned to our net zero ambition, this report covers our governance of climate change and demonstrates how we incorporate climate-related risks and opportunities into our risk management, strategic planning and decision-making processes.

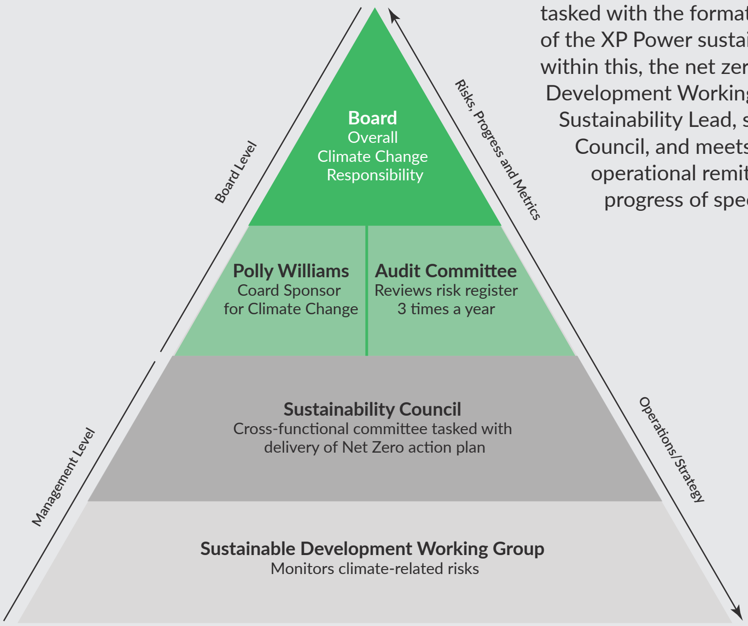
Our climate-related financial disclosure is consistent with all of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures as detailed in "Recommendations of the Task Force on Climate-related Financial Disclosures" (2017) and we have considered the additional guidance set out in the TCFD 2021 Annex, "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures". Further details of our pathway to net zero will be included in our transition plan, which we aim to develop following our target validation.

RECOMMENDATION	RECOMMENDED DISCLOSURES	REFERENCE
Governance Disclose the organisation's governance around climate-related risks and opportunities	a) Describe the Board's oversight of climate-related risks and opportunities	Page 81
	b) Describe management's role in assessing and managing climate-related risks and opportunities	Page 81
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	Pages 82-86
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Pages 82-86
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Pages 82-86
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks	a) Describe the organisation's processes for identifying and assessing climate-related risks	Page 82
	b) Describe the organisation's processes for managing climate-related risks	Page 82
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Page 82
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Page 87
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Pages 65-66
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Page 87

Governance

XP Power has a robust governance structure to manage our response to climate-related issues. The Board of Directors has overall responsibility and oversight of climate-related risks and opportunities, all Group policies including the Environmental policy, and all matters that impact the strategy, risk management, vision, and values of the Group. Information flow regarding climate-related issues occurs within both the strategic and risk channels of the Group. To ensure climate-related issues are considered in the review of XP Power's strategy, budgets, major capital expenditures and business the Board monitors progress and performance of the Group's sustainability strategy and key initiatives within the net zero action plan as well as our reported emissions, energy use, water use and waste as outlined in Metrics and Targets below. Polly Williams, Non-Executive Director, Senior Independent Director and Chair of the Audit Committee, supports the Board in this function. In the risk channel, the Audit Committee ensures climate-related issues are integrated into the Group's risk management process. The Audit Committee is also responsible for approving the content of the Group's TCFD disclosures.

At the executive level, the Executive Leadership team meets monthly and monitors progress and key actions of the sustainability strategy and reports to the Board. Our Sustainability Council supports the Executive team through determining the relevant goals and objectives, reviewing environmental KPIs, resolving issues, mitigating risks to the plan, and recommending policies and processes to Executive team and Board. The Sustainability Council is a cross-functional team chaired by the CEO which meets quarterly and is tasked with the formation and successful delivery of the XP Power sustainability action plan and, within this, the net zero action plan. The Sustainable Development Working Group, led by the Group's Sustainability Lead, sits below the Sustainability Council, and meets monthly, with more of an operational remit, managing and tracking the progress of specific sustainability projects.



FURTHER DETAILS OF THE **GROUP'S RISK MANAGEMENT PROCESS** ARE ON PAGES 50–51

Risk management

Relevant climate-related risks and opportunities were identified with the help of external consultants, CEN-ESG, and refined through consultation with the Sustainability Council and senior management. XP Power considers climate-related risks and opportunities in all physical and transition risk categories – current and emerging – whether they occur within our own operations, or upstream and downstream of the Group, and within our short, medium or long-term time horizons.

The management of climate-related risks is integrated into the XP Power overall risk management framework. Climate-related risks are assessed in the same manner as other Group risks, so that their relative significance is comparable. This includes an assessment of likelihood (on a five-point scale, low to high) and impact (on a five-point scale, minor to severe) and this ensures that the significance of climate-related risks is considered in relation to risks identified in the standard risk management processes. Climate-related risks are included in the risk register and reviewed by the Audit Committee at scheduled meetings every four months to incorporate ongoing refinement and quantification of risks, and to ensure the register reflects any material changes in the operating environment and business strategy.

Further details on each key risk and opportunity, such as a quantification of the financial impact, the appropriate strategic response, cost of response and variance of key risks regarding climate-related scenarios have been developed where possible. Combining this with the impact and likelihood assessment outlined above, helps in determining the treatment of each risk (e.g. mitigation, acceptance or control) so we can prioritise resources in managing the most material climate-related impacts, with other risks requiring further analysis or accepted as being within the Group's business-as-usual risk appetite.

Strategy

Considering the Group's commitment to net zero by 2040, the fact that the Group owns some of its key operating sites, the timeframes required for climate change impacts to manifest and in alignment to overall strategic planning horizons, the time horizons for our climate-related risk assessment are as follows:

- Short term: 0–3 years
- Medium term: 4–10 years
- Long term: beyond 10 years

The following five key climate-related risks and six key climate-related opportunities that could have a material financial impact on the organisation have been identified. These are incorporated into our strategic planning:

RISK	STORM AND FLOOD DISRUPTION	SUPPLY CHAIN RISKS	CARBON PRICE IMPACTS IN THE VALUE CHAIN	ROBUSTNESS OF LOCAL POWER GRID SUPPLY	RISK OF NOT MEETING NET ZERO TARGET
Type	Physical (acute)	Physical (acute)	Transition (policy and legal)	Transition (market)	Transition (market and reputation)
Area	Own operations	Upstream	Upstream	Own operations	Upstream/own operations
Primary potential financial impact	Lost production and revenue	Lost production and revenue	Higher cost of inputs	Lost production and revenue	Lower profit margins through increase costs and lower revenue
Time horizon	Medium term	Medium term	Medium term	Short term	Long term
Likelihood	Medium–high	Medium–high	Medium	Medium	Low
Magnitude of impact	Moderate	Major	Moderate	Moderate	Moderate
Location or service most impacted	US, Vietnam	Group	Transport, purchased goods and services	China, Vietnam	Group

OPPORTUNITY	SOLAR POWER	POWER PURCHASE AGREEMENTS (PPAS)	REDUCTION OF AIR FREIGHT	LEGISLATION ON ENERGY EFFICIENCY	ELECTRIFICATION	ENERGY AND WASTE SAVINGS
Type	Energy source and resilience	Energy source	Material efficiency	Products and services, Market	Market	Material efficiency
Area	Own operations	Own operations	Upstream and downstream	Downstream	Downstream	Own operations
Primary potential financial impact	Reduced direct cost	Reduced direct costs	Reduced costs	Higher revenue	Higher revenue	Reduced costs
Time horizon	Short-to-medium term	Short-to-medium term	Short term	Short term	Short term	Medium term
Likelihood	Medium	Medium	Medium–high	High	High	Medium–high
Magnitude of impact	Major	Major	Major	Moderate	Moderate	Minor
Location or service most applicable	China, Vietnam	China, Vietnam	Group	Group	Group	Group

We have also conducted climate-related scenario analysis using three public climate-related scenarios to help us understand the resilience of our business to climate change:

- Net Zero Emissions by 2050 Scenario (NZE)* – outlining a pathway for the global energy sector to achieve net zero CO_2 emissions by 2050, which limits the global temperatures rise to 1.5°C by 2100, with 50% probability. This scenario is included as it informs decarbonisation pathways used by the SBTi.
- Stated Policies (STEPS)* – outlining a combination of physical and transitions risk impacts as temperatures rise by 2.6°C by 2100, with 50% probability. This scenario is included as it represents a midway path with the trajectory implied by today's policy settings.
- RCP 8.5** – where global temperatures rise between 4.1–4.8°C by 2100. This scenario is included for its extreme physical climate risks.

* IEA (2022), Global Energy and Climate Model, IEA, Paris https://www.iea.org/reports/global-energy-and-climate-model.

** IPCC (2014), Climate Change 2014: https://www.ipcc.ch/report/ar5/syr/ AR5 Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change.

We have analysed and quantified how each climate-related risk and opportunity behaves under the three scenarios. In aggregate, we conclude that our overall climate risk exposure is Moderate, and the Group is financially resilient and strategically robust to climate change. Our current understanding of our climate-related risks is that any impacts on assets is limited and risks can be accommodated in our business-as-usual activity in light of our existing and planned mitigation strategies and net zero action plan. No additional fundamental changes to our business strategy or budgets resulting from climate change are expected to be required for the foreseeable future. As a result, there are no effects of climate-related matters reflected in judgements and estimates applied in the financial statements.

We will continue to develop our analysis as new data becomes available, both internally and externally, and we will continue to monitor our climate exposures and action plans through the Group's risk management framework. The opportunities identified continue to be developed in line with the Company strategy and objectives. Further details on our climate-related risks and opportunities is below:

Climate-related risks

Storm and flood disruption

Extreme weather events are expected to rise in both frequency and magnitude as an impact of climate change. Global temperatures are forecast to rise in all three scenarios we studied, at best peaking below 1.6°C increase above pre-industrial levels by 2040 in NZE and at worse continuing to rise to between 4.1–4.8°C increase above pre-industrial levels by 2100 under RCP 8.5. Under STEPS, extreme rainfall is expected to occur up to twice as often as today and be three-to-four-times more intense by 2100. RCP 8.5 is more extreme. Our sites with acute physical risks identified using geospatial modelling are in the US at Gloucester, MA, and High Bridge, NJ (both at risk from hurricanes), and to a lesser degree of risk, Binh Duong, Vietnam (at risk from inundation). The two US sites account for 8% of production[1] combined and with Vietnam, 47% of the Group's production. These three sites have already experienced some weather-related disruption, albeit not long lasting and manageable under business-as-usual. We recognise the risk of further operational disruption, but do not forecast any asset risk. The Group operates with a flexible model in terms of capacity across sites and can respond to temporary outages with changes in working patterns to compensate. We are also currently constructing a third major site in Malaysia, which will provide further manufacturing flexibility and reduce reliance on the Vietnam site.

Supply chain risks

Physical climate change impacts could result in disruption to our supply chain, either through supplier sites being directly affected, or by disruption to transportation and electricity supply. Our supply of metals and fabricated items (c.20–30% of purchases) is flexible, but some electronic components are specialised, and supply cannot easily be switched out for alternatives. Exposure to individual suppliers is reduced as we source components from several suppliers and distributors. Our ongoing strategic review of suppliers incorporates analysis of our critical supplier relationships and options for switching to alternatives. In addition, we will expand our supplier assessment process to include supplier resilience and business continuity plans, alongside engagement on our upstream emissions as part of our net zero plan.

Carbon price impacts in the value chain

XP Power is exposed to potential carbon price impacts in the upstream value chain, which may result in increased cost of transportation and goods sold. We have quantified our carbon in purchased goods and services (c.25% scope 3 emissions), down to the component level, see page 66. This has identified our carbon intensive inputs to allows us to track this risk and incorporate scope 3 reduction thinking into our product and supplier strategy. Components are subject to customer approval processes and typically used over a long period without change, which may make substitution harder to achieve. Any substitution for lower carbon alternatives will result in step changes in the embodied carbon in our purchased goods, as would a reduction in component count. We are also exposed to potential carbon costs within transportation (c.1% scope 3 emissions). Air freight continues to be at a higher proportion than pre-Covid levels as supply chain disruption and changes following the pandemic continue to impact lead times. This materially impacts our transportation emissions relative to the alternative sea-borne transportation. We believe customer service is critical and must be considered alongside cost and emissions rationales to changing the freight model. Carbon prices are projected to increase under NZE and STEPS scenarios but how and whether carbon prices are applied to purchased goods and transport and our ability to pass cost increases on is uncertain. In addition, this risk will be mitigated under our plans for net zero by 2040.

Robustness of local power grid supply

Our energy supply may be disrupted for a prolonged period due to local supply robustness. XP Power's operations in China (28% of production[1]) experienced power supply issues during 2021, reportedly because of a restriction on domestic coal output, and in 2022 to a lesser extent from a supply/demand imbalance resulting from heatwaves and drought. We are encouraged by the rapid pace of renewable generation capacity addition in China but note that substantial changes in generation capacity can also result in grid instability issues due to the transition. This will happen faster under the NZE scenario. In Vietnam (39% of production[1]), our manufacturing site is sufficiently elevated to be safe from direct flooding, but extreme weather events may result in indirect impact to our site from the disruption of energy supply infrastructure. Our China and Vietnam sites have back-up generation capacity to allow continued operations, albeit on a higher emissions basis which reduces our exposure. Additionally, a new manufacturing site is being developed in Malaysia, which should reduce manufacturing reliance on Vietnam. XP Power also operates with sufficient manufacturing flexibility to recoup lost time, and we are investigating renewable self-generation and measures to improve energy security.

[1] Energy use is used as a proxy for site production as the flow of semi-finished goods between sites in the Group complicates the measurement of site production by units or revenue. Energy use is closely correlated with the number of employees by site.

Risk of not meeting net zero target

XP Power has developed science-based targets for scope 1, 2 and 3 emissions for our commitment to net zero carbon by 2040 (to be validated by SBTi), which will be supported by our net zero action plan against which this risk will be tracked. Delivery against this plan is partly reliant on third parties and/or technologies that are yet to be developed, especially in the long term. Failure to meet the defined net zero targets may cause reputational damage, dissuade potential investors, or result in greater costs from any introduction of carbon pricing. The largest source of operational emissions for the Group are within scope 2, where the ability to decarbonise electricity supply may be hindered by the rate of grid decarbonisation in the countries XP Power operates in and the ability of local grids to support renewable energy tariffs. This is especially material for our manufacturing sites in China, Vietnam and soon, Malaysia. In addition, the rate of grid decarbonisation in the countries XP Power's customers and suppliers operate in is also critical to decarbonise downstream scope 3 emissions. Whilst some countries are committed to net zero electricity grids by 2040, not all have made such commitments. Under STEPS, global grids are expected to decarbonise by 46% to 2040; under NZE, electricity sectors in advanced economies reach net zero emissions by 2035, and globally by 2040. The Group factors the NZE scenario into its outlook. In addition, technical developments would be required beyond our immediate scope of control e.g., development of low carbon shipping would be required to fully decarbonise our transportation-related scope 3 emissions.

Not all categories of climate-related risk are applicable or material to the business, and of risks that we explored, those not material enough to be incorporated into our analysis included carbon price impacts on energy (XP Power is not energy intensive), wildfires (our Californian sites are in industrial areas, 2–3 miles clear of vegetation) and drought risks (XP Power is not water intensive).

READ MORE ABOUT OUR **OPPORTUNITIES** ON PAGE 86

Climate-related opportunities

Solar power

The Group is looking to install solar self-generation where practically possible and economically viable. Solar installations will reduce reliance on the local grid, reduce our emissions and may provide operating cost savings. Our sites in Vietnam and China have the largest energy use in the Group (c.67% combined) and draw from grids with the highest emissions intensity thereby accounting for 88% of the Group's scope 2 emissions. In addition to cost savings, solar self-generation will avoid potential carbon tax impacts on our own operations by reducing scope 2 emissions. Tracked through scope 2 emissions and the percentage of renewable electricity from total electricity.

Power Purchase Agreements (PPAs) and renewable electricity certificates

PPAs or renewable electricity supply certificates would allow for reduction in emissions without capital spend. The prospect for finding renewable electricity contracts at the European and US sites of the Group (c.12% of the Group's scope 2 emissions combined) is high. Vietnam has made COP26 commitments to net zero emissions by 2050 and the phase out of coal power generation by 2040, but the planned direct PPA pilot scheme flagged last year is yet to take place. Nevertheless, the IEA expect renewables to provide 46% of the total generation mix in 2025 and about 40% of the demand increases in 2023–25 would be satisfied by renewables. With the recent net zero/zero coal commitments and rapid renewable energy roll out in China, it is anticipated that China will see renewable contracts being offered with support from the government to drive investment. Whilst the cost of electricity under a PPA is uncertain, contracts can provide fixed costs over several years whilst reducing our scope 2 emissions potentially to zero. Tracked through scope 2 emissions and the percentage of renewable electricity from total electricity.

Reduction of air freight

There are both cost and emissions reasons to move our freight from air to sea where possible. Our scenario analysis provides further impetus for this move given. That said, customer service is critical and changing the freight model will only occur where we can ensure supply to customers is not impacted or where engagement with suppliers assists with lead times. We have assessed our supply routes to determine our transportation-related emissions and to provide a basis for managing these emissions within the net zero action plan in the future. Tracked through scope 3 emissions, upstream transportation and distribution.

Legislation on energy efficiency

In the transition to a low carbon economy, legislation on the efficiency requirements for power conversion could become more stringent. The Group expects the standards currently in place for higher volume consumer applications, such as external power supplies, will be extended to industrial and healthcare applications in time. Within NZE, there is expectation of widespread enforcement of minimum energy performance standards in the industry. In addition, mandatory energy management systems and energy audits are expected, which will increase customer requirements for energy efficient products. STEPS outlines no legislation, but we expect there to be investment programmes in US, UK and EU designed to support decarbonisation. XP Power is well positioned to address this customer need with products offering high efficiency and/or low standby power. Alongside legislation, general concerns over climate change should lead to an increasing emphasis by our customers on efficiency. Product efficiency is a critical focus of our R&D plans.

Electrification

There is potential of new markets for XP Power on the back of increased electrification in the global economy. We monitor areas of interest, such as wind turbines, 5G infrastructure and mobile network densification, which could provide new opportunities for the Group. Some of these opportunities are linked to the pace of regulation and investment related to the different scenarios we have analysed.

Energy and waste savings

Actions to improve energy efficiency and reduce energy consumption will provide incremental improvements to our emissions profile at limited cost to implement. We have outlined various efficiency projects at site level within the net zero action plan depending on the requirements and opportunities at each site, as well as having Groupwide initiatives, such as the reduction in packaging. Certain gains from behaviour or process change can be achieved at zero cost. These will be multiyear implementations and further details will be included within our transition plan.

Metrics and targets

We have monitored and reported on our scope 1 and 2 greenhouse gas emissions for a number of years and, this year, we include our full scope 3 emissions footprint that provides details of our value chain greenhouse gas emissions. Our carbon footprint is calculated using methodologies consistent with the Greenhouse Gas (GHG) Protocol: A Corporate Accounting and Reporting Standard, with additional guidance from the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard and the GHG Protocol Technical Guidance for Calculating Scope 3 Emissions, as required. Most of our emissions are represented by our scope 3 emissions and within that our downstream scope 3 emissions associated with the use phase of our products. The reduction of our use phase emissions is heavily dependent on grid decarbonisation, which is an area of significant uncertainty beyond our direct control.

Additional environmental metrics we monitor include emissions intensity, energy use, energy intensity, renewable solar energy generation, freshwater withdrawal and waste management, as reported on page 65 Environmental Leadership. In addition, we report on our annual launches of XP Green Power product families, designed for a lower-carbon economy, and the lifetime emissions savings from the use of Green Power products (in relation to standard products) sold in the year.

XP Power has made the public commitment to be net zero by 2040. We have signed the letter of commitment with SBTi and intend to submit targets for scope 1, 2 and 3 emissions for validation to SBTi in the first half of 2023. These will reaffirm our long-term target of net zero across our value chain by 2040 and introduce interim targets for 2030 which we will publish once validated.

GOVERNANCE

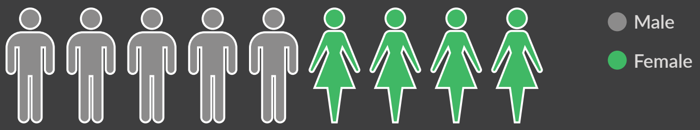
CONTENTS

GOVERNANCE AT A GLANCE

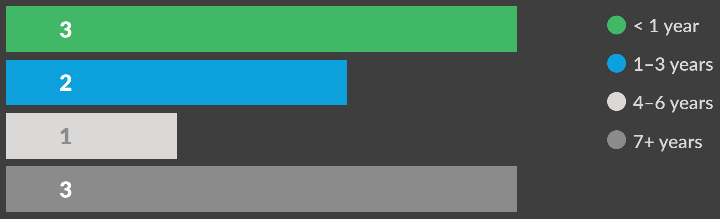
Our Board

How our Board are purposed to deliver long-term sustainable value for us and our stakeholders

BOARD GENDER PROFILE

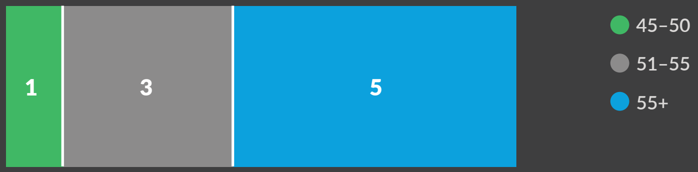


BOARD TENURE



ETHNICITY

BOARD AGE PROFILE



BOARD AND COMMITTEE ATTENDANCE

During 2022, the Board met five times (excluding committee meetings), and all Directors attended every possible meeting. In addition, there were several meetings with management outside of formal Board meetings to review strategy, receive updates on new product development, presentations, have discussions with the management team at FuG and Guth, and Corporate Governance updates.

A description of some areas and activities covered by the Board during the year is detailed on page 100-101.

MEMBERS	MEETINGS	ATTENDANCE
James Peters	●●●●●	5/5
Gavin Griggs	●●●●●	5/5
Oskar Zahn	●●●●●	5/5
Andy Sng	●●●●●	5/5
Terry Twigger[1]	●	1/1
Pauline Lafferty	●●●●●	5/5
Polly Williams	●●●●●	5/5
Jamie Pike[2]	●●●●	4/4
Sandra Breene[3]	●	1/1
Amina Hamidi[3]	●	1/1

[1] stepped down from the Board on 29 April 2022.
[2] appointed to the Board on 1 March 2022.
[3] appointed to the Board on 11 October 2022.

LETTER FROM THE CHAIR

INTRODUCTION TO GOVERNANCE

> *As I hand over the role of Chair to Jamie Pike, I am confident that XP Power has a secure future with exciting long-term prospects.*
>
> **JAMES PETERS**
> CHAIR

I am pleased to introduce our Governance Report for the financial year ended 31 December 2022. This report details 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. Our Governance Report, along with the information in the Strategic and Committee Reports, explains how we have applied the principles and provisions of the UK Corporate Governance Code 2018 (the "Code") issued by the Financial Reporting Council. I am pleased to report that the Company was compliant with the Code throughout 2022, except for two instances: the independence of the Chair, which we explain on page 106, and the composition of the Audit Committee for part of the year, which is explained on page 115.

Purpose and culture

The role of the Board is to promote the long-term sustainable success of the Company, generating value for stakeholders. To achieve this, we focus on our vision: "To be the first-choice power solutions provider delivering the ultimate experience to our customers and our people", and our purpose: "Powering the world's critical systems". In decision making, the Board considers all of its stakeholders.

We have defined the core values, which shape our culture and contribute to our success; these values are: Integrity, Knowledge, Speed, Flexibility and Customer Focus. The Board reviews 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.

Supply chain and our stakeholders

Despite a challenging backdrop – critical component shortages and inflationary pressures in the first half of the year – our underlying demand remained strong. Our people worked hard to mitigate industry-wide challenges from a combination of external supply chain factors that restricted our capacity to deliver to customers.

We supported the safety and wellbeing of our people through limitations imposed by COVID-19 restrictions local to our manufacturing and distribution locations, enabling us to maintain supply to our customers. These priorities acted as guiding principles of how we managed supply chain challenges through 2022 for the Board and Executive team.

We continue to be very proud of our people and what they have achieved in challenging circumstances and with their outstanding efforts. Working with the support of our suppliers and customers has enabled significant performance improvement in the second half of 2022.

I am very pleased that, throughout this difficult period, we have continued to pay regular dividends to our Shareholders.

READ MORE ABOUT OUR **THE BOARD OF DIRECTORS** ON PAGES 94–195

READ MORE ABOUT OUR **ENGAGING WITH OUR STAKEHOLDERS** ON PAGES 102–104

Division of responsibilities

It is my responsibility as Chair to manage the Board and ensure it is effective. A culture of openness and debate is encouraged to ensure all views are heard and considered. The CEO and CFO ensure that Directors receive accurate, timely, clear and relevant information to discharge their duties.

The roles of Chair, Senior Independent Director and CEO are formalised, with a clear division of responsibility between the Chair – responsible for the management of the Board, and the CEO – responsible for the day-to-day running of the Company and execution of our strategy.

Board composition and diversity

To ensure we have the right balance and composition with succession plans in place, the skills and experience of the Board were assessed throughout 2022.

There were several changes to our Board's composition during the year, in addition to Jamie Pike joining the Board on 1 March 2022. On 29 April 2022, Terry Twigger, Senior Independent Director, stood down, with Polly Williams becoming Senior Independent Director and succeeding Terry as Chair of the Audit Committee.

Following an evaluation of the composition of the Board, a recruitment process resulted in the appointment of Sandra Breene and Amina Hamidi as NEDs on 11 October 2022, bringing key expertise and improving the gender balance on our Board. The Nomination Committee Report on pages 108-113 sets out the process for the new appointments, our commitment to diversity, and succession and transition planning during 2022.

Board evaluation

I am pleased to report that the externally facilitated Board evaluation in the year confirmed that we continue to operate as a very effective Board. With the addition of our two new Non-Executive Directors, the composition of the Board is in a strong place with its experience, skills and diversity, which will be a great aid in supporting the strategic ambition of the Group.

Transition of Chair

In last year's report, I announced the appointment of Jamie Pike as NED and designate Chair. The expectation is that, subject to shareholder approval, Jamie will succeed me as Chair from the conclusion of the 2023 AGM as I retire from the Board.

After more than three decades with the Group, I believe the time is right to hand over the role of Chair to a successor who will steer the Board through XP Power's next phase of growth. Jamie is a highly experienced Board Chair, having had operational and board level experience across the industrial products and services, energy and manufacturing sectors, and I am confident he will make a significant contribution to the Board and the Group's future success.

The opportunity to have a smooth transition process throughout 2022 has ensured a successful handover.

Strategy and sustainability

We continue to be consistent with our strategy while ensuring it evolves as the business continues to grow and develop, while responding to external factors. An appropriate level of constructive challenge is provided by the Board. A review of strategy took place in 2022, with refinements made where needed.

We are pleased to report on progress made with our sustainability strategy this year, including a review of our climate-related risks and opportunities, and the development of science-based targets for companywide emission reductions. Our activity demonstrates XP's commitment and aligns the business with our ambition to be net zero by 2040.

> *With the addition of our two new Non-Executive Directors, the composition of the Board is in a strong place with its experience, skills and diversity.*

Future of XP Power

We recognise the uncertainties relating to component supply, inflation and recessionary concerns and the impact these can have on our business. We remain assured in our strategy and business model, and the ability of the Management team to execute our strategic plans.

Looking forward, the additional capacity that our new Malaysian facility will bring gives us confidence to deliver long-term value for our shareholders.

As I hand over the role of Chair to Jamie Pike, I am confident that XP Power has a secure future with exciting long-term prospects.

JAMES PETERS
CHAIR

28 February 2023

BOARD OF DIRECTORS

JAMES PETERS ●

CHAIR

DATE OF APPOINTMENT:
30 June 2014

EXECUTIVE/NON-EXECUTIVE:
Non-Executive

COMMITTEE MEMBERSHIP:
Nomination (Chair)

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 Chair in February 2003 and moved to a Non-Executive role in May 2012, before his appointment as Non-Executive Chair in June 2014.

EXTERNAL APPOINTMENTS: None

GAVIN GRIGGS ●

CHIEF EXECUTIVE OFFICER

DATE OF APPOINTMENT:
31 October 2017 as CFO.
Appointed CEO from 1 January 2021

EXECUTIVE/NON-EXECUTIVE:
Executive

COMMITTEE MEMBERSHIP:
None

SKILLS AND EXPERIENCE:

- Gavin is a CIMA-qualified accountant who has worked in a range of acquisitive, growth-focused businesses with an international footprint in several industries.
- Held senior finance and strategy roles at Logica, Sodexo, PepsiCo and SABMiller.
- Served as CFO of Alternative Networks plc, a listed information technology provider, prior to its acquisition by Daisy in December 2016, when he became group finance director for the Daisy Group.

EXTERNAL APPOINTMENTS: None

OSKAR ZAHN ●

CHIEF FINANCIAL OFFICER

DATE OF APPOINTMENT:
20 May 2021

EXECUTIVE/NON-EXECUTIVE:
Executive

COMMITTEE MEMBERSHIP:
None

SKILLS AND EXPERIENCE:

- Oskar is a chartered accountant who has worked in large complex international businesses with continuous improvement and growth- focused cultures.
- Held finance leadership roles at Teleflex, British Airways, Georgia-Pacific and Spearhead International.
- Served as CFO at Scapa Group plc, a leading global manufacturer to the healthcare and industrial markets, from 2018 until its acquisition by SWM International, Inc. in 2021.

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:

- Andy has over 22 years' experience 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 Silicon Systems (Singapore) and Advanced Micro Devices (Singapore).

EXTERNAL APPOINTMENTS: None

POLLY WILLIAMS ●

SENIOR INDEPENDENT DIRECTOR

DATE OF APPOINTMENT:
1 January 2016

EXECUTIVE/NON-EXECUTIVE:
Non-Executive

COMMITTEE MEMBERSHIP:
Audit (Chair), Nomination, Remuneration, Board representative for ESG

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 several non-executive directorship roles.

EXTERNAL APPOINTMENTS: Polly is currently a non-executive director at Royal Bank of Canada Europe Ltd, senior independent director and audit chair at The Rugby Football Union and chair of the board for Brewin Dolphin Limited.

PAULINE LAFFERTY ●

INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT:
3 December 2019

EXECUTIVE/NON-EXECUTIVE:
Non-Executive

COMMITTEE MEMBERSHIP:
Remuneration (Chair), Audit, Nomination, designated NED for employee engagement

SKILLS AND EXPERIENCE:

- Pauline was formerly chief people officer at The Weir Group plc, a position she held between 2011 and 2017.
- Between 1998 to 2011, she worked in executive search for The Miles Partnership and Russell Reynolds Associates.
- Prior to that, Pauline worked in supply chain roles for Digital Equipment Corporation and Motorola.

EXTERNAL APPOINTMENTS: Pauline currently holds non- executive positions at Breedon Group plc and Scottish Event Campus Limited, where she also acts as chair to their remuneration committees.

JAMIE PIKE ●

INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT:
1 March 2022

EXECUTIVE/NON-EXECUTIVE:
Non-Executive

COMMITTEE MEMBERSHIP:
Nomination, Remuneration

SKILLS AND EXPERIENCE:

- Jamie spent nine years with Burmah Castrol, becoming chief executive of Burmah Castrol Chemicals, before leading the buy-out of Foseco in 2001 and its subsequent IPO in 2005.
- Prior to that, he was a partner at Bain & Company.
- Jamie has held the role of Chair at several public companies.
- He holds an MBA from INSEAD and is a Member of the Institute of Mechanical Engineers.

EXTERNAL APPOINTMENTS: Jamie is currently Chair of the Board of Spirax-Sarco Engineering plc.

SANDRA BREENE ●

INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT:
11 October 2022

EXECUTIVE/NON-EXECUTIVE:
Non-Executive

COMMITTEE MEMBERSHIP:
Audit

SKILLS AND EXPERIENCE:

- Sandra is currently the president of regional delivery at Croda International.
- Prior to this, she spent four years as president of the personal care division and president of Croda in North America. Sandra has over 30 years' experience working across Croda's market sectors in a variety of commercial roles, giving her an extensive understanding of customer needs.
- Sandra took an instrumental role on numerous acquisitions conducted by Croda, which has provided her with valuable insight into emerging markets and cultural differences.

EXTERNAL APPOINTMENTS: Sandra is currently a trustee director at Edukos Education Trust.

AMINA HAMIDI ●

INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT:
11 October 2022

EXECUTIVE/NON-EXECUTIVE:
Non-Executive

COMMITTEE MEMBERSHIP:
None

SKILLS AND EXPERIENCE:

- Amina is currently the managing director of the ABB Instrumentation Business Line, within the measurement and analytics division. Her focus is on working with customers to achieve more sustainable industries.
- Prior to this, Amina served as managing director of ABB's global power protection business from 2013 to 2017, and as CTO for ABB's electrification business from 2017 to 2022.
- Amina has a Ph.D. in electrical engineering from the French National Research Institute for Transportation Systems(INRETS), a bachelor's degree in mechanical engineering and a master's degree in electrical engineering also from INPL, France.

EXTERNAL APPOINTMENTS: None

BOARD ROLE

🟢 Chair
⚫ Executive Director
🔵 Senior Independent Director
● Non-Executive Director

CHANGES TO THE BOARD DURING 2022

- Jamie Pike was appointed Non-Executive Director and designate Chair on 1 March 2022.
- Terry Twigger stepped down from the Board on 29 April 2022.
- Sandra Breene was appointed Non-Executive Director on 11 October 2022.
- Amina Hamidi was appointed Non-Executive Director on 11 October 2022.

CORPORATE GOVERNANCE REPORT

Our approach to governance

01

BOARD LEADERSHIP AND COMPANY PURPOSE

- A Effective Board (page 94–95)
- B Purposes, values and culture (page 101)
- C Governance framework and Board resources (page 96–97)
- D Stakeholder engagement (page 104)
- E Workforce policies and practices (page 102)

02

DIVISION OF RESPONSIBILITIES

- F Board roles (page 105)
- G Independence (page 106)
- H External commitments and conflicts of interest (page 94–95)
- I Key activities of the Board in 2022 (page 100–101)

03

COMPOSITION, SUCCESSION AND EVALUATION

- J Appointments to the Board (page 111–112)
- K Board skills, experience and knowledge (page 94–95)
- L Annual Board evaluation (page 112–113)

04

AUDIT, RISK AND INTERNAL CONTROL

- M Financial reporting (page 115–116)
  External Auditor and internal audit (page 117)
- N Review of the 2022 Annual Report (page 116–117)
- O Internal financial controls (page 117)

05

REMUNERATION

- P Linking remuneration with purpose and strategy (page 118–121)
- Q Remuneration Policy review (page 132–138)
- R Performance outcomes in 2022 and strategic targets (page 125)

Corporate Governance Statement 2022

The Board of Directors' primary remit is to provide direction to shape the Group's strategy and ensure 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.

XP Power Limited is a Singapore incorporated Company; under the Singapore Companies Act 1967, we are not required to follow the Singapore Corporate Governance Code. The Company has voluntarily elected to report against the application of the principles of corporate governance contained in the UK Corporate Governance Code (the "Code").

We have clearly laid out how the principles of the Code have been applied under the areas of:

01 Board leadership and Company purpose;

02 Division of responsibilities;

03 Composition, succession and evaluation;

04 Audit, risk and internal control; and

05 Remuneration.

JAMES PETERS
CHAIR

GAVIN GRIGGS
CHIEF EXECUTIVE OFFICER

28 February 2023

Building resilience, growing sustainably

The Board ensures the long-term success of the Company through responsible governance, strategy implementation and oversight of operations.

Developing a first-class culture

The Board is committed to ensuring the Company's culture is aligned and supportive of our purpose, vision and strategy to help foster long-term Shareholder value. It is on the Board's agenda to ensure there is a deep understanding so they can reinforce its importance and values.

SEE PAGE 101 FOR HOW **THE BOARD MONITORS CULTURE**

Engaging with our stakeholders to ensure we focus on the most material issues to both us and them

The Board is committed to an open, two-way dialogue with all our stakeholders to ensure priorities and key issues are proactively addressed.

SEE PAGE 102–104
FOR MORE ABOUT OUR **STAKEHOLDER ENGAGEMENT**

Building resilience across the business to mitigate any risks or market challenges

The Group's response to the impact of critical component shortages and inflationary pressures on our supply chain, and changes in the semiconductor marketplaces, demonstrates business resilience as an important cultural characteristic at XP Power. The Board is committed to proactively build our resilience across the business.

SEE PAGE 103
FOR HOW WE ARE SUPPORTING THE FUTURE OF OUR **SUPPLY CHAIN**

SEE PAGE 103
FOR HOW WE ADDRESS **SIGNIFICANT RISK MATTERS**

Board changes: our new Non-Executive Directors

Jamie Pike joined the Board as Non-Executive Director and designate Chair on 1 March 2022. Following the departure of Terry Twigger at the end of April, the Board reviewed succession plans and recruited two Non-Executive Directors: Sandra Breene and Amina Hamidi in October 2022.

SEE PAGE 111–112
FOR MORE ON THE **RECRUITMENT AND INDUCTION PROCESS**

Board and Committee information flow

STAGE 1

CHAIR AGREES THE AGENDA WITH THE BOARD
The Chair consults with the CEO and, with support of the Company Secretary, an agenda is proposed that considers an agreed annual schedule of Board items, with feedback from the Non-Executive Directors.

STAGE 2

MATERIALS ARE CIRCULATED BEFORE MEETINGS
Board papers are distributed via a secure portal, with clearly identified action requested for the agenda item, as required.

STAGE 3

BOARD AND COMMITTEE MEETINGS
Board and Committee meetings are arranged to occur alongside the decisions that need to be made throughout the year.

STAGE 4

MINUTES OF MEETINGS
Minutes of each meeting are prepared and circulated to attendees.

STAGE 5

ACTION LISTS
Action lists are monitored and updated to follow key actions to completion.

STAGE 6

NON-FORMAL MEETINGS
Where appropriate, informal discussions take place, with updates and progress reports circulated between meetings.

SEE PAGE 101 FOR DETAIL ABOUT HOW THE BOARD MONITORS CULTURE

Leadership structure

THE BOARD OF DIRECTORS

CHAIR Manages and provides leadership to the Board	**SENIOR INDEPENDENT DIRECTOR** Supports the Chair in their role and acts as an intermediary between other Directors	**NON-EXECUTIVE DIRECTORS** Challenges and supports the Executive Directors, and acts in the best interests of the Company's stakeholders	**DESIGNATED NON-EXECUTIVE DIRECTOR** Ensures the views and concerns of the workforce are brought to the Board and are considered during discussions and decisions

AUDIT COMMITTEE CHAIR: POLLY WILLIAMS Provides oversight of the financial reporting, audit process, Company's system of internal controls and compliance with laws and regulations	**REMUNERATION COMMITTEE** CHAIR: PAULINE LAFFERTY Sets the remuneration policy for the Executive Directors and Executive Leadership team	**NOMINATION COMMITTEE** CHAIR: JAMES PETERS Reviews and considers the appointment of new Directors, and succession planning for the Board and Executive Leadership team

CHIEF EXECUTIVE OFFICER Manages the overall operations and resources of the Company in accordance with the Board-approved strategy	**EXECUTIVE DIRECTORS** Designs, develops and implements strategic plans and provides leadership to the organisation

Board activities in 2022

	KEY ACTIVITIES AND DISCUSSIONS	OUTCOMES	FUTURE PRIORITIES	STAKEHOLDERS CONSIDERED
STAKEHOLDER ENGAGEMENT	• Reviewed results of employee and stakeholder surveys, and Shareholder feedback • Pauline Lafferty met with four employee focus groups to allow direct feedback on key issues • Consultation with Shareholders around renewing the existing Remuneration Policy	• Created a new role of Internal Communications Manager to develop internal communication strategy • Increased visibility of common policy and procedures information to employees via People Pages for every region	• Review results of 2023 employee engagement survey and resulting actions and progress • Review results of stakeholder surveys and resulting actions • Continue to consult with Shareholders on remuneration matters	👥 💬 ♻ 🧩 🤝
STRATEGY AND OPERATIONS	• Reviewed Company strategy with Executive Directors • Reviewed business performance and strategic priorities at each Board meeting, including strategic decision to locate a new manufacturing facility in Malaysia	• Confirmed strategy remains appropriate and successful • Continued evolution of individual elements to improve effectiveness and ensure it considers changes in the operating environment	• Continued monitoring of progress against strategic priorities at each Board meeting • Further reviews with senior managers below Board level • Annual review of strategy	👥 💬 ♻ 🧩 🌱
BOARD AND COMMITTEE MATTERS	• Succession planning and transition for the Chair of the Board • Review of composition of Board Committees and position of SID • Recruitment of two NEDs • Evolution of the Group's risk and compliance framework and ongoing review of the new ERP system	• Jamie Pike appointed NED and Chair designate in March 2022 • Membership of all Committees updated, and Polly Williams appointed as Chair of Audit Committee and SID • Sandra Breene and Amina Hamidi appointed as NEDs in October 2022	• Review of Remuneration Policy during 2023 • Succession planning and talent management • External audit tender during 2023	👥 💬 ♻ 🧩
FINANCIAL AND RISK MANAGEMENT	• Supporting supply, inventory and cost management during strong demand periods • Cash and liquidity management during critical component shortages and inflationary pressures	• Drawing further committed facilities from the pre-agreed accordion facility	• Operating cash conversion • Maintaining and raising operating margins	💬 ♻ 🧩
CUSTOMERS	• Keeping customers supplied with product during supply chain challenges, where possible • Geographical diversification of supply chain to build increased resilience	• Supply chain strategy	• Complete transfer of production from North America to Vietnam to support future growth costs • Manage impact of critical component shortages, inflationary pressures and potential downturn in some markets • Growth and product development opportunities	👥 💬 ♻ 🧩 🤝

KEY

👥 People 💬 Customers ♻ Investors 🧩 Suppliers 🤝 Communities 🌱 The Environment

	KEY ACTIVITIES AND DISCUSSIONS	OUTCOMES	FUTURE PRIORITIES	STAKEHOLDERS CONSIDERED
SUSTAINABILITY	• Reviewing sustainability strategy, including agreeing targets • Ensuring the health, safety and wellbeing of our people • Engaging with our stakeholders to understand their sustainability issues to enhance our strategy	• Clear sustainability strategy in place • Committee targets agreed under SBTi • Plan in 2023 to continue monitoring actions to proactively reduce scope 1, 2 and 3 emissions	• Maintaining the safety and wellbeing of our people • Developing our sustainability strategy	

Health and safety

The Board is committed to providing a safe working environment for all employees, contractors and partners across the Group. The CEO reviews health and safety reports from the Group, and the Board receives a structured update, including statistics on any health and safety issues. In between Board meetings, an update on health and safety is included as part of the CEO's Monthly Report to the Board.

The duties of the local health and safety committees – that report to the CEO – include reviewing the health and safety policy, compliance with applicable legislation, monitoring health and safety statistics including incident rates and near misses, and health and safety audit findings.

Developing a first-class culture

The Board is responsible for the culture of the Company, upheld by its values of Integrity, Knowledge, Speed, Flexibility and Customer Focus. 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 it is embedded strongly and where there are gaps. The Board continues to help influence the right culture throughout the Company, as set out below.

ACTION	DESCRIPTION
Reviewed results and updates from employee engagement surveys	The Board has continued to review the results of cultural and engagement surveys, including monitoring employee engagement within FuG and Guth as part of their integration following the acquisition. Trends in employee satisfaction were monitored throughout the business to understand how the Company's core values have been embraced.
Engagement survey	Gallup engagement surveys, have continued to inform the Board on employee engagement. An additional pulse survey, focused on FuG and Guth was used during the year to inform on integration progress. Engagement surveys will continue to be used to assess the views of our employees in the future.
Code of Conduct training	Our Code of Conduct had its annual review. Code of conduct training is required by all employees and reinforces our core values.
Senior leadership workshops	The Executive Leadership team engaged with organisation leaders at a regional level through regular leadership meetings. There was a global update in November, which covered strategy and priorities for 2023. Leaders who attended then cascaded the key themes from these sessions to their teams.
Sustainability impact assessment	The Sustainability Working Group formed in 2022 and includes representatives from all regions and key business functions. As a forum, it has built on earlier work to identify areas for focus in drive towards Carbon Neutral targets.

Cultural alignment

To ensure culture is monitored and aligned to our purpose, values and strategy, the Board reviews all employee surveys, receives updates and presentations from leadership, and seeks to have direct engagement with a broad range of employees. Any potential misalignments to the company culture are explored to understand how to be best addressed.

The Board visited the FuG site in October to meet employees, receive presentations and tour the factory. The visit allowed the Board to have more informal discussions with key employees supporting the integration of the businesses. Additional pulse surveys have been important with monitoring the progress of aligning the cultures of FuG and Guth with XP, after their acquisition.

Pauline Lafferty, the Non-Executive Director responsible for employee engagement, continues to hold several virtual forums, without Executive management present, to gain direct feedback from a broad section of the workforce.

> *I am grateful for our employees continued engagement on the wide range of subject matters they wish to engage on.*
>
> **PAULINE LAFFERTY**
> DESIGNATED NON-EXECUTIVE DIRECTOR FOR WORKFORCE ENGAGEMENT

4.2/5

EMPLOYEE ENGAGEMENT SCORE LAST YEAR (2021: 4.2)

How we ensured employees' voices were heard on the Board in 2022

During the year, I held four virtual engagement sessions with a diverse cross-section of our workforce from across the Company's key locations, representing several different roles. Each meeting was facilitated to encourage open debate and the view of the workforce. I was pleased that attendees fully engaged with these discussions, which resulted in an open environment for employees to share their views and ask any questions they have on any topic, including executive remuneration and wider pay policy.

These sessions covered a wide range of topics, including our corporate culture and performance, as well as what would make XP Power a better place to work at. Of particular focus throughout these discussions in 2022 were the ongoing business challenges and the impact of the prevailing inflationary environment, and how the Company's leadership were ensuring we remain well placed to navigate these. I am grateful for our employees' continued engagement on the wide range of subject matters they wish to engage the Board on.

The output and observations from these sessions, along with the submissions through the anonymous employee surveys, were discussed at subsequent Board meetings. I look forward to continuing to develop our approach to this over time, for example by leveraging other available communication channels to engage with our workforce. The Board agreed that these engagement sessions will continue throughout 2023.

How we uphold culture across our workforce and encourage engagement

We have several processes to ensure the views of employees are solicited and culture monitored. ll employees complete the Gallup Q12 survey at least annually. This is benchmarked against a broad range of other companies to ensure our culture and engagement are supportive of our strategy and growth ambitions.

THE BOARD

AUDIT COMMITTEE

ENGAGEMENT WITH THE WORKFORCE –

Designated Non-Executive Director, Pauline Lafferty

LIVE COMMUNICATION MEETINGS

SPECIFIC ANONYMOUS EMPLOYEE SURVEYS

CONFIDENTIAL, INDEPENDENT WHISTLEBLOWING HOTLINE

Our Board in action: planning for the future

How we identified where to expand our manufacturing capability

The initial strategic decision to locate our third Asia manufacturing site in Malaysia was reached after a comprehensive global analysis to identify a new manufacturing location that considered regions and countries within a criteria framework. The framework covered skilled workforce availability, cost competitiveness, proximity to customers, manufacturing sector emphasis, legal and regulatory systems, physical infrastructure quality, sustainability support, geopolitical risk and supply chain flexibility. We also wanted to ensure we had geographic resilience so did not consider Vietnam or China.

We have ensured that sustainability has been designed into the plans for the new facility and are building the facility to Greenmark Gold Standard.

How our new manufacturing facility will support the future of our supply chain

The Malaysia facility, when fully complete, will have a total floor space of 27,000m^2, c.50% larger than our Vietnam facility. It will effectively double the Asian manufacturing capacity which we will scale over time. The intent is that the facility will be able to manufacture low voltage, high voltage and RF products ensuring we have no products only being produced in one facility, so providing manufacturing and supply resilience. This will provide the Group with required flexibility and capacity out beyond 2030.

Fair balanced and understandable

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. To get to this position, the Board relies on the Audit Committee, who recommends the Annual Report and Accounts to the Board.

The February 2023 Audit Committee meeting confirmed that the 2022 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 2022 Annual Report and Accounts at our February 2023 Board meeting.

Risk management and internal control

The Board has responsibility for the Company's overall approach to risk management. It has an ongoing process for identifying, evaluating and managing the emerging and principal risks faced by the Group, which is set out in the Managing Our Risks section on pages 50-58. The risk management framework and processes have been in place throughout the year, with the framework ensuring that risk management is embedded in the day-to-day operations of the business.

One of our key control procedures is the day-to-day supervision of the business, performed by the Executive Directors, who are supported by managers within the Group companies. Examples of key controls with respect to ongoing processes include:

- Authority matrices are used to clearly define who can 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 in operation.

Details of the internal controls of the Company and how the Board and the Audit Committee assess the operational effectiveness of internal controls and risk management systems during the year and up to the date of approval of the Annual Report and Accounts, are set out as part of the Audit Committee Report on page 117.

Shareholder communication

The Company enables effective engagement with, and encourages participation from, Shareholders and stakeholders in several ways. For institutional and private investors, the Group engages in two- way communication, responding 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 CEO and CFO available in the morning of the interim and annual results that are scheduled to be published. The Company has informational videos on its investor relations website, which cover products, markets, strategy, business model, growth drivers and its investment proposition. During the year, the corporate website was relaunched, with improved navigation to ensure information is easily accessible for Shareholders.

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

The Chair and Senior Independent Director are available to meet Shareholders as required. Board members receive feedback prepared by brokers or our financial PR company following meetings with Shareholders to keep in touch with their opinions.

The Remuneration Committee Chair consults with major Shareholders regarding significant decisions on Executive remuneration. During the year, our 20 largest shareholders were consulted on our proposed Directors' Remuneration Policy that remains largely unchanged from the current policy, which will be voted on at the AGM in April 2023.

Constructive use of the AGM

Certain Directors are available at the AGM 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 CEO and CFO are, however, available throughout the year to answer questions from Shareholders.

Substantial Shareholders

We have safeguards to monitor transactions between major Shareholders of the Company, including reviewing our major Shareholders' holdings on a quarterly basis and monitoring any regulatory notifications of the acquisition or disposal of major Shareholders.

Other than the Directors' interests, as at 31 December 2022, the Company had been notified, pursuant to DTR5, of the following interests in voting rights, attached to ordinary shares and financial instruments relating to the share capital of the Company:

	Number of shares	% of voting rights
Abrdn plc	1,949,167	9.88
Kempen Capital Mgt	1,190,000	6.03
Mawer Investment Mgt	967,699	4.93
The Capital Group Companies, Inc	861,669	4.47
Montanaro Investment Managers	791,131	4.01

The following changes in the interests disclosed to the Company have been notified between 31 December 2022 and 24 February 2023:

- On 31 January 2023, Abrdn plc disclosed that their percentage interest in the ordinary shares capital of the Company has increased to 10.22% (2,015,930 ordinary shares).

Division of responsibilities

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

The Chair 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 role of Chair (James Peters) and CEO (Gavin Griggs) are separate and clearly defined. The Chair is responsible for the running of Board meetings. The CEO is responsible for the day-to-day running of the Company and the execution of the strategy.

To ensure the Board is effective, we review and monitor the skillset of Directors. We also ensure there is a clear division of responsibilities, as set out below.

	RESPONSIBILITIES OF THE BOARD
Chair	The Chair sets the calendar and agenda of the Board and facilitates the discussions. The Chair also initiates and coordinates the processes defined below, which evaluate the effectiveness of the Board and individual Directors. **How our Chair promotes a culture of openness** The Chair conducts Board meetings so that the views of all Board members are sought and welcomed. Open discussion is encouraged. An evaluation of Board effectiveness is conducted each year. A full evaluation by an independent party was carried out in 2022.
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 Independent Director	The Senior Independent Director supports the Chair in their role. The SID leads the Non-Executive Directors in the annual evaluation of the Chair and is also available to Shareholders if they have concerns that contact through the Chair, CEO or CFO has failed to resolve. Polly Williams is the Senior Independent 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.
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 for employee engagement. Polly Williams is the designated Non-Executive Director for ESG matters.

Matters reserved for the Board

These 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 Chair, CEO and other Executive Directors.

Conflicts of interest and time commitment

The Board considers its Directors' interests and any conflicts that these may present at every Board and Committee meeting. While it is recognised that the Chair has significant shareholdings, none of the Board has any conflict of interest with those of the Company.

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 2022.

No Directors had any significant changes to their outside commitments during 2022, and each devoted significant time to their XP Power Board responsibilities during the year.

All Directors attended all Board meetings during the year.

Following the Chair's evaluation of each Director, the Board is satisfied that all Directors remain committed to the Company and have devoted the appropriate amount of time and effort to their role.

Change in Directors' responsibilities

Jamie Pike joined the Board as Non-Executive Director and designate Chair on 1 March 2022. He joined the Remuneration Committee on joining the Board and the Nomination Committee in July 2022.

Polly Williams took over from Terry Twigger, who stepped down from the Board at the end of April 2022, as our Senior Independent Director and Chair of the Audit Committee.

Further to these changes, the Board revisited its succession plans. After a successful process, two Non-Executive Directors – Sandra Breene and Amina Hamidi – were appointed to the Board in October 2022. Sandra joined the Audit Committee in December 2022.

Board independence

The Board consists of six Non-Executives, including the Chair, and three Executives. Of the Non-Executives, five (83%) are considered independent. There is clear division of responsibilities between the Executive and Non-Executive Directors.

The Chair, James Peters, is not considered independent, based on provision 10 of the Code. However, the Board's view is that his material shareholding in the Company aligns his interests closely with Shareholders as a whole. This, combined with his knowledge of the business and industry, and the fact that there are clear divisions of responsibilities between the Chair and CEO, means that this is advantageous to Shareholders and does not present a problem. James will retire from the Board at the conclusion of the 2023 AGM in April and be succeeded by Jamie Pike, who is considered to be independent based on provision 10 of the Code.

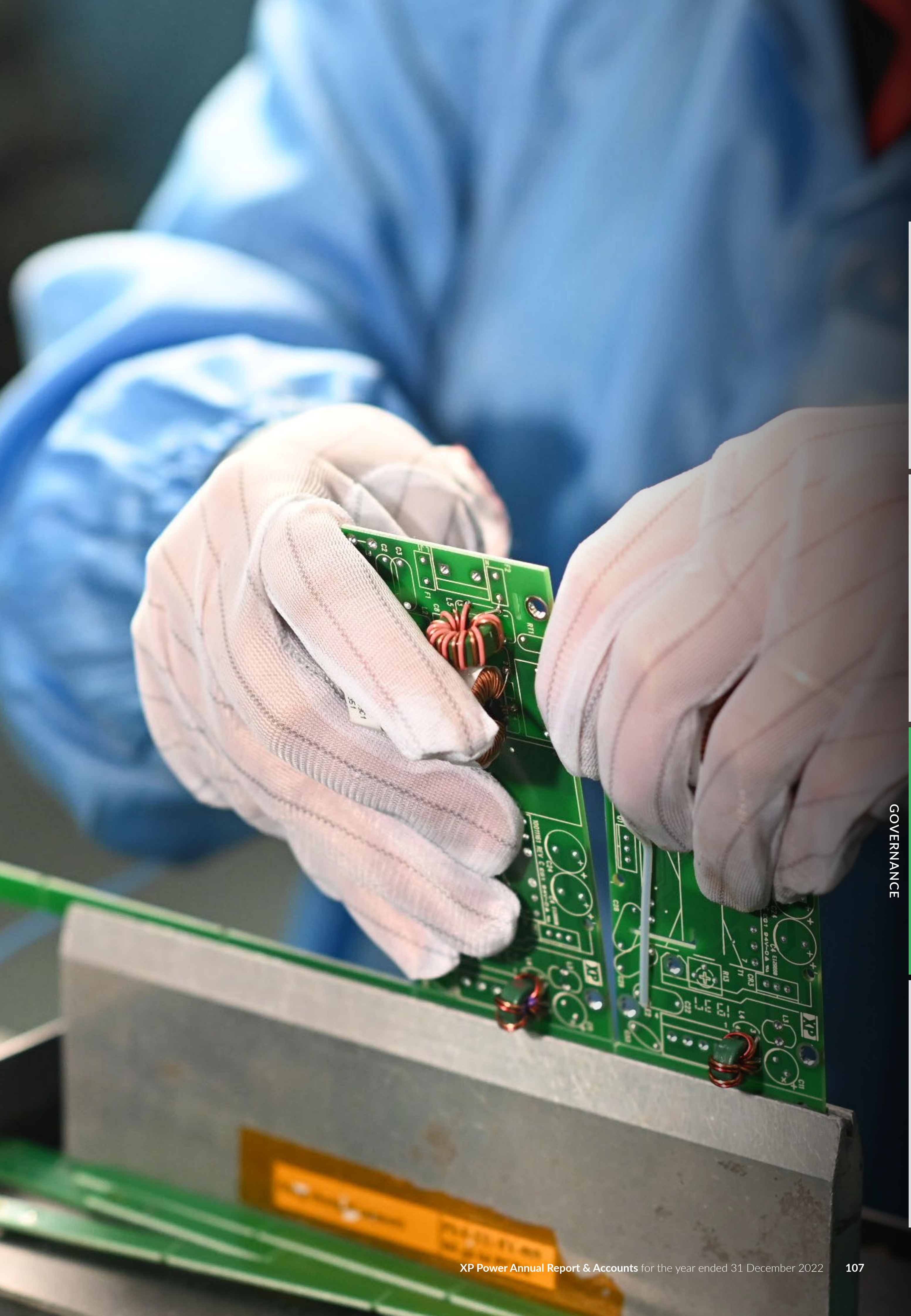
James Peters is the beneficial owner of 1,004,279 ordinary shares in the Company, representing 5.09% of the issued share capital. Jamie Pike is the beneficial owner of 3,838 ordinary shares in the Company, representing 0.02%. No other Non-Executive Directors hold shares in the Company at this time.

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

> *The Board and I have worked with Jamie Pike throughout the year to enable a smooth transition for the role of Chair.*
>
> **JAMES PETERS**
> NOMINATION COMMITTEE CHAIR

COMMITTEE MEMBERSHIP

James Peters
Chair

Polly Williams

Pauline Lafferty

Jamie Pike

Dear Shareholders

I am pleased to present the Nomination Committee Report for 2022. The year began with the appointment of Jamie Pike as Non-Executive Director and designate Chair on 1 March 2022. This followed a rigorous process led by the then Senior Independent Director, Terry Twigger, working with executive search consultancy firm, Russell Reynolds, and involving all members of the Board. Subject to approval by Shareholders, he will take the Chair role following the AGM in April 2023.

The Board and I have worked with Jamie Pike throughout the year to enable a smooth transition for the role of Chair.

Terry stepped down from the Board at the end of April 2022. At this point, the Committee assessed the Board's composition and, as part of a thorough process, reflected on the skillset and qualities of the candidates. This led to the appointment of Sandra Breene and Amina Hamidi on 11 October 2022, improving the gender balance of our Board.

The Committee has worked with management to plan their induction programmes, which commenced in October 2022 and is ongoing.

During the year, the Committee also focused on governance, including a formal and rigorous externally facilitated board evaluation, which incorporated a review of the effectiveness of the Nomination Committee; no material issues were noted.

A review of the Board Diversity and Inclusion Policy also took place during the year, to reflect the new Listing Rules pertaining to diversity. Mindful of relevant guidance in its Non-Executive Director search, along with feedback from major Shareholders, we were pleased to have made progress with female representation of 44% on the Board.

Board succession will remain an ongoing discussion to ensure we proactively manage and look forward. Following my retirement from the Board, the Committee, led by Jamie, will continue reviewing succession plans.

We will continue to review the strength and depth of the talent within our Board and business to ensure we have the relevant capabilities to support the continued growth of the business.

JAMES PETERS
CHAIR

28 February 2023

Governance

The Nomination Committee consists of James Peters (Chair), Pauline Lafferty, Polly Williams and Jamie Pike, and 75% of the committee are independent Non-Executive Directors. Terry Twigger stepped down from the Committee on 29 April 2022.

The CEO will attend meetings on request to present to or consult for the Nomination Committee where appropriate.

The Committee assesses 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 three times during the year:

Members	Attendance
James Peters (Committee Chair)	3/3
Pauline Lafferty	3/3
Polly Williams	3/3
Terry Twigger*	2/2
Jamie Pike*	1/1

* Terry Twigger stepped down from the committee on 29 April 2022, and was replaced by Jamie Pike from 29 July 2022.

Responsibilities

The Committee's main responsibilities are to:

- review the structure, size and composition of the Board including skills, knowledge and capabilities;
- review succession planning for Directors and other senior executives, considering skills and expertise needed on the Board in the future;
- be responsible for identifying and nominating candidates to fill Board vacancies;
- review the leadership needs of the organisation, both Executive and Non-Executive, to ensure the ability of the organisation to effectively compete in the marketplace; and
- review the results of the Board performance evaluation process that relate to the composition of the Board and succession planning.

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

Composition, succession and evaluation

Board succession

The Committee devoted time to the processes that led to the appointment of Jamie Pike as Non-Executive Director and designate Chair on 1 March 2022, and Sandra Breene and Amina Hamidi as Non-Executive Directors on 11 October 2022. The roles of Senior Independent Director and Audit Committee Chair were also considered, with Polly Williams succeeding Terry Twigger from 29 April 2022.

The Committee reviewed succession plans for senior management positions throughout 2022.

Committee evaluation

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

Board diversity

The Committee considers that diversity and inclusion of the Board and Company is not only the right thing to do; it is crucial to grow our business, innovate, attract and retain talent, and engage the customers who buy our power solutions. We operate globally and recognise cultural differences may exist in countries we operate in. We recognise that a diverse workforce reflects our markets and will help us succeed in them. We will not tolerate any form of discrimination.

We are committed to equal opportunities in all employment practices, procedures and policies. When we hire or promote someone, we choose the best candidate irrespective of age, disability, gender reassignment, marital status, maternity, pregnancy, race, national origin, ethnicity, cultural background, religion or belief, sex or sexual orientation, or membership/non-membership of any trade unions. We apply the same standards when selecting business partners and appointments to the Board.

Diversity and inclusion at Board level was a focal point for the Committee in 2022. The Board acknowledges and welcomes recent changes to the Listing Rules (see LR 9.8.6R(9) and FCA Diversity Targets 2022). These align with the updated gender diversity targets set by the FTSE Women Leaders review, and the ethnic diversity target set by the Parker review, and encourage enhanced disclosures regarding gender and ethnic diversity at Board level on a ‘comply’ or ‘explain’ basis.

Our Board Diversity and Inclusion Policy was reviewed during the year and measurable objectives were revised to support the new Listing Rule guidance on diversity. Our policy also reflects our commitment to use open advertising or work with external executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms, to ensure that balanced shortlists are reached.

The Committee is pleased to report that the Board currently comprises nine members: four are woman (representing 44% of the Board) and two are ethnically diverse. The spread of nationalities is seven British, one Singaporean and one French and Algerian. The Senior Independent Director is also female. At the end of the year, the Board was fully compliant with the recent changes to the Listing Rules guidance on diversity.

On the Board committees, female representation is:
Remuneration Committee – 67%
Audit Committee – 100%
Nomination Committee – 50%.

Our Board and Company Diversity and Inclusion policies are available on our website at xppower.com.

Diversity is monitored and analysed on a Groupwide scale and presented within the Sustainability section on page 74. The gender balance of our most senior management, along with our Company Secretary, at year-end was three women and five men, so 38% were female.

Board skills and experience

We are committed to having the right blend of skills, expertise, commitment and experience when selecting suitable candidates.

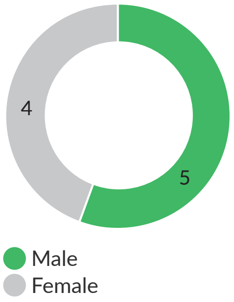
Updating the composition of the Board provided the opportunity to target, and benefit from, additional skills, expertise and experience. We also wanted to reflect today’s talent based on our markets, chosen strategy and business model.

Skills and experience of each Director is set out in their biography on pages 94-95. Skills include specific industry, as well as non-specific industry skills, such as strategic human resource management, business development and managing growth.

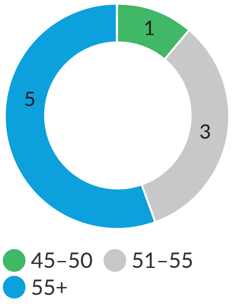
Board composition

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

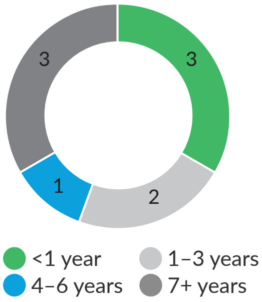
Board gender profile



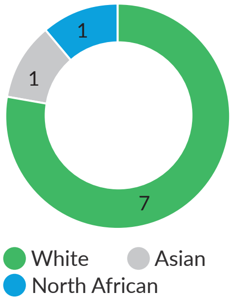
Board age profile



Board tenure



Ethnicity



Appointments to the Board and Director re-election

Each relevant Director offers themselves for re-election each year. A simple majority vote at AGM is required for the re-election of each Director. As previously announced, James Peters will step down from the Board at the conclusion of the AGM in April 2023. The appointment to the Board of Sandra Breene and Amina Hamidi as Non-Executive Directors was made on 11 October 2022, both of whom will offer themselves for election at the forthcoming AGM.

Appointing our new Non-Executive Directors

OVERVIEW OF CANDIDATE SPECIFICATION AND SEARCH CRITERIA

In May 2022, the Committee began its search for a new Non-Executive Director and appointed executive search firm, Russell Reynolds, to lead the search. Russell Reynolds has no other connection with the Company.

A detailed candidate specification was developed encompassing the desired experience and expertise, leadership capabilities and cultural fit. It was agreed that the search should focus on female candidates with significant operational experience in international industrial/engineering businesses, which ensured that our diversity policy was considered from the outset.

Candidate profiles included those who may not have had previous listed company experience but possessed suitable skills, experiences or attributes that complemented the future direction and strategy of the Company.

A long list of candidates was comprised from various industries and appraised in June. The Chair and Jamie Pike interviewed the shortlist and identified two candidates: Sandra Breene and Amina Hamidi. The Board decided that there was a strong argument to recruit both, as together they demonstrated highly relevant but complementary experience. Sandra brings with her a deep knowledge of operations, emerging markets and strategic decision making; Amina brings her engineering background, international experience and sustainability focus.

This combination is valuable to the Board for its next phase of Group development; their appointments also improved gender and cultural diversity.

2022

MAY

Developing a candidate profile

Candidate profile developed in collaboration with executive search firm, Russell Reynolds. Search strategy agreed and long list of candidates compiled.

JUNE/JULY

Interviews and assessments

Shortlist of five candidates compiled and interviewed by the Chair and Non-Executive Director Jamie Pike. Shortlist reduced to two candidates. Both candidates then met with the remaining Non-Executive Directors, CEO and CFO.

OCT

Final decision

After interviews of final candidates, the Nomination Committee met to discuss and recommend to the Board, resulting in the appointment of Sandra Breene and Amina Hamidi.

Board induction and training

Directors receive an induction programme tailored to their individual needs, which typically includes meeting the Executive Leadership team and training on products and markets. Sandra Breene and Amina Hamidi joined the Board in October 2022. While both had board-level exposure, this is their first Board appointment in a listed company. To commence their induction process, introductory meetings with our broker and the chair of the Audit and Remuneration Committee took place. They received an update on Board strategy, training with our corporate lawyers and a site visit to FuG. In addition, Amina attended a two-day NED course.

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

Board development in 2022

The Board commenced site visits in 2022 and spent time at the FuG site, receiving a tour of the factory and presentations from the FuG and Guth management team. Members from the Executive Leadership team presented to the Board around the SAP Go Live, new product development and strategy.

Development talks by outside parties on governance and market updates on remuneration also formed part of the Board's continuing development.

Board evaluation

The Corporate Governance Code discusses the need to evaluate the Board, which should cover the Board's composition and diversity, and how effectively members work together to achieve objectives.

An external board evaluation process took place during the year, adhering to the three-year externally facilitated cycle. The evaluation process was undertaken by Learnership Ltd, following a selection process involving three different service providers that was overseen by the Board. The Board concluded that Learnership was best able to deliver an effective evaluation process given their depth, knowledge and experience with the Company, while considering service delivery, cost effectiveness and availability.

Board induction process

STAGE 01

Includes an overview of the structure, history, strategy, Board procedures, listing requirements and governance.

STAGE 02

Meeting members of the Executive Leadership team, and external brokers and advisers as required.

STAGE 03

Visiting sites as appropriate and access to videos, to understand the operations of the business and specific functional areas.

STAGE 04

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

STAGE 05

Determining how best to train or impart the knowledge required.

STAGE 06

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

The terms of engagement were clearly set out and agreed in writing prior to the review process. The evaluation process included a confidential online Board effectiveness questionnaire, which covered all aspects of effectiveness: capabilities and communication; culture and practice; process and organisation; meeting rigour and relationships. Directors were also asked to comment on what it should stop doing, start doing and continue doing. A 'Board Dynamics' component was included based on personality preferences. The results from the questionnaires were collated, analysed and used to inform structured one-to-one interviews with each of the seven Directors on the Board at the time. A Board effectiveness synthesis with conclusions was then presented in a report, which Learnership discussed with the Chair.

Overall, the Company achieved an average favourable score of 92% across all areas (based on Directors' individual perceptions of the Board's effectiveness), acknowledging that the Board is operating effectively and in accordance with good corporate governance principles. A few recommendations were made where changes could assist the Board's effectiveness and oversight of management, and these have been endorsed by the Board, including advancing the Company's strategic thinking with selective use of scenario planning, assessing leadership capabilities among senior management and optimising the structure and content of Board papers.

Learnership was given the opportunity to review the public statement made by the Company regarding the Board evaluation process prior to publication.

Following the appointment of two NEDs, and knowing that the Chair is due to retire at the AGM, the Board felt it would be useful for Learnership to submit the two new NEDs to the 'Board Dynamics' component that all existing Board members had undertaken, to assess personality preferences. The results from the group profile, excluding the incumbent Chair, enable sufficient forward visibility of the Board's characteristics.

The Board's evaluation of its committees formed part of the board evaluation process, using online reviews to capture responses to assess the Audit, Remuneration and Nomination Committee. The results were fed back to the respective Committee Chair. These were reviewed and discussed by each committee.

The Chair and Non-Executive Directors regularly meet without the Executive Directors present, to ensure that there is an opportunity to discuss potentially sensitive matters. At least annually, the Senior Independent Director meets with the Non-Executive Directors, excluding the Chair, to evaluate the Chair's performance.

Board evaluation process

STAGE 01

Online assessment completed by each Board member. Questions were reviewed and agreed by the Chair, Company Secretary and Committee Chairs.

STAGE 02

Independent collation and analysis of online inputs by external consultant.

STAGE 03

One-to-one interviews with each Board member and the external consultant, informed by analysis above.

STAGE 04

A report from the external consultant identifying Board effectiveness synthesis with conclusions. The results of the evaluation report are discussed by the Board and actions for improvement are determined.

Board evaluation progress

From the 2021 Board evaluation, while there were no significant issues or concerns raised, the need to reconnect in person was identified as being an area of focus in 2022.

The Board addressed this by ensuring that, once travel restrictions eased, a site visit to meet the FuG and Guth teams was arranged.

The visit to FuG was over two days, allowing time for Board members to interact with members of the management team on a more informal basis, and the opportunity to engage with all employees on site.

The audit partner also arranged to travel overseas to spend time with the business and attend the Audit Committee in person.

AUDIT COMMITTEE REPORT

> *The Audit Committee is satisfied that the Company has maintained adequate risk management and internal controls throughout the year.*
>
> **POLLY WILLIAMS**
> AUDIT COMMITTEE CHAIR

COMMITTEE MEMBERSHIP

Polly Williams
Chair

Pauline Lafferty

Sandra Breene

Dear Shareholder

Following my appointment of Chair of the Audit Committee in April 2022, I am pleased to present the 2022 Audit Committee Report. This will provide you with an insight into our work, the matters handled and focus of our deliberations during 2022.

During the year, we assisted the Board in fulfilling its oversight responsibilities, in areas such as the integrity of financial reporting, effectiveness of the risk management framework and system of internal controls, while considering ethics and compliance matters.

As detailed throughout the Annual Report, 2022 continued to be dominated by supply chain challenges, including component shortages, in a challenging global environment. Strategic progress was made with the completion of the acquisition of FuG and Guth at the beginning of the year.

The Committee maintained good oversight of the Group's internal controls, risk management framework and financial reporting, with the support of its people, who travelled to sites despite the challenges of quarantine requirements during the year. The Committee continues to scrutinise the Group's internal control framework and maintain a focus on optimising the internal audit agenda.

The report aims to provide the following information:

- the Audit Committee's principal responsibilities and its governance;
- key activities reviewed by the Audit Committee, including regular annual review items and other current areas of focus;
- discussions and actions with the external Auditor and internal Auditors on any significant judgements and/or issues; and
- details of the ongoing review of the external Auditor and the amount of non-audit work undertaken.

We welcomed Sandra Breene as a member of the Committee at the beginning of December 2022, following her initial appointment to the Board in October, bringing the Committee back in line with the Code recommendation of the minimum number of members.

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 continue to monitor and contribute to ongoing 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.

Following the decision to delay the Audit retender due to challenges brought by the pandemic and limitations around travel, I am pleased to report that planning for this has commenced with the retender process to take place during 2023.

The Audit Committee has recommended to the Board that the reappointment of PricewaterhouseCoopers LLP (PwC) should be proposed at the forthcoming AGM, and I hope you will support me in this resolution.

POLLY WILLIAMS
AUDIT COMMITTEE CHAIR

28 February 2023

Governance

The current Audit Committee members are all independent Non-Executive Directors and have financial and/or related business experience from senior positions in other diverse organisations. Polly Williams has been the Audit Committee Chair since 29 April 2022 and the Board is satisfied that Polly has recent and relevant financial experience, representing 33% of the current committee membership.

The Audit Committee met four times during 2022, with attendance as follows:

Members	Attendance
Polly Williams (Committee Chair)	4/4
Pauline Lafferty	4/4
Terry Twigger*	1/1
Sandra Breene*	0/0

* Terry Twigger stepped down from the committee on 29 April 2022, and was replaced by Sandra Breene on 5 December 2022.

Committee evaluation

During the year, the Audit Committee reviewed its performance, which was 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 Polly Williams' financial and audit experience.

The Committee noted that between May and December, it had two members was not compliant with the Code. During this time, Non-Executive Director, Jamie Pike, attended the Audit Committee meetings to maintain the presence and oversight of three independent NEDs. Overall, the Committee concluded that its performance was effective in 2022 and that it fulfilled its role in accordance with its Terms of Reference.

Responsibilities

The Committee is responsible for:

- ensuring 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 FCA's UK Listing regime;
- 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 Audit Committee's Terms of Reference are available in the Corporate Governance section of the Company's investor relations website xppowerplc.com.

Activities

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act 1967. In 2022, the Audit Committee's activities included:

- Examining the Annual Report and discussing it with management and the external Auditor to assess whether the reports, taken as a whole, were fair, balanced and understandable prior to recommending these to the Board for approval.
- Reviewing the balance sheet of the Company and consolidated financial statements of the Group before their submission to the Board of Directors, as well as the independent Auditor's report.
- Receiving 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. See "Significant risks and judgements in the financial reporting" below for the principal matters discussed.
- Reviewing assistance given by the Company's management to the independent Auditor.
- Challenging the assumptions and analysis produced by management on the Group's going concern basis of preparation, the long-term viability statement and associated risk assumptions, the accounting policies and disclosures, financial reporting issues and assumptions and adjustments made, including those related to goodwill and capitalised product development.
- Reviewing any dividend flows across Group entities.
- Reviewing and approving the use of alternative performance measures in the Annual Report.
- Reviewing and recommending viability statement and going concern statement to the Board.
- Reviewing the half-year report.
- Evolving the Group's risk and compliance framework by directing the outsourced internal Auditor, Deloitte LLP, and reviewing the work scopes of the target areas.
- Reviewing and approving the internal audit plan.
- Reviewing the findings of the internal audit work and follow-up of previous year's reviews.
- Ongoing review of the development and implementation of the Company's new ERP system.
- Managing and reviewing the external audit plan, including receiving updates on delivery of the plan.
- Reviewing reports from the external Auditor on the Group's financial reporting and their observations on the internal financial control environment.
- Reviewing controls and processes following the Comet litigation.
- Reviewing the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Financial Statements.
- Review approach taken to the Task Force on Climate-Related Financial Disclosures (TCFD).
- Assessing the accounting principles to be adopted in the preparation of the statutory 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.

Consideration of significant financial reporting matters

In relation to the 31 December 2022 Financial Statements, in this report on pages 149-194, the Audit Committee considered the following topics. These areas are considered significant due to the level of materiality and degree of judgement exercised by management. The Audit Committee questioned the judgements and estimates made on each significant matter detailed below and resolved that they were appropriate and acceptable.

SIGNIFICANT MATTERS FOR THE YEAR ENDED 31 DECEMBER 2022		HOW THE AUDIT COMMITTEE ADDRESSED THESE MATTERS	CONCLUSION
VALUATION OF GOODWILL	The carrying value of goodwill is a material item on the Group balance sheet and may require impairment if expected future benefit of cash-generating units reduces.	Impairment assessments are performed at least annually by management to generate discounted cash flows for each cash-generating unit (CGU) and provide comfort over the balance sheet value. The Committee challenges the appropriateness of judgements and forecasts used in management's impairment assessment, including the calculation of discount rates and forecast growth rates.	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	As part of the Group's product development process, direct costs associated with new products are capitalised and amortised over their expected useful life. The carrying value of these costs is rising in line with increased product development as the business has grown, and requires judgement over future success and useful lives of these products.	The Committee assesses a regular review of revenue streams for capitalised products that have been released for sale, which is performed and presented by management. This enables challenge of performance of new products compared to expectations, and the impact of significant projects to overall carrying value. During the year, the Committee has challenged the nature of the assets within the smaller value completed projects. Management performed a review to understand the nature of the assets and identify any recoverability risk.	The Committee was satisfied with the judgements used and carrying value of capitalised product development.
INVENTORY	Inventory levels increased during the year as the Group responded to increased demand and delays in the global supply chain. The risk of obsolescence and ongoing control over existence and completeness of inventory balances is a key focus for balance sheet accuracy.	Physical inventory across all sites was validated through a combination of ongoing cycle counts, wall-to-wall stock counts and, where appropriate, sample counts held at year-end. The Committee reviewed the accuracy of ongoing cycle counts and targets set by management. Inventory counts and valuations were reviewed by management and 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	Management prepares a going concern assessment and viability statement with consideration of longer-term forecast cash flows that consider principal risks including climate-related considerations.	The Committee reviewed the period that viability should be assessed, and reaffirmed that three years remains appropriate. They also considered how 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, along with consideration of the Group's financing facilities, covenant tests and future funding plans.	Based on this review, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, and recommended the approval of the viability statement, which can be found on page 58.
SPECIFIC ONE-OFF ITEMS AND ADJUSTED MEASURES	Adjusted measures are not reported as part of the financial statements but are used in the Annual Report and Accounts to clarify underlying performance for users of the accounts by excluding specific one-off items.	The classification of specific items is reviewed by the Committee and only includes items of significant income and expense, which, due to their size, nature or frequency, merit separate presentation to allow Shareholders to better understand the elements of financial performance. The Committee reviewed items to be included throughout the year to confirm appropriateness.	The Committee was satisfied that the classification of specific items was appropriate and in 2022 included Comet litigation.

Fair, balanced and understandable

The Committee considered the Annual Report and half-year report, on behalf of the Board, to be fair, balanced and understandable, in accordance with requirements of the UK Corporate Governance Code.

To assist in this process, the Committee considered comments from the external Auditors. The Committee also considered the Group's use of alternative performance measures, including the appropriateness of their current use and 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 ongoing assessment of these; further details are included in our Risk Management Framework on page 50.

In 2022, the Committee, on behalf of the Board and with 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 regularly reviewed the outcome of the audits of key financial controls included in the internal audit programme. Management also provided the Committee with an update of key accounting issues and financial controls at each meeting.

The Committee considered the current approach to controls and assurance in light of potential future governance requirements, primarily resulting from the proposals contained in the BEIS paper, and will continue to review management's plans in 2023.

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 nature of the internal audit work performed by Deloitte LLP in early 2023.

In 2022, the Committee reviewed updates to the internal audit plan to ensure that the internal audit framework remains appropriate in combination with the Board's risk monitoring process, which used it to identify areas for risk assurance work and internal audits to be carried out.

This included an assessment on the procurement maturity process, and a review of cybersecurity and cloud governance. The Group has continued with the controls self-assessments programme covering all sites. The internal Auditor's recommendations 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 these actions and informs the Committee of progress against the agreed timeline.

External audit effectiveness and independence

The Committee assesses audit effectiveness throughout the financial year. This includes reviewing the detailed audit plan and key audit risks included in it, amount and composition of resources on the audit and use of specialists, where appropriate. The Committee reviewed and agreed issues that arose during the audit and agreed resolutions with the external Auditor.

The Committee also received feedback from management evaluating the performance of the external audit teams. Consideration was given to the quality of the audit, communication and interaction with the 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 audit process were effective and that audit teams had provided effective challenge. The Committee has reported to the Board that the reappointment of PwC should be proposed at the forthcoming AGM.

The current external Auditor, PwC, was appointed in 2007. In line with best practice, the audit partner rotated off after five years in 2019 when the current audit partner took over the engagement.

In 2022, following easing of pandemic travel restrictions to Singapore and the go-live of the Group's new ERP system, the Committee concluded that an external audit retender process will commence in 2023.

The Audit Committee reviews the role and independence of the external Auditor. A formal statement of independence is received each year, together with a report on the safeguards in place to maintain their independence, and internal measures to ensure their objectivity. With the external Auditor, the Committee discusses 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 continues to operate an approved a set of procedures regarding the appointment of external Auditors to conduct audit and non-audit work. Under this policy:

- the award of audit-related services to the Auditor over £50,000 must be approved by the Chair of the Audit Committee, who, in their 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 over £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 over £20,000 must first be approved by the Chair of the Audit Committee.

During the year, non-audit fees of £0.02 million representing 2.7% of total audit fees (2021: £0.02 million representing 4% of total audit fees) were paid to the Auditor for review of the 30 June 2022 interim financial statements.

REMUNERATION COMMITTEE REPORT

> *The business and its people have continued to demonstrate courage, resilience and dedication.*
>
> **PAULINE LAFFERTY**
> REMUNERATION COMMITTEE CHAIR

COMMITTEE MEMBERSHIP

Pauline
Lafferty
Chair

Polly
Williams

Jamie Pike

(from 29
April 2022)

Dear Shareholder

This report sets out details of the Directors' remuneration in 2022 and how the Remuneration Committee anticipates operating the new Directors' Remuneration Policy in 2023.

The Remuneration Committee met on four occasions during the year. The current Remuneration Committee members are all independent Non-Executive Directors

Members	Attendance
Pauline Lafferty (Committee Chair)	4/4
Polly Williams	4/4
Jamie Pike*	2/2
Terry Twigger*	2/2

* Terry Twigger stepped down from the committee on 29 April 2022, and was replaced by Jamie Pike.

Major activities in the year

Although much of the world returned to near normal in 2022, we continued to face COVID-19 directly and indirectly throughout 2022, with lockdowns continuing across a number of our countries. Most notably, the five-week lockdown in our Kunshan facility in China impacted not only our production, but also resulted in disruption around ports, and tight air and sea freight supply. This disrupted supply chains, leading to increased transit times and significant cost increases, and caused delays to shipments particularly in H1. Trading performance finished strongly in H2 as supply chain conditions improved. Order intake remained above historic levels, highlighting robust end market demand and market share gains in recent years. Dividends were paused in 2020 for two quarters but were resumed in 2020 and continued to be maintained throughout 2021 and 2022.

In addition, annual performance was impacted by a provision for damages awarded against the Group following the Comet legal case, along with related legal costs. While litigation remains ongoing, the Group has placed collateral of $44 million (£37.0 million) for a court bond against the damages, which is reflected in cash flow and net debt, on top of the legal cost.

The business and its people have continued to demonstrate courage, resilience and dedication. We have supported customers by continuing to operate, especially in markets most severely affected by the pandemic throughout the year.

As a result of the ongoing commitment of our colleagues, our strong performance in the second half of 2022 positions us well for 2023. It is particularly pleasing, therefore, to note the sustained focus by the business on supporting its employees during another year of uncertainty, not only in relation to the persisting impact of the pandemic but also the more recent cost-of-living pressures being faced by our workforce globally.

Key remuneration decisions for 2022

ANNUAL BONUS

The annual bonus for 2022 was 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 125.

No bonuses were earned for the financial metrics as the thresholds were not met. The Committee assessed the strategic objectives set for the executive directors against the targets set at the start of the year, and determined that many of the objectives had been achieved. However, in light of the nil pay-out earned for the financial objectives, the executive directors volunteered to waive their bonuses, for which the Committee is appreciative.

The vesting of the 2020 LTIP award

LTIP awards granted in 2020 vested based on three-year performance through to the end of 2022, with vesting based on 3-year cumulative adjusted EPS growth (for 67% of the award) and relative Total Shareholder Return (for 33%).

- The EPS target range was 523.4p to 586.0p, with an actual EPS outcome of 534.8p, resulting in 39% vesting of the EPS portion of the awards.
- Our relative TSR performance was below median, resulting in zero vesting of the TSR portion of the awards.

The overall percentage of vested shares was 25.90% of the total award. The shares vest five years after the grant date.

The 2023 Directors' Remuneration Policy

The current Directors' Remuneration Policy (the "Policy") will reach the end of its three-year term at the 2023 AGM; therefore, the Committee spent time during 2022 considering potential changes to the Policy to meet the needs of the business and ensure that we continue to attract, retain and motivate talented executives.

The Policy has been shaped by several competing priorities including the intense labour pressures in all our markets, our continuing strong growth and performance, and the successful embedding of our acquisitions in Germany.

Concurrently, COVID continues to present challenges and uncertainties for our facilities in Asia, our continuing investment in production capabilities coupled with unpredictable supply chains and escalating production costs.

The changes made to the Policy and pay of Executive Directors over recent years have been, in our view, sensible, as well as necessary, as we have performed and grown. The annual award levels under the LTIP and the Restricted Share Plan remain below the Policy maxima for both the CEO and CFO. In addition, the CEO's total pay remains below that of CEOs at companies of a similar size. We think the current Policy will continue to serve us well and hence are proposing no substantial changes for 2023.

The Committee's review process included consultation with our 20 largest shareholders, whose feedback helped to inform our final decisions. Most respondents were supportive of our Policy, with a couple seeking clarification about the nature and extent of the shareholding requirements for our executives. We have ensured that our new Policy clearly identifies the arrangements that are already in place – namely, that Executive Directors are required to build a minimum shareholding equivalent to 200% of base salary within five years of appointment, and maintain this shareholding for one-year post-cessation and half of this shareholding for a further year. Furthermore, 50% of any bonus achieved is deferred into a share-based award for two years, while restricted share-based awards vest after five years from the date of grant. Though performance is measured over three years, LTIP awards are also subject to a five-year overall vesting period from the grant of award. We believe that, in combination, these arrangements provide close alignment between the interests of Executive Directors and Shareholders over the long term.

One Shareholder, who opposed the Policy in 2020, suggested that they continue to oppose the combination of performance and time-based equity awards in our long-term incentive arrangements. The Committee understands that it is unusual to mix performance and restricted shares for Executives at FTSE-listed companies, but continues to feel that this is the right approach for XP Power, particularly since the combination of performance and restricted share awards is for employees at all levels in the US, a major talent market for XP Power; extending this practice to our UK-based Executive Directors creates further alignment between the Executives and below-Board employees, and ensures that all key management personnel are treated fairly and encouraged to pull in the same direction. In this context, the relatively small size of the restricted award to Executive Directors (12.5–15% of salary) means that most of their variable remuneration remains performance based.

Decisions effective from 2023

The Committee has proactively tracked wage inflation in each of our operating markets throughout 2022; and used this to inform salary increase proposals in April 2023 for all employees. In this context, a tiered approach to salary increases has been adopted for 2023, with the intention for those on lowest salaries to receive higher percentage increases, up to 8%, around an average of 5% (to reflect the increased pressure the cost-of-living crisis places on these employees) to 2-4% for our most senior executives. The Committee has also adopted a consistent approach in reviewing the base salaries for the Executive Directors and approved increases of 0-3.6%, in line with other senior executives and significantly below the increases awarded to the majority of employees in the UK and Singapore (5% on average). The Remuneration Committee felt that these modest increases were appropriately aligned with our approach for the wider workforce, recognise the continued strong leadership of our Executive Directors, and ensure that our arrangements keep pace with salaries elsewhere in our highly competitive talent markets .

The metrics for the annual bonus will remain broadly unchanged, with pay-out based on adjusted PBT, adjusted operating cash flow as a percentage of adjusted operating income and strategic objectives.

The Committee intends to award performance shares with a face value of 100% of base salary, and restricted shares with a face value of 12.5% of base salary to Gavin Griggs and Oskar Zahn, with awards to Andy Sng of 75% and 15% of salary respectively. When determining these award levels, the Committee considered the number of awards that would be granted due to the share price. The Committee decided that it was appropriate to continue granting at normal levels but will continue to monitor expected and final outcomes, using its discretion to make adjustments if necessary. The awards remain subject to a combination of EPS and relative TSR measures as set out on page 123.

How we ensured employees' voices were heard at Board level in 2022

During the year, I held four virtual engagement sessions with a diverse group of employees from across the Company's key locations, in my capacity as both Chair of the Remuneration Committee and designated NED for employee engagement. These sessions allowed employees to share their views and ask questions they have. Topics covered included our corporate culture and performance, as well what would make XP Power a better place to work at. Of particular focus throughout these discussions in 2022 were the ongoing business challenges and the impact of the prevailing inflationary environment, and how the Company's leadership were ensuring we remain well placed to navigate these.

This feedback, along with the submissions through the anonymous employee surveys, were discussed at subsequent Board meetings. Employees are also able to ask questions or share perspectives on the subject of remuneration and, while no specific feedback was received on this subject in 2022, these would be considered by the Remuneration Committee and inform its decision making around executive pay.

Remuneration resolutions at the 2023 AGM

In addition to presenting our proposed Remuneration Policy (which remains substantially unchanged from the current Policy) and Report to shareholders at the AGM in 2023, we are also seeking approval for new share plan rules applying only to senior managers below Board level. These remain largely unchanged from the previous rules, but with added flexibility to allow awards to vest in tranches, phased over multiple years, which the Committee considers is important to enable the Company's effective recruitment and retention in various geographic markets; it should be noted that these rules will not apply to Executive Directors.

The views of our Shareholders are important to us, and I hope that you will support all three of our remuneration-related resolutions. If you have any questions or comments, I can be reached at ir@xppower.com.

PAULINE LAFFERTY
REMUNERATION COMMITTEE CHAIR

28 February 2023

REMUNERATION AT A GLANCE

Context to major decisions and activities in the year

- Absolute share price performance / relative TSR against the FTSE 250
- Profits/revenue performance
- Operating cash conversion performance
- Rising wage inflation

SEE PAGES 118–119
FOR MORE INFORMATION

Achievements during the year

- Received record order levels
- Completed acquisition of FuG and Guth
- Significant progress in building a more robust supply chain

SEE PAGE 118
FOR MORE INFORMATION

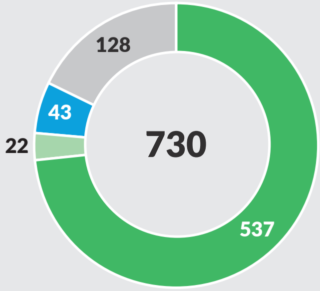
Key remuneration decisions for 2022 and 2023

- no bonus was paid for 2022.
- 25.90% of shares vested under the 2020 LTIP.
- Executive Directors' base salaries will increase between 0% and 3.6% from 1 April 2023.

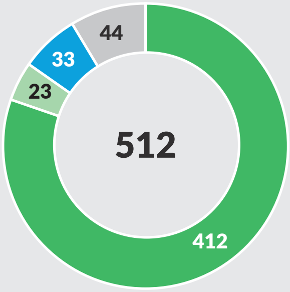
SEE PAGES 118-120
FOR MORE INFORMATION

Total Remuneration receivable for Executive Directors (£'000)

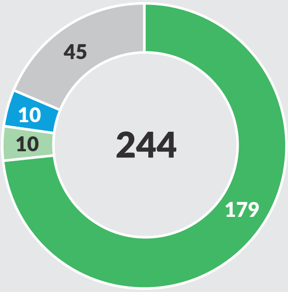
GAVIN GRIGGS



OSKAR ZAHN



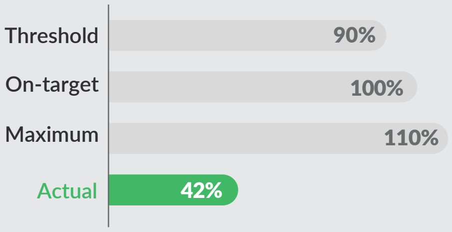
ANDY SNG



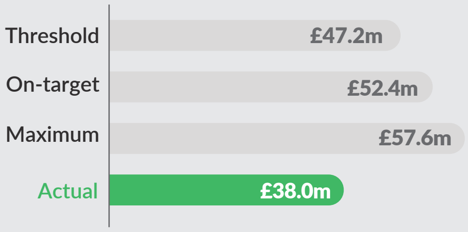
🟩 Base salary
🟦 Pension
🟩 Benefits
⬜ Long-term incentives

Achievement of performance conditions under the 2022 annual bonus

ADJUSTED OPERATING CASH CONVERSION (25%)



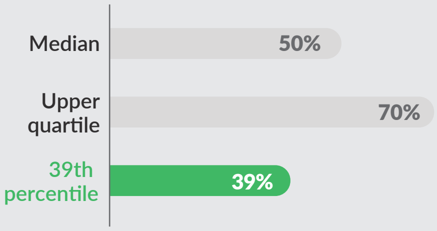
ADJUSTED PROFIT BEFORE TAX (50%)



Andy Sng's adjusted profit before tax targets are set with reference to divisional, rather than Group, performance. Performance against these targets resulted in nil pay-out of this element as the threshold was not met.

SEE PAGE 125
FOR MORE INFORMATION

TSR (33%)



SEE PAGE 129
FOR MORE INFORMATION

This table summarises the key components of the Directors' Remuneration Policy set out on pages 132-138, which is subject to approval by Shareholders at the AGM on 18 April 2023, and how the Committee intends to implement the Policy in 2023.

COMPONENT	SUMMARY OF POLICY	OPERATION IN 2023
Base salary	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 if there is a change in their role, the scale or complexity of the business or if significant changes to market practice arise.	The Remuneration Committee undertook its regular review of Executive Directors' base salaries, with increases due to take effect from 1 April 2023. • Gavin Griggs' base salary will increase from £550,000 to £570,000 (an increase of 3.6%) • Andy Sng's base salary will increase from S$312,000 to S$320,000 (an increase of 2.6%) • Oskar Zahn's base salary will not change from £416,000 As set out in the Annual Statement, these modest increases are consistent with the approach for other senior executives, and significantly lower than the average increase awarded to the wider workforce. These increases are considered appropriate in the context of the continued strong leadership of our Executive Directors and ensuring that our arrangements keep pace with our highly competitive talent markets.
Benefits	Benefits are set by the Remuneration Committee and reviewed annually.	Benefits include life insurance, private medical cover, car, allowance, and housing allowance in China for Andy Sng.
Pensions	Executive Directors' pension contributions are in line with pension benefits offered to the wider workforce in the relevant geography, which is currently 8% in the UK.	Gavin Griggs and Oskar Zahn receive a pension contribution of 8% of base salary. Andy Sng receives a pension contribution of 6% of salary, in line with the pension benefits offered to employees in Singapore.
Annual bonuses	The maximum bonus opportunity is 125% of base salary for the CEO and 100% for other Executive Directors. 50% of any annual bonus is deferred in shares, which vest after two years, subject to continued employment. Specific targets and weightings may vary according to strategic priorities and may include: • Financial performance; and • Attainment of personal and strategic objectives.	For 2023, the maximum bonus opportunity will be capped at 125% of salary for the CEO and 100% for other Executive Directors, with on-target pay-outs of 50% of maximum. Bonuses will continue to be based on a combination of financial and strategic performance measures. These targets are considered commercially sensitive so will not be disclosed prospectively. The targets and performance achieved against these will be published in next year's Annual Report on Remuneration. The performance measures that will apply are: • Adjusted profit before tax (50%) • Adjusted operating cash flow as a percentage of adjusted operating income (30%) • Strategic objectives (20%) Andy Sng's strategic performance objectives are set with reference to divisional performance and largely reflect the priorities set out for Gavin Griggs and Oskar Zahn.

<table>
<tr><th>COMPONENT</th><th>SUMMARY OF POLICY</th><th>OPERATION IN 2023</th></tr>
<tr><td>Share-based incentives</td><td>
<p>Share-based incentives are made up of a Long-Term Incentive Plan (LTIP) and a Restricted Share Plan (RSP).</p>
<p>The normal maximum award level under share-based incentives is 150% of base salary or up to 200% of base salary in exceptional circumstances. Up to a maximum of 15% of base salary may be granted as restricted shares without performance conditions. In calculating value against the limit for share-based incentives, the value of restricted share awards will be multiplied by two to reflect that they do not have performance conditions attached.</p>
<p>LTIP performance is typically measured over three financial years starting with the year of grant, and vesting occurs on the fifth anniversary from the date of grant.</p>
<p>RSP awards may be granted without performance conditions.</p>
</td><td>
<p>In 2023, the Remuneration Committee anticipates granting the following awards:</p>
<table>
<tr><th>Name</th><th>LTIP award (% of salary)</th><th>RSP award (% of salary)</th></tr>
<tr><td>Gavin Griggs</td><td>100%</td><td>12.5%</td></tr>
<tr><td>Oskar Zahn</td><td>100%</td><td>12.5%</td></tr>
<tr><td>Andy Sng</td><td>75%</td><td>15.0%</td></tr>
</table>
<p>The LTIP 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 for the EPS metric were still being considered by the Committee at the time of publication but will be disclosed at the time of the awards. The targets for the TSR element continue to be as below:</p>
<table>
<tr><th>TSR vs FTSE 250 ex investment trusts (33% of maximum)</th><th>Vesting</th></tr>
<tr><td>Upper quintile (80th percentile) or above</td><td>100%</td></tr>
<tr><td>Median (50th percentile)</td><td>25%</td></tr>
<tr><td>Below median</td><td>No vesting</td></tr>
</table>
<p>Vesting between threshold and maximum will be measured on a straight-line basis.</p>
</td></tr>
<tr><td>Non-Executive Directors' Fees</td><td>
<p>Fees are set at a level that is sufficient to attract, motivate and retain quality Non-Executive Directors. Fees are reviewed periodically. Non-Executive Directors are not entitled to participate in the Group's incentive plans.</p>
</td><td>
<p>On 1 March 2022, XP Power announced the appointment of Jamie Pike as a Non-Executive Director and designate Chair, with the intention that he would support the transition of the current Chair of the Board and then, subject to the required approvals, succeed James Peters as Chair from the conclusion of the Company's AGM in 2023. From that point onwards, it is intended that Jamie Pike will receive an all-inclusive annual fee of £220,000. As discussed in last year's Annual Report on Remuneration, the fee that James Peters currently receives is materially below the Chair fees offered at other UK-listed companies of a similar size; this is due to his significant shareholding in XP Power, meaning he has elected to receive the same fee as the Senior Independent Director. Jamie Pike is not a major shareholder in the Company, and the Committee has therefore set his fee at a more market-typical level, believing it to be both competitive and reasonable, reflecting the complexity of the role and time commitment involved.</p>
<table>
<tr><th></th><th>Fee from 1 April 2022</th><th>Fee from 1 April 2023</th></tr>
<tr><td>Chair's fee</td><td>£60,000</td><td>£220,000</td></tr>
<tr><td>Base fee</td><td>£50,000</td><td>£50,000</td></tr>
<tr><td>Additional fee for chairing a Committee</td><td>£5,000</td><td>£5,000</td></tr>
<tr><td>Additional fee for acting as Senior Independent Director</td><td>£5,000</td><td>£5,000</td></tr>
<tr><td>Additional fee for extra responsibility*</td><td>£5,000</td><td>£5,000</td></tr>
</table>
<p>Fees for the Non-Executive Directors were reviewed by the Chair of the Board, the designate Chair and the Executive Directors in February 2023, and no change to the base fee is proposed during 2023. In accordance with the Singapore Companies Act 1967, a total capped amount of fees for Non-Executive Directors will be proposed at the forthcoming AGM.</p>
<p>* Extra responsibilities include acting as designated NED for workforce engagement or as Board representative on an executive committee.</p>
</td></tr>
</table>

Annual report on remuneration

Single total figure of remuneration

The table below shows the total remuneration receivable for each Executive Director for the financial year ended 31 December 2022 and December 2021 respectively.

£'000		Salary/fees	Benefits[2]	Pension	Total fixed pay	Annual bonus[3]	Share-based incentives[4,5]	Total variable pay	Total
Executive Directors									
Gavin Griggs	2022	537	22	43	602	–	128	128	730
	2021	492	18	37	547	459	205	664	1,211
Oskar Zahn[1]	2022	412	23	33	468	–	44	44	512
	2021	267	15	21	303	182	61	243	546
Andy Sng	2022	179	10	10	199	–	45	45	244
	2021	158	29	9	196	105	66	171	367
Chair and Non-Executive Directors									
James Peters	2022	60	3	–	63	–	–	–	63
	2021	60	3	–	63	–	–	–	63
Pauline Lafferty	2022	59	–	–	59	–	–	–	59
	2021	55	–	–	55	–	–	–	55
Polly Williams	2022	57	–	–	57	–	–	–	57
	2021	50	–	–	50	–	–	–	50
Terry Twigger	2022	20	–	–	20	–	–	–	20
	2021	60	–	–	60	–	–	–	60
Jamie Pike[6]	2022	42	–	–	42	–	–	–	42
	2021	–	–	–	–	–	–	–	–
Sandra Breene	2022	11	–	–	11	–	–	–	11
	2021	–	–	–	–	–	–	–	–
Amina Hamidi	2022	11	–	–	11	–	–	–	11
	2021	–	–	–	–	–	–	–	–

[1] Oskar Zahn was appointed CFO with effect from 4 May 2021 and to the Board with effect from 20 May 2021. Total remuneration for Oskar in 2021 reflects pay for the portion of the year that he was an Executive Director.

[2] Benefits include life insurance, private medical cover, car allowance, and housing allowance in China for Andy Sng.

[3] The value of the annual bonus represents performance over the relevant financial year: 50% of the pay-out is deferred into shares. Further details of the 2022 annual bonus, including performance measures, actual performance and bonus pay outs, can be found on page 125.

[4] The value of share-based incentives for 2022 represents

i. for Gavin Griggs and Andy Sng, the performance-based LTIP awards granted on 22 April 2020 with performance measured over three financial years to 31 December 2022, based on the three-month average share price to the year-end of £18.8525 and dividend equivalents payable to this date,

ii. for Gavin Griggs, Oskar Zahn and Andy Sng, the value at grant of the restricted share awards granted on 8 March 2022 based on a share price of £36.00. The values shown for Gavin Griggs and Andy Sng include the impact of a decline in the share price and dividend equivalent payments on the April 2020 LTIP equal to £(26,000) and £(8,000) respectively. The value of the April 2020 LTIP will be updated in next year's Directors' Remuneration Report to reflect the updated share price and dividend equivalent payments. Further details of the LTIP, including performance measures, actual performance and vesting can be found on page 126. Further details of the 2022 RSP can be found on page 126.

[5] The value of share-based incentives for 2021 represents (i) for Gavin Griggs and Andy Sng, the performance-based LTIP awards granted on 16 March 2019 with performance measured over three financial years to 31 December 2021, and (ii) for Gavin Griggs and Andy Sng, the value at grant of the restricted share awards granted on 3 March 2021 based on a share price of £51.80. The vesting of March 2019 LTIP awards was based on three-year performance to 31 December 2021. 50% of the performance-vested awards vested on 16 March 2022 and the remaining 50% will vest on 16 March 2023. The value of these awards reflects the share price on vesting of £38.00 for the half of the award that vested on 16 March 2022; the three-month average share price to 31 December 2022 of £18.8525 to estimate the value at vesting of the remaining 50% of the award; and dividend equivalents payable to 31 December 2022.

[6] Jamie Pike joined the Board on 1 March 2022 as a Non-Executive Director and designate Chair.

Notes to the single total figure table

BASE SALARY IN THE YEAR ENDED 31 DECEMBER 2022

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

	Base salary from 1 April 2021	**Base salary from 1 April 2022**	**Percentage increase**
Gavin Griggs	£500,000	£550,000	+10%
Oskar Zahn[1]	£400,000	£416,000	+4%
Andy Sng	S$300,000	S$312,000	+4%

[1] Oskar Zahn was appointed as CFO with effect from 4 May 2021, with a base salary of £400,000.

PENSIONS IN THE YEAR ENDED 31 DECEMBER 2022

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

ANNUAL BONUS IN THE YEAR ENDED 31 DECEMBER 2022

The maximum annual bonus opportunity in 2022 was 125% of base salary for the CEO and 100% of base salary for other Executive Directors. 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%	£47.16m	£52.4m	£57.64m	£38.0m	0%
Adjusted operating cash conversion[2]	25%	90%	100%	110%	42%	0%
Strategic objectives	25%					0%

[1] Andy Sng's adjusted profit before tax targets are set with reference to divisional performance, and the targets are commercially sensitive. Performance against these targets resulted in 0% of maximum 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 42%.

The Committee assessed the strategic objectives set for the executive directors against the targets set at the start of the year, and determined that many of the objectives had been achieved. However, in light of the nil pay-out earned for the financial objectives, the executive directors volunteered to waive their bonuses, for which the Committee is appreciative. The strategic objectives covered several categories, including: key strategic objectives, ESG, people, supply chain management, finance team efficiencies, and treasury/forecasting improvements; the Committee prefers not to provide any more disclosure around these objectives, in light of the commercial sensitivities around their precise description, and the nil payout against them.

Long-term incentive awards vested or due to vest with respect to performance in the year ended 31 December 2022

2020 LTIP AWARDS

The 2020 LTIP awards granted on 22 April 2020 were measured over three financial years from 1 January 2020, based two-thirds on compound annual EPS growth and one-third on TSR compared with companies in the FTSE 250 index excluding investment trusts. The table below summarises performance against the performance targets.

	Weighting	Threshold (25%)	Maximum (100%)	Actual	% achieved
EPS growth	67%	523.4p	586.0p	534.8p	38.66%
TSR	33%	Median	Upper quintile	Below median	0%
Total					**25.90%**

Shares under this award will vest on 22 April 2025, with performance measured over the three financial years ended 31 December 2022.

	Date of grant	Type of award	Number of shares awarded	% vesting	Dividend equivalent payments per share[1]	Number of shares vested or due	Value of shares vested or due to vest[1]
Gavin Griggs	22 April 2020	Nominal-cost options	10,453	25.90%	£2.26	2,708	£57,124
Andy Sng	22 April 2020	Nominal-cost options	3,236	25.90%	£2.26	839	£17,684

[1] The value of share-based incentives represents LTIP awards that vest with respect to performance periods ending during the year. As these awards were not due to vest until April 2023, the value of these has been estimated using the average share price in the last three months of 2022, being £18.8525, and an estimate of dividend equivalents.

Scheme interests awarded in the year ended 31 December 2022

The following awards were granted to Executive Directors in 2022:

	Date of grant	Plan[1]	Type of award	Face value of award	Number of shares awarded	End of performance period
Gavin Griggs	8 March 2022	LTIP 2017	Nominal-cost options	£549,972	15,277	31/12/2024
	8 March 2022	RSP 2020	Nominal-cost options	£68,724	1,909	n/a
	8 March 2022	DBP 2017	Nil-cost options	£229,356	6,371	n/a
Oskar Zahn	8 March 2022	LTIP 2017	Nominal-cost options	£415,980	11,555	31/12/2024
	8 March 2022	RSP 2020	Nominal-cost options	£51,984	1,444	n/a
	8 March 2022	DBP 2017	Nil-cost options	£91,044	2,529	n/a
Andy Sng	8 March 2022	LTIP 2017	Nominal-cost options	£131,004	3,639	31/12/2024
	8 March 2022	RSP 2020	Nominal-cost options	£26,172	727	n/a
	8 March 2022	DBP 2017	Nil-cost options	£52,560	1,460	n/a

[2] 2022 awards were granted under the LTIP 2017, RSP 2020 and DBP 2017 based on the mid-market share price for 7 March 2022, being £36.00.

Long-term incentive measures and targets

The performance targets for the 2021 and 2022 LTIP awards are summarised below.

		2021 award (67% EPS and 33% TSR)	2022 award (67% EPS and 33% TSR)
Earnings per share	Operation	Cumulative EPS over three financial years	**Cumulative EPS over three financial years**
	Threshold (25% vest)	576.7p	**580.5p**
	Maximum (100% vest)	645.9p	**650.2p**
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 that were granted to Executive Directors in 2022 are not subject to performance conditions on vesting.

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 Directors' beneficial interests (including that of their connected persons) in the Company's shares:

			Interest in share awards					
	Beneficially owned shares at 31 December 2021	Beneficially owned shares at 31 December 2022	Unvested Deferred Bonus shares	Unvested RSP awards and LTIP awards for which the performance period has completed	Unvested LTIP awards for which the performance period is in progress	Vested but unexercised Deferred Bonus, RSP and LTIP awards	Shareholding guideline (% of salary)	Shareholding guideline met?
Executive Directors								
Gavin Griggs	–	**8,252**	9,473	9,407	24,929	–	200%	Building
Oskar Zahn	–	**–**	2,529	2,647	19,579	–	200%	Building
Andy Sng	24,000	**30,723**	2,786	3,074	5,569	60	200%	Met
Chair and Non-Executive Directors								
James Peters	1,004,279	**1,004,279**	–	–	–	–	n/a	n/a
Jamie Pike	–	**3,838**	–	–	–	–	n/a	n/a
Terry Twigger[1]	–	**–**	–	–	–	–	n/a	n/a
Polly Williams	–	**–**	–	–	–	–	n/a	n/a
Pauline Lafferty	–	**–**	–	–	–	–	n/a	n/a
Sandra Breene[2]	–	**–**	–	–	–	–	n/a	n/a
Amina Hamidi[2]	–	**–**	–	–	–	–	n/a	n/a

[1] Terry Twigger stepped down from the Board with effect from 29 April 2022. The beneficially owned shares shown for Terry represent his shareholding at the 29 April 2022.

[2] Sandra Breene and Amina Hamidi joined the Board on 11 October 2022.

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

Date of grant	Exercise price	Interest as at 31/12/21	Granted in the year	Forfeited in the year	Exercised in the year	Interest as at 31/12/22	Vesting date[1]	Expiry date
2017 LTIP								
01/11/17	£0.01	8,000	–	–	(8,000)	**–**	31/12/20	31/12/22
16/03/19	£0.01	13,659	–	(9,106)	(2,276)	**2,277**	16/03/22	16/03/24
22/04/20	£0.01	10,453	–	–	–	**10,453**	22/04/25	22/04/26
03/03/21	£0.01	9,652	–	–	–	**9,652**	03/03/26	03/03/27
08/03/22	£0.01	–	15,277	–	–	**15,277**	08/03/27	08/03/28
2020 RSP								
22/04/20	£0.01	1,307	–	–	–	**1,307**	22/04/25	22/04/26
03/03/21	£0.01	1,206	–	–	–	**1,206**	03/03/26	03/03/27
08/03/22	£0.01	–	1,909	–	–	**1,909**	08/03/27	08/03/28
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	–
04/03/21	–	3,102	–	–	–	**3,102**	26/02/23	–
08/03/22	–	–	6,371	–	–	**6,371**	28/02/24	–

[1] LTIP awards granted in 2017 and 2019 vest 50% after three years, and 50% after four years; the vesting date shown in the column reflects the first vest date.

This table summarises the outstanding share awards for Oskar Zahn:

Date of grant	Exercise price	Interest as at 31/12/21	Granted in the year	Forfeited in the year	Exercised in the year	Interest as at 31/12/22	Vesting date	Expiry date
2017 LTIP								
10/05/21	£0.01	8,024	–	–	–	**8,024**	10/05/26	10/05/27
08/03/22	£0.01	–	11,555	–	–	**11,555**	08/03/27	08/03/28
2020 RSP								
10/05/21	£0.01	1,203	–	–	–	**1,203**	10/05/26	10/05/27
08/03/22	£0.01	–	1,444	–	–	**1,444**	08/03/27	08/03/28
Deferred Bonus								
08/03/22	–	–	2,529	–	–	**2,529**	28/02/24	–

This table summarises the outstanding share awards for Andy Sng:

Date of grant	Exercise price	Interest as at 31/12/21	Granted in the year	Forfeited in the year	Exercised in the year	Interest as at 31/12/22	Vesting date[1]	Expiry date
2012 Share Options								
23/02/16	£15.425	60	–	–	–	**60**	23/02/20	23/02/26
2017 LTIP								
16/05/18	£0.01	2,591	–	–	(2,591)	**–**	16/05/21	16/05/23
16/03/19	£0.01	4,878	–	(3,252)	(812)	**814**	16/03/22	16/03/24
22/04/20	£0.01	3,236	–	–	–	**3,236**	22/04/25	22/04/26
03/03/21	£0.01	1,930	–	–	–	**1,930**	03/03/26	03/03/27
08/03/22	£0.01	–	3,639	–	–	**3,639**	08/03/27	08/03/28
2020 RSP								
22/04/20	£0.01	405	–	–	–	**405**	22/04/25	22/04/26
03/03/21	£0.01	289	–	–	–	**289**	03/03/26	03/03/27
08/03/22	£0.01	–	727	–	–	**727**	08/03/27	08/03/28
Deferred Bonus								
06/03/19	–	1,389	–	–	(1,389)	**–**	31/12/20	–
04/03/20	–	1,931	–	–	(1,931)	**–**	28/02/22	–
04/03/21	–	1,326	–	–	–	**1,326**	26/02/23	–
08/03/22	–	–	1,460	–	–	**1,460**	28/02/24	–

[1] LTIP awards granted in 2018 and 2019 vest 50% after three years and 50% after four years; the vesting date shown in the column reflects the first vest date.

The closing share price of the Company's shares at 31 December 2022 was £20.35 (31 December 2021: £51.00) and the price range fluctuated between £14.64 and £52.50 over the financial year.

Payments to past directors

Duncan Penny stepped down as CEO on 31 December 2020 and stood down from the Board with effect from 20 April 2021. He ceased to be an employee at the end of May 2022. The Committee determined that he would be treated as a good leaver and the treatment of unvested awards is set out below:

LTIP

- The second tranche of his March 2018 LTIP award vested in accordance with the plan rules in May 2022, with options over 5,079 ordinary shares in the Company becoming exercisable. This award was subject to performance conditions ending 31 December 2020 as previously disclosed.
- The first tranche of his March 2019 LTIP award vested in accordance with the plan rules in March 2022, with options over 3,170 ordinary shares in the Company becoming exercisable. The second tranche of this award vested on Duncan Penny's date of cessation as an employee at the end of May 2022, with options over 3,171 ordinary shares in the Company becoming exercisable. These awards were subject to performance conditions ending 31 December 2021 as in last year's report.
- The 2020 LTIP award, due to vest in April 2025, was assessed against the same performance conditions ending as for other Executive Directors set out on page 126 and will result in 25.90% options over ordinary shares in the Company becoming exercisable on the original vesting date. This award is subject to time pro-rating.

RSP

- The 2020 RSP award is due to vest in 2025 and will be subject to a pro-rated reduction and a six-month exercise period, with options over 1,263 ordinary shares in the Company becoming exercisable on the original vesting date.

DBP

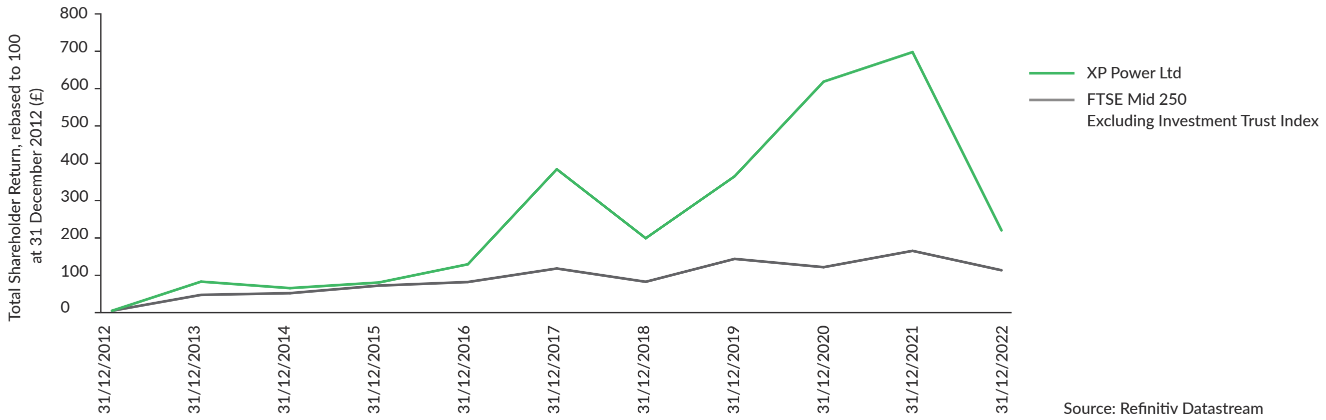
- The 2019 DBP award vested in February 2022, with options over 657 ordinary shares in the Company becoming exercisable.
- The 2020 DBP award vested on Duncan Penny's date of cessation as an employee at the end of May 2022, with options over 4,256 ordinary shares in the Company becoming exercisable within 12 months from the vesting date.

Payments for loss of office

There were no payments for loss of office.

Assessing pay and performance

This chart shows the total shareholder return for XP Power since 31 December 2012 compared with that of the FTSE 250 (excluding investment trusts), rebased at 100.



Source: Refinitiv Datastream

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021[1]	2022
CEO total remuneration (£'000)	£271	£271	£310	£800	£531	£684	£562	£1,357	£1,211	**£730**
Annual bonus (% of maximum)	0%	0%	15%	27%	100%	71%	11%	98%	73%	**0%**
Long-term incentives (% of maximum)	n/a	n/a	n/a	81%	n/a	n/a	80%	81%	33%	**26%**

[1] Data in the table is relevant to Duncan Penny up to 2020, and then Gavin Griggs from 2021.

Context for Directors' remuneration

While the Remuneration Committee has not engaged directly with employees on how Executive remuneration aligns with the wider pay policy, the Board has engaged through employee focus groups as outlined on page 120. The Remuneration Committee Chair acts as the designated Non-Executive Director for employee engagement and, to the extent employees wish to discuss executive pay, they are encouraged to ask questions on this and any other topics at these focus groups.

Annual percentage change in remuneration of Directors and employees

The table below shows the percentage change in salary, taxable benefits and annual bonus earned for 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			Percentage change between 2020 and 2021			Percentage change between 2021 and 2022		
	Base salary	Taxable benefits	Annual bonus	Base salary	Taxable benefits	Annual bonus	Base salary	Taxable benefits	Annual bonus
Average employee	4%	3%	670%	8%	139%	(33%)	**41%**	**19%**	**(69%)**
Executive Directors									
Gavin Griggs[1]	10%	(2%)	938%	57%	(22%)	43%	**9%**	**22%**	**(100%)**
Oskar Zahn[2]	–	–	–	–	–	–	**54%**	**53%**	**(100%)**
Andy Sng	1%	(9%)	6%	6%	(24%)	(23%)	**13%**	**(66%)**	**(100%)**
Non-Executive Directors									
James Peters	15%	1%	–	3%	50%	–	**0%**	**0%**	**–**
Jamie Pike[3]	–	–	–	–	–	–	**–**	**–**	**–**
Terry Twigger[4]	25%	–	–	7%	–	–	**(67%)**	**–**	**–**
Polly Williams	27%	–	–	(2%)	–	–	**14%**	**–**	**–**
Pauline Lafferty	1338%	–	–	15%	–	–	**7%**	**–**	**–**
Sandra Breene[5]	–	–	–	–	–	–	**–**	**–**	**–**
Amina Hamidi[5]	–	–	–	–	–	–	**–**	**–**	**–**

[1] Gavin Griggs was appointed CEO with effect from 1 January 2021. The percentage change between 2020 and 2021 compared his pay as CEO with his pay as CFO.

[2] Oskar Zahn was appointed as CFO with effect from 4 May 2021, so no year-on-year comparison is possible.

[3] Jamie Pike joined the Board on 1 March 2022, so no year-on-year comparison is possible.

[4] Terry Twigger stepped down from the Board with effect from 29 April 2022, so no year-on-year comparison is possible between 2021 and 2022.

[5] Sandra Breene and Amina Hamidi joined the Board on 11 October 2022, so no year-on-year comparison is possible.

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
2022	Option A	23:1	15:1	9:1
2021	Option A	40:1	25:1	15:1
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 best reflects 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 2021, which were higher than those paid in 2022. Annual bonus and long-term incentives make up a significant proportion of Executive remuneration while it is only a relatively low proportion of total pay for the wider workforce.

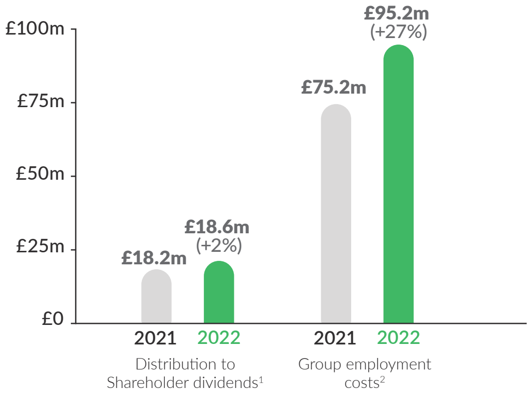
The table below shows the total pay and benefits, and the salary component for the employees who sit at each of the three quartiles in 2022.

Year	Total pay and benefits	Salary component of total pay
25th percentile	£31,270	£29,863
50th percentile	£50,320	£45,000
75th percentile	£79,733	£72,201
Chief Executive	£730,000	£537,000

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 and for all XP Power's employees. The Company aims to pay all employees, including the CEO, in accordance with its values, a desire to pay for performance, internal relativities and the appropriate external market reference points.

Relative importance of spend on pay

This chart illustrates the relative importance of spend on pay compared to Shareholder dividends paid.



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[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.

Advice received in the year

During the year, FIT Remuneration Consultants LLP ("FIT") provided advice to the Company on Directors' remuneration. From December 2022, Ellason LLP ("Ellason") succeeded FIT as advisors to the Committee. Neither FIT or Ellason provide other services to the Remuneration Committee, have further connection with the Company or individual Directors. FIT and Ellason are both signatories to the Remuneration Consultants Group's Code of Conduct. The fees paid by the Company to FIT in the year was £35,911 excluding VAT. Fees paid by the Company to Ellason in December 2022 was £7,650 excluding VAT. On this basis, the Remuneration Committee satisfied itself that the advice of FIT and Ellason was objective and independent.

Voting on remuneration

The table below sets out voting in respect of the approval of the Directors' Remuneration Policy at the AGM on 21 April 2020 and the Directors' Remuneration Report at the AGM on 14 April 2022.

	Meeting	Votes for	% of votes for	Votes against	% of votes against	Votes withheld
Approval of Directors' Remuneration Policy	21 April 2020	11,125,326	79.15%	2,930,138	20.85%	299,852
Approval of Directors' Remuneration Report	14 April 2022	14,507,210	94.7%	812,231	5.3%	1,500

We continue to engage with our Shareholders on executive remuneration and seek to strike the right balance of interest among all our Shareholders.

DIRECTOR’S REMUNERATION POLICY

The Directors’ Remuneration Policy (the “Policy”) is subject to a binding shareholder vote at XP Power’s AGM on 18 April 2023 and, if approved, will apply from this date. The intention is that the Policy will apply for a period of at least three years.

The Policy was reviewed and approved by the Remuneration Committee. As part of the review process, the Committee sought the views of other Board members, Executives and the external advisers, as well as our larger shareholders and shareholder advisory bodies. This feedback was considered by the Committee, who then made decisions independently.

There are no material changes proposed in the Policy from the previous version, which was approved at the AGM in 2020.

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

How our remuneration policy links to the UK Corporate Governance Code

When the proposed Policy was developed, the Committee was mindful of the UK Corporate Governance Code and considers that the executive remuneration framework continues to appropriately address the following factors:

FACTORS	HOW THESE ARE ADDRESSED
Clarity	• Our Directors’ Remuneration Policy is transparent and clearly articulated in the Annual Report. There are no material changes from the previous version of the Policy so it is already well understood internally and externally.
Simplicity	• The Committee believes that the executive remuneration arrangements are market standard, straightforward and well understood by both participants and Shareholders.
Risk	• The Committee’s approach to target setting seeks to discourage inappropriate risk taking through a blend of Shareholder return, financial and non-financial objectives. • Our Policy contains appropriate discretion to mitigate potential risks, we operate bonus deferral and post-cessation shareholding requirements. Malus and clawback provisions also apply to the annual bonus plan, LTIP and RSP.
Predictability	• Executives’ incentives are subject to individual participation caps. An indication of the range of outcomes in the packages is provided on page 121. • Deferred bonus and LTIP awards provide alignment with the share price and their values will depend on share price at the time of vesting.
Proportionality	• A clear link exists between individual awards, delivery of strategy and our long-term performance. Our policy contains appropriate discretion by the Committee to not reward poor performance.
Alignment to culture	• Pay and policies cascade down the organisation to ensure they are fully aligned with the XP Power culture.

The policy table

The objectives of the Remuneration Policy are to:

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

The following table provides a summary of the key components of the remuneration package. Other than minor clarifications to explain the operation of our incentives, there are no material changes to the prior policy table. We also provide more detailed disclosure around the default leaver provisions attaching to our incentives in a new separate section following the main policy table:

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 normally reviewed annually. 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 if there is 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 Other allowances provided to the wider workforce may also be provided.	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. Amounts equivalent to any dividends or Shareholder distributions made in respect of awards at vesting, are paid at the discretion of the Remuneration Committee. The 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. Executive Directors will receive 25% of the maximum award for threshold performance and 50% for on-target performance.	Specific targets and weightings may vary according to strategic priorities and may include: • Financial performance; • Attainment of personal, operational, and strategic objectives; and • Weighting will focus on Group financial performance.

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 wider workforce in the relevant geography, which is currently 8% in the UK and 6% in Singapore.	n/a
SHARE-BASED INCENTIVES			
Align the interests of Executive Directors and Shareholders in the long term. Incentivise long-term value creation.	Share-based incentives are made up of a Long-Term Incentive Plan (LTIP) that was approved at the 2017 AGM, and a Restricted Share Plan (RSP) that was approved at the 2020 AGM.	The normal maximum award level under share-based incentive plans is 150% 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.	
	LTIP awards may be made in the form of conditional share awards, nil or nominal cost options. The LTIP also provides for awards to be structured as stock appreciation or phantom rights, which may be suitable for awards granted in overseas jurisdictions. Performance is typically measured over three financial years starting with the year of date of grant, or any longer period as the Remuneration Committee may decide. An award will be subject to a two-year holding period.	25% of a LTIP award will vest for threshold performance.	Specific targets and weightings may vary according to strategic priorities at the start of each performance period and may include: • Financial performance (such as EPS) • Value creation (such as TSR) • Strategic objectives Weighting is expected to focus on Group financial and value creation performance measures.
	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 limit for share-based incentives, the value of restricted share awards will be multiplied by two to reflect that they do not have performance conditions attached.	
	Clawback: The Remuneration Committee has the discretion to claw back some or all awards granted under share-based incentive plans 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.		

PURPOSE	OPERATION	OPPORTUNITY	APPLICABLE PERFORMANCE MEASURES
SHAREHOLDING (MINIMUM)			
Align the interests of Executive Directors and Shareholders in the long term.	To build a minimum shareholding equivalent to two years' salary. Directors have a period of five years from appointment to achieve this.	n/a	n/a
POST EMPLOYMENT SHAREHOLDING			
Align the interests of Executive Directors and Shareholders in the long term.	Post cessation, Executive Directors must hold shares equivalent to 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. The Committee will ensure the application of this requirement through a signed agreement with the Executive. 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 that is sufficient to attract, motivate and retain quality Non- Executive Directors.	Fees are reviewed periodically. The Board (excluding the Non-Executive Directors) are 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 that approved by Shareholders at a General Meeting (currently £600,000 in accordance with the Articles).	n/a

Use of discretion

The Company's incentive plans including the annual bonus scheme, share option scheme, LTIP and RSP will be operated within the rules of the relevant scheme, together with all applicable laws and regulations. The Remuneration Committee may operate the discretion contained in the relevant plan in order to facilitate its administration and operation. Discretion includes (but is not limited to):

- who is invited to participate or receive awards, the size and timing of awards or payments;
- the setting of appropriate performance measures and targets from year to year, and any adjustment of these considering market conditions;
- the annual review of performance against targets for the determination of bonuses and awards;
- the determination of vesting and performance periods; and
- the treatment of leavers, and discretion when dealing with adjustments for corporate events (such as changes in control, rights issues, de-mergers, acquisitions etc).

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

Performance measures and targets

The Company's incentive plans use a range of performance measures linked to the business strategy and key priorities at the time. Measures and weightings will be described in the respective Directors' Remuneration Report. Performance targets will be challenging yet achievable, and will require stretching out-performance to achieve the maximum. Annual bonus targets will usually be disclosed when they are no longer commercially sensitive. LTIP targets will usually be disclosed on a prospective basis where possible.

Malus and clawback

Annual bonus documentation, the LTIP and RSP, will contain provisions to give the Committee the ability to apply malus and clawback provisions. These allow the Committee to determine, in its absolute discretion, that an unvested award or bonus award (or part of an award) may not be permitted to vest or that the level of vesting is reduced in certain circumstances or payment back of some or all of an award is required after vesting. Where the Committee acts fairly and reasonably to determine within a period not exceeding three years from the determination of an award that:

- a serious breach of the Company's code of ethics has arisen; or
- a serious health and safety issue has occurred; or
- the award holder has participated in or was responsible for conduct that has resulted in significant losses to the Group; or
- the award holder has failed to meet appropriate standards of fitness and propriety resulting in a material negative effect on the Group; or
- the award holder has committed material wrongdoing or has breached the terms of their employment contract in such manner as would result in a potentially fair reason for dismissal; or
- there was a material error in determining whether an award should be made, in determining the size or nature of the award or the extent to which it has vested,

it may require any unvested awards held by the award holder to lapse in whole or in part immediately, and/or may require the award holder to repay the Company the after-tax value of some or all vested awards received during that period, in such form as they may determine.

Malus and clawback will continue to apply to any awards held by leavers and those vesting in connection with corporate events/changes in control. The Committee has the right to apply the malus provision to an individual or on a collective basis. It shall also (acting reasonably and in good faith) determine the amount or award subject to clawback.

Legacy commitments

The Committee reserves the right to honour any legacy remuneration arrangements including those made under a previously approved Directors' Remuneration Policy.

Approach to Executive recruitment

In the event of the recruitment of a new Executive Director, the Remuneration Committee would consider the structure and levels of the remuneration for existing Directors and prevailing market practice, together with the skills and value it believed the new Director would bring to the Company. It is therefore expected that a new Director's package would include the same elements as existing Directors and the maximum level of variable remuneration for annual bonus and LTIP would be capped as it is for existing Executive Directors. Depending on the timing of any appointment, the performance measures and targets used for incentive purposes may differ from existing Executive Directors for the first performance cycle. The Committee may agree to meet any relocation expenses or other benefit arrangements if considered in the best interests of Shareholders. In addition, the Remuneration Committee will have discretion to make payments or awards to buy out incentive arrangements forfeited on leaving a previous employer, i.e. over and above the approach outlined in the table above, and may exercise the discretion available under Listing Rule 9.4.2R if necessary to do so. In doing so, the Remuneration Committee will seek, to the best possible extent, to do no more than match the fair value of the awards forfeited, considering the applicable performance conditions, likelihood of those conditions being met and proportion of the applicable vesting period remaining. Where an Executive Director appointment is an internal candidate, the Remuneration Committee will honour any pre-existing remuneration obligations or outstanding variable pay arrangements that relate to the individual's previous role. The Remuneration Committee retains the discretion to offer appropriate remuneration outside the standard policy where an interim appointment is made to fill an Executive role on a short-term basis or where exceptional circumstances require that the Chair or a Non-Executive Director takes on an Executive function.

Executive Directors' contracts

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

The Executive Director may, at the discretion of the Committee, remain eligible to receive a bonus award for the financial year that they cease to be an employee in, if the Committee has decided that good leaver terms should apply. Any such bonus will be determined by the Committee considering time in employment and performance. Any deferred bonus and share-based incentives will be subject to the leaver terms in the respective plan rules.

The Committee may determine it appropriate to provide reasonable outplacement support to a departing Executive Director, the reimbursement of legal advice at the expense of the Company and any payments required by statute.

Leaver provisions

The table below outlines the treatment of outstanding share awards under the short and long-term incentive plans for “good” and “bad” leavers, and in circumstances where the Company undergoes a change of control. A “good” leaver will generally mean an Executive Director who ceases to be an employee for any of the following reasons: death, retirement, injury or disability, the employing company ceasing to be part of the Group, redundancy, or any other reason, subject to Remuneration Committee discretion. A “bad” leaver will generally mean any leaving scenario that is not provided for under the good leaver definition.

TYPE OF LEAVER	DBP	LTIP	RSP
Good leaver	Where a participant ceases to be an employee before the end of the deferral period, awards will vest in full on the date of cessation.	Where a participant ceases to be an employee during the first three years of the performance period, the number of shares vesting will be subject to a pro-rata reduction by reference to relevant performance achievement, and the period elapsed between the award date and date of cessation, unless the Remuneration Committee determines the reduction is not appropriate. Shares will vest at the end of the vesting period (five years from grant) or such earlier date as the Remuneration Committee determines. Where a participant ceases employment after the first three years of the performance 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.	Where a participant ceases to be an employee during the first three years of the restricted period, the number of shares vesting will be subject to a pro-rata reduction by reference to the period elapsed between the award date and the date of cessation, unless the Remuneration Committee determines the reduction is not appropriate. Shares will vest at the end of the vesting period (five years from grant) or such earlier date as the Remuneration Committee determines. Where participants cease employment after the first three years of the restricted period, no pro-rating will apply but awards will vest on the fifth anniversary of the grant of the award unless the Remuneration Committee exercises its discretion to permit earlier vesting.
Bad leaver	Where a participant ceases to be an employee before the end of the deferral period, awards will lapse in full on the date of cessation. The Committee retains discretion to override this rule in whole or in part except in circumstances where the participant is dismissed for reason of misconduct.	Where a participant ceases to be an employee during the first three years of the performance period, all outstanding shares will lapse immediately on cessation. Where participants cease employment after the first three years of the performance period, awards will vest on the fifth anniversary of the grant of the award or such earlier date as the Committee may determine, except in circumstances where the participant is dismissed.	Where a participant ceases to be an employee during the first three years of the restricted period, all outstanding shares will lapse immediately on cessation. Where participants cease employment after the first three years of the restricted period, awards will vest on the fifth anniversary of the grant of the award or such earlier date as the Committee may determine, except in circumstances where the participant is dismissed.
Change of control	On a change of control of the Company during the deferral period, awards will vest in full on the date of the event.	On a change of control of the Company prior to the vesting date of an LTIP award (the fifth anniversary of grant), an award will vest on the date of the event and 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.	On a change of control of the Company prior to the vesting date of an RSP award, an award will vest on the date of the event over such number of shares as the Committee determines, considering the time elapsed since the grant date and any other factors considered relevant.

The Remuneration Committee has the discretion to permit acceleration of vesting and to disapply pro-rating.

Non-Executive Directors' contracts

The Non-Executive Directors' contracts run for an indefinite period, with the Company being able to terminate the contracts without cause giving 12 months' notice. If the Shareholders do not re-elect a Non-Executive Director, or they are retired from office under the Articles, their appointment terminates automatically with immediate effect and without compensation. In accordance with the Code, Non-Executive Directors will not serve more than nine years. Non-Executive Directors are not entitled to share-based incentives or pensions.

Shareholder consultation

The Remuneration Committee's policy is to consult with major Shareholders on significant decisions on Executive remuneration. The development of this Policy was subject to consultation with Shareholders and proxy agency advisers. Feedback from any engagement is considered by the Committee on a timely basis.

More generally, the Committee is kept updated on the latest guidance from the proxy agency and major institutional Shareholders.

Statement of consideration of employment conditions elsewhere in the Company

Pay and conditions throughout the Group are considered when setting the remuneration policy. The Committee will be regularly informed of remuneration trends and issues throughout the workforce and keeps this in mind when determining the Policy for Executive Directors.

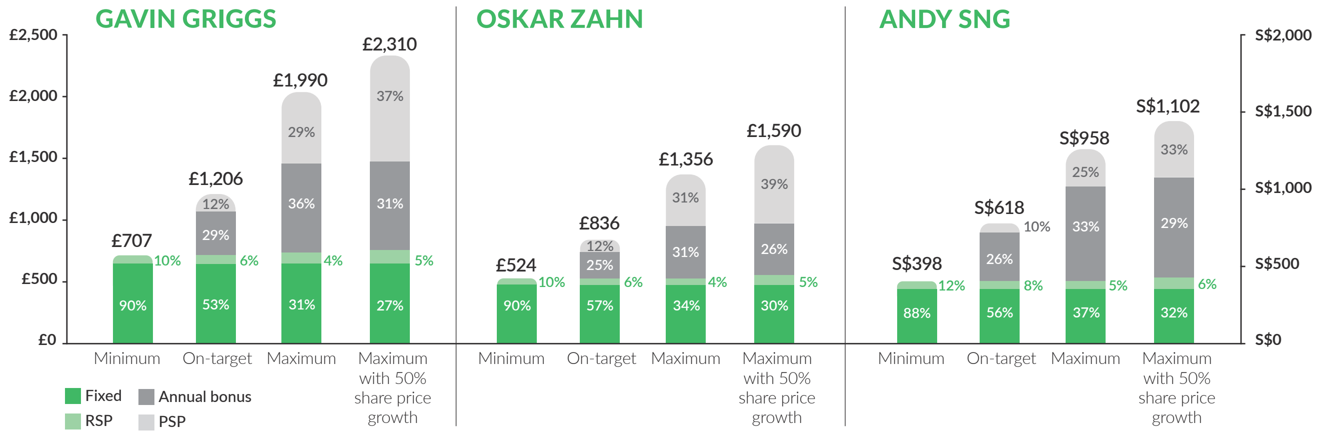
Fixed pay is set for wider employees in a similar way to that for the Executive Directors, albeit in some locations pay is subject to local regulatory compliance. The use of incentive pay will vary across the business and any performance measures used will reflect the nature of the specific role and its location.

The Remuneration Committee does not consult directly with other employees when setting Executive Director remuneration. However, the Chair of the Remuneration Committee is also the designated Non-Executive Director responsible for workforce engagement and has conducted several activities that have included the opportunity to discuss executive remuneration with employees.

Illustration of the application of the Directors' remuneration policy

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

All figures are shown in thousands.

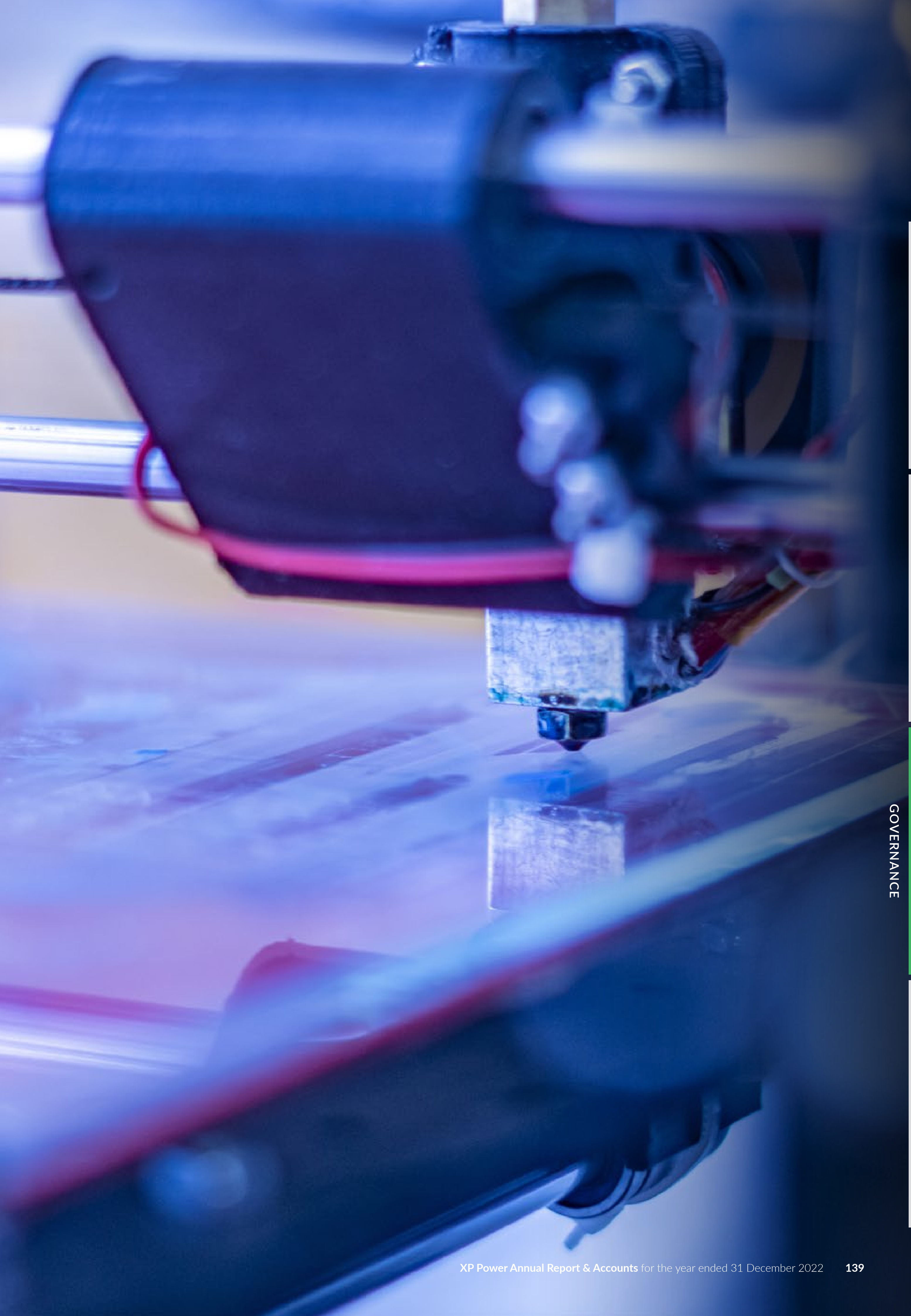


The charts above illustrate the value of the remuneration package for each Executive in 2023, under four scenarios:

- 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 LTIP (25% of maximum)
- Maximum: Fixed pay, full vesting under the RSP, maximum outturn under the annual bonus and full vesting under the LTIP
- Maximum (with 50% share price growth): As shown in the "maximum" scenario, with 50% share price appreciation assumed for the RSP and LTIP

For the purposes of the charts above, the fixed elements of remuneration are as follows (on annualised basis):

Position	Name	Base salary (effective April 2023)	Benefits (as per FY22)	Pension	Total fixed pay
Chief Executive Officer	Gavin Griggs	£570,000	£21,800	£44,000	£635,800
Chief Financial Officer	Oskar Zahn	£416,000	£22,500	£33,300	£471,800
Executive Vice President, Asia	Andy Sng	S$320,000	S$11,400	S$18,700	S$350,100



OTHER GOVERNANCE AND STATUTORY DISCLOSURES

Dividends

Dividends paid during the year and proposed are as follows:

Period	Payment date	Amount	2021 comparative
First quarter	14 July 2022	18.0 pence	18.0 pence
Second quarter	13 October 2022	19.0 pence	19.0 pence
Third quarter	18 January 2023	21.0 pence	21.0 pence
Fourth quarter (proposed)	27 April 2023	36.0 pence	36.0 pence
Total		**94.0 pence**	**94.0 pence**

The Directors are recommending a final dividend of 36.0 pence per share, which would be paid on 27 April 2023 to members on the register as at 24 March 2023. This would make the total dividend for the year at 94.0 pence (2021: 94.0 pence), which is an increase of 0%.

The trustee of the Employee Benefit Trust has waived its right to dividends paid on any ordinary shares it holds on the terms of the Employee Benefit Trust in respect of the period covered by the financial statements and future periods. Such waivers represent less than 1% of the total dividend payable on the Company's ordinary shares.

Directors and directors' interests

The Company's Articles of Association (the "Articles") give the Directors power to appoint and replace Directors. Under the terms of reference of the Nomination Committee, any appointment must be recommended by the Nomination Committee for approval by the Board of Directors.

Directors of the Company in office at 31 December 2022 and at the date of this report, together with their biographical details, are shown on pages 94-95. In addition, Terry Twigger served as a Non-Executive Director until 29 April 2022. Details of the Directors' service contracts are given in the Directors' Remuneration Report on page 136 and 138.

The present membership of the Board and interests of the Directors in the shares of the Company are set out in the Directors' Remuneration Report. No Director had any dealings in the shares of the Company between 31 December 2022 and the date of this report.

In line with the 2018 UK Corporate Governance Code, each relevant Director will be standing for election or re-election, as appropriate, at the forthcoming AGM.

Liability insurance and indemnities

The Company has agreed to indemnify, to the extent permitted by law, each of the Company's Directors against any liability incurred in respect of acts or omissions arising during their office. Each Director is covered by appropriate directors' and officers' liability insurance, at the Company's expense.

Share capital and capital structure

At the date of this report, the total share capital of the Company was 19,742,296 ordinary shares of 1 pence each, of which 7,500 were held in treasury. Therefore, the total voting rights in the Company are 19,734,796. Ordinary Shareholders are entitled to receive notice of and to attend and speak at general meetings. On a show of hands, every Shareholder present in person or by proxy (or a duly authorised corporate representative) shall have one vote and, on a poll, every member present in person or by proxy (or a duly authorised corporate representative) shall have one vote for every share held by that member. The rights and obligations attached to the ordinary shares are governed by the Articles and prevailing legislation. There are no other classes of share capital.

There are no restrictions on the voting rights attached to the Company's ordinary shares or on the transfer of shares in the Company. No Shareholder holds shares in the Company that carry special rights or control of the Company's share capital. The Directors are not aware of any agreements between holders of shares that may result in restrictions on the transfer of shares or on voting rights.

Power to issue and allot

At the 2022 AGM, authority was given to the Directors to allot unissued shares in the Company up to a maximum amount equivalent to approximately one-third of the issued share capital, excluding shares held in treasury, for general purposes, plus up to a further one-third of the Company's issued share capital, excluding shares held in treasury, but only in the case of a rights issue. A further special resolution passed at that meeting granted authority to the Directors to allot equity securities in the Company for cash up to five per cent of the Company's then issued ordinary share capital without regard to the pre-emption rights. Both authorities expire on the date of the 2023 AGM, where the Directors propose to renew them for a further year.

Authority to purchase own shares

At the 2022 AGM, Shareholders gave the Company authority to make market purchases of up to 10 per cent of the Company's then issued ordinary share capital. Any shares purchased in this way could either be cancelled or held in treasury (or a combination of these). No purchases have been made under this authority. The Directors propose to seek an equivalent authority at the 2023 AGM, but have no current intention of using this authority, if granted.

Annual General Meeting

Details of the Company's AGM and the proposed resolutions will be set out in a separate Notice of Meeting.

Independent auditor

Our Auditor, PwC LLP, has indicated their willingness to continue in office, and on the recommendation of the Audit Committee, resolutions to reappoint PwC LLP as Auditor and to authorise the Directors to determine the Auditor's remuneration will be proposed at the forthcoming AGM.

Articles of association

Any amendments to the Articles of Association of the Company may be made by special resolution of the Shareholders.

Significant contracts and change of control

The Group has borrowing facilities that may require the immediate repayment of all outstanding loans together with accrued interest in the event of a change of control. The rules of the Company's employee share plans set out the consequences of a change in control of the Company on participants' rights under the plans. Generally, such rights will vest and become exercisable on a change of control subject to the satisfaction of performance conditions.

None of the Executive Directors' service contracts contain provisions that are affected by a change of control and there are no other agreements that the Company is party to that take effect, alter or terminate in the event of a change of control of the Company, which are considered to be significant in terms of their potential impact on the Group. The Company does not have any contractual or other arrangements that are essential to the business of the Group.

Political donations

The Group did not make any political donations or incur any political expenditure during the year.

Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risks are contained in Note 31 on pages 188-193.

Post-balance sheet events

There were no material post-balance sheet events that were required to be disclosed.

Incorporation by reference

The Company's business activities, together with factors that potentially affect its future development, performance or position, can be found on pages 20-45. The Group's key activity in R&D is discussed in the Operational Review on page 40. Details of the Company's financial position and cash flows are outlined in the Financial Review on pages 46-49, and the Group's Viability Statement is on page 58.

Information required to be disclosed by Listing Rule (LR) 9.8.4R can be found in the following locations within the Annual Report:

Listing Rule Section	Topic	Location and page
(1)	Capitalised interest	Note 6 to the Group's Consolidated Financial Statements on page 167. Related tax relief is insignificant.
(2)	Publication of unaudited financial information	Nothing to disclose
(4)	Details of long-term incentive plans established specifically to recruit or retain a director	Nothing to disclose
(5) (6)	Waiver of emoluments by a director of the company	Nothing to disclose
(7) (8)	Allotments for cash of ordinary shares	Nothing to disclose
(9)	Parent participation in a placing by a listed subsidiary	Nothing to disclose
(10)	Contracts of significance	Nothing to disclose
(11) (14)	Controlling Shareholder disclosures	Nothing to disclose
(12) (13)	Dividend waiver	Other disclosures on page 140

STATEMENT BY DIRECTORS

In the opinion of the Directors,

a. that the balance sheet of the Company and consolidated financial statements of the Group, as set out on pages 149-152, are drawn up to give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2022, and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and

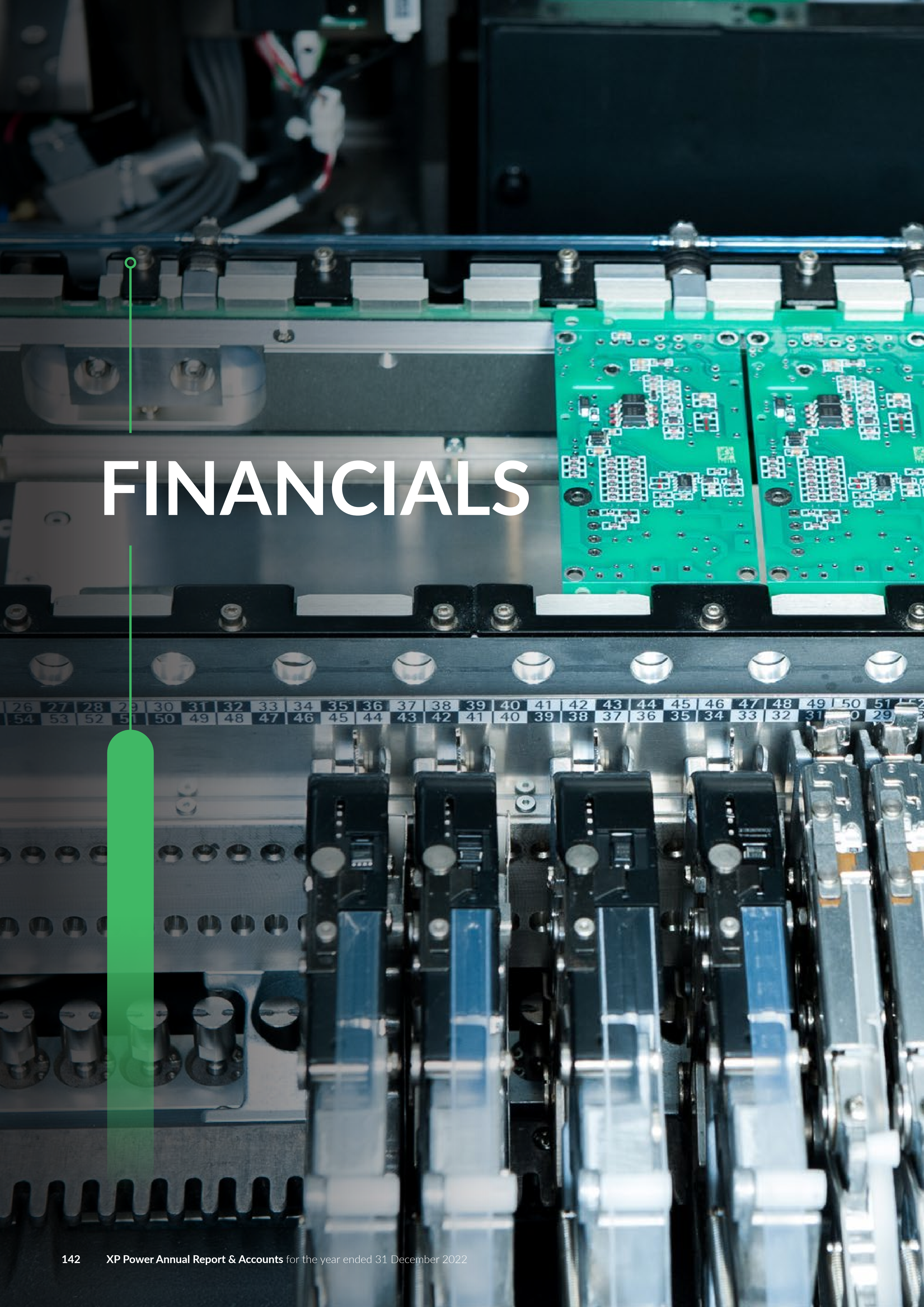
b. at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors

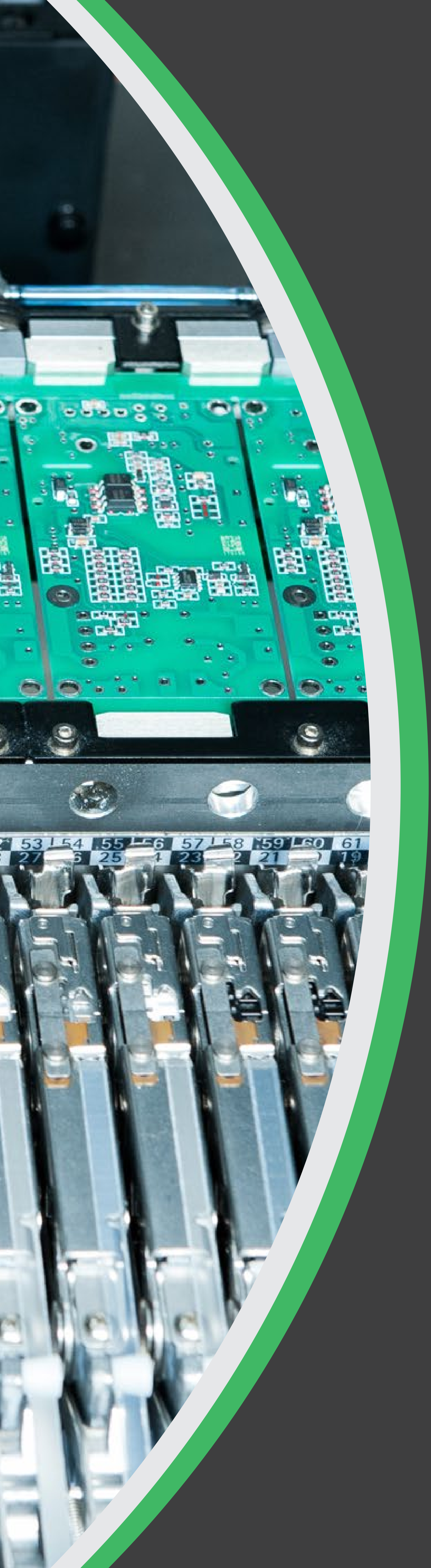
JAMES PETERS
NON-EXECUTIVE CHAIR

GAVIN GRIGGS
CHIEF EXECUTIVE OFFICER

28 February 2023



FINANCIALS



CONTENTS

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF XP POWER LIMITED

Report on the Audit of 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 1967 (the "Act"), Singapore Financial Reporting Standards (International) ("SFRS(I)s") and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IFRSs as issued by the IASB"), 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 2022, 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 2022;
- The consolidated balance sheet of the Group as at 31 December 2022;
- The balance sheet of the Company as at 31 December 2022;
- 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.

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 financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Our audit approach – overview

Materiality

The overall materiality which we have used to plan our work for the Group amounted to £1.8 million. The overall materiality applied to the audit of the Company balance sheet amounted to £1.0 million.

Audit scope

We performed an audit of the complete financial information and of significant financial statement line items for significant reporting units which included operations based in North America, Europe and Asia. This accounted for approximately 91% of Group revenues and 97% of Group assets.

Key Audit Matters

We identified the following key audit matters:

- Goodwill; and
- Capitalised product development costs.

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 £0.2 million to £1.0 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 adjusted 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.

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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF XP POWER LIMITED CONTINUED

KEY AUDIT MATTERS	HOW DID OUR AUDIT ADDRESS THESE
Goodwill Refer to page 116 (Report from the Chair of the Audit Committee), page 162 (Critical accounting estimates, assumptions and judgements – Recoverable amount of cash-generating units for goodwill impairment) and page 170 (Note 11 – Goodwill). The Group has goodwill of £77.5 million at 31 December 2022 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 represents 16% of total assets, and because of the significant judgements used to estimate key assumptions applied in computing the recoverable amounts of different CGUs for the purpose of impairment assessment. Key assumptions include future revenue growth rate, terminal growth rate and discount rate. The Group has also assessed the impact of climate change on the assumptions used in goodwill impairment assessment and disclosed them in Note 11 to the financial statements.	We inquired and evaluated management's definition of CGUs. We assessed the reasonableness of management's assumptions used to compute the recoverable amounts of the CGUs by: • Reviewing historical revenue and cost trends; • Inquiring management's future plans for growth and cost optimisation; • Benchmarking key market-related assumptions with relevant economic and industry indicators; • Reviewing forecasted capital expenditure to management's budget and plans; • Benchmarking terminal growth rate with forecasted long-term growth rates of each region; and • Computing independent discount rates. We reviewed management's sensitivity analysis which considers reasonably possible changes to key assumptions, including unfavourable changes to assumptions arising from climate change. Based on the above, no exceptions were noted.
Capitalised product development costs Refer to page 116 (Report from the Chair of the Audit Committee), page 162 (Critical accounting estimates, assumptions and judgements – Capitalisation of product development costs, Recoverable amount of capitalised product development costs, Useful lives of capitalised product development costs) and page17(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 2022, the carrying amount of capitalised product development costs is £30.4 million, of which £8.1 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 6% 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 amount of the capitalised product development costs is heavily dependent on the useful lives of the developed products. Management has 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 challenging management through discussions and qualitative reviews of the products' technical and commercial feasibility. We also tested the accuracy and allocation of capitalised material costs and labour costs. We reviewed management's impairment assessment on capitalised product development costs and verified inputs such as historical sales, unfulfilled customer orders and correspondences with customers on forecasted demand and future plans. We also reviewed the business cases of products in development and verified that the growth assumptions applied are not unreasonable. We also 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. We also evaluated the appropriateness of the impairment of the projects relating to the Comet legal case. Based on the above, no exceptions were noted.

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 141, 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 58. 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 02–17, "Strategic Report" section set out on pages 20–87, "Governance" section set out on pages 90–141, and the "Financials" section on page 206 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, SFRS(I)s and IFRSs as issued by the IASB, 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 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 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 financial statements, including the disclosures, and whether the 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 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

28 February 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

£m	Note	2022	2021
Revenue	4	**290.4**	240.3
Cost of sales	7	**(169.8)**	(132.0)
Gross profit		**120.6**	108.3
Other income		*	*
Expenses			
Distribution and marketing	7	**(58.2)**	(47.8)
Administrative	7	**(58.6)**	(14.0)
Research and development	7	**(27.9)**	(16.8)
Operating (loss)/profit		**(24.1)**	29.7
Finance expenses	6	**(6.1)**	(1.3)
(Loss)/profit before tax		**(30.2)**	28.4
Income tax credit/(expense)	8	**10.6**	(5.4)
(Loss)/profit after tax		**(19.6)**	23.0
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation attributable to equity holders of the Company		**7.2**	0.9
		7.2	0.9
Items that will not be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation attributable to non-controlling interests		*	*
Other comprehensive income for the year, net of tax		**7.2**	0.9
Total comprehensive (loss)/income for the year		**(12.4)**	23.9
(Loss)/profit after tax attributable to:			
Equity holders of the Company		**(20.0)**	22.6
Non-controlling interests		**0.4**	0.4
		(19.6)	23.0
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		**(12.8)**	23.5
Non-controlling interests		**0.4**	0.4
		(12.4)	23.9
(Loss)/earnings per share for (loss)/profit after tax attributable to equity holders of the Company (pence per share)			
Basic (loss)/earnings per share	10	**(102.0)**	115.8
Diluted (loss)/earnings per share	10	**(101.6)**	113.8

* Balance is less than £100,000.

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2022

£m	Note	2022	2021
ASSETS			
Current assets			
Cash and bank balances	16	**22.3**	9.0
Inventories	17	**114.4**	74.0
Trade receivables	18	**42.4**	30.8
Bond receivable	25	**37.0**	–
Other current assets	19	**8.0**	5.0
Derivative financial instruments	23	*****	*
Current income tax receivable		**2.5**	2.9
Total current assets		**226.6**	121.7
Non-current assets			
Cash and bank balances	16	**1.1**	–
Goodwill	11	**77.5**	52.5
Intangible assets	12	**69.9**	56.3
Property, plant and equipment	13	**36.6**	30.2
Right-of-use assets	14	**54.9**	8.3
Deferred income tax assets	26	**15.1**	3.2
ESOP loan to employees		*****	*
Other investment		*****	–
Total non-current assets		**255.1**	150.5
Total assets		**481.7**	272.2
LIABILITIES			
Current liabilities			
Current income tax liabilities		**4.8**	2.4
Trade and other payables	20	**52.6**	44.7
Derivative financial instruments	23	**0.1**	0.1
Lease liabilities	22	**2.4**	1.6
Accrued consideration	21	**–**	*
Provisions	24	**46.1**	*
Borrowings	22	**0.2**	0.2
Total current liabilities		**106.2**	49.0
Non-current liabilities			
Accrued consideration	21	**1.5**	1.3
Borrowings	22	**174.2**	33.4
Deferred income tax liabilities	26	**10.5**	9.4
Provisions		**0.9**	0.2
Lease liabilities	22	**48.9**	6.5
Total non-current liabilities		**236.0**	50.8
Total liabilities		**342.2**	99.8
NET ASSETS		**139.5**	172.4
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	27	**27.2**	27.2
Merger reserve	27	**0.2**	0.2
Share-based payments reserve	27	**2.5**	5.6
Treasury shares	27	*****	*
Translation reserve	27	**4.2**	(2.9)
Other reserve	27	**6.1**	4.4
Retained earnings	27	**98.4**	137.0
		138.6	171.5
Non-controlling interests		**0.9**	0.9
TOTAL EQUITY		**139.5**	172.4

* Balance is less than £100,000.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

		Attributable to equity holders of the Company									
£m	**Note**	**Share capital**	**Share-based payments reserve**	**Treasury shares reserve**	**Merger reserve**	**Translation reserve**	**Other reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2021		**27.2**	**4.1**	**(0.1)**	**0.2**	**(3.8)**	**3.6**	**132.6**	**163.8**	**0.7**	**164.5**
Exercise of share-based payment awards		–	(0.5)	0.1	–	–	1.0	–	0.6	–	0.6
Share-based payment expenses		–	1.5	–	–	–	–	–	1.5	–	1.5
Tax on share-based payment expenses		–	0.5	–	–	–	–	–	0.5	–	0.5
Dividends paid	9	–	–	–	–	–	–	(18.2)	(18.2)	(0.2)	(18.4)
Future acquisition of non-controlling interest		–	–	–	–	–	(0.2)	–	(0.2)	–	(0.2)
Other comprehensive income		–	*	–	–	0.9	–	*	0.9	*	0.9
Profit for the year		–	–	–	–	–	–	22.6	22.6	0.4	23.0
Total comprehensive income for the year		–	*	–	–	0.9	–	22.6	23.5	0.4	23.9
Balance at 31 December 2021		**27.2**	**5.6**	*****	**0.2**	**(2.9)**	**4.4**	**137.0**	**171.5**	**0.9**	**172.4**
Exercise of share-based payment awards		–	(1.8)	*	–	–	1.8	–	*	–	*
Share-based payment expenses		–	0.1	–	–	–	–	–	0.1	–	0.1
Tax on share-based payment expenses		–	(1.5)	–	–	–	–	–	(1.5)	–	(1.5)
Dividends paid	9	–	–	–	–	–	–	(18.6)	(18.6)	(0.4)	(19.0)
Acquisition of non-controlling interest		–	–	–	–	–	*	–	*	*	–
Future acquisition of non-controlling interest		–	–	–	–	–	(0.1)	–	(0.1)	–	(0.1)
Other comprehensive income		–	0.1	–	–	7.1	–	–	7.2	*	7.2
(Loss)/profit for the year		–	–	–	–	–	–	(20.0)	(20.0)	0.4	(19.6)
Total comprehensive income/(loss) for the year		–	0.1	–	–	7.1	–	(20.0)	(12.8)	0.4	(12.4)
Balance at 31 December 2022		**27.2**	**2.5**	*****	**0.2**	**4.2**	**6.1**	**98.4**	**138.6**	**0.9**	**139.5**

* Balance is less than £100,000.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

£m	Note	2022	2021
Cash flows from operating activities			
(Loss)/profit after tax		**(19.6)**	23.0
Adjustments for:			
– Income tax (credit)/expense	8	**(10.6)**	5.4
– Amortisation and depreciation	7	**17.6**	13.2
– Finance expenses	6	**6.1**	1.3
– Share-based payment expenses	5	**0.1**	1.5
– Fair value (gain)/loss on derivative financial instruments	7	**(0.1)**	0.3
– Loss on disposal of property, plant, and equipment		*	*
– Impairment loss on intangible assets		**7.8**	–
– Unrealised currency translation gain		**(12.6)**	(0.1)
– Provision for doubtful debts	31(d)	*	*
– Provision for legal dispute	24	**46.9**	–
Change in working capital, net of effects from acquisitions:			
– Inventories	28	**(24.8)**	(19.0)
– Trade and other receivables and other current assets	28	**(9.5)**	(1.1)
– Trade and other payables	28	**0.2**	16.1
– Provision for liabilities and other charges	28	**0.6**	*
Cash generated from operations		**2.1**	40.6
Income tax paid, net of refund		**(4.1)**	(4.2)
Net cash (used in)/provided by operating activities		**(2.0)**	36.4
Cash flows from investing activities			
Acquisition of subsidiaries	32(b)	**(33.0)**	–
Purchases and construction of property, plant and equipment	13	**(7.5)**	(5.5)
Additions of product development costs	12	**(8.0)**	(8.3)
Additions of software and software under development	12	**(3.9)**	(8.1)
Purchase of bond receivable	25	**(36.9)**	–
Proceeds from disposal of property, plant and equipment		*	*
Proceeds from repayment of ESOP loans		*	*
Interest received		*	*
Payment of accrued consideration	21	*	–
Net cash used in investing activities		**(89.3)**	(21.9)
Cash flows from financing activities			
Proceeds from borrowings	22	**170.3**	3.7
Repayment of borrowings	22	**(35.6)**	(2.9)
Principal payment of lease liabilities	22	**(5.8)**	(1.7)
Proceeds from exercise of share-based payment awards		*	0.6
Interest paid	22	**(5.5)**	(0.9)
Dividend paid to equity holders of the Company	9	**(18.6)**	(18.2)
Dividend paid to non-controlling interests		**(0.4)**	(0.2)
Bank deposit pledged		**(1.1)**	–
Net cash provided by/(used in) financing activities		**103.3**	(19.6)
Net increase/(decrease) in cash and cash equivalents		**12.0**	(5.1)
Cash and cash equivalents at beginning of financial year		**8.8**	13.9
Effects of currency translation on cash and cash equivalents		**1.3**	*
Cash and cash equivalents at end of financial year	16	**22.1**	8.8

* Balance is less than £100,000.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

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 19 Tai Seng Avenue, #07-01, Singapore 534054.

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 02–03.

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 'IFRSs' as issued by the International Accounting Standards Board (IFRSs as issued by the IASB) and Singapore Financial Reporting Standards (International) 'SFRS(I)s'.

All references to SFRS(I)s and IFRSs are subsequently referred to as IFRS in these consolidated financial statements unless otherwise specified.

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 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.

Certain comparative amounts have been reclassified for consistency with the presentation of the 2022 consolidated financial statements.

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 20–25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 46–49. The principal risks of the Group are set out on pages 51–57. 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 2022, the Group adopted the new or amended IFRS, Interpretations issued by the IFRS Interpretations Committee of the IASB 'IFRIC' and Interpretations of SFRS(I) 'INT SFRIS(I)' (collectively referred to as 'Standards and Interpretations') 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 Standards and Interpretations.

The adoption of these new or amended Standards and Interpretations 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 2022 reporting periods and have not been early adopted by the Group. These are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Revenue recognition

A. SALES OF GOODS

The Group manufactures and sells a range of power products. Sales are recognised at a point in time when control of the products has transferred to its customer. Transfer of control occurs when delivery to the customer takes place, depending on the delivery terms agreed with the customer.

Power products are sometimes sold with volume discounts based on aggregate sales over a 12-month period or early payment discounts if the customers made early repayment. Revenue from these sales is recognised based on the price specified in the contract, net of the discounts. Accumulated experience is used to estimate and provide for the volume discounts, using the expected value method, and early payment discounts, using most likely approach. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice. The Group will usually issue a credit note for refund for faulty products.

A receivable (financial asset) is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

Volume rebates and early payment discounts are recognised when the goods are delivered and is presented as a reduction in trade and other receivables.

The Group has elected to apply the practical expedient not to adjust the transaction price for the existence of significant financing component when the period between the transfer of control of good or service to a customer and the payment date is one year or less.

B. INTEREST INCOME

Interest income from financial assets at amortised cost is recognised using the effective interest rate method.

2.3 Group accounting

A. SUBSIDIARIES

i Consolidation

Subsidiaries are all entities (including structured 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

ii Acquisitions

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

Acquisition-related cots are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, 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 at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill. Please refer to Note 2.7 for the subsequent accounting policy on goodwill.

B. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised within equity attributable to the equity holders of the Company.

2.4 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

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss. Monetary items include primarily financial assets (other than equity investments), contract assets and financial liabilities. Foreign exchange gains and losses impacting profit or loss are presented in the income statement within "operating expenses".

Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

C. TRANSLATION OF GROUP ENTITIES' FINANCIAL STATEMENTS

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities are translated at the closing exchange rates at the reporting date;

ii. Income and expenses are translated at average exchange rates (unless the average is not 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); and

iii. All resulting currency translation differences 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 with loss of control of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date.

The Group has elected to treat goodwill and fair value adjustments arising on the acquisitions before the date of initial transition to IFRS as Pounds Sterling-denominated assets and liabilities translated using the exchange rates at the dates of the acquisitions.

2.5 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted-average cost formula. 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). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

2.6 Property, plant and equipment

A. MEASUREMENT

i Property, plant and equipment
Items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

ii Components of costs
The 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.

B. DEPRECIATION

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

	Useful lives
Buildings	20–50 years
Plant and equipment	3–10 years
Motor vehicles	4–5 years
Building improvements	3–10 years

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 profit or loss when the changes arise.

C. SUBSEQUENT EXPENDITURE

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance expenses are recognised in profit or loss when incurred.

D. DISPOSAL

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within "operating expenses".

2.7 Intangible assets

A. GOODWILL

Goodwill on acquisitions of subsidiaries and businesses, represents the excess of (i) the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the identifiable net assets acquired. Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

B. OTHER INTANGIBLE ASSETS

Other intangible assets include internally-generated assets and acquired assets. They are initially capitalised at cost and 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 as follows:

	Useful lives
Product development costs	3–7 years
Software	10 years
Brand	2–10 years
Technology	5–10 years
Customer relationships	5–10 years
Customer contracts	1–1.5 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.

i Product development costs (internally-generated)
The Group is involved in research and development activities. Research costs are recognised as an expense when incurred. Costs directly attributable to the development of products are capitalised as intangible assets only when technical feasibility of the project is demonstrated, the Group has an intention and ability to complete and use the products and the costs can be measured reliably. Such costs include purchases of materials and services and payroll-related costs of employees directly involved in the project.

ii Software (internally-generated)
The Group is involved in the implementation of an enterprise resource planning system. Costs associated with maintaining software programmes are recognised as an expense when incurred. Costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the capitalisation criteria for development phase stated in IAS 38 Intangible Assets is met. Such costs mainly include consultancy costs and payroll-related costs of employees directly involved in the implementation.

2.8 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to the development of internally-generated intangible assets. This includes costs on general borrowings used to finance the development of internally-generated intangible assets. Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to development expenditures that are financed by general borrowings. Costs are capitalised during the period of time that is required to complete and prepare the qualifying asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

2.9 Impairment of non-financial assets

A. GOODWILL

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group’s cash-generating units 'CGU' expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU’s fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised as an expense is not reversed in a subsequent period.

B. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS

Intangible assets, property, plant and equipment and right-of-use assets are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. For intangible assets that are not available for use, the Group tests them for impairment, at least annually as well.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

For an asset other than goodwill, management assesses at the end of the reporting period whether there is any indication that an impairment recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated and may result in a reversal of impairment loss. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

2.10 Financial assets

A. CLASSIFICATION AND MEASUREMENT

The Group classifies its financial assets in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVPL).

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 asset.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

i At initial recognition

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.

ii At subsequent measurement

Debt instruments

Debt instruments mainly comprise of cash and bank balances, trade receivables, other current assets (excluding prepayments, VAT receivables and rights to returned goods) and bond receivable.

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 interest income using the effective interest rate method.
- FVOCI: Debt instruments that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are measured at 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 or 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 income". Interest income from these financial assets is recognised using the effective interest rate method and presented in "interest income".
- 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 FVPL. Movement in fair values and interest income is recognised in profit or loss in the period in which it arises and presented in "other income".

B. IMPAIRMENT

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 50 details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

C. RECOGNITION AND DERECOGNITION

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On disposal of a debt instrument, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

2.11 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.

2.12 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They 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). Otherwise, 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

Provision for legal dispute is recognised when the Group has a present legal or constructive obligation as a result of past events, 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.

Other 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 in the statement of comprehensive income as finance expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

2.14 Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss 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 draw-down 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.

When the contractual cash flows of borrowings are modified and does not result in derecognition, differences between the recalculated gross carrying amount and the carrying amount before modification is recognised in profit or loss as modification gain or loss, at the date of modification.

Borrowings are derecognised when the obligation is discharged, cancelled or expired. The difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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 conveys 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.

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 liabilities are measured at amortised cost using the effective interest method. Lease liabilities 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 a modification in the scope or the consideration of the lease that was not part of the original term.

Lease liabilities are 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.

2.15 Leases continued

C. SHORT-TERM AND LOW-VALUE LEASES

The Group has elected to not recognise 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

A derivative financial instrument for which no hedge accounting is applied is initially recognised at its fair value on 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.

2.17 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from tax authorities, using the tax rates and tax laws 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 and considers whether it is probable that a tax authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

a. at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and
b. based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

The Group accounts for investment tax credits similar to accounting for other tax credits where a deferred tax asset is recognised for unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised.

For equity-settled share-based payments, as the timing of the tax deduction and the recognition of the share-based payment expenses differs, the Group recognises the related deferred tax asset if the deferred tax asset recognition criteria are met. 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.

2.18 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the balance sheet. For cash subjected to restriction, assessment is made on the economic substance of the restriction and whether they meet the definition of cash and cash equivalents.

2.19 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

A. DEFINED CONTRIBUTION PLANS

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund in Singapore on a mandatory, contractual or voluntary basis. The Group has no further obligations once the contributions have been paid.

B. SHARE-BASED COMPENSATION

The Group operates an equity-settled, share-based compensation plan. The value of the employee services received in exchange for the grant of share-based payment awards is recognised as an expense with a corresponding increase in the share-based payments reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the share-based payment awards granted on grant date. Non-market vesting conditions are included in the estimation of the number of shares under awards that are expected to become exercisable on the vesting date.

At each balance sheet date, the Group revises its estimates of the number of shares under awards that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share-based payments reserve over the remaining vesting period.

When the share-based payment awards are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share-based payments reserve are credited to the share capital account, when new ordinary shares are issued, or to the “treasury shares” account, when treasury shares are re-issued to the employees. Upon expiry of the share-based payment awards, the balance previously recognised in the share-based payments reserve are credited to retained earnings.

C. PROFIT SHARING AND BONUS PLANS

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company’s shareholders after certain adjustments. The Group recognises an accrual when it is contractually obliged to pay or when there is a past practice that has created a constructive obligation to pay. Under some profit-sharing or deferred bonus plans, employees receive a share of the profits or bonus only if they remain with the entity for a specified period in the future. The measurement of such benefit reflects the possibility that some employees may leave without receiving the profits or bonus. A liability for the benefit shall be accrued over the vesting period.

D. EMPLOYEE LEAVE ENTITLEMENTS

Employee entitlements to annual leave are recognised in profit or loss 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.

2.20 Share capital, treasury shares and other reserve

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When any entity within the Group purchases the Company’s ordinary shares (“treasury shares”), the carrying amount which includes the consideration paid and any directly attributable transaction cost is presented as a component within 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 an equity-settled share-based payment plan, the cost of treasury shares is reversed from the treasury share account 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 other reserve.

Other reserve also 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.

2.21 Dividend distribution

Dividends to the Company’s shareholders are recognised when the dividends are approved for payment, or, in the case of interim dividends, when paid.

2.22 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 estimates, assumptions and judgements

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. CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

i Capitalisation of product development costs

During the year, £8.1 million (2021: £8.3 million) of product development costs have been capitalised. Management has evaluated whether a project has entered the development phase before capitalising the costs that are directly attributable to the project. The assessment is based on information documented in business cases prepared by the engineering teams and approved by senior management. Management has considered the capitalisation criteria stated in IAS 38 Intangible Assets which includes the technical feasibility, intention and ability to complete the project when reviewing the business cases. The business cases also contain sales forecasts which indicate the probable future economic benefits of the projects. All product development costs are tracked and monitored which allow management to measure reliably the expenditure attributable to each project. Significant judgements are involved when management performs the assessment.

B. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

i Recoverable amount of capitalised product development costs

As at 31 December 2022, the net book value of capitalised product development costs amounts to £30.4 million (2021: £30.0 million). For the purpose of impairment review, management has compared the carrying amount of the respective projects to their forecasted revenues. For some projects, significant judgements are used to estimate the future sales and growth rates applied in computing the recoverable amounts. In making these estimates, management has relied on performance of past projects, its communications with the intended customers and its expectations of industry trends and market development in the respective regions where the finished products will be marketed.

ii Useful lives of capitalised product development costs

The Group estimates the useful lives of capitalised product 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 product development costs based on the expected life cycle of these products, taking into consideration expected customer demand and technological innovation.

iii Recoverable amount of cash-generating units for goodwill impairment assessment

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, revenue growth rates and terminal growth rates. 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 CGUs.

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 expansionary growth from that date. The carrying amount of goodwill as at 31 December 2022 was £77.5 million (2021: £52.5 million) with no impairment adjustment required for 2022.

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.

Management has also performed a sensitivity analysis on the impact of climate-related risks. The recoverable amounts remain higher than the carrying amounts as at 31 December 2022 and no impairment loss is recognised.

4. Segment 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, right-of-use assets, goodwill, intangible assets, inventories, trade receivables, cash and cash equivalents, derivative financial instruments and exclude tax assets.

Segment liabilities comprise trade and other current liabilities, derivative financial instruments, borrowings, accrued contingent consideration and exclude tax liabilities.

(i) Revenue

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions.

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

	Year to 31 December 2022				Year to 31 December 2021			
£m	**Europe**	**North America**	**Asia**	**Total**	**Europe**	**North America**	**Asia**	**Total**
Semiconductor Manufacturing Equipment	**2.7**	**93.8**	**16.9**	**113.4**	3.0	75.2	15.1	93.3
Industrial Technology	**61.3**	**44.5**	**13.8**	**119.6**	43.7	37.1	11.2	92.0
Healthcare	**22.5**	**28.9**	**6.0**	**57.4**	20.6	28.9	5.5	55.0
Total	**86.5**	**167.2**	**36.7**	**290.4**	67.3	141.2	31.8	240.3

Revenues of £48.3 million (2021: £40.2 million) are derived from a single external customer. These revenues are attributable to the semiconductor manufacturing equipment sector across all geographical regions.

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

£m	**2022**	**2021**
North America	**167.3**	144.5
United Kingdom	**25.9**	27.9
Singapore	**36.9**	29.1
Germany	**40.8**	21.4
Switzerland	**1.4**	1.7
France	**3.5**	3.3
Other countries	**14.6**	12.4
Total revenue	**290.4**	240.3

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

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.

4. Segment and revenue information continued

(ii) Segment

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2022 and prior year comparatives is as follows:

Reconciliation of segment results to profit after tax:

£m	2022	2021
Europe	**21.5**	20.3
North America	**48.5**	46.1
Asia	**10.5**	10.0
Segment results	**80.5**	76.4
Research and development		
– Employee compensation	**(13.0)**	(10.5)
– Amortisation of intangible assets	**(2.2)**	(2.1)
– Depreciation of property, plant and equipment	**(1.3)**	(0.9)
– Safety and approval	**(0.8)**	(1.2)
– Advertising	**(0.8)**	(0.7)
– Others	**(1.7)**	(0.6)
Manufacturing		
– Employee compensation	**(1.9)**	(1.3)
– Cost of goods sales	**(1.3)**	(1.9)
– Others	**(0.5)**	(0.4)
Corporate cost from operating segment		
– Employee compensation	**(6.5)**	(6.7)
– Information systems	**(3.4)**	(2.8)
– Consultancy fees	**(1.5)**	(1.3)
– Amortisation of intangible assets	**(1.7)**	(0.7)
– Others	**(1.0)**	(0.2)
Adjusted operating profit	**42.9**	45.1
Finance expenses	**(6.1)**	(1.3)
Specific items	**(67.0)**	(15.4)
(Loss)/profit before tax	**(30.2)**	28.4
Income tax credit/(expense)	**10.6**	(5.4)
(Loss)/profit after tax	**(19.6)**	23.0

4. Segment and revenue information continued

£m	Year to 31 December 2022 Europe	North America	Asia	Total	Year to 31 December 2021 Europe	North America	Asia	Total
Other information								
Property, plant and equipment additions	**1.4**	**3.3**	**3.6**	**8.3**	0.2	3.3	2.0	5.5
Depreciation of property, plant and equipment	**0.4**	**2.0**	**2.7**	**5.1**	0.2	1.6	2.2	4.0
Right-of-use assets additions	**13.8**	**33.0**	**3.6**	**50.4**	0.4	0.1	4.5	5.0
Depreciation of right-of-use assets	**1.1**	**1.5**	**0.6**	**3.2**	0.5	0.9	0.4	1.8
Intangible assets (including goodwill) additions	**32.4**	**3.2**	**8.6**	**44.2**	–	4.6	11.8	16.4
Amortisation of intangible assets	**1.5**	**4.4**	**3.4**	**9.3**	0.2	4.3	2.9	7.4
Costs relating to legal dispute	**–**	**52.2**	**–**	**52.2**	–	–	–	–
Impairment loss on intangible assets	**–**	**7.7**	**0.1**	**7.8**	–	–	–	–
Bank deposits pledged	**–**	**1.1**	**–**	**1.1**	–	–	–	–
Balance sheet								
Segment assets	**85.5**	**237.1**	**141.5**	**464.1**	26.0	145.9	94.2	266.1
Unallocated deferred and current income tax				**17.6**				6.1
Consolidated total assets				**481.7**				272.2
Segment liabilities	**(21.5)**	**(269.4)**	**(36.0)**	**(326.9)**	(5.7)	(52.2)	(30.1)	(88.0)
Unallocated deferred and current income tax				**(15.3)**				(11.8)
Consolidated total liabilities				**(342.2)**				(99.8)

* Balance is less than £100,000.

Non-current assets, other than deferred income tax assets, by countries:

£m	2022	2021
North America	**114.2**	83.3
United Kingdom	**11.9**	11.6
Singapore	**49.6**	39.0
Germany	**47.4**	0.5
Switzerland	**–**	*
France	*****	*
Other countries	**16.9**	12.9
Total non-current assets	**240.0**	147.3

* Balance is less than £100,000.

The majority of North America's non-current assets are located in the United States of America.

4. Segment and revenue information continued

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 and legal dispute, gains and losses on the disposal of businesses, fair value movements, restructuring charges, acquisition related costs and amortisation of intangible assets arising from business combinations.

In addition, the Group presents an adjusted profit after tax measure by making adjustments for certain tax charges and credits, which management believes to be significant by virtue of their size, nature or incidence or which have a distortive effect.

The Group uses these adjusted measures to evaluate performance and as a method to provide shareholders with clear and consistent reporting. See below for a reconciliation of operating profit to adjusted operating profit, a reconciliation of profit before tax to adjusted profit before tax and a reconciliation of profit after tax to adjusted profit after tax.

A. A RECONCILIATION OF OPERATING (LOSS)/PROFIT TO ADJUSTED OPERATING PROFIT IS AS FOLLOWS:

£m	2022	2021
Operating (loss)/profit	(24.1)	29.7
Adjusted for:		
Acquisition costs	2.4	0.1
Foreign exchange gain on Euro-denominated loan drawn down to finance acquisition	(3.2)	–
Costs related to Enterprise Resource Planning system implementation	3.8	2.1
Amortisation of intangible assets acquired from business combinations	4.1	2.8
Costs relating to legal dispute	52.2	10.1
Impairment loss on intangible assets	7.5	–
Revolving credit facility fees	0.2	–
Restructuring costs	0.1	–
Fair value (gain)/loss on derivative financial instruments	(0.1)	0.3
	67.0	15.4
Adjusted operating profit	42.9	45.1

B. A RECONCILIATION OF (LOSS)/PROFIT BEFORE INCOME TAX TO ADJUSTED PROFIT BEFORE TAX IS AS FOLLOWS:

£m	2022	2021
(Loss)/profit before tax	(30.2)	28.4
Adjusted for:		
Acquisition costs	2.4	0.1
Foreign exchange gain on Euro-denominated loan drawn down to finance acquisition	(3.2)	–
Costs related to Enterprise Resource Planning system implementation	3.8	2.1
Amortisation of intangible assets acquired from business combinations	4.1	2.8
Costs relating to legal dispute	52.2	10.1
Impairment loss on intangible assets	7.5	–
Revolving credit facility fees	0.2	–
Loss on modifications of revolving credit facility	1.0	–
Restructuring costs	0.3	–
Fair value (gain)/loss on derivative financial instruments	(0.1)	0.3
	68.2	15.4
Adjusted profit before tax	38.0	43.8

4. Segment and revenue information continued

Reconciliation of adjusted measures continued

C. A RECONCILIATION OF (LOSS)/PROFIT AFTER TAX TO ADJUSTED PROFIT AFTER TAX IS AS FOLLOWS:

£m	2022	2021
(Loss)/profit after tax	**(19.6)**	23.0
Adjusted for:		
Acquisition costs	**2.4**	0.1
Foreign exchange gain on Euro-denominated loan drawn down to finance acquisition	**(3.2)**	–
Costs related to Enterprise Resource Planning system implementation	**3.8**	2.1
Amortisation of intangible assets acquired from business combinations	**4.1**	2.8
Costs relating to legal dispute	**52.2**	10.1
Impairment loss on intangible assets	**7.5**	–
Revolving credit facility fees	**0.2**	–
Loss on modification of revolving credit facility	**1.0**	–
Restructuring costs	**0.3**	–
Fair value (gain)/loss on derivative financial instruments	**(0.1)**	0.3
Non-recurring tax benefits[1]	**(16.7)**	(3.0)
	51.5	12.4
Adjusted profit after tax	**31.9**	35.4

[1] Adjusted for tax on specific items relating to completed acquisitions of £0.6 million (2021: £10,058), gain on foreign exchange impact of Euro-denominated loan drawn down to finance acquisition of £0.5 million (2021: £nil), costs related to Enterprise Resource Planning system implementation of £0.8 million (2021: £0.3 million), costs relating to legal dispute of £13.6 million (2021: £2.6 million)), impairment of intangible assets of £2.0 million (2021: £nil), RCF fees of £27,706 (2021: £nil), loss on modification of revolving credit facility of £0.2 million (2021: £nil), restructuring costs of £30,117 (2021: £nil) and fair value impact of derivative financial instruments of £22,464 (2021: £0.1 million)

5. Employee compensation (including Directors)

£m	2022	2021
Wages and salaries	**85.5**	65.6
Employers' contribution to defined contribution plans	**9.6**	8.1
Share-based payment expenses	**0.1**	1.5
	95.2	75.2
Less: amount capitalised in intangible assets	**(6.8)**	(7.6)
Total	**88.4**	67.6

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

6. Finance expenses

£m	2022	2021
Interest income	**(0.1)**	*
Interest expense		
Bank borrowings and overdrafts	**5.3**	1.2
Lease liabilities	**0.7**	0.2
	6.0	1.4
Loss on modification of revolving credit facility	**1.0**	–
Unwinding of discount for asset retirement obligation	*	*
Unwinding of discount for accrued consideration	*	0.1
	6.9	1.5
Less: amount capitalised in intangible assets	**(0.8)**	(0.2)
Amount recognised in profit or loss	**6.1**	1.3

* Balance is less than £100,000.

Finance expenses on general financing were capitalised at a rate of 4.8% per annum (2021: 1.1% per annum).

During the financial year ended 31 December 2022, the Group renegotiated its existing revolving credit facility. This resulted in the recognition of a modification loss of £1.0 million in profit or loss.

7. Expenses by nature

£m	2022	2021
Profit after tax is after charging:		
Amortisation of intangible assets (Note 12)	**9.3**	7.4
Depreciation of property, plant and equipment (Note 13)	**5.1**	4.0
Depreciation of right-of-use assets (Note 14)	**3.2**	1.8
Employee compensation (Note 5)	**88.4**	67.6
Foreign exchange gains - net	**(2.0)**	(0.9)
Fair value (gain)/loss on derivative financial instruments	**(0.1)**	0.3
Purchases of inventories	**169.6**	125.0
Changes in inventories	**(40.4)**	(19.8)
Fees payable to the Group's Auditor for the audit of the Group's accounts	**0.7**	0.5
Fees payable to the Group's Auditor for non-audit services	*	*
Fees payable to other audit firm for audit related services	**0.1**	*
Tax fees payable to other firms for services provided to the Group	**0.3**	0.2
Lease expense (Note 14)	**0.2**	0.2
Recruitment	**1.1**	1.3
Information systems	**4.6**	3.5
Consultancy fees	**5.2**	8.9
Consultancy fees capitalised as intangible assets (Note 12)	**(3.5)**	(8.0)
Travel and entertainment	**2.0**	0.7
Advertising	**1.1**	0.8
Safety and approval	**0.9**	1.0
Costs related to Enterprise Resource Planning system implementation	**3.8**	2.1
Costs relating to legal dispute	**52.2**	10.1
Acquisition costs	**2.4**	0.1
Impairment loss on intangible assets (Note 12)	**7.8**	–
Revolving credit facility fees	**0.2**	–
Other expenses	**2.3**	3.8
Total cost of sales, distribution and marketing, administrative and research and development expenses	**314.5**	210.6

* Balance is less than £100,000.

Comet Technologies USA Inc., Comet AG, and YXLON International (collectively "Comet") filed a lawsuit against XP Power LLC, alleging trade secret misappropriation relating to RF match and generator technology. The Group has incurred legal costs of £52.2 million (2021: £10.1 million) related to this matter.

8. Income taxes

£m	2022	2021
Tax (credit)/expense attributable to (loss)/profit is made up of:		
(Loss)/profit for the financial year		
– Singapore	**2.8**	1.1
– Foreign	**4.1**	1.2
Current income tax	**6.9**	2.3
Deferred income tax	**(17.1)**	2.6
	(10.2)	4.9
(Over)/under-provision in prior financial years		
– Singapore	**(0.2)**	0.1
– Foreign	*	*
Current income tax	**(0.2)**	0.1
Deferred income tax	**(0.8)**	0.3
	(1.0)	0.4
Withholding tax	**0.6**	0.1
Income tax (credit)/expense	**(10.6)**	5.4

* Balance is less than £100,000.

8. Income taxes continued

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

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the Singapore standard rate of income tax as follows:

£m	2022	2021
(Loss)/profit before tax	**(30.2)**	28.4
Tax on (loss)/profit at standard Singapore tax rate of 17% (2021: 17%)	**(5.1)**	4.8
Tax incentives	**(0.5)**	(0.7)
Different tax rates in other countries	**(4.6)**	1.1
Tax effect of share-based payments	**0.2**	(0.3)
Expenses not deductible for tax purposes	**1.0**	0.2
Income not subject to tax	**(1.0)**	(0.1)
Deferred tax effect of change in tax rate	**(0.2)**	(0.1)
(Over)/under-provision of tax in prior financial years	**(1.0)**	0.4
Withholding tax	**0.6**	0.1
Income tax (credit)/expense	**(10.6)**	5.4

* Balance is less than £100,000.

Aggregate deferred tax asset arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited/(credited) to equity:

£m	2022	2021
Deferred tax asset – share-based payments	**1.5**	(0.5)
Total	**1.5**	(0.5)

* Balance is less than £100,000.

9. Dividends

Amounts recognised as distributions to equity holders in the period:

	2022		2021	
	Pence per share	£m	Pence per share	£m
Prior year third quarter dividend paid	**21.0***	**4.1**	20.0	3.9
Prior year final dividend paid	**36.0***	**7.1**	36.0	7.1
First quarter dividend paid	**18.0^**	**3.6**	18.0*	3.5
Second quarter dividend paid	**19.0^**	**3.8**	19.0*	3.7
Total	**94.0**	**18.6**	93.0	18.2

* Dividends in respect of 2021 (94.0p).
^ Dividends in respect of 2022 (94.0p).

The third quarter dividend of 21.0 pence per share was paid on 18 January 2023. The proposed final dividend of 36.0 pence per share for the year ended 31 December 2022 is subject to approval by shareholders at the Annual General Meeting scheduled for 18 April 2023 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 27 April 2023 to members on the register as at 24 March 2023.

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	2022	2021
(Loss)/earnings		
(Loss)/earnings for the purposes of basic and diluted earnings per share		
(Loss)/profit after tax attributable to equity holders of the Company	**(20.0)**	22.6
(Loss)/earnings for earnings per share	**(20.0)**	22.6
Number of shares		
Weighted average number of ordinary shares outstanding for basic earnings per share (thousands)	**19,616**	19,514
Effect of dilutive potential share awards (thousands)	**63**	344
Weighted average number of shares for diluted earnings per share (thousands)	**19,679**	19,858
(Loss)/earnings per share		
Basic	**(102.0)p**	115.8p
Basic adjusted*	**160.6p**	179.4p
Diluted	**(101.6)p**	113.8p
Diluted adjusted*	**160.1p**	176.3p

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

£m	2022	2021
(Loss)/earnings for the purposes of basic and diluted earnings per share		
(Loss)/profit after tax attributable to equity holders of the Company	**(20.0)**	22.6
Amortisation of intangible assets acquired from business combination	**4.1**	2.8
Acquisition costs	**2.4**	0.1
Foreign exchange gain on Euro-denominated loan drawn down to finance the acquisition	**(3.2)**	–
Non-recurring tax benefits	**(16.7)**	(3.0)
Costs related to Enterprise Resource Planning system implementation	**3.8**	2.1
Costs relating to legal dispute	**52.2**	10.1
Impairment loss on intangible assets	**7.5**	–
Revolving credit facilities fees	**0.2**	–
Loss on modification of revolving credit facility	**1.0**	–
Restructuring costs	**0.3**	–
Fair value (gain)/loss on derivative financial instruments	**(0.1)**	0.3
Adjusted earnings	**31.5**	35.0

11. Goodwill

£m	2022	2021
Cost and net book value		
At 1 January	**52.5**	52.2
Accrued consideration (Note 21)	*	0.2
Acquisition of subsidiaries (Note 32(c))	**21.0**	–
Currency translation differences	**4.0**	0.1
At 31 December	**77.5**	52.5

Goodwill arises on the consolidation of business/subsidiary undertakings.

For the purpose of impairment tests for goodwill, goodwill is allocated to the cash-generating units 'CGUs' according to operating segments identified in Note 4.

A segment-level summary of the goodwill allocation is as follows:

£m	2022	2021
North America	**43.9**	41.3
Europe	**32.0**	9.7
Asia	**1.6**	1.5
At 31 December	**77.5**	52.5

11. Goodwill continued

The recoverable amount of the CGU is determined from value-in-use calculations. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below.

Key assumptions used for value-in-use calculations:

	31 December 2022			31 DECEMBER 2022		
	Growth rate[1]	Discount rate[2]	Terminal growth rate	Growth rate[1]	Discount rate[2]	Terminal growth rate
North America	**8.7%**	**11.8%**	**2.0%**	9.9%	11.0%	2.0%
Europe	**5.3%**	**12.9%**	**2.0%**	6.3%	12.3%	2.0%
Asia	**8.5%**	**12.5%**	**2.0%**	11.5%	12.1%	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

A sensitivity analysis was performed for each of the CGUs or group of CGUs, 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 2022 for the North America CGU, which includes 56.6% of the goodwill recognised on the balance sheet, has revealed that the recoverable amount of the CGU is £227.2 million or 60.2% higher than its carrying amount. A reasonably possible change of an increase in the discount rate by 7.6% or a decrease in growth rate by 2.2% would result in the recoverable amount of the North America CGU being equal to its carrying value.

The impairment test carried out at 31 December 2022 for the Europe CGU, which includes 41.3% of the goodwill recognised on the balance sheet, has revealed that the recoverable amount of the CGU is £127.6 million or 193.8% higher than its carrying amount. A reasonably possible change of an increase in the discount rate by 51.6% or a decrease in growth rate by 12.6% would result in the recoverable amount of the Europe CGU being equal to its carrying value.

The impairment test carried out at 31 December 2022 for the Asia CGU, which includes 2.1% of the goodwill recognised on the balance sheet, has revealed that the recoverable amount of the CGU is £299.5 million or 94.0% higher than its carrying amount. A reasonably possible change of an increase in the discount rate by 21.9% or a decrease in growth rate by 12.7% would result in the recoverable amount of the Asia CGU being equal to its carrying value.

The impairment test also modelled the potential impact on future cashflows due to climate change. A sensitivity analysis was performed for each CGUs or group of CGUs to demonstrate the financial impact of the following key climate-related risks (see Climate Risks in the Sustainability Report):

1. **Storm and flood disruption** – major flood or fire could cause a disruption to the manufacturing sites
2. **Supply chain risks** – climate change could result in disruption to our supply chain, either through supplier sites being directly affected, or by disruption to transportation and electricity supply
3. **Carbon price impacts in the value chain** – the increase in carbon price may result in increased cost of goods sold and increased cost of transportation
4. **Robustness of local power supply** – our energy supply may be disrupted for a prolonged period due to local supply robustness
5. **Risk of not meeting net zero target** – failure to meet the defined net zero targets may cause reputational damage, dissuade potential investors, or result in greater costs due to the introduction of carbon pricing

These downside scenarios would result in 10-20% reduction of revenue and 5-10% increase of operating cost. They are considered to be reasonable tests as it reflects the expectation that financial impacts would be time-bound and most likely to impact the organisation's ability to meet demand for a period. The maximum impact to headroom based on the sensitivities tested for North America, Europe and Asia is a reduction of £5.0 million, £3.6 million and £28.4 million respectively. The impacts would still leave significant headroom and as a result no potential indicator of impairment was identified.

12. Intangible assets

£m	Product Development costs	Brand	Trademarks	Technology	Customer relationships	Customer contracts	Software	Assets under development	Total
Cost									
At 1 January 2021	31.9	0.9	1.1	4.9	17.2	0.6	8.7	18.0	83.3
Additions	0.6	–	–	–	–	–	0.1	15.7	16.4
Transfer	2.7	–	–	–	–	–	–	(2.7)	–
Reclassification from property, plant and equipment	–	–	–	–	–	–	*	–	*
Currency translation differences	0.3	*	*	*	0.2	*	0.1	0.4	1.0
At 31 December 2021	35.5	0.9	1.1	4.9	17.4	0.6	8.9	31.4	100.7
Additions	0.7	–	*	–	–	–	0.3	10.9	11.9
Disposals	–	–	–	–	–	–	*	–	*
Transfers	5.3	–	–	–	–	–	11.8	(17.1)	–
Reclassification from property, plant and equipment	–	–	–	–	–	–	0.6	–	0.6
Acquisition of subsidiaries (Note 32(c))	–	0.7	*	2.6	6.1	1.9	*	–	11.3
Currency translation differences	2.4	0.2	*	0.8	2.5	0.2	2.1	3.1	11.3
At 31 December 2022	**43.9**	**1.8**	**1.1**	**8.3**	**26.0**	**2.7**	**23.7**	**28.3**	**135.8**
Accumulated amortisation and impairment losses									
At 1 January 2021	23.3	0.3	1.0	2.0	6.8	0.6	2.7	–	36.7
Amortisation charge	3.7	*	–	0.6	2.2	–	0.9	–	7.4
Currency translation differences	0.2	0.1	–	(0.1)	0.1	*	*	–	0.3
At 31 December 2021	27.2	0.4	1.0	2.5	9.1	0.6	3.6	–	44.4
Amortisation charge	3.3	0.2	–	0.9	2.3	0.7	1.9	–	9.3
Impairment charge	–	–	–	–	–	–	–	7.8	7.8
Disposals	–	–	–	–	–	–	*	–	*
Reclassification from property, plant and equipment	–	–	–	–	–	–	0.5	–	0.5
Currency translation differences	1.5	*	*	0.4	1.3	0.1	0.4	0.2	3.9
At 31 December 2022	**32.0**	**0.6**	**1.0**	**3.8**	**12.7**	**1.4**	**6.4**	**8.0**	**65.9**
Net book value									
At 31 December 2022	**11.9**	**1.2**	**0.1**	**4.5**	**13.3**	**1.3**	**17.3**	**20.3**	**69.9**
At 31 December 2021	8.3	0.5	0.1	2.4	8.3	–	5.3	31.4	56.3

* Balance is less than £100,000.

The remaining amortisation period for customer relationships ranges from one to ten years.

The Group's trademarks used to identify and distinguish the Group's name and logo have a carrying amount of £0.1 million (2021: £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	Assets under construction	Total
Cost							
At 1 January 2021	1.5	17.1	26.6	0.3	6.3	–	51.8
Additions	–	–	2.3	–	0.6	2.6	5.5
Disposals	–	–	(0.3)	(0.1)	*	–	(0.4)
Transfer	–	–	1.2	–	0.1	(1.3)	–
Reclassification to intangible assets	–	–	*	–	–	–	*
Foreign currency translation	*	0.2	0.5	0.1	0.1	*	0.9
At 31 December 2021	1.5	17.3	30.3	0.3	7.1	1.3	57.8
Acquisition of subsidiaries (Note 32(c))	–	*	0.8	*	*	–	0.8
Additions	–	*	4.5	–	0.3	2.7	7.5
Disposals	–	*	(0.5)	*	(0.3)	–	(0.8)
Transfers	–	–	0.6	*	1.0	(1.6)	–
Reclassification to intangible assets	–	–	(0.6)	–	–	–	(0.6)
Currency translation differences	0.1	1.7	2.9	*	0.8	0.2	5.7
At 31 December 2022	**1.6**	**19.0**	**38.0**	**0.3**	**8.9**	**2.6**	**70.4**
Accumulated depreciation							
At 1 January 2021	–	3.6	16.5	0.2	3.1	–	23.4
Depreciation charge	–	0.5	2.9	*	0.6	–	4.0
Disposals	–	–	(0.2)	(0.1)	*	–	(0.3)
Transfers	–	–	*	–	–	–	*
Reclassification to intangible assets	–	–	*	–	–	–	*
Currency translation differences	–	0.1	0.2	0.2	–	–	0.5
At 31 December 2021	–	4.2	19.4	0.3	3.7	–	27.6
Depreciation charge	–	0.6	3.7	*	0.8	–	5.1
Disposals	–	–	(0.5)	*	(0.3)	–	(0.8)
Transfers	–	–	*	–	–	–	*
Reclassification to intangible assets	–	–	(0.5)	–	–	–	(0.5)
Currency translation differences	–	0.3	1.8	*	0.3	–	2.4
At 31 December 2022	**–**	**5.1**	**23.9**	**0.3**	**4.5**	**–**	**33.8**
Net book value							
At 31 December 2022	**1.6**	**13.9**	**14.1**	**–**	**4.4**	**2.6**	**36.6**
At 31 December 2021	1.5	13.1	10.9	–	3.4	1.3	30.2

* Balance is less than £100,000.

Assets under construction pertains to cost incurred for the renovation of the office space which is due for completion in 2023.

14. Leases

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.

During the financial year, the Group entered into a new lease for a building in North America for the purpose of back office operations, sales and warehousing activities. The lease has a lease term of 22.5 years commencing from 1 December 2022 which includes two options to extend, each for a period of five years.

EQUIPMENT AND MOTOR VEHICLES

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

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 2021	4.8	0.3	5.1
Additions	4.7	0.3	5.0
Disposals	*	*	*
Depreciation charge	(1.6)	(0.2)	(1.8)
Currency translation differences	*	*	*
At 31 December 2021	7.9	0.4	8.3
Additions	38.5	0.5	39.0
Acquisition of subsidiaries (Note 32(c))	11.4	*	11.4
Disposals	(2.1)	*	(2.1)
Depreciation charge	(3.0)	(0.2)	(3.2)
Currency translation differences	1.5	*	1.5
At 31 December 2022	**54.2**	**0.7**	**54.9**

* Balance is less than £100,000.

b. Lease expense not capitalised in lease liabilities

£m	2022	2021
Lease expense – short-term leases	**0.2**	0.2
Lease expense – low-value leases	*	*
Total (Note 7)	**0.2**	0.2

* Balance is less than £100,000.

c. Total cash outflow for all leases in 2022 was £6.7 million (2021: £2.1 million).

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

Extension options

The leases for certain office spaces contain extension options, 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. Events occurring after balance sheet date

On 31 January 2023, the Group entered into a new lease for office space in the United States of America. The contractual lease payments amount to £10.6 million which will be paid during the period May 2024 to October 2040.

15. Subsidiaries

The Group has the following principal subsidiaries as at 31 December 2022 and 2021:

Name of Subsidiary	Country of business / incorporation	Ownership interest 2022 (%)	Ownership interest 2021 (%)
Directly owned by the Company			
XP Power Plc	UK	100	100
XP Power Singapore Holdings Pte Limited	Singapore	100	100
Indirectly owned by the Company			
XP PLC	UK	100	100
XP Power Holdings Limited	UK	100	100
XP Power AG	Switzerland	100	100
Powersolve Electronics Limited*	UK	90.6	89.9
XP Power Srl	Italy	100	100
XP Power ApS	Denmark	100	100
XP Power Sweden AB	Sweden	100	100
XP Power GmbH	Germany	100	100
FuG Elektronik GmbH	Germany	100	–
Guth High Voltage GmbH	Germany	100	–
XP Power SA	France	100	100
XP Power Norway AS	Norway	100	100
XP Power International Limited	UK	100	100
XP Power LLC	USA	100	100
XP Power (Shanghai) Co., Limited	China	100	100
XP Power (Hong Kong) Limited	Hong Kong	100	100
XP Power (Vietnam) Co., Limited	Vietnam	100	100
XP Power Singapore Manufacturing Pte. Ltd.	Singapore	100	100
XP Power (Philippines) Inc.	Philippines	100	100
XP Power (Malaysia) Sdn. Bhd.	Malaysia	100	100
Hanpower Co., Ltd*	South Korea	66	66

* Refer to Note 21

16. Cash and bank balances

£m	2022	2021
Cash at bank and on hand	**23.2**	8.9
Short-term bank deposits	**0.2**	0.1
Total	**23.4**	9.0

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

£m	2022	2021
Cash at bank balances (as above)	**23.4**	9.0
Less: Bank overdrafts (Note 22)	**(0.2)**	(0.2)
Less: Bank deposit pledged	**(1.1)**	–
Cash and cash equivalents per consolidated statement of cash flows	**22.1**	8.8

Bank deposit is pledged as a collateral to obtain a letter of credit for the security deposit of a lease. The deposit is classified as a non-current asset as it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

17. Inventories

£m	2022	2021
Finished goods	**28.4**	25.5
Raw materials	**53.8**	36.3
Work in progress	**32.2**	12.2
Total	**114.4**	74.0

The cost of inventories recognised as an expense and included in “cost of sales” amounts to £129.2 million (2021: £105.2 million).

18. Trade receivables

£m	2022	2021
Current assets		
Trade receivables	**42.4**	30.8
Less: Loss allowance (Note 31 (d))	*	*
Total	**42.4**	30.8

* Balance is less than £100,000.

The average credit period taken on sales of goods is 53 days (2021: 47 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	2022	2021
Prepayments	**3.3**	3.3
Deposits	**0.9**	0.3
VAT receivables	**3.1**	0.6
Rights to returned goods	**0.5**	0.2
Other receivables	**0.2**	0.6
Total	**8.0**	5.0

Other current assets are not impaired as at 31 December 2022 and 31 December 2021.

20. Trade and other payables

£m	2022	2021
Trade payables	**25.3**	26.0
VAT payables	**4.5**	1.2
Withholding tax	**0.3**	0.1
Accruals for operating expenses	**18.6**	15.5
Contract liabilities	**2.9**	1.3
Refund liabilities	**1.0**	0.6
Total	**52.6**	44.7

The Group recognised contract liabilities for payments from customers that are received in advance of the transfer of goods. Revenue recognised in current period that was included in the contract liabilities at the beginning of the period amounts to £1.3 million (2021: £0.2 million).

Customers have a right to return the goods to the Group within a given period. The Group recognised the refund liabilities for the amounts of consideration received for which the Group does not expect to be entitled. The Group also recognised a right to the returned goods measured by reference to the former carrying amounting of the goods.

21. Accrued consideration

£m	2022	2021
At 1 January	**1.3**	1.0
Provision made	**0.2**	0.3
Payment	*	–
At 31 December	**1.5**	1.3

£m	2022	2021
Current	–	*
Non-current	**1.5**	1.3
At 31 December	**1.5**	1.3

* Balance is less than £100,000.

As at 31 December 2022, the Group owns 90.6% (2021: 89.9%) of the shares of Powersolve Electronics Limited 'Powersolve'. The Group 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. In June 2022, the Group purchased 0.7% of the shares as per the deed of variation.

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. The purchase of the first additional 15% was completed in 2020 and the Group now owns 66% (2021: 66%) 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 the past three years at the point of payment.

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

£m	2022	2021
Current		
Bank overdrafts	**0.2**	0.2
Lease liabilities	**2.4**	1.6
Total	**2.6**	1.8
Non-current		
Bank borrowings	**174.2**	33.4
Lease liabilities	**48.9**	6.5
Total	**223.1**	39.9

Undrawn borrowing facilities

£m	2022	2021
Expiring beyond one year	**35.7**	77.0
Total	**35.7**	77.0

The facility has no fixed repayment terms until maturity in 2026. The revolving credit facility denominated in USD is priced at LIBOR (before May 2022)/ SOFR (from May 2022) plus a margin of 1.0%-2.0% (2021: 1.0%) for the amount that has been drawn down and a margin of 0.8% (2021: 0.4%) for the unutilised facility. There is no impact to profit or loss arising from the change in benchmark rate.

There is drawdown on bank overdrafts denominated in GBP of £0.2 million (2021: £0.2 million) during the year.

The fair values of the Group's bank borrowings and overdrafts approximate their carrying amounts.

22. Borrowings and lease liabilities continued

Reconciliation of liabilities arising from financing activities

£m	1 January 2022	Proceeds from borrowings	Principal and interest payments	Non-cash changes Addition during the year	Disposal during the year	Acquisition arising from business combinations	Modification of revolving credit facility	Interest expense	Foreign exchange movement	31 December 2022
Bank borrowings	33.4	170.3	(40.4)	–	–	–	1.0	5.3	4.6	174.2
Lease liabilities	8.1	–	(6.5)	37.5	(1.5)	11.4	–	0.7	1.6	51.3

£m	1 January 2021	Proceeds from borrowings	Principal and interest payments	Non-cash changes Addition during the year	Disposal during the year	Interest expense	Foreign exchange movement	31 December 2021
Bank borrowings	31.8	3.7	(3.6)	–	–	1.2	0.3	33.4
Lease liabilities	4.9	–	(1.9)	5.0	*	0.2	(0.1)	8.1

* Balance is less than £100,000.

23. Derivative financial instruments

Currency forwards

Derivative financial instruments comprise of the USD/GBP currency forwards used to manage the exposure from issuance of dividends in GBP.

31 December 2022 £m	Asset Contractual notional amount	Fair value	Liability Contractual notional amount	Fair value
Currency forwards (current)	3.5	*	7.1	(0.1)

31 December 2021 £m	Asset Contractual notional amount	Fair value	Liability Contractual notional amount	Fair value
Currency forwards (current)	1.0	*	8.0	(0.1)

* Balance is less than £100,000.

24. Provisions (current)

£m Current	2022	2021
Legal dispute (Note (a) below)	46.1	–
Others	*	*
Total	**46.1**	*

* Balance is less than £100,000.

(a) Legal dispute

£m	2022	2021
At 1 January 2022	–	–
Provision made	46.9	–
Currency translation differences	(0.8)	–
At 31 December 2022	**46.1**	–

In September 2020, Comet Technologies USA Inc., Comet AG, and YXLON International (collectively 'Comet') filed a lawsuit against XP Power LLC, a wholly-owned subsidiary of the Group, alleging trade secret misappropriation relating to RF match and generator technology. On 24 March 2022, a jury in the US legal action brought by Comet found in favour of Comet and awarded damages of $40 million (£33.2 million) against XP Power LLC. On 30 September 2022, the judge also ruled that there should be an injunction upon XP Power LLC in relation to certain trade secrets. Since this date the Group and its appointed lawyers have been working to resolve the situation including filing motions with the Court of the Northern District of California against the validity and level of the damages imposed. XP Power LLC has launched no products and therefore received no orders or revenue related to the contested RF match and generator technology. Upon receipt of the ruling of motions filed, the Board will consider next steps including potentially applying for an appeal with the Appellate Court. The Group has recognised a provision for legal dispute which is expected to be utilised in 2023. The provision of £46.9 million includes damages and other related legal costs. In the opinion of the Directors, after taking appropriate legal advice, the outcomes of the legal dispute are not expected to give rise to any significant loss beyond the amounts provided at 31 December 2022. The Directors consider that disclosure of further details of this dispute will seriously prejudice the Group's negotiating position and accordingly, further information on the nature of the obligation has not been provided.

25. Bond receivable

In November 2022, the Group purchased an appeal bond from an insurance company in preparation for a potential appeal with the Appellate Court amounting to £36.9 million. Interest is accrued on the bond at an annual rate equivalent to the rate for the 3-month Treasury Bill as published by the Board of Governors of the Federal Reserve System. A management fee of 0.40% of the bond is calculated on an annualised basis. The bond receivable is restricted until the finalisation of the appeal. The carrying amount of £37.0 million as at 31 December 2022 includes interest receivable of £0.1 million.

26. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same taxation authority.

The amounts, determined after appropriate offsetting, are shown on the balance sheet as follows:

£m	2022	2021
Deferred tax assets	**15.1**	3.2
Deferred tax liabilities	**(10.5)**	(9.4)
Net deferred tax assets/(liabilities)	**4.6**	(6.2)

The movement in the net deferred income tax account is as follows:

£m	2022	2021
Beginning of financial year	**(6.2)**	(3.8)
Currency translation differences	**(1.5)**	*
Acquisition of subsidiaries (Note 32(c))	**(4.1)**	–
Tax credited/(charged) to		
– Profit or loss (Note 8)	**17.9**	(2.9)
– Equity (Note 8)	**(1.5)**	0.5
End of financial year	**4.6**	(6.2)

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) is as follows:

Deferred income tax assets

£m	Provision for legal dispute	Share-based payment	Tax losses	Others	Total
At 1 January 2021	–	2.3	0.4	2.1	4.8
Credited to profit or loss	–	*	*	(0.4)	(0.4)
Credited to equity	–	0.5	–	–	0.5
At 31 December 2021	–	2.8	0.4	1.7	4.9
Credited/(charged) to profit or loss	11.5	(0.7)	1.1	1.7	13.6
Debited to equity	–	(1.5)	–	–	(1.5)
Currency translation differences	*	–	*	0.2	0.2
At 31 December 2022	**11.5**	**0.6**	**1.5**	**3.6**	**17.2**

Deferred income tax liabilities

£m	Accelerated tax depreciation	Intangible assets amortisation	Others	Total
At 1 January 2021	(1.7)	(6.9)	–	(8.6)
Charged to profit or loss	(0.6)	(1.9)	–	(2.5)
Currency translation differences	*	*	–	*
At 31 December 2021	(2.3)	(8.8)	–	(11.1)
Acquisition of subsidiaries	–	(3.7)	(0.4)	(4.1)
Credited to profit or loss	0.4	3.5	0.4	4.3
Currency translation differences	(0.3)	(1.4)	*	(1.7)
At 31 December 2022	**(2.2)**	**(10.4)**	*	**(12.6)**

* Balance is less than £100,000.

27. Share capital and reserves

a. Share capital

	No of ordinary shares		Amount	
	Issued share capital	Treasury shares	Share capital £m	Treasury shares £m
2022				
Beginning of financial year	**19,642,296**	**(92,881)**	**27.2**	*
Shares issued	**100,000**	**–**	*	**–**
Treasury shares purchased	**–**	**(100,000)**	**–**	*
Treasury shares re-issued	**–**	**90,795**	**–**	*
End of financial year	**19,742,296**	**(102,086)**	**27.2**	*
2021				
Beginning of financial year	19,642,296	(156,960)	27.2	(0.1)
Treasury shares purchased	–	(900)	–	*
Treasury shares re-issued	–	64,979	–	*
End of financial year	**19,642,296**	**(92,881)**	**27.2**	*

* Balance is less than £100,000.

All issued ordinary shares are fully paid. There is no par value for these ordinary shares. Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the Company.

In 2022, the Company issued 100,000 ordinary shares for a total consideration of £1,000 for cash to the ESOP Trust. The newly issued shares rank pari passu in all aspects with the previously issued shares.

b. Treasury shares

Treasury shares are shares in the Company that are held by the Company's Employee Share Ownership Plan (ESOP) Trust for the purpose of issuing shares under the Company's ESOP. Shares issued to employees are recognised on a first in, first out basis.

In 2022, the Company issued 100,000 ordinary shares at 1 pence per share and held under ESOP Trust.

The Company re-issued 90,795 (2021: 64,979) treasury shares during the financial year pursuant to the Company's ESOP at the exercise price of ranging from £0.01 to £15.43 (2021: £0.01 to £15.43). The cost of the treasury shares re-issued amounted to £11,000 (2021: £17,000). The total consideration (net of expense) for the treasury shares issued is as follows:

£m	2022	2021
Exercise price paid by employees	*	0.5
Value of employee services	**1.8**	0.5
Total net consideration	**1.8**	1.0

* Balance is less than £100,000.

Accordingly, a gain on re-issue of treasury shares of £1,800,000 (2021: £1,000,000) is recognised in other reserve.

c. Share-based payments reserve

Share-based payments reserve represents the equity-settled share-based payments 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-based payments and is reduced by the expiry or exercise of share-based payments.

d. Merger reserve

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.

e. Translation reserve

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.

f. Other reserve

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-based payments reserve represents the equity-settled share-based payments 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-based payments and is reduced by the expiry or exercise of share-based payments.

27. Share capital and reserves continued

Other reserve comprises future transactions with the non-controlling interest. The Group has an agreement with the non-controlling shareholders of Hanpower Co. Ltd, a subsidiary, to purchase an additional 15.0% of the shares in 2025.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 expenses up to the redemption amount that is payable at the date at which the agreement first becomes exercisable.

28. 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.

2022 **£m**	**Inventories (Note 17)**	**Trade receivables (Note 18)**	**Other current assets (Note 19)**	**Trade and other payables (Note 20)**	**Accrued consideration (Note 21)**	**Provisions**
At 31 December 2022	114.4	42.4	8.0	52.6	1.5	47.0
At 31 December 2021	74.0	30.8	5.0	44.7	1.3	0.2
Balance sheet movement	(40.4)	(11.6)	(3.0)	7.9	0.2	46.8
Acquisition of subsidiaries (Note 32(c))	5.9	1.1	0.2	(2.9)	–	–
Movement, net of effects from acquisitions	(34.5)	(10.5)	(2.8)	5.0	0.2	46.8
Payment of accrued consideration (Note 21)	–	–	–	–	*	–
Withholding tax payable	–	–	–	(0.2)	–	–
Provision for reinstatement costs	–	–	–	–	–	*
Provision for legal dispute	–	–	–	–	–	(46.9)
Currency translation differences	9.7	3.2	0.6	(4.6)	(0.2)	0.7
	(24.8)	**(7.3)**	**(2.2)**	**0.2**	**–**	**0.6**

* Balance is less than £100,000.

2021 **£m**	**Inventories (Note 17)**	**Trade and other receivables (Note 18)**	**Other current assets (Note 19)**	**Trade and other payables (Note 20)**	**Accrued consideration (Note 21)**	**Provisions**
At 31 December 2021	74.0	30.8	5.0	44.7	1.3	0.2
At 31 December 2020	54.2	30.2	4.6	28.2	1.0	0.1
Balance sheet movement	(19.8)	(0.6)	(0.4)	16.5	0.3	0.1
Movement in accrued consideration (Note 21)	-	-	-	-	(0.3)	-
Interest payable	-	-	-	0.1	-	-
Provision for reinstatement costs	-	-	-	-	-	(0.1)
Currency translation differences	0.8	(0.1)	-	(0.5)	-	-
	(19.0)	**(0.7)**	**(0.4)**	**16.1**	**-**	**-**

29. Related party transactions

As at 31 December 2022, the Company's Employee Share Ownership Plan provided nil (2021: 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 118–138.

Key management personnel compensation

Key management personnel are the Directors of the Group.

£m	**2022**	**2021**
Short-term employee benefits	**1.4**	1.9
Post-employment benefits	**0.1**	0.1
Share-based payment expenses	**0.2**	0.7
Total	**1.7**	2.7

Further information about the remuneration of the individual Directors is provided in the Directors' Remuneration Report on pages 118–138.

30. Share-based payments

The Group operates several equity-settled share-based payment plans.

a. XP Power Share Option Plan (the 'SOP')

The SOP was approved by the shareholders on 2 April 2012. A total of 345,000 options and 418,000 options were granted in 2012 and 2016 respectively under the SOP. These options vest only if certain performance conditions are met. The vesting of outstanding options is based on Total Shareholder Return 'TSR' relative to the FTSE350 Electronic and Electric Equipment Sector. The options may only be exercised within 10 years from grant date. All options under the SOP are fully vested as at 31 December 2022.

Set out below are summaries of options granted under the plan:

	2022		2021	
	Number of share options	Weighted average exercise price per share option	Number of share options	Weighted average exercise price per share option
At 1 January	**76,885**	**£15.43**	118,329	£14.92
Forfeited during the year	**–**	**–**	(1,592)	£15.43
Exercised during the year*	**(3,208)**	**£15.43**	(39,852)	£13.93
At 31 December	**73,677**	**£15.43**	76,885	£15.43
Exercisable at 31 December	**73,677**	**£15.43**	76,885	£15.43

*The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2022 was £32.86 (2021: £43.12).

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	Share options 31 December 2022	Share options 31 December 2021
23 February 2016	10 December 2023	£15.43	**34,800**	34,800
23 February 2016	23 February 2026	£15.43	**38,877**	42,085
Total			**73,677**	**76,885**
Weighted average remaining contractual life of options outstanding at end of period			**2.1 years**	4.1 years

b. XP Power Limited Long Term Incentive Plan 2017 (the 'XP LTIP 2017')

The XP LTIP 2017 was approved by the shareholders on 19 April 2017 and amended by the Remuneration Committee on 28 February 2020 in respect of awards made on or after that date. The only participants under the XP LTIP 2017 are the Executive Directors who are granted Performance Share Awards. These Awards vest only if certain performance conditions are met. The vesting of outstanding Awards is based on TSR relative to the companies in the FTSE 250 index excluding investment trusts and earnings per share growth.

Set out below are summaries of Awards granted under the plan:

	2022		2021	
	Number of shares under award	Weighted average exercise price per share under award	Number of shares under award	Weighted average exercise price per share under award
At 1 January#	**86,254**	**£0.01**	93,852	£0.01
Granted during the year	**30,471**	**£0.01**	19,606	£0.01
Forfeited during the year#	**(21,669)**	**£0.01**	(26,349)	£0.01
Exercised during the year*	**(35,305)**	**£0.01**	(855)	£0.01
At 31 December	**59,751**	**£0.01**	86,254	£0.01
Exercisable at 31 December	**-**	**-**	19,502	£0.01

#The beginning balance excludes 25,041 awards granted on 16 Mar 2019 where the EPS condition for the performance period 2019 to 2021 has not been met. This is different from the Remuneration Committee Report which discloses the forfeiture in 2022. The forfeited awards during the year includes 18,837 awards granted on 22 Apr 2020 where the TSR condition for the performance period 2020 to 2022 has not been met and the EPS condition was only partially met. This is different from the Remuneration Committee Report which will disclose the forfeiture in 2023.

*The weighted average share price at the date of exercise of awards exercised during the year ended 31 December 2022 was £25.45 (2021: £56.75).

30. Share-based payments continued

Awards outstanding at the end of the year have the following expiry dates and exercise prices.

Grant date	Expiry date	Exercise price	Shares under award 31 December 2022	Shares under award 31 December 2021
30 May 2017[1]	30 May 2022	£0.01	–	5,127
1 November 2017[1]	31 December 2022	£0.01	–	8,000
16 May 2018[1]	16 May 2023	£0.01	–	12,749
16 March 2019[2]	16 March 2024	£0.01	**3,091**	12,520
22 April 2020	22 October 2025	£0.01	**3,038**	14,563
22 April 2020	22 April 2026	£0.01	**3,545**	13,689
3 March 2021	3 March 2027	£0.01	**11,582**	11,582
10 May 2021	10 May 2027	£0.01	**8,024**	8,024
8 March 2022	8 March 2028	£0.01	**30,471**	–
Total			**59,751**	**86,254**

[1] These awards are fully vested.

[2] 50% of the awards vested in 2022 and the remaining 50% will vest in 2023.

FAIR VALUE OF AWARDS

The fair values at grant date of awards granted during the year under the XP LTIP 2017 are determined using the valuation models below. The model inputs are as follows:

Options granted	30,471
Fair value at grant date	£18.83 to £30.99
Model used	Monte Carlo model and Black-Scholes model
Assumption used:	
Share price	£36.00
Exercise price	£0.01
Expected volatility	40.04%
Expected option life	5 years
Expected dividend yield	3.00%
Risk-free interest rate	1.44%

c. XP Power Limited Senior Managers Long Term Incentive Plan 2017 (the 'XP Senior Managers LTIP 2017')

The XP Senior Managers LTIP 2017 was approved by the shareholders on 19 April 2017 and amended by the Remuneration Committee on 28 February 2020 in respect of awards made on or after that date and introduced for non-Board members for certain grants made from 1 April 2020. The participants under the XP Senior Managers LTIP 2017 are the senior management of companies under the Group.

There are four different types of awards granted under the XP Senior Managers LTIP 2017:

1. Performance Share Awards
2. Performance Restricted Share Units 'Performance RSUs'
3. Restricted Share Awards
4. Restricted Share Units 'RSUs'

Performance RSUs and RSUs are only granted to participants in the United States and they are exercised at nil cost. Performance Share Awards and Restricted Share Awards are granted to participants outside of the United States and they are exercised at nominal cost.

Performance Share Awards and Performance RSUs vest only if certain performance conditions are met. The vesting of outstanding Awards is based on TSR relative to the companies in the FTSE 250 index excluding investment trusts and earnings per share growth.

For each tranche of Performance Share Awards and Performance RSUs granted in 2017, 2018 and 2019, 50% of the awards will vest after the third year and the remaining 50% of the share awards will vest after the fourth year. For each tranche of Performance Share Awards and Performance RSUs granted in 2020, 2021 and 2022, 100% of the awards will vest after the third year.

Restricted Share Awards and RSUs vest over the service period of three years. There is no performance condition attached.

30. Share-based payments continued

PERFORMANCE SHARE AWARDS

Set out below are summaries of Performance Share Awards granted under the plan:

	2022		2021	
	Number of shares under award	Weighted average exercise price per share under award	Number of shares under award	Weighted average exercise price per share under award
At 1 January	**62,781**	**£0.01**	82,366	£0.01
Granted during the year	**23,339**	**£0.01**	17,285	£0.01
Forfeited during the year	**(20,026)**	**£0.01**	(29,935)	£0.01
Exercised during the year*	**(11,207)**	**£0.01**	(6,935)	£0.01
At 31 December	**54,887**	**£0.01**	62,781	£0.01
Exercisable at 31 December	**9,515**	**£0.01**	9,272	£0.01

*The weighted average share price at the date of exercise of awards exercised during the year ended 31 December 2022 was £30.90 (2021: £53.59).

Awards outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	Shares under award 31 December 2022	Shares under award 31 December 2021
30 May 2017[1]	30 May 2022	£0.01	**–**	2,991
16 May 2018[1]	16 May 2023	£0.01	**6,026**	12,561
4 September 2018[1]	4 September 2023	£0.01	**–**	–
16 March 2019[2]	16 March 2024	£0.01	**8,359**	11,665
22 April 2020	22 April 2024	£0.01	**4,232**	19,729
3 March 2021	3 March 2025	£0.01	**12,931**	15,835
8 March 2022	8 March 2026	£0.01	**22,819**	–
12 September 2022	12 September 2026	£0.01	**520**	–
Total			**54,887**	**62,781**

[1] These awards are fully vested.
[2] 50% of the awards vested in 2022 and the remaining 50% will vest in 2023.

PERFORMANCE RSUS

Set out below are summaries of Performance RSUs granted under the plan:

	2022		2021	
	Number of shares under award	Weighted average exercise price per share under award	Number of shares under award	Weighted average exercise price per share under award
At 1 January	**61,699**	**–**	98,754	–
Granted during the year	**14,732**	**–**	10,995	–
Forfeited during the year	**(18,943)**	**–**	(34,194)	–
Exercised during the year*	**(21,611)**	**–**	(13,856)	–
At 31 December	**35,877**	**–**	61,699	–
Exercisable at 31 December	**414**	**–**	8,267	–

*The weighted average share price at the date of exercise of awards exercised during the year ended 31 December 2022 was £32.43 (2021: £51.62).

30. Share-based payments continued

Awards outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	Shares under award 31 December 2022	Shares under award 31 December 2021
30 May 2017[1]	30 May 2022	–	–	1,388
12 October 2017[1]	12 October 2022	–	300	450
16 May 2018[1]	16 May 2023	–	–	12,857
16 March 2019[2]	16 March 2024	–	6,242	14,614
22 April 2020	22 April 2024	–	5,134	21,588
3 March 2021	3 March 2025	–	9,746	10,802
8 March 2022	8 March 2026	–	13,489	–
17 August 2022	17 August 2026	–	966	–
Total			35,877	**61,699**

[1] These awards are fully vested.

[2] 50% of the awards vested in 2022 and the remaining 50% will vest in 2023.

RESTRICTED SHARE AWARDS

Set out below are summaries of Restricted Share Awards granted under the plan:

	2022		2021	
	Number of shares under award	Weighted average exercise price per share under award	Number of shares under award	Weighted average exercise price per share under award
At 1 January	3,912	£0.01	2,425	£0.01
Granted during the year	6,523	£0.01	1,793	£0.01
Forfeited during the year	(974)	£0.01	(306)	£0.01
At 31 December	9,461	£0.01	3,912	£0.01
Exercisable at 31 December	–	–	–	–

Awards outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	Shares under award 31 December 2022	Shares under award 31 December 2021
22 April 2020	22 April 2024	£0.01	1,639	2,324
3 March 2021	3 March 2025	£0.01	1,299	1,588
8 March 2022	8 March 2026	£0.01	4,701	–
12 September 2022	12 September 2026	£0.01	1,822	–
Total			9,461	**3,912**

RSUs

Set out below are summaries of RSUs granted under the plan:

	2022		2021	
	Number of shares under award	Weighted average exercise price per share under award	Number of shares under award	Weighted average exercise price per share under award
At 1 January	1,623	–	1,248	–
Granted during the year	23,585	–	577	–
Forfeited during the year	(138)	–	(202)	–
At 31 December	25,070	–	1,623	–
Exercisable at 31 December	–	–	–	–

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30. Share-based payments continued

Awards outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	Shares under award 31 December 2022	Shares under award 31 December 2021
22 April 2020	22 April 2024	–	**1,046**	1,046
3 March 2021	3 March 2025	–	**577**	577
8 March 2022	8 March 2026	–	**14,554**	–
17 August 2022	17 August 2026	–	**483**	–
21 November 2022	21 November 2026	–	**8,410**	–
Total			**25,070**	**1,623**

Fair value of awards

The fair values at grant date of awards granted during the year under the XP Senior Managers LTIP 2017 are determined using the valuation models below. The model inputs are as follows:

	Performance Share Award	Performance RSU	Restricted Share Award	RSU
Options granted	23,339	14,732	6,523	23,585
Fair value at grant date	£10.87 to £32.90	£10.87 to £32.90	£19.74 to £32.90	£19.74 to £32.90
Model used	Monte Carlo model and Black-Scholes model	Monte Carlo model and Black-Scholes model	Black-Scholes model	Black-Scholes model
Assumption used:				
Share price	£19.20 to £36.00	£19.20 to £36.00	£21.60 to £36.00	£21.60 to £36.00
Exercise price	£0.01	-	£0.01	-
Expected volatility	40.04% to 42.74%	40.04% to 42.74%	40.04% to 43.34%	40.04% to 43.34%
Expected option life	3 years	3 years	3 years	3 years
Expected dividend yield	3.00%	3.00%	1.70%	1.70%
Risk-free interest rate	1.44% to 3.08%	1.44% to 3.08%	1.44% to 3.18%	1.44% to 3.18%

30. Share-based payments continued

d. XP Power Limited Restricted Share Plan 2020 (the "XP RSP 2020")

The XP RSP 2020 was approved by the shareholders on 21 April 2020. The only participants under the XP RSP 2020 are the Executive Directors who are granted Restricted Shares. Restricted Shares vest over the service period of five years. There is no performance condition attached.

Set out below are summaries of Restricted Shares granted under the plan:

	2022		2021	
	Number of shares under award	Weighted average exercise price per share under award	Number of shares under award	Weighted average exercise price per share under award
At 1 January	**6,230**	**£0.01**	3,532	£0.01
Granted during the year	**4,080**	**£0.01**	2,698	£0.01
Forfeited during the year	**(557)**	**£0.01**	–	–
At 31 December	**9,753**	**£0.01**	6,230	£0.01
Exercisable at 31 December	**–**	**–**	–	–

Awards outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	Shares under award 31 December 2022	Shares under award 31 December 2021
22 April 2020	22 October 2025	£0.01	**1,263**	1,820
22 April 2020	22 April 2026	£0.01	**1,712**	1,712
3 March 2021	3 March 2027	£0.01	**1,495**	1,495
10 May 2021	10 May 2027	£0.01	**1,203**	1,203
8 March 2022	8 March 2028	£0.01	**4,080**	-
Total			**9,753**	**6,230**

Fair value of awards

The fair value at grant date of awards granted during the year under the XP RSP 2020 is determined using the Black-Scholes model. The model inputs are as follows:

Options granted	4,080
Fair value at grant date	£30.99
Assumption used:	
Share price	£36.00
Exercise price	£0.01
Expected volatility[1]	35.87%
Expected option life	5 years
Expected dividend yield	3.00%
Risk-free interest rate	1.44%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

31. Financial risk management

The Group's activities expose it to capital risk, market risk (including currency risk and 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 Company, comprising issued capital, reserves and retained earnings as disclosed in Note 27.

The Board reviews the capital structure of the business and considers the cost of capital and risks associated with each class of capital. The Group aims to balance its overall capital structure through the payment of dividends, new share issues and share buyback as well as the issue of new debt or the redemption of existing debt.

b. Currency risk

The Group operates in North America, Europe and Asia. Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies"). The Group monitors and manages the currency risk 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. The Group also manages some currency exposure by entering into currency forwards with banks

The Group's currency exposure based on the information provided to key management is as follows:

£m	GBP	EUR	USD	SGD	Others	Total
At 31 December 2022						
Financial assets						
Cash and cash equivalents	0.9	2.5	17.6	0.3	2.1	23.4
Trade receivables	2.3	4.8	34.6	*	0.7	42.4
Bond receivables	–	–	37.0	–	–	37.0
Other current assets	0.2	0.2	0.4	*	0.3	1.1
ESOP loan to employees	*	–	–	–	–	*
Subtotal	3.4	7.5	89.6	0.3	3.1	103.9
Financial liabilities						
Borrowings	(0.2)	–	(174.2)	–	–	(174.4)
Trade and other payables	(3.1)	(1.5)	(34.1)	(1.2)	(5.0)	(44.9)
Lease liabilities	(0.6)	(13.6)	(33.1)	(4.0)	*	(51.3)
Provisions	(0.1)	(0.1)	(46.7)	(0.1)	–	(47.0)
Other financial liabilities	(0.9)	–	–	–	(0.6)	(1.5)
Subtotal	(4.9)	(15.2)	(288.1)	(5.3)	(5.6)	(319.1)
Net financial (liabilities)/assets	(1.5)	(7.7)	(198.5)	(5.0)	(2.5)	(215.2)
Less: Currency forwards	10.6	–	–	–	–	10.6
Currency profile	9.1	(7.7)	(198.5)	(5.0)	(2.5)	(204.6)
Financial liabilities/(assets) denominated in the respective entities' functional currencies	0.8	8.1	203.6	–	0.1	212.6
Currency exposure of financial assets/(liabilities)	9.9	0.4	5.1	(5.0)	(2.4)	8.0

* Balance is less than £100,000.

31. Financial risk management continued

£m	GBP	EUR	USD	SGD	Others	Total
At 31 December 2021						
Financial assets						
Cash and cash equivalents	1.1	0.5	5.6	0.1	1.7	9.0
Trade receivables	2.4	2.3	25.9	*	0.2	30.8
Other current assets	0.1	*	0.4	0.2	0.2	0.9
ESOP loan to employees	*	–	–	–	–	–
Subtotal	3.6	2.8	31.9	0.3	2.1	40.7
Financial liabilities						
Borrowings	(0.2)	–	(33.4)	–	–	(33.6)
Trade and other payables	(3.8)	(0.6)	(32.4)	(1.4)	(3.9)	(42.1)
Lease liabilities	(0.2)	(0.5)	(2.8)	(4.5)	(0.1)	(8.1)
Provisions	*	–	–	(0.1)	(0.1)	(0.2)
Other financial liabilities	(0.9)	–	–	–	(0.5)	(1.4)
Subtotal	(5.1)	(1.1)	(68.6)	(6.0)	(4.6)	(85.4)
Net financial (liabilities)/assets	(1.5)	1.7	(36.7)	(5.7)	(2.5)	(44.7)
Less: Currency forwards	9.0	–	–	–	–	9.0
Currency profile	7.5	1.7	(36.7)	(5.7)	(2.5)	(35.7)
Financial liabilities/(assets) denominated in the respective entities' functional currencies	0.8	(1.2)	41.9	–	(0.1)	41.4
Currency exposure of financial assets/(liabilities)	8.3	0.5	5.2	(5.7)	(2.6)	5.7

* Balance is less than £100,000.

Within the Group, the Company, with USD as its functional currency, has significant currency exposure to financial assets and liabilities denominated in GBP and SGD. If the GBP and SGD change against USD by 10.2% and 2.8% respectively (2021: USD 7.3%, SGD 2.9%) with all other variables, including tax rates, being held constant, the effects arising from the net financial asset/(liability) that are exposed to currency risk will be as follows:

	2022 Profit after tax	2021 Profit after tax
GBP against USD		
– Strengthened	**0.7**	0.5
– Weakened	**(0.7)**	(0.5)
SGD against USD		
– Strengthened	**(0.1)**	(0.1)
– Weakened	**0.1**	0.1

Another subsidiary, with EUR as its functional currency, has significant currency exposure to financial assets and liabilities denominated in USD. If EUR change against USD by 10.7% (2021: 4.8%) with all other variables, including tax rates, being held constant, the effects arising from the net financial asset/(liability) that are exposed to currency risk will be as follows:

	2022 Profit after tax	2021 Profit after tax
USD against EUR		
– Strengthened	**0.3**	0.2
– Weakened	**(0.3)**	(0.2)

* Balance is 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 USD. If the USD interest rates on these borrowings increased/decreased by 1.0% (2021: 1.0%) with all other variables, including tax rates, being held constant, the profit after tax will be lower/higher by £1,131,000 (2021: £270,000) as a result of higher/lower interest expense on these borrowings.

31. Financial risk management continued

d. Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. For trade receivables the Group adopts a policy of only dealing with customers of appropriate credit history or rating. For other financial assets, the Group adopts the policy of only dealing with high credit quality counterparties.

The Group uses a provision matrix to measure the lifetime expected credit loss allowance for trade receivables. In measuring the expected credit loss, trade receivables are grouped based on shared credit risk characteristics and days past due.

In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers and adjusts to reflect current and forward macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified gross domestic product (GDP) and the public policy of the countries in which it sells goods as the most relevant factors.

Trade receivables are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group considers a financial asset as in default if the counterparty fails to make contractual payments within 90 days when they fall due and writes off the financial asset when a debtor is in significant financial difficulties and have defaulted on payment 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.

Debtors separately identified as credit-impaired

£m	2022	2021
Gross carrying amount	*	–
Less: loss allowance	*	–
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 2022							
North America region							
Expected loss rate	**0.0%**	**0.1%**	**0.2%**	**0.2%**	**0.3%**	**0.1%**	
Trade receivables	**20.2**	**3.1**	**0.5**	*	*	**0.3**	**24.1**
Loss allowance	**–**	*	*	*	*	*	*
Europe region							
Expected loss rate	**0.0%**	**0.1%**	**0.2%**	**0.2%**	**0.3%**	**10.8%**	
Trade receivables	**10.3**	**1.7**	**0.2**	*	**0.1**	**0.1**	**12.4**
Loss allowance	**–**	*	*	*	*	*	*
Asia region							
Expected loss rate	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	
Trade receivables	**4.3**	**0.9**	**0.7**	*	**–**	*	**5.9**
Loss allowance	**–**	**–**	**–**	**–**	**–**	**–**	**–**

		Past due					
£m	**Current**	**1–30 days**	**31–60 days**	**61–90 days**	**91–120 days**	**>120 days**	**Total**
At 31 December 2021							
North America region							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	5.1%	
Trade receivables	14.8	1.7	0.5	0.4	0.1	0.2	17.7
Loss allowance	–	*	*	*	*	*	*
Europe region							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	29.6%	
Trade receivables	7.8	1.2	0.2	0.1	*	0.1	9.4
Loss allowance	–	*	*	*	*	*	*
Asia region							
Expected loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Trade receivables	2.9	0.6	0.2	*	*	*	3.7
Loss allowance	–	–	–	–	–	–	–

* Balance is less than £100,000.

31. Financial risk management continued

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

£m	2022	2021
Beginning of financial year	*	(0.5)
Loss allowance[a] recognised in profit or loss during the year on assets acquired/originated	*	*
Receivables written off as uncollectible	–	0.5
Currency translation differences	*	*
End of the financial year	*	*

(a) Loss allowance measured at lifetime ECL.

* Balance is 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's debt is sourced from a Revolving Credit Facility 'RCF' provided by HSBC UK Bank PLC, J.P. Morgan Securities PLC, DBS Bank Ltd, Banco de Sabadell S.A., Commerzbank Aktiengesellschaft and Bank of China Limited. In 2022, the Group amended in respect of replacing LIBOR with Compound Reference Rate and renewed its facility from US$150 million to US$255 million with a US$75 million accordion with a four-year term up to June 2026 and an option to extend the bank facility for a further one year to June 2027. The facility has no fixed repayment terms until maturity.

The main features of the RCF are as follows:

- The interest rate on the amounts drawn under the facility is determined as Secured Overnight Financing Rate (SOFR) administered by the Federal Reserve Bank of New York plus a margin of 1.2-2.8% for the utilisation facility and a margin of 1.7% for the unutilised facility.
- Market standard financial covenants of the facility, as discussed below.
- A US$75 million accordion feature, providing the Group with additional flexibility to increase the size of the banking facility to US$330 million, subject to approval of its bank lending group.

The covenants to 31 December 2022 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 expenses 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 2022 both of these covenants were met.

The table below analyses non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cashflows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

31. Financial risk management continued

£m	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2022					
Trade and other payables	**44.9**	**–**	**–**	**–**	**44.9**
Lease liabilities	**2.9**	**4.1**	**14.6**	**68.7**	**90.3**
Accrued consideration	**–**	**–**	**1.5**	**–**	**1.5**
Borrowings, including interest	**12.6**	**11.6**	**195.7**	**–**	**219.9**
Total	**60.4**	**15.7**	**211.8**	**68.7**	**356.6**
At 31 December 2021					
Trade and other payables	42.1	–	–	–	42.1
Lease liabilities	1.9	2.0	2.4	2.2	8.5
Accrued consideration	*	–	1.3	–	1.3
Borrowings, including interest	0.9	0.7	34.0	–	35.6
Total	**44.9**	**2.7**	**37.7**	**2.2**	**87.5**

* Balance is less than £100,000.

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 presents assets and liabilities recognised and measured at fair value and classified by level of the following fair value measurement hierarchy:

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).

As at 31 December 2022 **£m**	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments	**–**	*****	**–**	*****
Liabilities				
Derivative financial instruments	**–**	**(0.1)**	**–**	**(0.1)**
As at 31 December 2021 £m				
Assets				
Derivative financial instruments	–	*	–	*
Liabilities				
Derivative financial instruments	–	(0.1)	–	(0.1)

* Balance is less than £100,000.

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 fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

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 currency forwards is determined using quoted forward currency rates at the balance sheet date. These derivative financial instruments are included in Level 2.

31. Financial risk management continued

g. Financial instruments by category

The carrying amount of the different categories of financial instruments are as follows:

£m	2022	2021
Financial assets, at FVPL	*	*
Financial liabilities, at FVPL	**(1.6)**	(1.5)
Financial assets, at amortised cost	**103.9**	40.7
Financial liabilities, at amortised cost	**(317.6)**	(83.9)

* Balance is less than £100,000.

h. Offsetting financial assets and financial liabilities

The Group has no financial instruments subject to enforceable master netting arrangements.

32. Business combinations

On 31 January 2022, the Group acquired 100% equity interest in FuG Elektronik GmbH 'FuG' and Guth High Voltage GmbH 'Guth'. The principal activity of FuG and Guth is that of development, production and sale of high voltage products, covering applications from particle accelerators systems to laboratory power supplies. As a result of the acquisition, the Group is expected to add new and highly complementary technical capabilities to the Group's high voltage product portfolio.

Details of the consideration paid, the assets acquired and liabilities assumed, the effects on the cash flows of the Group, at the acquisition date, are as follows:

(a) Purchase consideration

	£m
Cash paid	33.2
Consideration transferred for the businesses	33.2

(b) Effect on cash flows of the Group

	£m
Cash paid (as above)	33.2
Less: Cash and bank balances in subsidiaries acquired	(0.2)
Cash outflow on acquisition	33.0

(c) Identifiable assets acquired and liabilities assumed

	At fair value
Cash and bank balances	0.2
Property, plant and equipment (Note 13)	0.8
Brand, Trademarks, Technology, Customers relationships, Customer contracts and Software (Note 12 and Note (f) below)	11.3
Right-of-use assets (Note 14)	11.4
Inventories	5.9
Trade receivables (Note (e) below)	1.1
Other current assets (Note (e) below)	0.2
Total assets	30.9
Trade and other payables	(2.9)
Lease liabilities (Note 22)	(11.4)
Income tax payable	(0.3)
Deferred tax liabilities (Note 26)	(4.1)
Total liabilities	(18.7)
Total identifiable net assets	12.2
Add: Goodwill	21.0
Consideration transferred for the businesses	33.2

32. Business combinations continued

(d) Acquisition-related costs

Acquisition-related costs of £2.4 million are included in "administrative expenses" in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows.

(e) Acquired receivables

The fair value of trade and other receivables is £1.3 million which is the same as the gross contractual amount, all of which is expected to be collectible.

(f) Fair values

The fair value of the acquired identifiable intangible assets of £11.3 million was finalised during the year.

(g) Goodwill

The goodwill of £21.0 million arising from the acquisition is attributable to the workforce in place, strategic value through new customers, new technologies, an expanded presence in Germany and the synergies expected to arise from the economies of scale in combining the operations of the Group with those of FuG and Guth. It is not deductible for tax purposes.

(h) Revenue and profit contribution

The acquired businesses contributed revenue of £16.6 million and net profit of £2.9 million to the Group from the period 1 February 2022 to 31 December 2022.

Had FuG and Guth been acquired from 1 January 2022, consolidated revenue and consolidated loss before tax for the period ended 31 December 2022 would have been £291.9 million and £29.8 million respectively.

33. Information

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of XP Power Limited on 28 February 2023.

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2022

£'000	**Note**	**2022**	**2021**
ASSETS			
Current assets			
Cash and bank balances	37	**9,337**	3,469
Trade and other receivables	38	**91,767**	45,712
Other current assets	39	**3,570**	1,051
Derivative financial instruments	40	**56**	*
Inventories	41	**15,078**	11,283
Total current assets		**119,808**	61,515
Non-current assets			
Investment in subsidiaries	36	**49,258**	43,928
Property, plant and equipment	42	**2,690**	1,838
Right-of-use assets	43	**3,832**	4,515
Intangible assets	44	**36,267**	27,287
Long-term receivable	47	**7,468**	6,660
Total non-current assets		**99,515**	84,228
Total assets		**219,323**	145,743
LIABILITIES			
Current liabilities			
Trade and other payables	46	**112,307**	50,111
Current income tax liabilities	48	**3,217**	1,422
Derivative financial instruments	40	**129**	129
Lease liabilities		**329**	339
Provisions		**11**	–
Total current liabilities		**115,993**	52,001
Non-current liabilities			
Deferred income tax liabilities	45	**6,085**	4,458
Provisions		**96**	113
Lease liabilities		**3,703**	4,109
Total non-current liabilities		**9,884**	8,680
Total liabilities		**125,877**	60,681
NET ASSETS		**93,446**	85,062
EQUITY			
Share capital	49	**29,775**	29,774
Share-based payments reserve	49	**1,377**	951
Translation reserve	49	**25,358**	16,386
Retained earnings	49	**36,936**	37,951
TOTAL EQUITY		**93,446**	85,062

* Balance is less than £1,000.

NOTES TO THE COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2022

34. 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 19 Tai Seng Avenue, #07-01, Singapore 534054.

The nature of the Company's operations and its principal activities are providing power supply solutions and acting as an investment holding company.

35. Basis of preparation

The Company applies the same principal accounting policies as the Group as set out in Note 2 under the Group Consolidated Financial Statements, except for the following which is only applicable to the Company:

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries are stated at cost less accumulated impairment losses in the balance sheet. On disposal of investments in subsidiaries, the difference between net disposal proceeds and the carrying amount of the investments are recognised in profit or loss.

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.

Certain comparative amounts have been reclassified for consistency with the presentation of the 2022 Company balance sheet.

A. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

i New and amended standards adopted by the Group

On 1 January 2022, the Company adopted the new or amended IFRS, Interpretations issued by the IFRS Interpretations Committee of the IASB 'IFRIC' and Interpretations of SFRS(I) 'INT SFRIS(I)' (collectively referred to as 'Standards and Interpretations') 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 Standards and Interpretations.

The adoption of these new or amended Standards and Interpretations 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.

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 2022 reporting periods and have not been early adopted by the Company. These are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

36. Investment in subsidiaries

£'000	2022	2021
Cost at carrying value		
At 1 January	**43,928**	43,484
Currency translation differences	**5,330**	444
At 31 December	**49,258**	43,928

Name of Subsidiary	Country of business / incorporation	Ownership interest 2022	Ownership interest 2021
XP Power Plc	UK	100	100
XP Power Singapore Holdings Pte Limited	Singapore	100	100

37. Cash and bank balances

£'000	2022	2021
Cash at bank	9,337	3,469
Total	9,337	3,469

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 2022	**224**	**8,443**	**411**	**256**	**3**	**9,337**
At 31 December 2021	481	2,310	579	69	30	3,469

38. Trade and other receivables

£'000	2022	2021
Trade receivables	5,426	3,705
Trade receivables from subsidiaries	9,571	26,221
Other receivables from subsidiaries	21,155	4,553
Loan receivables from a subsidiary	55,615	11,233
Total	91,767	45,712

The average credit period taken on sales of goods to third party is 54 days (2021: 46 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 subsidiary is unsecured and bears interest at LIBOR plus 1.5% per annum.

Trade and other receivables from subsidiaries are interest-free.

39. Other current assets

£'000	2022	2021
Prepayments	514	496
Deposit	33	89
VAT receivables	3,013	389
Other receivables	10	77
Total	3,570	1,051

40. Derivative financial instruments

Currency forwards

Derivative financial instruments comprise of the USD/GBP currency forwards used to manage the exposure from issuance of dividends in GBP. Hedge accounting has not been applied to these contracts:

The contracted notional principal amounts ad fair values of these currency forwards are as follows:

	Assets		Liabilities	
31 December 2022 £'000	**Contractual notional amount**	**Fair value**	**Contractual notional amount**	**Fair value**
Currency forwards (current)	3,500	56	7,050	(129)

	Assets		Liabilities	
31 December 2021 £'000	**Contractual notional amount**	**Fair value**	**Contractual notional amount**	**Fair value**
Currency forwards (current)	1,050	*	7,950	(129)

* Balance is less than £1,000.

41. Inventories

£'000	2022	2021
Finished goods	**15,078**	11,283

42. Property, plant and equipment

£'000	Freehold land	Building	Plant and equipment	Motor vehicles	Building improvements	Assets under construction	Total
Cost							
At 1 January 2021	213	1,713	1,637	40	496	(0)	4,099
Additions	–	–	202	–	10	238	450
Currency translation differences	2	18	22	1	5	2	50
At 31 December 2021	215	1,731	1,861	41	511	240	4,599
Additions	–	–	458	–	–	415	873
Disposals	–	–	(167)	–	(312)	–	(479)
Transfer	–	–	–	–	650	(650)	–
Currency translation differences	27	210	248	5	143	(5)	628
At 31 December 2022	**242**	**1,941**	**2,400**	**46**	**992**	**–**	**5,621**
Accumulated depreciation							
At 1 January 2021	–	623	1,429	33	453	–	2,538
Depreciation charge	–	51	102	7	33	–	193
Currency translation differences	–	7	17	1	5	–	30
At 31 December 2021	–	681	1,548	41	491	–	2,761
Depreciation charge	–	57	158	–	84	–	299
Disposal	–	–	(162)	–	(312)	–	(474)
Currency translation differences	–	85	191	5	64	–	345
At 31 December 2022	**–**	**823**	**1,735**	**46**	**327**	**–**	**2,931**
Net book value							
At 31 December 2022	**242**	**1,118**	**665**	**–**	**665**	**–**	**2,690**
At 31 December 2021	215	1,050	313	–	20	240	1,838

Assets under construction in 2021 pertains to costs incurred for the renovation of office space which was due for completion in 2022.

43. Right-of-use assets

£'000	Leasehold land and buildings
At 1 January 2021	336
Depreciation charge	(321)
Additions	4,454
Currency translation differences	46
At 31 December 2021	4,515
Depreciation charge	(535)
Modification of lease liability	(703)
Disposal	(4)
Currency translation differences	559
At 31 December 2022	**3,832**

44. Intangible assets

£'000	Product development costs	Trademarks	Intangible software	Assets under development	Total
Cost					
At 1 January 2021	14,951	84	6,232	7,850	29,117
Additions	301	–	74	11,420	11,795
Transfer	9	–	–	(9)	–
Currency translation differences	183	1	65	315	564
At 31 December 2021	15,444	85	6,371	19,576	41,476
Additions	402	–	278	8,052	8,732
Transfer	1,760	–	11,847	(13,607)	–
Currency translation differences	1,880	10	1,760	1,729	5,379
At 31 December 2022	**19,486**	**95**	**20,256**	**15,750**	**55,587**
Accumulated amortisation and impairment losses					
At 1 January 2021	10,657	–	722	–	11,379
Amortisation charge	1,988	–	656	–	2,644
Currency translation differences	147	–	19	–	166
At 31 December 2021	12,792	–	1,397	–	14,189
Amortisation charge	1,563	–	1,680	–	3,243
Impairment charge	–	–	–	90	90
Currency translation differences	1,594	–	201	3	1,798
At 31 December 2022	**15,949**	**–**	**3,278**	**93**	**19,320**
Net book value					
At 31 December 2022	**3,537**	**95**	**16,978**	**15,657**	**36,267**
At 31 December 2021	2,652	85	4,974	19,576	27,287

* Balance is less than £1,000.

The Company's trademarks used to identify and distinguish the Company's name and logo have a carrying amount of £95,000 (2021: £85,000). The Company 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 Company for an indefinite period. Therefore, the trademarks are carried at cost without amortisation, but is tested for impairment on an annual basis.

45. Deferred income tax liabilities

The movement in deferred income tax liabilities during the financial year is as follow:

£'000	Accelerated tax depreciation	Intangible assets amortisation	Others	Total
At 1 January 2021	(104)	(2,607)	(121)	(2,832)
(Charged)/credited to profit or loss	(418)	(1,139)	(8)	(1,565)
Currency translation differences	(9)	(48)	(4)	(61)
At 31 December 2021	(531)	(3,794)	(133)	(4,458)
Credited/(charged) to profit or loss	359	(1,433)	(1)	(1,075)
Currency translation differences	(51)	(513)	12	(552)
At 31 December 2022	**(223)**	**(5,740)**	**(122)**	**(6,085)**

46. Trade and other payables

£'000	2022	2021
Trade payables	**2,983**	5,783
VAT payables	**3,321**	584
Withholding tax	**241**	87
Accruals for operating expenses	**5,459**	3,952
Contract liabilities	**1,434**	1,267
Amount payable to subsidiaries	**98,869**	38,438
Total	**112,307**	50,111

Amount payable to subsidiaries consists of advances from subsidiaries amounting to £6,402,000 (2021: £7,190,000) which pertain to cash pooling arrangements and are unsecured, repayable on demand and bear interest ranging from 1.5% to 3.0% per annum.

The Company borrows from subsidiaries at an interest rate of 1.5%–2.0% above LIBOR. The borrowing is repayable on demand. The outstanding amount as at year end is £79,160,182 (2021: £18,856,000)

47. Long-term receivable

£'000	2022	2021
Loans to subsidiaries	**7,468**	6,660
Total	**7,468**	6,660

Loans to subsidiaries amounting to are unsecured and denominated in the USD. The loans are repayable on demand and bear interest at LIBOR plus 2.0% per annum.

48. Current income tax liabilities

Movement in current income tax liabilities:

£'000	2022	2021
At 1 January	**1,422**	4,794
Currency translation differences	**172**	88
Income tax paid (net of refund)	**(1,050)**	(4,418)
Tax expense	**2,861**	844
Over-provision in prior financial year	**(188)**	114
At 31 December	**3,217**	1,422

49. Share capital and reserves

a. Share capital

	No of ordinary shares	Amount £'000
2022		
Beginning of financial year	**19,642,296**	29,774
Shares issued	**100,000**	1
End of financial year	**19,742,296**	29,775
2021		
Beginning and end of financial year	**19,642,296**	29,774

All issued ordinary shares are fully paid. There is no par value for these ordinary shares. Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the Company.

In 2022, the Company issued 100,000 ordinary shares for a total consideration of £1,000 for cash to the ESOP Trust. The newly issued shares rank pari passu in all aspects with the previously issued shares.

49. Share capital and reserves continued

b. Share-based payments reserve

Share-based payments reserve represents the equity-settled share-based payments 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-based payments and is reduced by the expiry or exercise of share-based payments.

£'000	2022	2021
Balance at 1 January	**951**	565
Share-based payment expenses	**310**	381
Currency translation differences	**116**	5
Balance at 31 December	**1,377**	951

c. Translation reserve

Translation reserve represents exchange differences arising from the translation of financial statements of foreign transactions and balances which functional currencies are different from that of the Company's presentation currency.

£'000	2022	2021
Balance at 1 January	**16,386**	15,530
Currency translation differences	**8,972**	856
Balance at 31 December	**25,358**	16,386

d. Retained earnings

The movement in retained earnings during the financial year is as follows:

£'000	2022	2021
Balance at 1 January	**37,951**	44,171
Dividends paid	**(18,570)**	(18,178)
Profit for the year	**17,555**	11,958
Balance at 31 December	**36,936**	37,951

50. Financial risk management

The Company's activities expose it to capital risk, market risk (including currency risk and 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 49.

b. Currency risk

The Company transacts in North America, Europe and Asia. The Company monitors and manages the currency risks 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. The Company manages some currency exposure by entering into currency forwards with banks.

50. Financial risk management continued

The Company's currency exposure based on the information provided to key management is as follows:

At 31 December 2022 £'000	GBP	EUR	USD	SGD	MYR	Others	Total
Financial assets							
Cash and cash equivalents	224	411	8,443	255	–	4	9,337
Trade and other receivables	77	2,673	84,814	86	4,052	65	91,767
Other current assets	–	4	2	29	8	–	43
Long-term receivables		–	7,468	–	–	–	7,468
Subtotal	301	3,088	100,727	370	4,060	69	108,615
Financial liabilities							
Trade and other payables	(12,444)	(500)	(92,771)	(1,567)	–	(29)	(107,311)
Lease liabilities	–	–	–	(4,032)	–	–	(4,032)
Provisions	–	–	(11)	(96)	–	–	(107)
Subtotal	(12,444)	(500)	(92,782)	(5,695)	–	(29)	(111,450)
Net financial (liabilities)/assets	(12,143)	2,588	7,945	(5,325)	4,060	40	(2,835)
Currency forwards	10,550	–	–	–	–	–	10,550
Currency profile excluding non-financial assets and liabilities	(1,593)	2,588	7,945	(5,325)	4,060	40	7,715
Less: Financial assets denominated in the entity's functional currency	–	–	7,945	–	–	–	7,945
Currency exposure of financial (liabilities)/assets	(1,593)	2,588	–	(5,325)	4,060	40	(230)

At 31 December 2021 £'000	GBP	EUR	USD	SGD	MYR	Others	Total
Financial assets							
Cash and cash equivalents	481	579	2,310	69	–	30	3,469
Trade and other receivables	981	903	42,098	1,659	–	71	45,712
Other current assets	–	4	–	162	–	–	166
Long-term receivables		–	6,660	–	–	–	6,660
Subtotal	1,462	1,486	51,068	1,890	–	101	56,007
Financial liabilities							
Trade and other payables	(13,068)	(342)	(33,205)	(1,494)	–	(64)	(48,173)
Lease liabilities	–	–	–	(4,448)	–	–	(4,448)
Provisions	–	–	–	(113)	–	–	(113)
Subtotal	(13,068)	(342)	(33,205)	(6,055)	–	(64)	(52,734)
Net financial (liabilities)/assets	(11,606)	1,144	17,863	(4,165)	–	37	3,273
Currency forwards	9,000	–	–	–	–	–	9,000
Currency profile excluding non-financial assets and liabilities	(2,606)	1,144	17,863	(4,165)	–	37	12,273
Less: Financial assets denominated in the entity's functional currency	–	–	17,863	–	–	–	17,863
Currency exposure of financial (liabilities)/assets	(2,606)	1,144	–	(4,165)	–	37	(5,590)

If the SGD and MYR change against USD by 2.8% and 6.0% respectively (2021: SGD 2.9%, MYR 7.1%) with all other variables, including tax rates, being held constant, the effects arising from the net financial asset/(liability) that are exposed to currency risk will be as follows:

	2022 Profit after tax	2021 Profit after tax
SGD against USD		
– Strengthened	**(121)**	(100)
– Weakened	**121**	100
MYR against USD		
– Strengthened	**198**	–
– Weakened	**(198)**	–

The impact of the currency risk on the other comprehensive income is not significant.

50. 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 Company has no significant interest-bearing assets, the Company'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 4.6% (2021: 0.14%) with all other variables, including tax rates, being held constant, the profit after tax will be lower/higher by £2,732,647 (2021: £31,958) 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 simplified approach by using the provision matrix to measure the lifetime expected credit loss for all trade receivables. In measuring 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 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 2022							
Expected loss rate	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	
Trade receivables	**5,636**	**7,036**	**1,074**	**703**	**267**	**281**	**14,997**
Loss allowance	**–**	**–**	**–**	**–**	**–**	**–**	**–**

		Past due					
£'000	**Current**	**1–30 days**	**31–60 days**	**61–90 days**	**91–120 days**	**>120 days**	**Total**
At 31 December 2021							
Expected loss rate	0%	0%	0%	0%	0%	0%	
Trade receivables	6,659	8,064	3,182	2,783	841	8,397	29,926
Loss allowance	–	–	–	–	–	–	–

The Company monitors the credit risk of the related parties based on the past due information to assess if there is any significant increase in credit risk. The related corporation has made interest payment on a timely basis and considered to have low risk of default. The loan balance of £7,468,000 (2021: £6,660,000) is measured on 12-month expected credit losses. The credit loss is immaterial.

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

The Company uses the following categories of internal credit risk rating for financial assets which are subject to expected credit losses under the 3-stage general approach. These four categories reflect the respective credit risk and how the loss provision is determined for each of those categories.

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

50. Financial risk management continued

e. Liquidity risk

The table below analyses non-derivative financial liabilities of the Company into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the 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 2022					
Trade and other payables	**107,311**	**–**	**–**	**–**	**107,311**
Lease liabilities	**541**	**549**	**1,682**	**2,382**	**5,154**
Total	**107,852**	**549**	**1,682**	**2,382**	**112,465**

£'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2021					
Trade and other payables	48,173	–	–	–	48,173
Lease liabilities	353	794	1,298	2,003	4,448
Total	48,526	794	1,298	2,003	52,621

The Company 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 presents assets and liabilities recognised and measured at fair value and classified by level of the following fair value measurement hierarchy:

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).

£'000	Level 1	Level 2	Level 3	Total
As at 31 December 2022				
Assets				
Derivative financial instruments	**–**	**56**	**–**	**56**
Liabilities				
Derivative financial instruments	**–**	**(129)**	**–**	**(129)**
As at 31 December 2021				
Assets				
Derivative financial instruments	–	*	–	*
Liabilities				
Derivative financial instruments	–	(129)	–	(129)

* Balance is less than £1,000.

g. Financial instruments by category

The carrying amount of the different categories of financial instruments are as follows:

£'000	2022	2021
Financial assets, at FVPL	**56**	*
Financial liabilities, at FVPL	**(129)**	(129)
Financial assets, at amortised cost	**108,615**	56,007
Financial liabilities, at amortised cost	**(111,450)**	(52,734)

* Balance is less than £1,000.

h. Offsetting financial assets and financial liabilities

The Company has no financial instruments subject to enforceable master netting arrangements.

FIVE-YEAR REVIEW CONSOLIDATED INFORMATION

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Results					
Revenue	**290.4**	240.3	233.3	199.9	195.1
(Loss)/profit from operations	**(24.1)**	29.7	37.4	26.7	39.3
(Loss)/profit before tax	**(30.2)**	28.4	35.7	24.0	37.6
Assets employed					
Non-current assets	**255.1**	150.5	135.2	137.4	129.2
Current assets	**226.6**	121.7	107.0	96.0	105.1
Current liabilities	**(106.2)**	(49.0)	(34.7)	(30.4)	(26.8)
Non-current liabilities	**(236.0)**	(50.8)	(43.0)	(64.1)	(70.1)
Net assets	**139.5**	172.4	164.5	138.9	137.4
Financed by					
Equity	**138.6**	171.5	163.8	138.2	136.4
Non-controlling interests	**0.9**	0.9	0.7	0.7	1.0
	139.5	172.4	164.5	138.9	137.4
Key statistics (pence)					
(Loss)/earnings per share	**(102.0)**	115.8	163.0	107.0	157.8
Adjusted earnings per share	**160.6**	179.4	201.8	144.1	176.1
Diluted (loss)/earnings per share	**(101.6)**	113.8	160.3	105.0	154.9
Diluted adjusted earnings per share	**160.1**	176.3	198.4	141.4	172.8
Share price in the year (pence)					
High	**5,250.0**	5,700.0	4,790.0	3,110.0	3,740.0
Low	**1,464.0**	4,630.0	2,130.0	1,965.0	2,090.0
Dividends per share (pence)	**94.0**	94.0	74.0	55.0	85.0

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