

3 August 2020

XP Power Limited
(“XP Power” or “the Group” or the “Company”)

Interim Results for the six months ended 30 June 2020

XP Power, one of the world's leading developers and manufacturers of critical power control solutions for the electronics industry, today announces its unaudited interim results for the six-month period ended 30 June 2020.

	Six months ended 30 June 2020	Six months ended 30 June 2019	Change
Highlights			
Order intake	£145.8m	£100.6m	+45%
Revenue	£105.1m	£98.9m	+6%
Gross margin	44.9%	44.6%	+30bps
Interim dividend per share (Q1 + Q2)	18.0p	35.0p	-49%
Adjusted			
Adjusted operating profit ¹	£18.0m	£18.2m	-1%
Adjusted profit before income tax ¹	£17.0m	£16.6m	+2%
Adjusted diluted earnings per share ¹	70.2p	69.2p	+1%
Reported			
Cash generated from operations	£21.5m	£25.2m	-15%
Net debt	£34.4m	£41.3m ²	-17%
Profit before tax	£10.3m	£12.9m	-20%
Profit attributable to equity holders	£8.1m	£10.3m	-21%
Diluted earnings per share	41.2p	52.8p	-22%

¹For details on adjusted measures refer to note 5 and note 8 of the condensed consolidated financial statements

²Net debt as at 31 December 2019

- Order intake increased by 45% to £145.8 million (41% increase at constant currency) due to recovery in the Semiconductor Equipment Manufacturing sector and COVID-19 related demand from our Healthcare customers. We enter H2 2020 with a record order book of £138.2 million (December 2019: £98.2 million).
- Revenue grew 6% to £105.1 million (4% increase in constant currency).
- Own-design XP product revenues increased 10% on a reported basis to a record £84.9 million (H1 2019: £77.3 million), representing 81% of total revenues (H1 2019: 78%).
- Gross margin increased slightly to 44.9% (H1 2019: 44.6%) due to changes in product and customer mix partially offset by costs relating to COVID-19.

- Expansion of our Vietnam manufacturing facility, which was completed in 2019, enabled the Group to demonstrate the resilience of its supply chain and maintain product deliveries to customers, despite the temporary shutdown of our Chinese factory in response to COVID-19.
- Cash generated from operations down 15% to £21.5 million (H1 2019: £25.2 million) due to investment in working capital to fulfil increased demand.
- Net debt decreased by 17% to £34.4 million (December 2019: £41.3 million) reflecting good underlying cash generation and the decision not to pay a final dividend.
- Dividend reinstated from the second quarter of 2020 at 18.0 pence per share (aggregated Q1 and Q2 2019: 35.0 pence per share), reflecting the confidence the Board has in the Group's longer-term prospects.

James Peters, Chairman, commented:

“Protecting the safety and wellbeing of our colleagues has been our top priority throughout the first half of 2020 and I would like to thank them all for their commitment across this period. The strength of the Group's first half performance is testament to their dedication and skill.”

“Once again, the Group has performed extremely well in a period of macroeconomic difficulty, underlining our resilience and the structural growth end markets we address. We have produced a good set of results while continuing to invest in long-term growth, maintaining supply of product to our customers, generating cash and without the need for government support. In light of this resilient performance, I am also pleased to report that we are in a position to reinstate dividend payments with the second quarter dividend.”

“We enter the second half of 2020 with a record customer order backlog due to the strong order intake from our Semiconductor Equipment Manufacturing and Healthcare customers and have expanded our capacity in both China and Vietnam to fulfil demand. These orders underpin our expectation of further revenue growth in the second half, although we remain conscious of potential risks arising from any second wave of COVID-19, global macroeconomic challenges and ongoing trade tensions.”

“The COVID-19 pandemic is accelerating the digitisation of the global economy, bringing into focus the importance of resilient supply chains and demonstrating the need for increased healthcare spending throughout the world. XP Power is well positioned to benefit from these trends and continue to grow its market share. With a proven strategy, exposure to attractive customers and market sectors, strong design win momentum and an expanded product portfolio, the Board is excited about the future of the Group.”

XP Power is hosting a presentation for analysts this morning at 0900 (BST). A live webcast of the presentation will be available at www.investislive.com/xppowerplc/5f05cb218ade181000696d93/dssx and a recording of the webcast will be available at www.xppowerplc.com later in the day.

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Note to editors

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

XP Power typically designs power control solutions into the end products of major blue-chip OEMs, with a focus on the Industrial Electronics (circa 34% of revenue), Healthcare (circa 27% of revenue), Semiconductor Equipment Manufacturing (circa 27% of revenue) and Technology (circa 12% of revenue) sectors. Once designed into a programme, XP Power has a revenue annuity over the life cycle of the customer's product which is typically five to seven years depending on the industry sector.

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

Headquartered in Singapore and listed on the Main Market of the London Stock Exchange since 2000, XP Power is a constituent of the FTSE 250 Index. XP Power serves a global blue-chip customer base from 29 locations in Europe, North America and Asia.

For further information, please visit xppower.com

3 August 2020

XP Power Limited
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Interim Results for the six months ended 30 June 2020

INTERIM STATEMENT

Overview

The first half of 2020 was a period dominated by the exceptional challenges of a global health crisis. Our top priority throughout has been to protect the health of our colleagues and I would like to thank them all for their commitment and adaptability across this period.

The Group has performed extremely well in a period of unprecedented difficulty demonstrating, once again, the resiliency of our business model. We have navigated the challenges of the COVID-19 pandemic well with the clear prioritisation of:

- 1) Ensuring the safety and wellbeing of all our colleagues;
- 2) Keeping our customers supplied with product; and
- 3) Preserving our cash.

We have continued to invest in the business through this difficult period and have achieved this result without the need to furlough staff, reduce our workforce or take advantage of government COVID-19 financing (with the exception of mandatory financial aid provided by the Singapore government which was provided to all companies regardless of need) or other financial concessions, while growing our revenues and earnings. Due to the uncertainties caused by COVID-19 the Board took the decision to cancel the final dividend for 2019 and the first quarter dividend for 2020. We are also pleased to report that we are in a position to recommence dividend payments from the second quarter of 2020 onwards.

The Semiconductor Equipment Manufacturing sector, which had started to recover in terms of order intake in the fourth quarter of 2019, continued to perform strongly in the first half of 2020. Customers in this sector are expecting demand to hold up in the second half of 2020 and into 2021. In addition, we benefitted from unprecedented demand from our Healthcare customers in response to the COVID-19 pandemic. Our exposure to these two sectors more than made up for weakness in other areas.

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

With a proven strategy, exposure to attractive customers and market sectors, strong design win momentum and an expanded product portfolio, the Board remains positive regarding the future of the Group.

COVID-19

Operations

We are continuing to monitor the global situation in respect of COVID-19 closely.

In common with many other facilities in China, our factory in Kunshan was not able to re-open at the end of January following the Chinese New Year holiday due to restrictions relating to COVID-

19. As an essential supplier of components for critical healthcare equipment we were able to open earlier than most, on 27 February 2020, but with a significantly reduced headcount as many staff were not able to travel back to Kunshan. As China relaxed travel restrictions our people were able to gradually return to Kunshan during March 2020 and the supply chain in China began to recover. In contrast, the impact of COVID-19 in Vietnam has been relatively minor and our facility opened after the Lunar New Year holiday as expected on 1 February 2020. However, Vietnam is dependent on the China supply chain for a number of fabricated parts, so capacity was constrained initially.

We are pleased to report that during the second quarter the China supply chain has been operating normally. Our production volumes out of China and Vietnam began to ramp in the second quarter as reliable supply of components and other materials was re-established. We have expanded headcount in both our production facilities and invested in capital equipment in Vietnam to increase production for the third quarter and beyond. There has been a significant further ramp up in production output during July. To date, component supply has been resilient, but we are monitoring the supply chain closely.

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

Balance sheet and liquidity

In response to the COVID-19 pandemic we have prioritised the preservation of cash and the availability of sufficient liquidity to manage potential short-term downside risks. As a result, we withdrew the 2019 final dividend which was expected to have a cash outflow of £6.9 million in April 2020 and the first quarter dividend for 2020. We continue to manage our cash tightly, whilst still investing in working capital and our manufacturing facilities to meet the increased demand from customers during the first half of 2020.

At 30 June 2020 the Group had available liquidity of c.£61 million through bank facilities and cash balances.

The Group's borrowings consist of a revolving credit facility (RCF) with committed facilities of US\$120 million and a US\$60 million accordion option. The RCF has a term up to November 2023, with an option to extend for a further year. At 30 June 2020 the Group has drawn down on US\$60 million of the facility. The Group has continued to operate with significant headroom against the RCF financial covenants during the interim period.

At 30 June 2020 net debt was £34.4 million, compared with £41.3 million at 31 December 2019 and net debt to Adjusted EBITDA was 0.74x at 30 June 2020, compared with 0.91x at 31 December 2019.

Our Strategy and Value Proposition

Our vision is to be the first-choice power solutions provider, delivering the ultimate experience for our customers and making XP Power a great place to work. The Group has applied a consistent strategy of moving up the value chain and our growth derives in part from the targeting of key customers. Once we are approved to supply these larger customers, we have a strong track record of successfully gaining a share of their available business.

XP Power supplies power control solutions to Original Equipment Manufacturers ("OEMs") who supply the Healthcare, Industrial Electronics, Semiconductor Equipment Manufacturing and Technology markets with high value, high reliability products. The increasing importance of energy efficiency for environmental, reliability and economic reasons; the increasing demand for digital connectivity of power conversion products; the necessity for ever smaller products; the accelerating rate of technological change; and the increasing proliferation of electronic equipment and semiconductor devices, have established a strong foundation for growth in demand for XP Power's products. If anything, the COVID-19 pandemic has accelerated these trends.

We also continue to expand the breadth of our product portfolio, both organically and by acquisition, in what remains a highly fragmented sector, therefore enabling us to increase our addressable market. Since the end of 2015, we have completed three acquisitions which have allowed us to expand into the high voltage and radio frequency (RF) power market sectors increasing the size of our addressable market by around US\$2.0 billion (75%).

Our acquisition of the Glassman High Voltage business in May 2018 opened up the circa US\$500 million high power, high voltage market for the Group. The combination of the XP Power sales force with the engineering and manufacturing capability at Glassman is compelling, and we are finding good opportunities for this product line.

We now have an enviable product portfolio of over 300 product families from low voltage to 500 kilo Volts at power levels up to 200 kilo Watts. This breadth of range, combined with our excellent customer support and Engineering Services capabilities, makes us the ideal choice of power solutions provider to our target customers.

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

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

Trading and Financial Review

On a statutory basis, revenue was £105.1 million (H1 2019: £98.9 million), representing growth of 6%. Statutory operating profit was £11.3 million (H1 2019: £14.5 million), a decrease of 22% against the prior year, with operating margin at 10.8% (H1 2019: 14.7%) as a result of increased investment in the business. This was achieved despite the disruptive effects of COVID-19 on our factory in China and supply chain during February and March 2020. Net finance costs were £1.0 million (H1 2019: £1.6 million), resulting in reported profit before tax of £10.3 million (H1 2019: £12.9 million). Income tax expense was £2.1 million (H1 2019: £2.5 million), equivalent to an effective tax rate of 20.4% (H1 2019: 19.4%). Basic earnings per share were 42.0 pence (H1 2019: 53.8 pence), a decrease of 22%.

Order Intake

Order intake of £145.8 million (H1 2019: £100.6 million) was up 45% on a reported basis. The growth was driven by unprecedented demand for healthcare equipment due to COVID-19 and a cyclical recovery in the Semiconductor Equipment Manufacturing sector which began in the fourth quarter of 2019. Given that the majority of orders are placed in US Dollars, the reported results reflect the impact of the stronger Sterling: US Dollar exchange rate of 1.26 in 2020, compared to 1.29 in the prior year. When adjusted to constant currency, 2020 orders were up 41% compared

with the prior period. In constant currency, compared to the same period a year ago, Asia orders increased by 13%, European orders were up 17%, while North America orders grew by 62%.

Order intake in the first half of 2020 significantly exceeded revenues with a resultant book-to-bill ratio of 1.39 (H1 2019: 1.02). We enter the second half of the current year with a record order book of £138.2 million (December 2019: £98.2 million).

We expect significant order backlog to unwind to more normal levels in the second half of the year as shipments from our factories increase as components and raw materials are received.

Revenue Performance

Reported revenues grew by 6% to £105.1 million in the six months to 30 June 2020 compared to £98.9 million in the same period a year ago. Revenue adjusted for constant currency grew by 4% compared to 2019.

Sector Performance

The sector breakdown for the first half of 2020 are very different to the prior year due to the recovery of Semiconductor Equipment Manufacturing and the COVID-19 related demand from some of our Healthcare customers.

Semiconductor Equipment Manufacturing customers showed a significant increase in revenues of 56% over the prior year to US\$35.3 million (H1 2019: US\$22.7 million) as the sector recovered, and we benefitted from market share gains as new programmes entered production. Design wins in this sector have been particularly strong over the last few years aided by our move up both the power and voltage scale, facilitated by the acquisitions, and we are starting to see the benefit from these new programmes. As previously reported, we regard this sector as having highly attractive growth prospects which are being driven by the growth of Big Data, Artificial Intelligence, autonomous vehicles, the Internet of Things and the roll out of 5G. The acceleration of digitisation in many aspects of our world, and the rise in home working caused by the COVID-19 pandemic, are reinforcing our view on the strength of these trends and our presence in the Semiconductor Equipment Manufacturing sector gives us significant exposure to them.

The Semiconductor Equipment Manufacturing sector is known for its cyclical nature, but we note that the last down cycle has been significantly shorter than past down cycles and the peak to trough for our sector revenues lower in amplitude than prior cycles. We attribute this to the pervasive digitisation of so many aspects of our lives, driven by the multiple end market drivers set out above. We remain excited by our ability to grow revenues in this sector.

Revenue from Healthcare customers grew by 16% over the prior period to US\$35.1 million (H1 2019: US\$30.2 million) as certain customer programmes saw a significant increase in demand due to COVID-19. As countries acted quickly to equip intensive care units to treat COVID-19 patients, the demand for ventilators, Continuous Positive Airway Pressure (CPAP) machines, hospital beds, patient monitors, drug delivery systems, suction pumps, specialist ultrasound and lung X-ray applications increased significantly. The bulk of the orders received for these devices are scheduled to be delivered in the second half of 2020. By contrast other applications such as robotic surgical tools and endoscopy showed declines compared to the prior period as the sector focused on treatment of the pandemic. We expect these non COVID-19 orders to recover to more normal levels in the second half of 2020.

The strength in Semiconductor Equipment Manufacturing and Healthcare sectors revenues was partially offset by a significant revenue decline in Industrial Electronics, including the broadline distribution channels we partner with, which decreased by 24% to US\$46.4 million (H1 2019: US\$60.9 million). Industrial Electronics is our most diverse sector and one in which we have very few large customers, making it the most difficult to analyse. Our view is that many of these smaller

customers have seen a decline in their end markets or have had other supply chain shortages due to the effects of the COVID-19 pandemic. The revenue from the broadline distribution channels has declined by 13% compared to the prior period as these channels reduced their inventories of our products. By contrast their “Point of Sale” of our products have held up well growing 11% compared to the prior period but has shown noticeable deterioration in June.

Revenues from Technology customers grew by 9% to US\$15.1 million (H1 2019: US\$13.9 million) due to strength from a customer producing burn-in test equipment.

Semiconductor Equipment Manufacturing represented 27% (H1 2019: 17%), Healthcare represented 27% (H1 2019: 24%), Industrial Electronics represented 34% (H1 2019: 48%), and Technology represented 12% (H1 2019: 11%) of total revenues. Our customer base remains highly diversified with the largest customer accounting for only 14% of revenue (H1 2019: 9%), spread over 150 different programmes/part numbers.

XP Power’s expansion of its capabilities into higher voltage, higher power and RF power applications has made us an attractive power solutions provider to the many Healthcare and Semiconductor Equipment Manufacturing customers who use these technologies and value our full-service engineering solutions capability. There have been a number of exciting design wins for these products during the first half of 2020, particularly in Asia.

Regional Performance

Revenues in North America were US\$80.4 million (H1 2019: US\$72.9 million), up 10% compared to the same period a year ago as the Semiconductor Equipment Manufacturing sector continued its recovery.

Revenues in Europe were £29.9 million (H1 2019: £32.9 million), a decline of 9% on the same period a year ago as strength in Healthcare was offset by weakness in the Industrial Electronics sector which declined 28% on the prior period due to the effects of COVID-19 on demand and supply chains. While difficult to quantify, there is also anecdotal evidence that some customers built up buffer inventory in early 2019 to protect against any potential adverse effects arising from a disorderly Brexit.

Revenues in Asia were US\$14.1 million (H1 2019: US\$12.5 million), up a healthy 13% compared with the same period a year ago, driven by the Technology sector and strong Healthcare business.

Gross Margin

Gross margin in the first half of 2020 was 44.9% (H1 2019: 44.6%), a 30 bps increase on a reported basis and 20 bps in constant currency. The 20 bps increase in gross margin in constant currency resulted from favourable sector and regional mix offset by increased costs relating to COVID-19, including costs incurred when Kunshan was not operating and the impact of increased unrecovered freight costs. Whilst global air freight capacity was constrained as a result of the global pandemic, demand increased as Personal Protective Equipment (PPE) requirements surged resulting in significant air freight cost increases. This was a short-term impact and whilst we have been working with customers to recover some of this additional cost, we have also been seeing reductions to the cost in recent weeks.

Adjusted Results

Throughout this Interim Results statement, adjusted and other alternative performance measures are used to describe the Group’s performance. These are not recognised under International Financial Reporting Standards (“IFRS”) or other Generally Accepted Accounting Principles (“GAAP”).

When reviewing XP Power's performance, the Board and management team focus in particular on adjusted results rather than statutory results. There are a number of items included in our statutory results which are considered by the Board to be one-off in nature or not representative of the Group's performance and are thus excluded from adjusted results. The tables in note 5 show the full list of adjustments between statutory operating profit and adjusted operating profit by business, as well as between statutory profit before tax and adjusted profit before tax at Group level for both 2020 and 2019.

Adjusted Operating Expenses and Margins

Adjusted operating expenses in the first half were £29.5 million (H1 2019: £25.9 million) after excluding £6.7 million of specific items (H1 2019: £3.7 million).

The increase primarily relates to investment in headcount, mainly in our customer support and engineering teams. Additional increases were seen in IT costs as we continue to develop our infrastructure to support the future growth of the business.

Due to the increased investment in operations adjusted operating profit was £18.0 million, down marginally from the £18.2 million in H1 2019. Adjusted operating margin of 17.1% was achieved in H1 2020, down 130bps from the 18.4% in H1 2019.

Finance Cost

Net finance cost decreased to £1.0 million (H1 2019: £1.6 million) due to a combination of decreased average borrowings and lower interest rates.

Interest cover was 22.9 times (H1 2019: 18.8 times) which is well above the minimum required in our banking covenants. Interest cover is EBITDA as a multiple of net interest expense as defined by our Revolving Credit Facility.

Adjusted Profit before Tax

The Group generated adjusted profit before tax of £17.0 million (H1 2019: £16.6 million), up 2% year-on-year.

Specific Items

In the first half of 2020, the Group incurred £6.7 million (H1 2019: £3.7 million) of specific items, which consisted of amortisation of intangible assts due to business combinations of £1.6 million (H1 2019: £1.6 million), £0.2 million of legal costs (H1 2019: £1.2 million), £1.5 million of ERP system implementation costs (H1 2019: £0.5 million), £0.3 million of acquisition related costs (H1 2019: £0.4 million), £2.2 million of restructuring costs relating to the closure of a UK design centre and the Minden production facility in North America with £1.2 million being product development in progress which will not be continued (H1 2019: £nil) and £0.9 million of fair value adjustments on currency hedges. The legal costs relate to a legal dispute in North America. The dispute is non-customer related and is currently dormant.

Taxation

The tax charge for the period was £2.1 million (H1 2019: £2.5 million), representing an effective tax rate of 20.4% (H1 2019: 19.4%). After adjusting for specific items, the effective tax rate for the period was 18.2% (H1 2019: 18.1%). The year on year increase is driven by geographic mix with a greater percentage of profits being realised in higher tax rate jurisdictions.

We currently expect our future effective tax rate to be in the range of 20% to 22% depending on the geographic distribution of our profits.

Operating Cash Flows and Net Debt

The Group generated net cash from operations of £21.5 million, down 15% from the £25.2 million generated in the previous year. The lower level of operating cash flows was a result of increased inventory levels to meet the order intake demand. The Group expects inventory to decrease in the second half of 2020.

Net debt was £34.4 million at 30 June 2020, compared with £41.3 million at 31 December 2019. The Group returned £3.8 million (H1 2019: £10.2 million) to shareholders in the form of dividends during the first half of 2020.

Product Development

New products are fundamental to our 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 high voltage and RF power in 2017 and 2018, we have increased our addressable market from around US\$2.7 billion to approximately US\$4.7 billion.

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

XP Power launched six new product families in the first half of 2020 (H1 2019: nine). We continue to lead our industry in the introduction of high efficiency, "green" products, with five of the new product families released in the first half of 2020 having high efficiency and/or low stand-by power. We are planning to release a much higher number of products in the second half of 2020 including some with exciting new stage technology.

With larger customers continuing to reduce the number of vendors they deal with, XP Power's broad product offering, excellent global engineering support, in-house manufacturing capability and industry-leading environmental credentials leave the Group well-placed to secure further preferred supplier agreements. The addition of RF power and high voltage, high power products to our range via the acquisitions of Comdel and Glassman further enhances this proposition. Combining this with our Engineering Services offering makes us a compelling partner to our larger customers who come to us to provide leading edge power solutions to power their complex applications.

Manufacturing Progress

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

selling into the USA. The ability to manufacture in Vietnam has become a compelling value proposition to our customers wherever they are located.

The outbreak of COVID-19 has underlined the benefits of our diversified manufacturing footprint as we were able to divert production from China to Vietnam when COVID-19 severely disrupted the Chinese factory and supply chain in February and March 2020. A number of our customers accelerated their qualification processes to transfer production from our China facility to our Vietnam facility to address the impact of Section 301 tariffs and COVID-19. Our end objective is to provide a resilient and flexible supply chain with the capability to manufacture the majority of products in both China and Vietnam. This is a compelling offering to our customers as they have become more focused on the security and certainty of supply following the COVID-19 pandemic.

During the first half of 2020, we have invested in additional equipment in Vietnam to increase production line capacity and help deliver customer orders scheduled for the third and fourth quarters. We will be investing in further equipment in the third quarter to expand our test and burn-in capacity.

Vietnam is now qualified to produce a total of 2,239 different low voltage products (H1 2019: 1,819), demonstrating our progress with the transfer of production capabilities. In addition, the transfer of low power, high voltage DC-DC modules, previously manufactured in Minden, Nevada, is nearing completion and there are now more than 350 different high voltage modules capable of being manufactured in Vietnam.

We expect this important strategic capability of having production facilities in Vietnam and China to enable us to win more design slots with key customers. A number of customers have already informed us that they will no longer design-in products manufactured in China due to concerns over China/USA trade tensions. Our Vietnamese facility would also continue to enjoy a cost advantage over competitors with a predominantly Chinese manufacturing footprint, even in the event that the Trump administration decides to levy Section 301 tariffs on power converters produced in Vietnam.

Restructuring of Low Power, High Voltage Manufacturing and Transfer to Vietnam

In August 2019 we announced that we would close our manufacturing facility in Minden, Nevada which produced our low power, high voltage DC-DC modules and transfer production to our low-cost Vietnamese facility. Our plan was to complete this transfer by June 2020 resulting in expected annualised cost savings of approximately £4.0 million. Approximately £1.0-2.0 million of these cost savings will be reinvested back into the business to expand and strengthen our new product introduction team and transfer further products from North America to Vietnam to generate further ongoing savings. While we have made good progress the transfer process was constrained by travel restrictions relating to the COVID-19 pandemic and increased demand from the Semiconductor Equipment Manufacturing customers. We now expect the closure to be complete in the third quarter of 2020.

The enlarged product transfer team will facilitate further transfers of existing engineering services production from our facility in Sunnyvale, California to Vietnam resulting in additional future savings, and support the ongoing introduction of new standard products as they are launched,

We have incurred approximately £0.5 million in costs associated with the full closure of Minden in the first half of 2020 which have been treated as a specific item. We expect to incur approximately £0.5 million to complete the transfer.

Capital Allocation and Dividend Policy

The Group will continue its disciplined approach to capital allocation, prioritising maintaining a strong balance sheet and sufficient committed facilities whilst it continues to focus on investing in

the business to drive organic growth. The Group will also invest in acquisitions where they support the Group's strategy.

Due to the uncertainties caused by COVID-19 the Board took the decision to cancel the final dividend for 2019 and the first quarter dividend for 2020.

The Group's strategic focus, and its well diversified revenue mix, both by sector and geography, has ensured that it has performed resiliently throughout the first half and enters the second half with a record order book. Furthermore, the Group has not furloughed any employees or taken advantage of any COVID-19 government loan schemes in any of the markets in which it operates, with the exception of mandatory financial aid provided by the Singaporean government. While our financial results have been adversely affected by the supply chain disruption in China between the middle of January and the end of March 2020 and the ongoing global disruption, the Group has managed its cash position prudently and produced robust earnings in the first half of 2020 and as at 30 June 2020 the Group had a Net Debt/Adjusted EBITDA ratio of 0.74:1.

After careful consideration and taking account all of the above factors, the Board believes it is appropriate for the Group to resume the payment of dividends with effect from the second quarter of 2020. The Board does not propose to pay the Q4 2019 and Q1 2020 dividends and will use the preserved cash to reduce leverage and provide additional liquidity for the uncertainty that may result from COVID-19 in the near term.

UK/EU trade

As previously reported, the Group analysed the implications of a no deal Brexit and concluded that it would have limited operational implications. In the first quarter of 2019, we implemented our contingency plan for a no deal Brexit which involved transferring certain inventories held in support of 15 key accounts from our UK warehouse to our German warehouse. While we will not be immune to any macroeconomic consequences of a no deal Brexit, we are confident that the actions we have taken will prevent any internal operational issues.

Sustainability – Environmental Impact and “Green” Products

XP Power has placed environmental, social and governance performance at the heart of its operations both in terms of minimising the impact its activities have on the environment and, importantly, in its product development strategy. We are a member of the Responsible Business Alliance (RBA) and support its rigorous code of conduct covering employee relations, health and safety standards, environmental impact, business ethics and management systems. We are proud to support the ethos of the RBA and of the United Nations Sustainable Development Goals (SDG's) many of which we are able to impact positively.

We have adopted many environmentally friendly best practices such as using PV Solar in our facilities, recycling of rainwater, use of low energy lighting and recycling of the power we use to test our products. We are also active in the communities in which we operate providing our people a day's paid leave to pursue charitable work. However, the biggest impact we can have on the environment is continuing to develop products which consume less energy and use less materials.

We have developed a class-leading portfolio of “green” products with efficiencies of up to 95% and many of these products also have low stand-by power (a feature to reduce the power consumed while the end equipment is not operational but in stand-by mode). We continue to see strong uptake of these products by our customers.

Outlook

Our first priority remains the health and safety of our colleagues, customers and business partners.

The greater focus on the ability of supply chains to cope with adverse events such as pandemics, natural disasters and trade tensions, has once again allowed XP Power to demonstrate its resilience and this is well understood and valued by our blue-chip customers. The pandemic has also resulted in an acceleration of the digitisation of the global economy and increased recognition that many countries require significant investment in their healthcare systems. These trends, as well as the trend for increasing connectivity in Industrial Electronics, are at the heart of our business and should help us to continue to grow above market rates.

We enter the second half of 2020 with a record customer order backlog of £138.2 million (H1 2019: £100.6 million) due to the strong order intake from our Semiconductor Equipment Manufacturing and Healthcare customers. All our facilities are fully operational and those employees who are able to work from home are doing so effectively.

We expect that strength in the Semiconductor Equipment Manufacturing and Healthcare sectors, as we deliver the orders received in the first half of 2020, will more than compensate for weakness in the Industrial Electronics markets.

Our enhanced Vietnam manufacturing capability has positioned us well to mitigate the impact of the COVID-19 pandemic, as it did for Section 301 tariffs in 2019. Our key customers recognise the resilience of our supply chain, alongside our technical service and support, which drives more design wins.

The Board expects further revenue growth in the second half of 2020, although we remain conscious of potential risks arising from a second wave of COVID-19 and the resultant global macroeconomic challenges, and ongoing trade tensions.

As in prior periods of difficult macroeconomic conditions, we have weathered the challenges of 2020 well to date and expect to exit the COVID-19 period in a stronger position than when we entered. We believe we are well along the path to achieving our vision of becoming the first-choice power solutions provider to our existing and target customer base.

3 August 2020

Independent review report to XP Power Limited Report on review of interim financial information

Introduction

We have reviewed the accompanying condensed consolidated financial information of XP Power Limited (“the Company”) and its subsidiaries (“the Group”) set out on pages 15 to 24, which comprise the condensed consolidated balance sheet of the Group as at 30 June 2020, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the 6-month period then ended and the other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim report for the 6-month period ended 30 June 2020, which comprise the “Interim Results” set out on pages 1 to 3, “Interim Statement” set out on pages 4 to 13 and “Risks and uncertainties” set out on pages 25 to 26, and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore,
3 August 2020

XP Power Limited
Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2020

£ Millions	Note	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Revenue	5	105.1	98.9
Cost of sales		(57.9)	(54.8)
Gross profit		47.2	44.1
Other income		0.3	-
Expenses			
Distribution and marketing		(24.3)	(20.3)
Administrative		(3.3)	(3.0)
Research and development		(8.6)	(6.3)
Operating profit		11.3	14.5
Finance charge		(1.0)	(1.6)
Profit before income tax		10.3	12.9
Income tax expense	6	(2.1)	(2.5)
Profit after income tax		8.2	10.4
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		-	*
Exchange differences on translation of foreign operations		6.0	(0.2)
		6.0	(0.2)
Items that will not be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation		*	*
Other comprehensive income/(loss), net of tax		6.0	(0.2)
Total comprehensive income		14.2	10.2
Profit attributable to:			
- Equity holders of the Company		8.1	10.3
- Non-controlling interests		0.1	0.1
		8.2	10.4
Total comprehensive income attributable to:			
- Equity holders of the Company		14.1	10.1
- Non-controlling interests		0.1	0.1
		14.2	10.2
Earnings per share attributable to equity holders of the Company		Pence per Share	Pence per Share
Basic	8	42.0	53.8
Diluted	8	41.2	52.8

* Balance is less than £100,000.

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

XP Power Limited
Condensed Consolidated Balance Sheet
As at 30 June 2020

£ Millions	Note	At 30 June 2020 (Unaudited)	At 31 December 2019
ASSETS			
Current assets			
Corporate tax recoverable		1.6	2.0
Cash and cash equivalents		13.0	11.2
Inventories		55.6	44.1
Trade receivables		33.2	34.8
Other current assets		3.9	3.3
Derivative financial instruments		-	0.6
Total current assets		107.3	96.0
Non-current assets			
Goodwill		54.8	53.2
Intangible assets	9	48.8	46.4
Property, plant and equipment		30.9	29.3
Right-of-use assets		6.4	6.6
Deferred income tax assets		1.8	1.8
ESOP loans to employees		0.1	0.1
Total non-current assets		142.8	137.4
Total assets		250.1	233.4
LIABILITIES			
Current liabilities			
Current income tax liabilities		4.3	3.1
Trade and other payables		32.8	25.2
Derivative financial instruments		0.3	-
Lease liabilities		1.7	1.6
Accrued consideration		-	0.5
Total current liabilities		39.1	30.4
Non-current liabilities			
Accrued consideration		1.3	1.2
Borrowings		47.4	52.5
Deferred income tax liabilities		6.3	5.5
Provisions		0.1	0.1
Lease liabilities		4.5	4.8
Total non-current liabilities		59.6	64.1
Total liabilities		98.7	94.5
NET ASSETS		151.4	138.9
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		27.2	27.2
Merger reserve		0.2	0.2
Share option reserve		4.2	3.9
Treasury shares reserve		(0.1)	(0.5)
Hedging reserve		-	-
Translation reserve		5.8	(0.2)
Other reserve		(0.6)	(0.8)
Retained earnings		114.1	108.4
Non-controlling interests		0.6	0.7
TOTAL EQUITY		151.4	138.9

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

XP Power Limited
Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2020

£ Millions

Note	Attributable to equity holders of the Company								Total	Non-controlling interests	Total Equity
	Share capital	Share option reserve	Treasury shares	Merger reserve	Hedging reserve	Translation reserve	Other reserve	Retained earnings			
Balance at 1 January 2019	27.2	2.1	(1.0)	0.2	0.1	4.0	(0.8)	104.6	136.4	1.0	137.4
Sale of treasury shares	-	-	0.3	-	-	-	-	(0.1)	0.2	-	0.2
Employee share option plan expenses, net of tax	-	0.7	-	-	-	-	-	-	0.7	-	0.7
Dividends paid	7	-	-	-	-	-	-	(10.0)	(10.0)	(0.2)	(10.2)
Exchange difference arising from translation of financial statements of foreign operations	-	-	-	-	-	(0.2)	-	-	(0.2)	-	(0.2)
Net change in cash flow hedges	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	10.3	10.3	0.1	10.4
Total comprehensive income for the period	-	-	-	-	-	(0.2)	-	10.3	10.1	0.1	10.2
Balance at 30 June 2019 (unaudited)	27.2	2.8	(0.7)	0.2	0.1	3.8	(0.8)	104.8	137.4	0.9	138.3
Balance at 1 January 2020	27.2	3.9	(0.5)	0.2	-	(0.2)	(0.8)	108.4	138.2	0.7	138.9
Sale of treasury shares	-	-	0.4	-	-	-	-	1.4	1.8	-	1.8
Employee share option plan expenses, net of tax	-	0.3	-	-	-	-	-	-	0.3	-	0.3
Dividends paid	7	-	-	-	-	-	-	(3.8)	(3.8)	*	(3.8)
Further acquisition of non-controlling interest	-	-	-	-	-	-	0.2	-	0.2	(0.2)	-
Exchange difference arising from translation of financial statements of foreign operations	-	*	-	-	-	6.0	-	*	6.0	-	6.0
Net change in cash flow hedges	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	8.1	8.1	0.1	8.2
Total comprehensive income for the period	-	*	-	-	-	6.0	-	8.1	14.1	0.1	14.2
Balance at 30 June 2020 (unaudited)	27.2	4.2	(0.1)	0.2	-	5.8	(0.6)	114.1	150.8	0.6	151.4

* Balance is less than £100,000.

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

XP Power Limited
Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2020

£ Millions	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Cash flows from operating activities		
Profit after income tax	8.2	10.4
Adjustments for:		
- Income tax expense	2.1	2.5
- Amortisation and depreciation	7.3	6.1
- Finance charge	1.0	1.6
- Equity award charges	0.6	0.5
- Fair value loss/(gain) on derivative financial instruments	0.9	(0.2)
- Loss/(gain) on disposal of property, plant and equipment	*	*
- Loss on disposal of intangible assets	1.2	-
- Unrealised currency translation gain	(0.6)	(0.3)
- Provision for doubtful receivables	*	*
Change in the working capital, net of effects from acquisitions:		
- Inventories	(8.2)	5.3
- Trade and other receivables	3.2	(0.6)
- Trade and other payables	5.8	0.4
- Provision for liabilities and other charges	*	(0.5)
Cash generated from operations	21.5	25.2
Income tax paid	(0.6)	(2.6)
Net cash provided by operating activities	20.9	22.6
Cash flows from investing activities		
Purchases and construction of property, plant and equipment	(1.8)	(2.6)
Capitalisation of research and development expenditure	(4.0)	(4.4)
Capitalisation of intangible software and software under development	(0.8)	(1.9)
Proceeds from disposal of property, plant and equipment	*	0.1
Repayment of ESOP loans	*	0.1
Payment of accrued consideration	(0.6)	-
Net cash used in investing activities	(7.2)	(8.7)
Cash flows from financing activities		
Repayment of borrowings	(9.0)	(2.4)
Principal payment of lease liabilities	(0.8)	(0.8)
Sale of treasury shares	1.8	0.3
Interest paid	(0.8)	(1.4)
Dividends paid to equity holders of the Company	(3.8)	(10.0)
Dividends paid to non-controlling interests	*	(0.2)
Net cash used in financing activities	(12.6)	(14.5)
Net increase(decrease) in cash and cash equivalents	1.1	(0.6)
Cash and cash equivalents at beginning of financial period	11.2	11.5
Effects of currency translation on cash and cash equivalents	0.7	(0.1)
Cash and cash equivalents at end of financial period	13.0	10.8

* Balance is less than £100,000.

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

XP Power Limited

Notes to the condensed consolidated financial statements

1. General information

XP Power Limited (the “Company”) is listed on the London Stock Exchange and incorporated and domiciled in Singapore. The address of its registered office is 401 Commonwealth Drive, Lobby B #02-02, Haw Par Technocentre, Singapore 149598.

The nature of the Group’s operations and its principal activities is to provide power supply solutions to the electronics industry.

These condensed consolidated interim financial statements are presented in Pounds Sterling (GBP).

2. Basis of preparation

The condensed consolidated interim financial statements for the period ended 30 June 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority and with International Accounting Standards (“IAS”) 34 *Interim Financial Reporting* as adopted by the European Union.

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

3. Going concern

The potential impact of COVID-19 on the Group has been considered in the preparation of the interim financial statements. The Directors have reviewed liquidity and covenant forecasts for the Group, which have been updated for the impact of COVID-19 on trading. The Directors have also considered sensitivities in respect of potential downside scenarios and the mitigating actions available in concluding that the Group is able to continue in operation for a period of at least twelve months from the date of approving the interim financial statements.

In the downside scenarios, the Group continues to have liquidity headroom on its debt facility throughout the period under assessment. The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the consolidated financial information has been prepared on a going concern basis.

4. Accounting policies

The condensed consolidated interim financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies within the Group financial statements for the year ended 31 December 2019.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated interim financial statements as were applied in the presentation of the Group’s financial statements for the year ended 31 December 2019.

A number of new or amended standards became applicable for the current reporting period. The adoption of these new or amended standards 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 prior financial years.

5. Segmented and revenue information

The Board of Directors considers and manages the business on a geographic basis. Management manages and monitors the business based on the three primary geographical areas: North America, Europe and Asia. All geographic locations market the same class of products to their respective customer base.

Revenue

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions.

Analysis by class of customer

The revenue by class of customer is as follows:

Six months ended 30 June 2020

£ Millions

	Europe	North America	Asia	Total
Primary geographical markets				
Semiconductor Equipment				
Manufacturing	0.4	28.1	0.4	28.9
Technology	3.4	4.1	4.6	12.1
Industrial Electronics	17.3	14.9	3.7	35.9
Healthcare	8.8	16.8	2.6	28.2
	<u>29.9</u>	<u>63.9</u>	<u>11.3</u>	<u>105.1</u>

Six months ended 30 June 2019

£ Millions

	Europe	North America	Asia	Total
Primary geographical markets				
Semiconductor Equipment				
Manufacturing	0.2	17.1	0.2	17.5
Technology	3.0	7.3	0.5	10.8
Industrial Electronics	24.1	15.4	7.7	47.2
Healthcare	5.6	16.5	1.3	23.4
	<u>32.9</u>	<u>56.3</u>	<u>9.7</u>	<u>98.9</u>

5. Segmented and revenue information (continued)

Reconciliation of segment results to profit after income tax:

£ Millions	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Europe	8.2	8.8
North America	17.9	15.6
Asia	4.1	3.3
Segment results	30.2	27.7
Research and development	(4.3)	(4.5)
Manufacturing	(2.5)	(2.2)
Corporate cost from operating segment	(5.4)	(2.8)
Adjusted operating profit	18.0	18.2
Finance charge	(1.0)	(1.6)
Specific items	(6.7)	(3.7)
Profit before income tax	10.3	12.9
Income tax expense	(2.1)	(2.5)
Profit after income tax	8.2	10.4

£ Millions	At 30 June 2020 (Unaudited)	At 31 December 2019
Total assets		
Europe	30.2	31.1
North America	132.5	123.7
Asia	84.0	74.8
Segment assets	246.7	229.6
Unallocated deferred and current income tax	3.4	3.8
Total assets	250.1	233.4

Reconciliation of adjusted measures

The Group presents adjusted operating profit and adjusted profit before tax by adjusting for costs and profits which management believes to be significant by virtue of their size, nature or incidence or which have a distortive effect on current year earnings. Such items may include, but are not limited to, costs associated with business combinations, amortisation of intangible assets arising from business combinations, reorganisation costs, and ERP implementation costs.

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

5. Segmented and revenue information (continued)

Reconciliation of adjusted measures (continued)

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 and a reconciliation of profit before tax to adjusted profit before tax.

(i) Reconciliation of operating profit to adjusted operating profit:

£ Millions	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Operating profit	11.3	14.5
Adjusted for:		
Acquisition costs	0.3	0.4
Costs related to ERP implementation	1.5	0.5
Amortisation of intangible assets due to business combination	1.6	1.6
Legal costs (refer to note 10)	0.2	1.2
Restructuring costs	2.2	-
Fair value adjustments on currency hedge	0.9	-
	<u>6.7</u>	<u>3.7</u>
Adjusted operating profit	18.0	18.2
Adjusted operating margin	17.1%	18.4%

(ii) Reconciliation of profit before tax to adjusted profit before tax:

Profit before tax ("PBT")	10.3	12.9
Adjusted for:		
Acquisition costs	0.3	0.4
Costs related to ERP implementation	1.5	0.5
Amortisation of intangible assets due to business combination	1.6	1.6
Legal costs (refer to note 10)	0.2	1.2
Restructuring costs	2.2	-
Fair value adjustments on currency hedge	0.9	-
	<u>6.7</u>	<u>3.7</u>
Adjusted PBT	17.0	16.6

6. Taxation

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax expected for the full financial year. The effective tax rate on profit before tax as at 30 June 2020 is 20.4% (2019: 19.4%).

7. Dividends

Amounts recognised as distributions to equity holders of the Company in the period:

	Six months ended 30 June 2020 (Unaudited)		Six months ended 30 June 2019 (Unaudited)	
	Pence per share	£ Millions	Pence per share	£ Millions
Prior year third quarter dividend paid	20.0	3.8	19.0	3.7
Prior year final dividend paid	-	-	33.0	6.3
Total	20.0	3.8	52.0	10.0

7. Dividends (continued)

The dividends paid recognised in the interim financial statements relate to the third quarter dividend for 2019.

A second quarterly dividend of 18.0 pence per share (2019: 18.0 pence per share) will be paid on 9 October 2020 to shareholders on the register at 11 September 2020.

8. Earnings per share

Earnings per share attributable to equity holders of the company arise from continuing operations as follows:

£ Millions	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the company)	8.1	10.3
Amortisation of intangibles associated due to business combinations	1.6	1.6
Acquisition costs	0.3	0.4
Non-recurring tax benefits	(1.0)	(0.5)
Costs related to ERP implementation	1.5	0.5
Legal costs (refer to note 10)	0.2	1.2
Restructuring costs	2.2	-
Fair value adjustments on currency hedge	0.9	-
Earnings for adjusted earnings per share	13.8	13.5
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	19,293	19,145
Effect of potentially dilutive share options (thousands)	353	359
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	19,646	19,504
Earnings per share from operations		
Basic	42.0p	53.8p
Basic adjusted	71.5p	70.5p
Diluted	41.2p	52.8p
Diluted adjusted	70.2p	69.2p

9. Intangible assets

	Development costs	Brand	Trademarks	Technology	Customer relationships	Customer contracts	Intangible software	Intangible software under development	Total
£ Millions									
Cost									
At 31 December 2019	43.2	1.0	1.0	4.9	17.8	0.6	7.4	-	75.9
Additions	4.0	-	-	-	-	-	0.2	0.6	4.8
Disposals	(1.2)	-	-	-	-	-	-	-	(1.2)
Foreign currency translation	2.0	*	0.1	0.5	1.2	*	0.5	*	4.3
At 30 June 2020	48.0	1.0	1.1	5.4	19.0	0.6	8.1	0.6	83.8
Amortisation									
At 31 December 2019	19.8	0.2	0.9	1.4	4.7	0.6	1.9	-	29.5
Charge for the year	2.2	*	-	0.3	1.2	-	0.4	-	4.1
Foreign currency translation	0.6	0.1	0.1	0.1	0.4	*	0.1	-	1.4
At 30 June 2020	22.6	0.3	1.0	1.8	6.3	0.6	2.4	-	35.0
Carrying amount									
At 30 June 2020	25.4	0.7	0.1	3.6	12.7	-	5.7	0.6	48.8
At 31 December 2019	23.4	0.8	0.1	3.5	13.1	-	5.5	-	46.4

* Balance is less than £100,000.

The amortisation period for development costs incurred on the Group's products varies between three and seven years according to the expected useful life of the products being developed.

Amortisation commences when the product is ready and available for use.

The remaining amortisation period for customer relationships ranges from two to eight years.

10. Contingent liabilities

The Group is involved in a non-customer related legal dispute in North America, which is currently in mediation. No provision in relation to the dispute has been recognised in these condensed interim financial statements as it is not probable that an outflow of economic benefits will occur, and the amount of outflow, if any, cannot be estimated reliably.

Risks and uncertainties

Like many other international businesses, the Group is exposed to a number of risks and uncertainties which might have a material effect on its financial performance. These include:

An event that causes a disruption to one of our manufacturing facilities

An event that results in the temporary or permanent loss of a manufacturing facility would be a serious issue. As the Group manufactures 78% 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.

Product recall

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

Competition from new market entrants and new technologies

The power supply market is diverse and competitive. The Directors believe that the development of new technologies could give rise to significant new competition to the Group, which may have a material effect on its business. At the lower end of the Group's target market, in terms of both power range and programme size, the barriers to entry are lower and there is, therefore, a risk that competition could quickly increase particularly from emerging low-cost manufacturers in Asia.

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

The revenues, expenses and operating results of the Group could vary significantly from period to period as a result of a variety of factors, some of which are outside its control. These factors include general economic conditions; adverse movements in interest rates; conditions specific to the market; seasonal trends in revenues, capital expenditure and other costs and the introduction of new products or services by the Group, or by their competitors. In response to a changing competitive environment, the Group may elect from time to time to make certain pricing, service, marketing decisions or acquisitions that could have a short-term material adverse effect on the Group's revenues, results of operations and financial condition.

Dependence on key customers

The Group is dependent on retaining its key customers. Should the Group lose a number of its key customers, this could have a material impact on the Group's financial condition and results of operations. However, for the six months ended 30 June 2020, no one customer accounted for more than 14% of revenue.

Cyber security / Information systems failure

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

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 effective tax rate could therefore fluctuate over time and have an impact on earnings and potentially its share price.

Risks and uncertainties (continued)

Strategic risk associated with valuing or integrating new acquisitions

The Group may elect from time to time to make acquisitions. A degree of uncertainty exists in valuation and in particular in evaluating potential synergies. Post-acquisition risks arise in the form of change of control and integration challenges. Any of these could have an effect on the Group's revenues, results of operations and financial condition.

Loss of key personnel or failure to attract new personnel

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

Exposure to exchange rate fluctuations

The Group deals in many currencies for both its purchases and sales including US Dollars, Euros and its reporting currency Pounds Sterling. In particular, North America represents an important geographic market for the Group where nearly all the revenues are denominated in US Dollars. The Group also sources components in US Dollars and the Chinese Renminbi. The Group therefore has an exposure to foreign currency fluctuations. This could lead to material adverse movements in reported earnings.

Risk associated with supply chain

The Group is dependent on retaining its key suppliers and on their ability to meet their obligations to the Group. Supply Chain may also be affected by external events, such as the impact on our Chinese supply chain with the outbreak of the COVID-19 virus. As the proportion of our own-manufactured products has increased, the reliance on suppliers for third party product has been mitigated proportionally. There has been a shift from a finished goods risk to a raw materials risk.

Directors' responsibility statement

The interim results were approved by the Board of Directors on 31 July 2020.

The Directors confirm to the best of their knowledge that:

- the unaudited interim results have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union; and
- the interim results include a fair view of the information required by DTR 4.2.7 (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year) and DTR 4.2.8 (disclosure of related party transactions and changes therein).

The Directors of XP Power Limited are as follows:

James Peters	Non-Executive Chairman
Duncan Penny	Chief Executive Officer
Gavin Griggs	Chief Financial Officer
Andy Sng	Executive Vice President, Asia
Terry Twigger	Senior Non-Executive Director
Polly Williams	Non-Executive Director
Pauline Lafferty	Non-Executive Director

Signed on behalf of the Board by

James Peters
Non-Executive Chairman

Duncan Penny
Chief Executive Officer

31 July 2020