1 August 2023

XP Power Limited
Interim Results for the six months ended 30 June 2023

Significantly improved performance, full year outlook unchanged, longer term outlook continues to be very strong

XP Power, one of the world's leading developers and manufacturers of critical power control solutions for the Industrial Technology, Healthcare and Semiconductor Manufacturing Equipment sectors, today announces its interim results for the six months ended 30 June 2023.

	Six months ended 30 June 2023	Six months ended 30 June 2022	% change actual exchange rate	% change constant exchange rate
Order intake	**£115.6m**	£193.1m	(40)%	(44)%
Revenue	**£160.2m**	£123.6m	30%	24%
Gross margin	**41.8%**	40.2%	160bps	160bps
Total dividend per share	**37.0p**	37.0p	-%	
Adjusted				
Adjusted operating profit[1]	**£21.8m**	£15.0m	45%	36%
Adjusted profit before tax[1]	**£15.8m**	£13.8m	14%	-%
Adjusted diluted earnings per share[1]	**59.1p**	52.2p	13%	
Reported				
Operating profit/(loss)	**£17.3m**	£(45.2)m	138%	
Profit/(loss) before tax	**£10.9m**	£(47.4)m	123%	
Diluted earnings/(loss) per share	**38.7p**	(180.6)p	121%	
Operating cash flow	**£27.5m**	£(13.1)m	310%	
Net debt	**£148.4m**	£102.0m	45%	

[1]*For details on adjusted measures refer to note 5 and note 8 of the consolidated financial statements.*

Highlights:

- The trading performance in the last four quarters to June 2023 was much improved as supply chain conditions stabilised, and better reflects the Group’s capability.
- Revenue in the first half grew 30% compared to the prior year on a reported basis and 24% at constant currency, with good performances in all sectors and improving run rate momentum during the first half.
- The Group had an order book of circa £250 million at the end of the period, which remains well above historic levels and provides good full year visibility.
- As previously highlighted, and consistent with the end of 2022, order intake was below revenue, with a book to bill of 0.72x. Customers moderated ordering from the unprecedented levels seen in 2021 and the first half of 2022, reflecting an easing of supply chain constraints and a softening of end market demand.
- Gross margin increased by 160bps to 41.8%, benefiting from supply chain stabilisation, operational leverage and prior year price increases. This is expected to improve further in H2 and recover to historic levels over the medium term.
- Adjusted operating profit of £21.8 million, a margin of 13.6%, was 36% higher on a constant currency basis and 45% as reported. There is still a level of disruption caused by availability of key components, but we are seeing improvement.

- Net debt of £148.4 million was as expected, and represents a modest reduction from the end of 2022. The reduction reflects improved profitability and the start of the unwind of working capital which is expected to continue through 2023 and 2024 as inventory levels normalise.

- Net debt/EBITDA leverage reduced to 2.3x at the end of H1, down from 2.7x at prior year end, and we continue to expect progress towards 2x by year-end.

- The dividend for the second quarter of 19.0 pence per share is in line with the prior year and together with the first quarter dividend of 18.0 pence per share, brings the total first half dividends declared to 37.0 pence per share (H1 2022: total dividends 37.0 pence).

- Our first Net Zero Transition Plan is being published today. The Plan details how we will meet our 2040 net zero commitment, and includes key actions, metrics, and policies in areas such as product R&D, operations and waste management.

- The appointment of Matt Webb as Chief Financial Officer with effect from 4 September 2023, is being announced separately today. Matt will be appointed as an Executive Director of the Board at the Board meeting currently scheduled for 5 October 2023.

- The Comet legal action in the US remains ongoing. An appeal against the damages awarded against the Group was filed in April 2023 and is expected to be considered in the next 12-18 months. The damages and an estimate of fees were provided for in 2022. As our first half performance demonstrates, it is not distracting the wider business from the continuing delivery of its strategy.

- Full year expectations are unchanged with, as guided, a modest second half weighting.

Jamie Pike, Chair, commented:

"We are encouraged by our improving trading performance over the last 12 months but are working hard to drive further progress. While the supply chain picture has improved, some residual issues persist and we have seen some softening of end market demand. Despite the short term challenges, the Group continues to invest in its future through ongoing product development and a significant increase in manufacturing capacity in Asia. We anticipate strong revenue growth over the medium to long term as we take advantage of the robust growth trends across our markets.

For the second half of 2023, we have a good order book and significant visibility, and while mindful of the ongoing challenges, our full year outlook is unchanged. XP is a strong business with a clear strategic focus and we remain excited about the growth opportunities in front of us."

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Notes 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. Power controllers are critical for optimal delivery in challenging environments but are a small part of the overall customer product cost.

XP Power typically designs power control solutions into the end products of major blue-chip OEMs, with a focus on the Industrial Technology (circa 43% of sales in H1 2023), Healthcare (circa 23% sales in H1 2023) and Semiconductor Manufacturing Equipment (circa 34% of sales in H1 2023) 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, North America, 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 All Share Index. XP Power serves a global blue-chip customer base from over 30 locations in Europe, North America, and Asia.

For further information, please visit xppowerplc.com

INTERIM STATEMENT

H1 Overview

We are pleased with our first half performance, which continues the improving trend established in the second half of the previous year. Whilst we are encouraged by the headway we have made, we believe we can do better and are working hard to deliver further progress in the balance of the year.

The Group delivered strong revenue growth across all sectors as supply chain conditions eased, allowing us to increase production and begin to deliver on our order backlog. As expected, revenue growth improved sequentially in the second quarter, partly due to normal seasonal factors but also reflecting growing operational momentum across the period. Our growth also benefited from price increases that were implemented in 2022 working through as orders entered production phase. Revenue for the period was £160.2 million (2022: £123.6 million).

The higher revenue combined with, as expected, lower order intake saw our backlog reduce to circa £250 million. Our order book remains well above historic levels, at around 9 to 10 months, and we would expect a further reduction in the second half of 2023. The lower order intake of £115.6 million reflects two factors; an expected moderation of demand from certain customers who had ordered at unprecedented levels in 2021 and 2022 but who are now reducing their own inventory as supply chains ease; and lower demand in the Industrial Technology and Semiconductor Manufacturing Equipment sectors. We continue to expect order intake to improve during the latter part of 2023 and into 2024, even if macroeconomic conditions are challenging, supported by recovery of the semiconductor market.

Adjusted operating profit of £21.8 million for the first half was much improved on the soft prior year comparator of £15.0 million, largely driven by operational leverage, but below the very strong second half performance in 2022, as expected. Our operational performance continues to trend positively as supply chain issues ease but there is room for further improvement as conditions become more predictable. We estimate that prior year price increases have largely offset inflation in the period and expect margin to improve further in the second half of the year as costs normalise and we see further benefit from the price increases we have passed on to our customers.

Improving cash generation remains a priority for the Group. We made modest progress in the first half of 2023 with work still to do, especially on inventory, and further benefits to come. Inventory remains above historic levels, with upside to come from a reduction in safety stocks on the assumption that supply chains continue to stabilise.

While our period end financial leverage at 2.3x net debt/EBITDA remains above our target range of 1-2x it has reduced from the 2022 full year, and remains well within our banking covenants. We continue to invest to support our long term growth ambitions and we have increased capital expenditure meaningfully, as guided, to facilitate the construction of the new Malaysian factory and to relocate to new, larger facilities in California. These investments reflect the Board's confidence in our prospects and are part of our detailed business growth plans.

Sector performance

XP Power serves three distinct market sectors:

- Industrial Technology, which represented 43% of total H1 2023 revenue (H1 2022: 40%)
- Semiconductor Manufacturing Equipment 34% (H1 2022: 41%) and;
- Healthcare 23% (H1 2022: 19%)

In each sector we focus our resource on key accounts where customers value our quality and high level of service and support, particularly during the critical design-in stage. The addressable market in these sectors is significant and we have leading positions in each of them. We have a proven track record of outperforming the overall sector growth rate and gaining market share.

Industrial Technology

The Industrial Technology sector saw a continued normalisation of order intake in the period, combined with some destocking at our direct and distribution customers. Orders were £51.2 million, 38% below the prior year, an exceptional period when supply chain issues temporarily drove orders to unprecedented levels. Revenue was £68.7 million up 30% as reported on the equivalent prior year period as we made excellent progress with the delivery of our backlog. The sector also benefited from improved availability of components in the supply chain. We are bringing on a new 'design-in' distributor to target new areas within the key European markets with increased on the ground resources and expect good revenue performance and improving order trends in the second half of the year.

Semiconductor Manufacturing Equipment

As expected, orders in Semiconductor Manufacturing Equipment were weaker as a result of the global semiconductor market slowdown, but we have seen areas of continued demand strength with some of our key customers. Revenue was £54.4 million, 13% ahead of the prior year as reported. Order intake was £28.1 million giving a book to bill of 0.52. Demand has held up with some of our US based customers but has been weaker with some of our Asian customers. We believe we saw the trough in demand in the first half of the year and expect to see a similar performance in the second half of the year. We continue to win new design-ins in this sector, which will underpin our future growth, and we remain confident in the medium and long term market outlook. Most semiconductor market commentators expect the next market upswing to start between Q4 2023 and Q3 2024 and the Group remain very well-placed to take advantage of this. The longer term outlook for this sector is very attractive and we expect to continue to grow ahead of the overall market. Market growth will be driven by multiple factors including AI, Big Data and Machine Learning, with automotive, smart manufacturing and smart MedTech being some of the key application areas.

Healthcare

The Healthcare market continues to be an attractive sector for the Group driven by the growing global demand for healthcare infrastructure and the pace of innovation. Order momentum was sustained in the period and we saw a continued recovery in revenue as component availability improved. Order intake was £36.3 million and revenue was £37.1 million, up 65% on the prior year as reported. The outlook remains positive and we expect to make further progress in the second half of the year.

Regional Performance

Revenue in North America was US$109.2 million (H1 2022: US$91.6 million), up 19% compared to the same period in the previous year, with growth in each sector. The strongest growth was seen in Healthcare reflecting the soft comparator in 2022.

Revenue in Europe was £52.2 million (H1 2022: £38.9 million), up 35% on a constant currency basis from a year ago, driven again by all sectors.

Revenue in Asia was US$23.6 million (H1 2022: US$20.0 million), up 18% at constant currency compared with the same period a year ago.

Strategy overview

Our strategy is clear and has been delivered consistently.

We are one of a few power companies in the world with a comprehensive product portfolio spanning the power and voltage spectrum. We remain focused on growth, primarily organically but also inorganically over the medium term, and despite decades 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 exciting. 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.

We are confident of delivering strong organic revenue growth, driven by our core growth drivers:

- Growth in the use of electronics requiring a power converter – this is an accelerating trend
- Exposure to long term 'secular' growth markets e.g., semiconductor manufacturing equipment and healthcare – while orders in this sector are currently lower, the long term opportunity is significant
- Market share gains – greater penetration of existing blue-chip customers. We still have the potential to gain a greater share of our customers' 'wallet'
- Expanding our addressable markets, including through distribution
- Underpinned by global GDP growth

We continue to make progress delivering our power strategy by:

- Developing a market leading range of competitive products – we have further enhanced our product offering in the first half of the year and have an exciting pipeline of new products
- Targeting accounts where we can add value – the share of revenue from our top 30 customers continues to account for the majority of total Group revenue and the long term nature of these relationships provides a solid base to grow from
- Further enhancing our global supply chain through investment in capacity, systems and capability
- Leading our industry in environmental matters
- When appropriate, making selective acquisitions in identified strategic markets to expand our product offering and addressable markets, as we did with FuG and Guth in 2022

Successful implementation of our strategy has enabled the Group to build a presence across the whole range of power and voltage applications, with well-performing acquisitions in more recent years adding capabilities in the high power and high voltage applications, which are suited to XP's direct service model and where growth opportunities are exciting. In parallel, the Group has significantly expanded its low cost Asian manufacturing base, investing in new capacity in Vietnam and from late 2024 in Malaysia, to support significant future growth in production volumes. In combination, the Board believes these two strategic initiatives underpin a significant medium term growth opportunity for the Group.

We remain focused on developing product platforms that are easy to modify and which can be used over multiple sectors and applications. The 'designed-in', recurring nature of the portfolio creates long term, committed relationships with our customers for the lifetime of their products, typically seven years, but often longer.

We believe the continued execution of our strategy will create significant long term value through a combination of organic revenue growth of circa 10% on average through the cycle, supported by strong long term growth drivers and attractive gross margins, to deliver an adjusted operating margin of around 20%. While our adjusted operating margins were below 20% in the last 12 months, we have achieved this target for short periods over more recent months, which underpins our confidence that the business can operate consistent with this guidance for a full year when supply chain conditions ease fully. Our operating model, combined with operating cash conversion above 90%, will deliver attractive long term returns.

Manufacturing

Control of our own, low cost, high quality and geographically well-diversified manufacturing assets remains an important component of XP's competitive advantage. In 2022 the Group commenced construction of a new manufacturing facility in north-west Malaysia to increase capacity to meet the growing demand across the Group. The new facility remains on track for commission in H2 2024. The project is part of a global supply chain transformation, as we scale our operations and establish a network supply chain model which will provide greater resilience. We expect this important strategic capability of having production facilities in Vietnam, China and Malaysia, to enable us to win more design mandates from key customers. These investments are expected to generate strong returns, supporting both our future growth and improved margins.

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 continue to make key hires in engineering, supply chain, manufacturing and product management as we look to further enhance our capabilities in these critical areas and to support the growth ambitions we have for the Group over the longer term.

ESG

The Group continues to take an industry lead in environmental and social matters. In the period, we have scoped and filed our near- and long-term company-wide emission reductions targets in line with the Science Based Targets initiative (SBTi) Net-Zero Standard. These are awaiting validation from the SBTi. We are also publishing our first Net Zero Transition Plan today, developed using the guidance from the Transition Plan Taskforce (TPT) which was set up by the UK government to develop the 'Gold Standard' in this area. Our transition plan details how our 2040 net zero commitment will be delivered, spelling out the key actions, metrics, policies and procedures that support the ambition in areas such as product R&D, operations and waste management. The financial impact of our transition plan is accommodated in our existing strategy and growth projections.

The Group also has appointed supply chain and health and safety executives to strengthen and develop further in these areas, including their impact on ESG.

Comet Legal Action

Following a further hearing in March 2023, the Group is awaiting a ruling from the Judge relating to the legal fees to be awarded in the case. In April 2023 the Group filed an appeal against the damages awarded against it in the case. The appeal is expected to be considered in the next 12-18 months.

Despite the Comet legal action remaining ongoing, our first half performance demonstrates that it is not distracting the wider business from the continuing delivery of its stated and successful strategy . The Group has the financial resources to invest in further growth and development despite the judgement.

Board Update

As planned, Jamie Pike, Non-Executive Director, was appointed Chair on 18 April 2023.

Matt Webb will join as Chief Financial Officer with effect from 4 September 2023 and he will be appointed as an Executive Director of the Board at the Board meeting currently scheduled for 5 October 2023. Matt brings with him over 25 years' experience of working within international businesses at Group and Divisional level, giving him a broad strategic and operational skillset. Most recently he was Chief Financial Officer at Luceco plc, a FTSE Main Market supplier of multiple LED lighting, EV charging and electrical accessories.

Outlook

The Group has seen much improved trading over the last 12 months and we expect this to continue through the second half based on our current momentum and strong order book. Our full year outlook is unchanged, albeit we remain aware of a range of macroeconomic risks. We continue to expect our financial leverage to progress towards 2x by year-end.

Longer term, the Board believes XP's clear strategy and financial framework leave the Group well positioned to grow ahead of its end markets, drive further market share gains, improve profitability and deliver strong cash generation.

Financial Performance Review

Trading in the first half of 2023 has been in line with our expectations. While order intake softened, as customers moderated ordering from the unprecedented levels in 2021 and first half of 2022, our strong revenue growth reflects the easing of supply chain constraints as we started to work through the enlarged order backlog.

Total order intake was £115.6 million (H1 2022: £193.1 million), down 44% at constant currency basis and 40% as reported, with book-to-bill of 0.72 (H1 2022: 1.56). The order book of circa £250 million continues to give excellent visibility, that extends well into 2024. As a reminder, the Group has booked orders in the last three years (to the end of June 2023) of £930 million.

Delivery of our strong order book and improved consistency in the supply chain saw revenue grow by 30% on a reported basis to £160.2 million in the first half compared to £123.6 million in the same period a year ago, an increase of 24% on a constant currency basis. Revenue growth improved sequentially in Q2 2023 from Q1, which included the normal impact of new year and associated holidays in Asia and provides good momentum heading into H2.

Gross margin of 41.8% was a 160bps increase from the prior year (H1 2022: 40.2%), as operational leverage improved, in particular during Q2, with increased factory output translating to better overhead absorption, along with the impact of price increases and reduced freight and logistics costs. We would expect higher gross margins in H2 2023.

Adjusted operating expenses (excluding the impact of one-offs) increased to £45.2 million (H1 2022: £34.7 million), reflecting investment in key roles, people and other cost inflation along with the impact of FX.

The resulting adjusted operating profit of £21.8 million was a 45% increase, from £15.0 million in H1 2022, up 36% at constant currency.

The prior year included the impact of challenges from component shortages and increased lead times for key components, which limited the Group's manufacturing output, combined with a five-week long COVID-19 imposed lockdown in China. The improvement in H1 2023 was in line with our expectations and demonstrated a recovery that began in H2 2022. While supply chains continue to stabilise, we continue to be impacted by a level of disruption that in time should alleviate and further improve our performance.

Interest rate rises and the higher level of gross debt, held by the Group in US Dollars, contributed to net finance costs increasing to £6.0 million (H1 2022: £1.2 million), resulting in adjusted profit before tax of £15.8 million (H1 2022: £13.8 million), an increase of 14%, as reported.

The tax charge after adjusting for non-recurring tax benefits of £0.9 million on adjusted profit before tax was £4.0 million, an effective tax rate of 25.3% (H1 2022: 23.9%), driven by the mix of profits across our regions in the first half. We expect the full year tax rate to be within our guidance range of approximately 18-20%, below the H1 % , consistent with prior years.

Adjusted diluted earnings per share was 59.1p, an increase of 13% compared to the prior year.

Net debt and cash flow

Net debt at 30 June 2023 was £148.4 million, a moderate reduction from £151.0 million at 31 December 2022 which reflects improved trading profits and the start of the expected working capital unwind (£1.2 million). This was offset by a significant increase in capital investment (£9.1 million) and capitalised product development costs (£4.6 million), dividends (£11.2 million) and finance costs (£7.6 million) incurred in the half. There was also a benefit from FX movements (£7.7 million) as gross debt is held in US Dollars.

Within working capital, inventory reductions results in a £2.5 million cash flow benefit. This was driven by a reduction in raw materials and WIP, partially offset by the timing of delivery of finished goods which were manufactured in Q2 and will ship in Q3. This follows a significant increase in 2022 to address exceptional ordering patterns and as industry-wide lead times increased. The working capital unwind is expected to continue in H2 2023 and into 2024 as inventory levels normalise, aiding our cash generation for the foreseeable future.

As planned, work has continued at our new manufacturing facility in Malaysia and relocation of our customer design centres in California which were key drivers of the £8.8m capital investment in H1, (H1 2022: £4.2 million) and are critical to increase capacity and resilience in our Asian supply chain to meet our long term revenue growth ambitions and support growth in North America. We still expect to spend c.£30 million in 2023.

Free cash flow, before acquisitions, dividends and borrowings, was an inflow of £6.3 million (H1 2022: £25.5 million outflow) and the Group finished the first half with net debt of £148.4 million (FY 2022: £151.0 million), comprising cash and cash equivalents of £26.9 million and gross debt of £175.3 million.

XP secured greater banking covenant flexibility from its lenders in Q4 2022 with the net debt to EBITDA covenant required to be less than 3.25x in June 2023 and then 3.0x in December 2023. The Group Net debt to EBITDA leverage of 2.30x was comfortably within this ratio at 30 June 2023, and was reduced from 2.68x at December 2022.

The Group continues to expect progress towards leverage of 2x in the full year. As inventory and capital expenditure return to lower levels during 2024 following completion of the growth investment projects in Malaysia and North America, the Group expects strong operating cash conversion to drive a return to net debt/EBITDA leverage of 1-2x in the medium term.

Statutory Profit

As set out in note 5, in H1 2023, the Group incurred £4.5 million of specific items impacting statutory operating profit and £4.9 million impacting profit before tax (H1 2022: £60.2 million and £61.2 million).

The £4.5 million impacting statutory operating profit includes legal fees and costs relating to the Comet legal case (£1.4 million). Damages were fully provided for in 2022, and the Group awaits a ruling on opposition fees (for which an estimate was also provided in the prior year). It also includes restructuring costs of £0.8m relating to supply chain transformation as we get ready for transferring business to the new site in Malaysia and £0.7 million in respect of the IFRS 16 amortisation incurred during the fit out and construction of leased buildings in North America whilst the business is still operating from its current locations. Acquisition related amortisation was £1.6 million. In addition to the items impacting statutory operating profit, finance charges, which impacts profit before tax, includes £1.0 million in respect of the IFRS 16 interest on the leased buildings reported above and a £0.6 million gain on the modification of RCF borrowings.

Statutory profit before tax was £10.9 million (H1 2022: statutory loss before tax £47.4 million), with a tax charge of £3.1 million (H1 2022: tax credit of £12.0 million) and profit after tax of £7.8 million (H1 2022: loss after tax of £35.4 million).

Basic earnings per share were 38.9 pence (H1 2022: 181.4 pence loss per share).

Capital Allocation and Dividend Policy

The Group improved operating cash flow in H1 2023 and continues to expect net debt to adjusted EBITDA leverage to progress towards 2x in the full year as benefits are realised from the ongoing unwind of working capital and as profitability improves.

Dividend policy remains unchanged, and the Board has declared a dividend for the second quarter of 19.0 pence per share (2022: 19.0 pence per share). Together with the first quarter dividend, this brings the total first half dividends declared to 37.0 pence per share (H1 2022: total dividends 37.0 pence).

The ex-dividend date for the second quarter dividend will be 7th September 2023 and the dividend will be paid on 12th October 2023 to shareholders on the register at the record date of 8th September 2023. The last date for election for the share alternative to the dividend under the Company's Dividend Reinvestment Plan is 21st September 2023.

Foreign Exchange

The Group reports its results in sterling, but the US dollar continues to be its principal trading currency, with approximately 82% (2022: 85%) of our revenue denominated in US dollars. The translation effect on Adjusted Operating Profit comparing H1 2023 average rates with H1 2022 average rates is an improvement of £1.4 million. Translational exchange rate losses in the Income Statement in H1 2023 were £1.0 million, a period-on-period adverse impact of £3.5 million. This results in a net exchange rate impact on Adjusted Operating Profit for H1 2023 of £2.1 million adverse when compared to H1 2022.

1 August 2023

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

We have reviewed the accompanying condensed consolidated financial information of XP Power Limited ("the Company") and its subsidiaries ("the Group") set out on pages 11 to 20, which comprise the condensed consolidated balance sheet of the Group as at 30 June 2023, 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 issued by the International Standards Board. 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 2023, which comprise the "Interim Results" set out on pages 1 to 3, "Interim Statement" set out on pages 4 to 9 and "Risks and uncertainties" set out on pages 21 to 23 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 issued by the International Accounting Standards Board.

Restriction on Distribution and Use

This report has been prepared solely for the Company in accordance with the letter of engagement between us and the Company. To the fullest extent permitted by law, we do not accept or assume liability or responsibility to anyone other than the Company for our work or this report.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore,
1 August 2023

XP Power Limited

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2023

£ Millions	Note	**Six months ended 30 June 2023 (Unaudited)**	Six months ended 30 June 2022 (Unaudited)
Revenue	5	**160.2**	123.6
Cost of sales		**(93.2)**	(73.9)
Gross profit		**67.0**	49.7
Other income		**-**	*
Expenses			
Distribution and marketing		**(33.6)**	(26.4)
Administrative		**(4.7)**	(51.3)
Research and development		**(11.4)**	(17.2)
Operating profit/(loss)		**17.3**	(45.2)
Finance charge		**(6.4)**	(2.2)
Profit/(loss) before income tax		**10.9**	(47.4)
Income tax (expense)/credit	6	**(3.1)**	12.0
Profit/(loss) after income tax		**7.8**	(35.4)
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(3.8)**	5.8
		(3.8)	5.8
Items that will not be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation		*	*
Other comprehensive (loss)/income, net of tax		**(3.8)**	5.8
Total comprehensive income/(loss)		**4.0**	(29.6)
Profit/(loss) attributable to:			
- Equity holders of the Company		**7.6**	(35.6)
- Non-controlling interests		**0.2**	0.2
		7.8	(35.4)
Total comprehensive income/(loss) attributable to:			
- Equity holders of the Company		**3.9**	(29.8)
- Non-controlling interests		**0.1**	0.2
		4.0	(29.6)
Earnings/(Loss) per share attributable to equity holders of the Company		**Pence per Share**	Pence per Share
Basic	8	**38.9**	(181.4)
Diluted	8	**38.7**	(180.6)

* 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 2023

£ Millions	Note	**At 30 June 2023 (Unaudited)**	At 31 December 2022 (Unaudited)
ASSETS			
Current assets			
Cash and cash equivalents		**25.5**	22.3
Inventories		**106.5**	114.4
Trade receivables		**44.8**	42.4
Bond receivables		**35.7**	37.0
Other current assets		**5.6**	8.0
Derivative financial instruments		**0.1**	*
Corporate tax recoverable		**2.2**	2.5
Total current assets		**220.4**	226.6
Non-current assets			
Cash and bank balances		**1.4**	1.1
Goodwill		**75.5**	77.5
Intangible assets	9	**67.3**	69.9
Property, plant and equipment		**40.5**	36.6
Right-of-use assets		**56.8**	54.9
Deferred income tax assets		**13.9**	15.1
ESOP loans to employees		**0.1**	*
Other investment		*	*
Total non-current assets		**255.5**	255.1
Total assets		**475.9**	481.7
LIABILITIES			
Current liabilities			
Current income tax liabilities		**5.8**	4.8
Trade and other payables		**50.8**	52.6
Derivative financial instruments		*	0.1
Lease liabilities		**2.0**	2.4
Borrowings		**0.7**	0.2
Provisions		**44.0**	46.1
Total current liabilities		**103.3**	106.2
Non-current liabilities			
Accrued consideration		**1.7**	1.5
Borrowings		**174.6**	174.2
Deferred income tax liabilities		**10.0**	10.5
Provisions		**0.8**	0.9
Lease liabilities		**53.3**	48.9
Total non-current liabilities		**240.4**	236.0
Total liabilities		**343.7**	342.2
NET ASSETS		**132.2**	139.5
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**27.2**	27.2
Merger reserve		**0.2**	0.2
Share-based payment reserve		**1.4**	2.5
Treasury shares reserve		*	*
Translation reserve		**0.6**	4.2
Other reserve		**7.1**	6.1
Retained earnings		**94.8**	98.4
		131.3	138.6
Non-controlling interests		**0.9**	0.9
TOTAL EQUITY		**132.2**	139.5

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 2023

	Note	Share capital	Share-based payment reserve	Treasury shares reserve	Merger reserve	Translation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total Equity
		Attributable to equity holders of the Company									
Balance at 1 January 2022		27.2	5.6	*	0.2	(2.9)	4.4	137.0	171.5	0.9	172.4
Exercise of share-based payment awards		-	(0.9)	*	-	-	0.9	*	*	-	*
Employee share-based payment expenses, net of tax		-	(1.1)	-	-	-	-	-	(1.1)	-	(1.1)
Dividends paid	7	-	-	-	-	-	-	(11.2)	(11.2)	(0.3)	(11.5)
Future acquisitions of non-controlling interests		-	-	-	-	-	0.1	-	0.1	-	0.1
Exchange difference arising from translation of financial statements of foreign operations		-	0.1	-	-	5.7	-	*	5.8	*	5.8
Profit for the year		-	-	-	-	-	-	(35.6)	(35.6)	0.2	(35.4)
Total comprehensive income for the period		-	0.1	-	-	5.7	-	(35.6)	(29.8)	0.2	(29.6)
Balance at 30 June 2022 (unaudited)		**27.2**	**3.7**	*****	**0.2**	**2.8**	**5.4**	**90.2**	**129.5**	**0.7#**	**130.2#**
Balance at 1 January 2023		27.2	2.5	*	0.2	4.2	6.1	98.4	138.6	0.9	139.5
Exercise of share-based payment awards		-	(1.1)	*	-	-	1.1	*	*	-	*
Employee share-based payment expenses, net of tax		-	0.1	-	-	-	-	-	0.1	-	0.1
Dividends paid	7	-	-	-	-	-	-	(11.2)	(11.2)	(0.1)	(11.3)
Future acquisitions of non-controlling interests		-	-	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Exchange difference arising from translation of financial statements of foreign operations		-	(0.1)	-	-	(3.6)	-	-	(3.7)	(0.1)	(3.8)
Profit for the year		-	-	-	-	-	-	7.6	7.6	0.2	7.8
Total comprehensive income for the period		-	(0.1)	*	-	(3.6)	-	7.6	3.9	0.1	4.0
Balance at 30 June 2023 (unaudited)		**27.2**	**1.4**	*****	**0.2**	**0.6**	**7.1**	**94.8**	**131.3**	**0.9**	**132.2**

* Balance is less than £100,000.
# This amount is different from the summation of the vertical movements due to rounding differences.

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 2023

£ Millions	Six months ended 30 June 2023 (Unaudited)	Six months ended 30 June 2022 (Unaudited)
Cash flows from operating activities		
Profit/(loss) after income tax	**7.8**	(35.4)
Adjustments for:		
- Income tax expense/(credit)	**3.1**	(12.0)
- Amortisation and depreciation	**9.2**	7.7
- Finance charge	**6.4**	2.2
- Share-based payment expenses	**0.2**	0.5
- Fair value (gain)/loss on derivative financial instruments	**(0.2)**	0.3
- (Gain)/loss on disposal of property, plant and equipment	*****	*
- Impairment loss on intangible assets	**0.1**	7.5
- Unrealised currency translation loss/(gain)	**1.0**	(4.2)
- Provision for doubtful debts	*****	*
Change in the working capital, net of effects from acquisition of subsidiaries:		
- Inventories	**2.5**	(20.1)
- Trade and other receivables	**(2.9)**	(2.4)
- Trade and other payables	**1.4**	43.2
- Provision for liabilities and other charges	**0.2**	1.0
Cash generated from/(used in) operations	**28.8**	(11.7)
Income tax paid	**(1.3)**	(1.4)
Net cash provided by/(used in) operating activities	**27.5**	(13.1)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	**-**	(32.3)
Additions to property, plant and equipment	**(8.8)**	(4.2)
Additions to development costs	**(4.6)**	(3.7)
Additions to software and software under development	**(0.3)**	(2.4)
Proceeds from disposal of property, plant and equipment	*****	*
Proceeds from repayment of ESOP loans	*****	*
Payment of accrued consideration	*****	*
Interest received	**0.8**	*
Net cash used in investing activities	**(12.9)**	(42.6)
Cash flows from financing activities		
Proceeds from borrowings	**9.7**	82.9
Repayment of borrowings	*****	(1.5)
Principal payment of lease liabilities	**(0.6)**	(1.2)
Proceeds from exercise of share-based payment awards	*****	-
Interest paid	**(7.6)**	(1.0)
Dividends paid to equity holders of the Company	**(11.2)**	(11.2)
Dividends paid to non-controlling interests	**(0.1)**	(0.3)
Bank deposits pledged	**(0.4)**	-
Net cash (used in)/generated from financing activities	**(10.2)**	67.7
Net increase in cash and cash equivalents	**4.4**	12.0
Cash and cash equivalents at beginning of financial period	**22.1**	8.8
Effects of currency translation on cash and cash equivalents	**(1.0)**	1.7
Cash and cash equivalents at end of financial period	**25.5**	22.5

* 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 19 Tai Seng Avenue, #07-01, Singapore 534054.

The nature of the Group’s operations and its principal activities is to provide power supply solutions to Semiconductor, Industrial Technology and Healthcare markets across the globe.

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 2023 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 issued by the International Accounting Standards Board.

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2022 which have been prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as issued by the International Accounting Standards Board (IFRS as issued by the IASB) and Singapore Financial Reporting Standards (International) (SFRS(I)s’).

3. 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 interim 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.

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 2022.

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 2022.

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 business lines and geographical regions.

Analysis by class of customer

The revenue by class of customer is as follows:

Six months ended 30 June 2023
£ Millions

	Europe	North America	Asia	Total
Primary geographical markets				
Semiconductor Manufacturing Equipment	2.5	43.7	8.2	54.4
Industrial Technology	35.4	25.5	7.8	68.7
Healthcare	14.3	19.6	3.2	37.1
	52.2	88.8	19.2	160.2

Six months ended 30 June 2022
£ Millions

	Europe	North America	Asia	Total
Primary geographical markets				
Semiconductor Manufacturing Equipment	1.4	40.0	6.9	48.3
Industrial Technology	28.2	19.0	5.7	52.9
Healthcare	9.3	10.5	2.6	22.4
	38.9	69.5	15.2	123.6

5. Segmented and revenue information (continued)

Reconciliation of segment results to profit after income tax/(loss):

£ Millions	**Six months ended 30 June 2023 (Unaudited)**	Six months ended 30 June 2022 (Unaudited)
Europe	**12.3**	10.4
North America	**28.4**	18.3
Asia	**6.8**	3.3
Segment results	**47.5**	32.0
Research and development	**(11.0)**	(9.7)
Manufacturing	**(5.3)**	(3.0)
Corporate cost from operating segment	**(9.4)**	(4.3)
Adjusted operating profit	**21.8**	15.0
Finance expenses	**(6.4)**	(2.2)
Specific items	**(4.5)**	(60.2)
Profit/(loss) before tax	**10.9**	(47.4)
Income tax (expenses)/credit	**(3.1)**	12.0
Profit/(loss) after tax	**7.8**	(35.4)

£ Millions	**At 30 June 2023 (Unaudited)**	At 31 December 2022
Total assets		
Europe	**88.7**	85.5
North America	**239.7**	237.1
Asia	**131.4**	141.5
Segment assets	**459.8**	464.1
Unallocated deferred and current income tax	**16.1**	17.6
Total assets	**475.9**	481.7

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 2023 (Unaudited)**	Six months ended 30 June 2022 (Unaudited)
Operating profit/(loss)	**17.3**	(45.2)
Adjusted for:		
Comet legal costs (refer to note 10)	**1.4**	47.8
Impairment loss on intangible assets re:Comet	**-**	7.5
Amortisation of intangible assets due to business combination	**1.6**	2.1
Restructuring costs	**1.5**	-
Costs related to ERP implementation	**0.2**	3.6
Fair value (gain)/loss on derivative financial instruments	**(0.2)**	0.3
Acquisition costs	*****	0.9
Foreign exchange impact on EUR-denominated loan drawn down to finance the acquisition	**-**	(2.4)
RCF fees	*****	0.4
	4.5	60.2
Adjusted operating profit	**21.8**	15.0
Adjusted operating margin	**13.6%**	12.1%

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

Profit/(Loss) before tax	**10.9**	(47.4)
Adjusted for:		
Comet legal fees (refer to note 10)	**1.4**	47.8
Impairment loss on intangible assets re:Comet	**-**	7.5
Amortisation of intangible assets due to business combination	**1.6**	2.1
Restructuring costs	**2.5**	-
Costs related to ERP implementation	**0.2**	3.6
Fair value (gain)/loss on derivatives financial instruments	**(0.2)**	0.3
Acquisition costs	*****	0.9
Foreign exchange impact on EUR-denominated loan drawn down to finance the acquisition	**-**	(2.4)
RCF fees	*****	0.4
(Gain)/Loss on modification of RCF borrowings	**(0.6)**	1.0
	4.9	61.2
Adjusted profit before tax	**15.8**	13.8

6. Taxation

The effective tax rate on statutory profit before tax as at 30 June 2023 is 28.4% (2022: 25.3%). This is an estimate based largely on local statutory rates. The full year rate is expected to be approximately 20%.

7. Dividends

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

	Six months ended 30 June 2023 (Unaudited)		Six months ended 30 June 2022 (Unaudited)	
	Pence per share	**£ Millions**	Pence per share	£ Millions
Prior year third quarter dividend paid	**21.0**	**4.1**	21.0	4.1
Prior year final dividend paid	**36.0**	**7.1**	36.0	7.1
Total	**57.0**	**11.2**	57.0	11.2

The dividends paid recognised in the interim financial statements relate to the third quarter dividend and final dividend for 2022.

A second quarterly dividend of 19.0 pence per share (2022: 19.0 pence per share) will be paid on 12 October 2023 to shareholders on the register at 8 September 2023.

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 2023 (Unaudited)**	Six months ended 30 June 2022 (Unaudited)
Earnings/(loss)		
Earnings/(loss) for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the company)	**7.6**	(35.6)
Amortisation of intangibles due to business combinations	**1.6**	2.1
Acquisition costs	*****	0.9
Foreign exchange impact on EUR-denominated loan drawn down to finance the acquisition	**-**	(2.4)
Non-recurring tax benefits	**(0.9)**	(15.3)
Costs related to ERP implementation	**0.2**	3.6
Legal costs (refer to note 10)	**1.4**	47.8
Impairment loss on intangible assets	**-**	7.5
RCF fees	*****	0.4
(Gain)/loss on modification of RCF	**(0.6)**	1.0
Fair value loss on derivative financial instruments	**(0.2)**	0.3
Restructuring costs	**2.5**	-
Earnings for adjusted earnings per share	**11.6**	10.3
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**19,555**	19,625
Effect of potentially dilutive share options (thousands)	**58**	90
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,613**	19,715
Earnings/(loss) per share from operations		
Basic	**38.9p**	(181.4p)
Basic adjusted	**59.3p**	52.5p
Diluted	**38.7p**	(180.6p)
Diluted adjusted	**59.1p**	52.2p

9. Intangible assets

£ Millions	Product Development costs	Brand	Trademarks	Technology	Customer relationships	Customer contracts	Intangible software	Assets under development	Total
Cost									
At 31 December 2022	43.9	1.8	1.1	8.3	26.0	2.7	23.7	28.3	135.8
Additions	0.3	-	-	-	-	-	0.4	4.2	4.9
Transfer	0.2	-	-	-	-	-	1.6	(1.8)	-
Foreign currency translation	(1.6)	(0.1)	*	(0.4)	(1.2)	(0.1)	(1.1)	(1.4)	(5.9)
At 30 June 2023	**42.8**	**1.7**	**1.1**	**7.9**	**24.8**	**2.6**	**24.6**	**29.3**	**134.8**
Accumulated amortisation and impairment losses									
At 31 December 2022	32.0	0.6	1.0	3.8	12.7	1.4	6.4	8.0	65.9
Amortisation charge for the year	1.4	0.1	*	0.4	0.8	0.3	1.1	-	4.1
Impairment loss for the year	*	-	-	-	-	-	-	0.1	0.1
Foreign currency translation	(1.0)	*	*	(0.2)	(0.7)	(0.1)	(0.2)	(0.4)	(2.6)
At 30 June 2023	**32.4**	**0.7**	**1.0**	**4.0**	**12.8**	**1.6**	**7.3**	**7.7**	**67.5**
Carrying amount									
At 30 June 2023	**10.4**	**1.0**	**0.1**	**3.9**	**12.0**	**1.0**	**17.3**	**21.6**	**67.3**
At 31 December 2022	11.9	1.2	0.1	4.5	13.3	1.3	17.3	20.3	69.9

* 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 one to ten years.

10. Comet legal matter

Full details in respect of the Comet legal matter were provided in the 31 December 2022 Annual Report and Accounts. There have been no developments of note since then. The US $ denominated provision amounts established and the appeal bond receivable are unchanged from 31 December 2022 other than for the impact of exchange rate. £1.4m of legal fees were incurred during the 6 months to 30 June 2023 and these have been reported as Adjusting Items consistent with prior year (see note 5).

Risks and uncertainties

The Board has continued to review the Group's existing and emerging risks and the mitigating actions and processes in place in the first half of 2023. Following this review the Board believes there has been no material change to the relative importance or quantum of the Group's principal risks in the first half of 2023. The risk assessment and review are an ongoing process, and the Board will continue to monitor risks and the mitigating actions in place. The principal risks are summarised below.

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 the majority of its 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.

Risk mitigation – We now have two facilities (China and Vietnam) where we are able to manufacture the majority of our power converters and we have disaster recovery plans in place for both facilities. Not all power converter series can be produced in both facilities, but we continue to identify opportunities to transfer capability and increase flexibility and resilience in our supply chain. We have commenced construction of a new manufacturing facility in Malaysia in 2022 to increase flexibility and our capacity to meet the demand from across the Group.

We have undertaken a risk review with manufacturing management to identify and assess risks which could cause a serious disruption to manufacturing, and then identified and implemented actions to reduce or mitigate these risks where possible.

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

The revenues, expenses and operating results of the Group could vary significantly from period to period because of a variety of factors, some of which are outside its control. These factors include general economic conditions; adverse movements in interest rates; inflation, 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.

Risk mitigation – 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 reduces exposure to this risk.

The Group's business model is not capital intensive and the strong profit margins lead to healthy cash generation which also helps mitigate risks from these external factors.

The Group benefits from good order exposure 12 months out allowing it to recognise market changes and mitigate the impact.

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.

Risk mitigation – The Group has a defined Business Impact Assessment which identifies the key information assets; replication of data on different systems or in the Cloud; an established backup process in place as well as a robust anti-malware solution on our networks.

Internally produced training materials are used to educate users regarding good IT security practice and to promote the Group's IT policy.

A cyber assessment carried out by the outsourced internal auditor resulted in recommendations that are being implemented to further mitigate cyber risk and safeguard the Group's assets.

Dependence on key customers

The Group is dependent on retaining its key customers. Should the Group lose a number of its key customers or key suppliers, this could have a material impact on the Group's financial condition and results of operations. However, for the period ended 30 June 2023, no single customer accounted for more than 18% of revenue and on the largest accounts the Group will be working on many individual programmes.

Risk mitigation – The Group mitigates this risk by providing excellent service. Customer complaints and non-conformances are reviewed monthly by members of the Executive Leadership team.

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.

Risk mitigation – We perform 100% functional testing on all own-manufactured products and 100% hi-pot testing, which determines the adequacy of electrical insulation, on own-manufactured products. This ensures the integrity of the isolation barrier between the mains supply and the end user of the equipment. We also test all the medical products we manufacture to ensure the leakage current is within the medical specifications.

Where we have contracts with customers, we always limit our contractual liability regarding recall costs.

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.

Risk mitigation – The Group reviews activities of its competition, in particular product releases, and stays up to date with new technological advances in our industry, especially those relating to new components and materials. The Group also tries to keep its cost base competitive by operating in low-cost geographies where appropriate.

The general direction of our product roadmap is to move away from lower complexity products and to increase our engineering solutions capabilities so reducing the inherent market competitiveness.

The Group ensures own and external intellectual properties are protected.

Risks relating to legal, compliance and taxation

The Group operates in multiple jurisdictions with applicable trade and tax regulations that vary. Failing to comply with local regulations or a change in legislation could impact the profits of the Group. In addition, the effective tax rate of the Group is affected by where its profits fall geographically. The Group's effective tax rate could therefore fluctuate over time and have an impact on earnings and potentially its share price.

Risk mitigation – An outsourced internal audit function has been introduced to provide risk assurance in targeted areas of the business and recommendations for improvement. The scope of these reviews includes behaviour, culture, and ethics.

The Group hires employees with relevant skills and uses external advisers to keep up to date with changes in regulations and to remain compliant.

The Group establishes clear healthy and safety policy and procedures.

Strategic risk associated with valuing or integrating new acquisitions

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

Risk mitigation – 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'.

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.

Risk mitigation – The Group undertakes performance evaluations and reviews to help it stay close to its key personnel as well as annual employee engagement surveys. Where considered appropriate, the Group also makes use of financial retention tools such as equity awards.

Exposure to exchange rate fluctuations

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

Risk mitigation – The Group reviews balance sheet and cash flow currency exposures and where considered appropriate, uses forward exchange contracts to hedge these exposures.

The Group does not hedge any translation of its subsidiaries' results to Sterling for reporting purposes.

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. Global supply chains continued to be under pressure mainly due to component shortages and global logistics.

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.

Risk Mitigation - We conduct regular audits of our key suppliers and in addition keep large amounts of safety inventory of key components, which we also regularly review. We also dual source our components where possible to minimise dependency on any single supplier.

Climate related risks

The Group is exposed to climate related risks that can have a negative impact on the business. Extreme weather events or local power supply robustness can cause disruptions to our manufacturing sites and supply chain. 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.

Risk Mitigation - The Group operates with flexibility in capacity across sites and can also 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.

We perform regular review on relevant policies and KPIs to ensure set targets are deliverable.

Directors' responsibility statement

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* issued by International Accounting Standards Board; 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:

Jamie Pike	Non-Executive Chair
Gavin Griggs	Chief Executive Officer
Andy Sng	Executive Vice President, Asia
Polly Williams	Senior Independent Director
Pauline Lafferty	Non-Executive Director
Sandra Breene	Non-Executive Director
Amina Hamidi	Non-Executive Director

Signed on behalf of the Board by

Jamie Pike
Non-Executive Chair

Gavin Griggs
Chief Executive Officer

1 August 2023