POWERING THE WORLD'S CRITICAL SYSTEMS

XPpower

ANNUAL REPORT & ACCOUNTS
for the year ended 31 December 2013
stock code: XPP

Powering the world's critical systems

XPpower is a leading international provider of essential power control solutions. Power direct from the electricity grid is unsuitable for the equipment which it supplies.

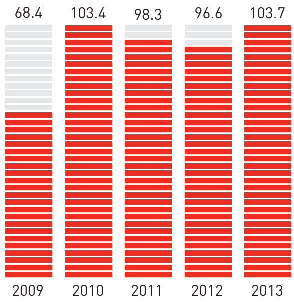
XPpower designs and manufactures power converters — components which convert power into the right form for our individual customers' needs, allowing their electronic equipment to function.

XPpower supplies the healthcare, industrial and technology industries with this mission critical equipment. Significant, long term investment into research and development means that XP Power's products frequently offer significantly improved functionality and efficiency.

Financial Highlights

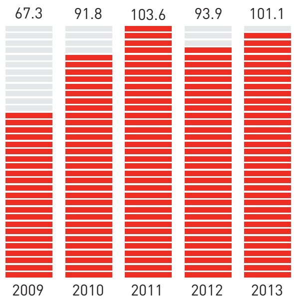
Order Intake
(£ millions)

+7%



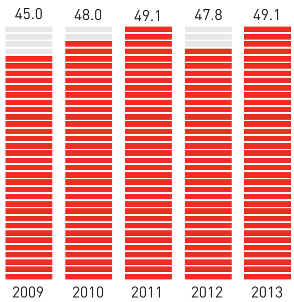
Revenue
(£ millions)

+8%



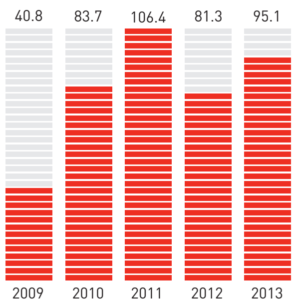
Gross Margins
(%)

+130bp



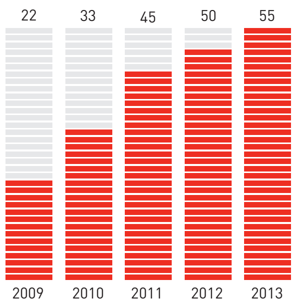
Earnings Per Share
(Pence)

+17%



Dividends
(Pence)

+10%



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What We Do

XP Power provides the world's Original Equipment Manufacturers (OEMs) with the electronic sub-assemblies necessary to power their equipment.

The relatively high voltage alternating current (AC) provided to the mains socket is an efficient way to move electrical power around the grid but all electronic equipment requires stable low voltage direct current (DC) to operate. XP Power provides the power solution that converts the mains power into a format suitable to the electronic equipment to operate.

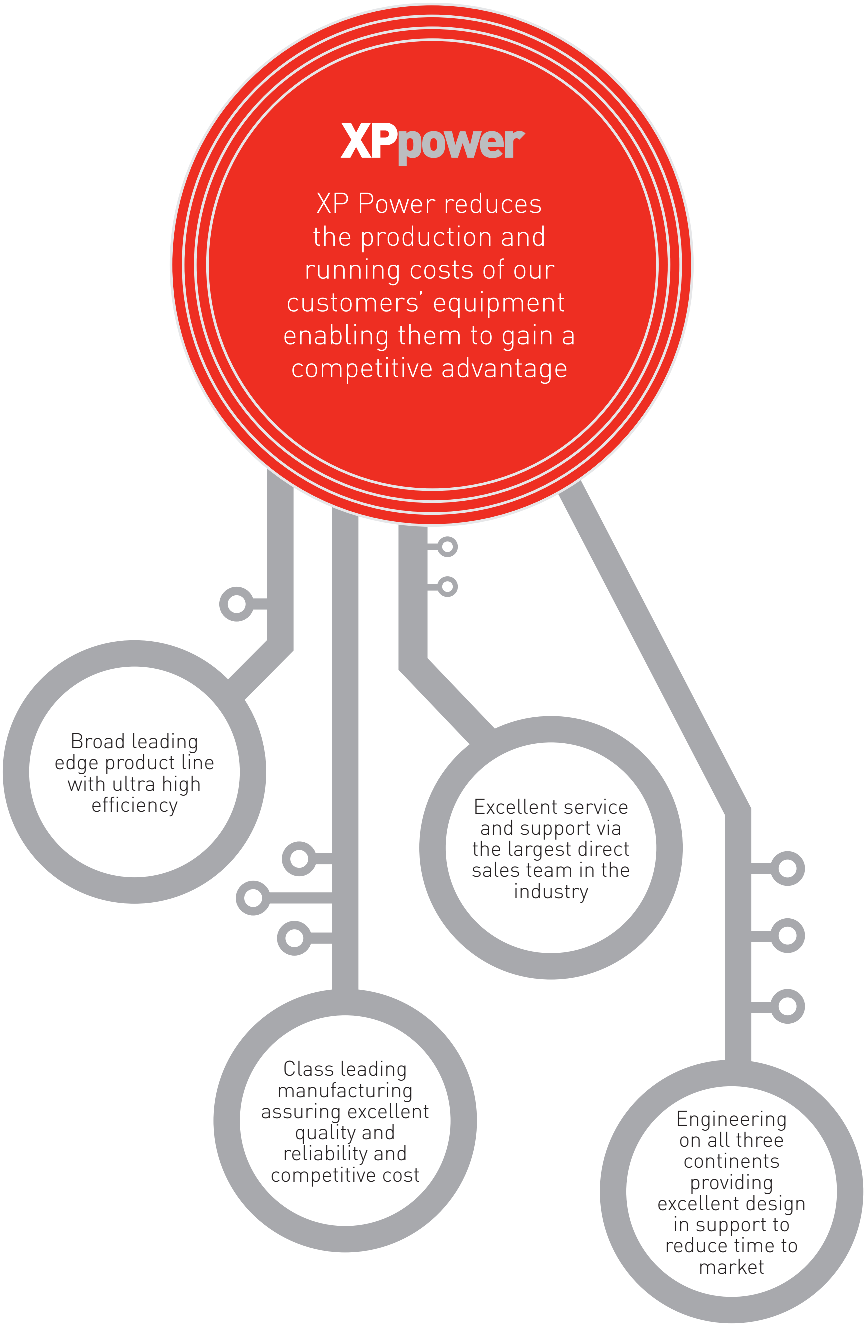
As well as this basic power conversion, the power converter fulfils a number of other functions. Importantly it shields the end user of the equipment from the potentially lethal mains voltage; the power converter therefore is a safety critical element of the end system. In addition, the power converter will also prevent electrical noise from the mains interfering with the end equipment and will also prevent the end equipment transmitting noise into the mains supply. The power converter is therefore an important piece of any electrical equipment.

Our customers manufacture capital equipment and we target the healthcare, industrial and technology markets. We do not have any direct exposure to consumer electronics or high volume low margin business seen in the computing and datacentre industries. The equipment or product's power is often mission critical so quality and reliability are paramount.

Our customers value the service and support we offer, particularly during the design in stage.

"Our customers value the service and support we offer; particularly during the design in stage."

Value Proposition



"2013 has been another year of progress where we have again demonstrated the successful execution of our well-established strategy of moving up the value chain into design and manufacture."

Larry Tracey
Chairman

Overview

2013 has been another year of progress where we have again demonstrated the successful execution of our well-established strategy of moving up the value chain into design and manufacture. We have delivered a solid result and the evidence is that we have again out-paced our competitors and taken market share.

Earnings per share for 2013 grew by 17% to 95.1 pence (2012: 81.3 pence), demonstrating the effectiveness of our business model. This solid growth in earnings, combined with strong cash generation, allowed us to increase the dividend once again, while at the same time significantly reducing our net debt.

The compound average growth rate of earnings per share has been 22% over the last 5 years and 23% over the last 10 years.

Financial Highlights

Order intake increased by 7% to £103.7 million in the year (2012: £96.6 million). Revenues increased by 8% to £101.1 million (2012: £93.9 million). Revenues from XP Power's own designed product — a key indicator of our strategic progress — grew 11% to £64.2 million (2012: £57.6 million) representing 64% of revenue (2012: 62%) and setting a new record.

As expected, gross margin improved to 49.1% (2012: 47.8%) due to product mix and the absence of start-up costs incurred in the prior year from our new Vietnam manufacturing facility. Higher revenues, in combination with improved gross margins, resulted in a healthy operating profit of £23.3 million (2012: £21.0 million) or 23.0% of revenue (2012: 22.4%).

Net debt at the year-end was £3.5 million compared to £10.6 million at the end of 2012. Operating cash flow was £20.2 million (2012: £23.6 million) representing 86.7% of operating income.

Strategic Progress

XP Power has a long-established strategy of targeting blue chip customers with strong leadership positions in their respective markets, and whose insistence on vetting their suppliers' design and manufacturing facilities acts as a significant barrier to entry to many of the Group's potential competitors. Our state-of-the-art factories in China and Vietnam are dramatically enhancing the Group's ability to secure preferred supplier status with these larger customers and increase the proportion of revenues which come from our higher margin, own-designed products. This strategy remained successful in 2013 and we believe that it will continue to underpin the Group's progress in the current financial year.

Dividend

Our continued strong financial performance, strong cash flows and confidence in the Group's long term prospects have enabled us to consistently increase dividends.

In line with our progressive dividend policy, a final dividend of 19 pence per share for the fourth quarter of 2013 is proposed. This dividend will be payable to members on the register on 14 March 2014 and will be paid on 10 April 2014.

When combined with the interim dividends for the previous quarters, the final proposed dividend results in a total dividend of 55 pence per share for the year (2012: 50 pence); an increase of 10%. The compound average growth rate of our dividend has been 21% over the last 5 years and 16% over the last 10 years.

Board Changes

On 1 January 2014 the Group announced the appointment of Peter Bucher as a non-executive director.

Peter is well known within the power converter industry and I am delighted to welcome him to the Board. He brings a wealth of power experience with him and he will be extremely valuable to our business.

Outlook

XP Power's customers supply capital equipment to numerous markets across the globe. The macro-economic outlook for these customers has shown gradual improvement in the second half of 2013, which gives us confidence for further growth in 2014 and beyond. If this improvement is sustained we would expect to grow revenues again in 2014.

Larry Tracey
Chairman

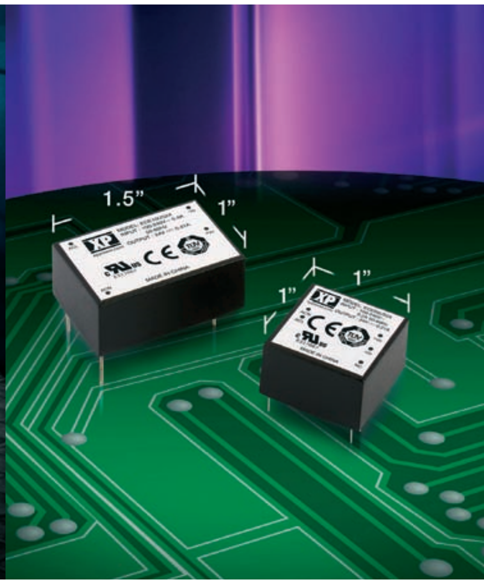
Investment Proposition and Strategy

Our Investment Proposition

- Exposure to a broad cross section of end markets — Technology, Industrial and Healthcare — but with no direct exposure to consumer electronics.
- A diverse customer base of over 3,500 active customers, with no one customer accounting for more than 5% of revenue.
- Powerful proprietary customer relationship management tools which allow the efficient management of our customer base and identification of pricing and product trends that enable the development of appropriate, innovative new products.
- An established pipeline of new class leading "Green" products which operate at high efficiency.
- Attractive margins and lower capital investment requirements when compared to many manufacturing industries, resulting in strong free cash flow and gross margins that are amongst the highest in the industry.
- Revenue annuity — although design cycles are often long, once our power converters are approved for use in our customer's end equipment XP Power enjoys a revenue annuity for the lifetime of the customer's equipment, which is typically 7 years.
- Progressive Dividend — the business model allows for a progressive dividend which is paid quarterly.

HDS800/1500: Programmable 800 and 1500 watt power converter providing constant current output down to almost zero volts.

CCB200: Ultra efficient convection cooled 'green' power converter.



ECE 05/10: The smallest 5 and 10 watt converters on the market.

Our Strategy

We have applied a consistent strategy of moving up the value chain, powered by:

- Development of a strong pipeline of leading-edge products
- Expansion of high efficiency ("Green") product offering
- Targeting key accounts and increasing the penetration of existing key accounts
- An established pipeline of new class leading "Green" products which operate at high efficiency
- Enhancing our value proposition to our customers by manufacturing our own products
- Increasing the high margin contribution of own designed/manufactured products

Our model is to sell directly to our key customers offering excellent service and support combined with class leading products.

We have carved out a leading position in our industry. An up-to-date high efficiency product offering, delivered to our customers by the largest and most technically competent sales engineering team in the industry, combined with the safety and reliability benefits of world class manufacturing provide a compelling value proposition to our customers.

Strategic clarity and consistency underpins our success

For a number of years XP Power has followed a clear strategy of moving up the value chain powered by:

- Development of a strong pipeline of leading-edge products
- Expansion of its high efficiency product offering
- Targeting key accounts and increasing the penetration of existing key accounts
- Enhancing our value proposition to our customers by becoming a manufacturer
- Increasing the high margin contribution of own designed/ manufactured products

"XP Power's products reduce the production and running costs of our customers' equipment enabling them to gain a competitive advantage."

Once the product is designed into our customers' equipment we enjoy an ongoing revenue annuity for a large number of years. Our pipeline of program wins with significant customers continues to build.

The key success factors that distinguish us from many of our competitors are as follows:

People — As in any business the most important asset is our people. We have the largest, most technically trained sales force in the industry. Our customers deal directly with a sales engineer that can solve their power conversion problems. We do not put our key customers through distribution channels. We also provide global support.

Our executive management team, located on three different continents, is not only talented but given a relatively young average age has an impressive average length of service. The 11 person executive management team have an average age of 46 and average length of service of 15 years. The executive directors also have an average age of 46 and an average length of service of 12 years. The breadth and depth of experience and collective teamwork of our people deliver genuine value to our customers.

Product — We have the broadest, most up-to-date product offering in the industry. Our products are specific to the requirements of the various industries we serve. Our philosophy is to provide highly flexible products which are easy to modify. This saves our customers the cost, time and risk of pursuing a fully customised solution.

Engineering — We have design engineering teams on three continents — this allows us to release the high volume of innovative new products required by this highly diversified industry. These products often have class leading energy efficiency and small footprints to meet the ever higher demands of our key customers. Additional engineering service teams in Germany, North America and the UK are able to provide value added services close to our key customers. We are able to provide modified product solutions which allow the customer to more easily integrate the power converter into their equipment therefore delivering a cost saving.

Green — Environmental considerations are becoming increasingly important to our customers. There is strong demand for products that consume less material, including harmful chemicals, and power converters that consume less energy. Our product portfolio reflects this with many products having class leading efficiencies and low standby power consumption.

Manufacturing — Our Asian manufacturing base in China and Vietnam is not only low cost but best in class. This capability is instrumental to winning new programs with larger blue chip customers that require the ultimate in quality and reliability. We also offer highly competitive lead times and flexible logistics arrangements.

Quality — Our stringent quality standards ensure the ultimate in quality and reliability. This is vital to our customers. This starts from the design phase right through to production and after sales support.

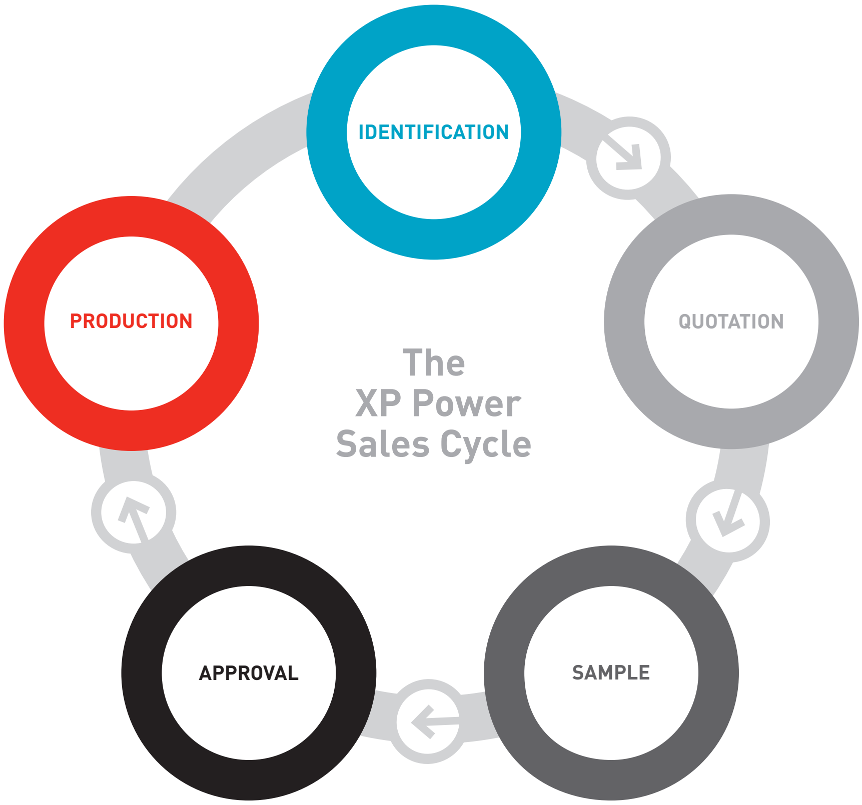
The Sales Process

XP Power's global sales network comprises 65 direct sales engineers providing major customers with local face to face support and rapid response times.

Our sales process is a technical sale, from XP Power sales engineer to customer design engineer. Our customers are typically experts in their field whether it is a drug delivery device, a piece of complex factory control machinery or a high end communications device operating in a harsh environment. They will come to a company such as ours to recommend and help them design in a power converter to power their end system.

The power converter will need to produce the required total power to drive the system at the various different DC voltages as well as complying with any particular safety or other standards applicable to the customer's industry. The power converter will need to fit into the space the customer's engineering team have allowed in their product and it may also need to communicate to the customer's system in a particular manner.

As our customers are generally trying to differentiate their equipment from that of their competitors, it is easy to see why there are so many permutations and combinations of requirements in our industry. As well as this complexity the design in of the power converter often occurs late on in the customer's development cycle so is on the critical path to getting the customer's equipment to market fast. Our assistance during the design-in phase is therefore highly valued by our customers and a cornerstone of our business model.



IDENTIFICATION
A new design programme is identified.

QUOTATION
XP Power advocates a solution and provides a quotation to the customer.

SAMPLE
One or more samples are provided to the customer for them to evaluate in their system.

APPROVAL
The power converter is approved for use in the customer system following their technical evaluation and external safety agency approval.

PRODUCTION
The customer commences production of their product and XP Power's revenue stream starts.

Markets

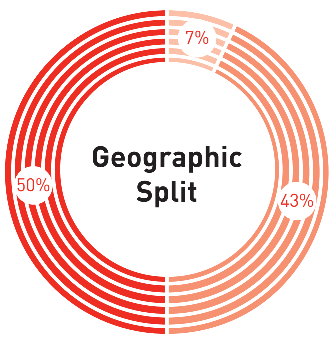
We have a broad exposure to the Healthcare, Industrial and Technology Markets. We therefore have a diverse customer base of over 3,500 customers and approximately a further 5,000 customers serviced through our distribution channels.

We deal with the following proportions of the Standard & Poor's Equipment Manufacturers:

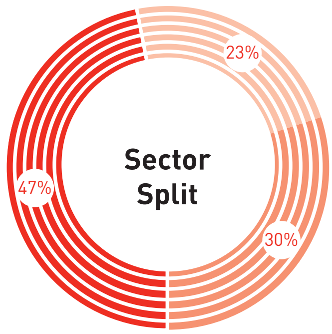
- Healthcare **95%**
- Industrial **73%**
- Technology **69%**

The diversity of our business is a significant strength with no one customer exceeding more than 5% of revenue. Further, there is no one dominant player in the markets we address due to the diversity of customer requirements.

> **"The diversity of our business is a significant strength with no one customer exceeding more than 5% of revenue."**



- North America 50%
- Europe 43%
- Asia 7%



- Industrial 47%
- Healthcare 30%
- Technology 23%

£ millions	Market size	XP Power revenue	XP Power share
Asia	669	7	1%
Europe	399	44	11%
North America	620	50	8%
Total	**1,688**	**101**	**6%**

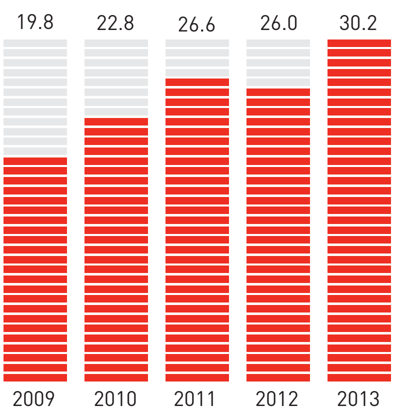
Source: Micro-Tech Consultants 2013 figures

We estimate that we have a 6% market share. Although the Asian market is a high growth opportunity for us much of it is not available to us as many of the customers do not require or value the high quality and reliability and the safety agency qualifications to which our products are built. In addition, much of the market is in Japan, which has a strong industrial base, but contains two key indigenous Japanese competitors.

We are only able to successfully target business in emerging markets where the customer is intending to produce product for use in Western markets or the customer is attracted by our value proposition. It is however likely that much of our industrial business in Europe and North America probably ultimately finds its way into emerging markets as this is where most manufacturing facilities are currently being constructed.

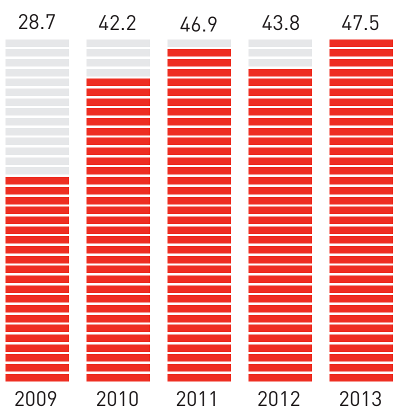
Healthcare **+16%**

(£ millions)



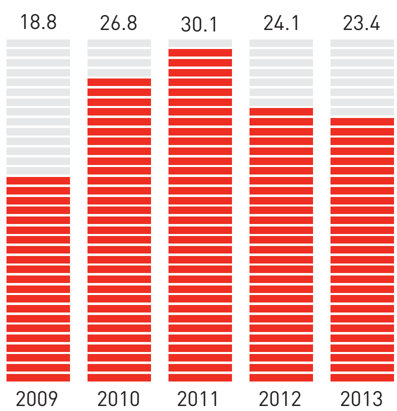
Industrial **+8%**

(£ millions)



Technology **-3%**

(£ millions)



Products

Our philosophy regarding products is to have a broad array of standard products that can easily be modified to the customers' requirements without need to revert to a ground up custom design. Further that those products be leading edge in terms of their efficiency and therefore reliability. Efficiency and reliability of power converters go hand in hand as explained later in this report.

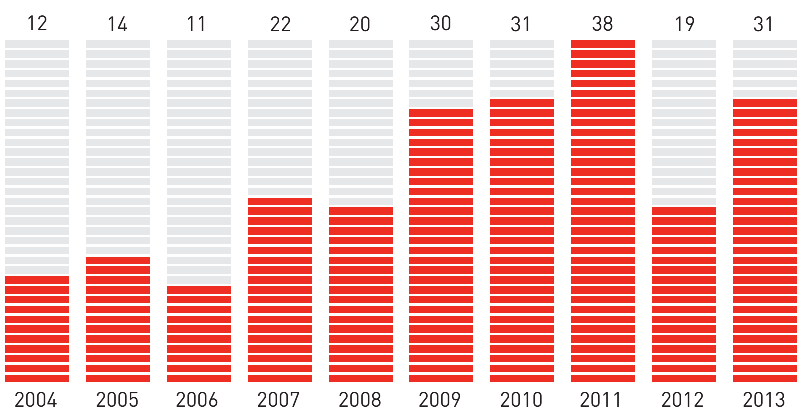
There are many smaller companies within our industry who only service their local markets, often with custom designs specific to the particular customer's application. However, more and more, customers prefer a standard product which is proven and therefore does not need significant development time and non-recurring engineering costs. The broader our portfolio of products the more likely we will have a product that is a close fit to the customer's application. This enables us to win more business and expand our available market. When vying for approved or preferred supplier status at a significant customer, a broad and up-to-date product offering is a significant advantage. We believe we have the broadest most up-to-date portfolio of class leading products within our industry.

The time period from identifying an opportunity with a customer and getting the first revenues is significant, typically around 18 months and in the case of healthcare often longer. This is because of the rigorous evaluation process the customer needs to go through to ensure the power converter works within his particular application under a multitude of conditions and then the external safety agency certification through which the entire end equipment must pass. However, once the power converter is approved within the customer's system XP Power will benefit from a revenue stream for the lifetime of the customer's product life cycle. Every unit the customer sells, XP Power will benefit by selling them a power converter. Customer product life cycles are typically around 7 years and can be even longer depending on the type of equipment.

Because of these long design in phases and then long annuity revenue streams, XP Power is yet to benefit from the significant number of new product introductions it has made in the past few years.

FleXPower is a fast alternative to a full custom design.

Number of new product introductions



Quality and Reliability

Quality and reliability are paramount to our customers. The sub-assemblies we provide them are often powering mission critical systems and a field failure is unacceptable.

We therefore consider quality and reliability at every stage. This starts from design and component selection and our stringent de-rating rules. These rules specify the tolerance to which we will run particular electronic components within our designs. This has an extremely high influence on the reliability and lifetime of the power converter.

We will also perform a Design Failure Mode and Effect Analysis (DFMEA) on each of our products to explore ways in which the product design might fail in the real world. This not only enables our engineers to improve their designs but provides valuable information to the customers' engineering team when they are selecting and using one of our products.

"Not content with relying on design in quality and production processes, our quality assurance team put our products through rigorous ongoing reliability testing to demonstrate their quality and reliability over significant periods of time."

Each product series undergoes thorough Ongoing Reliability Testing including Thermal Cycling.

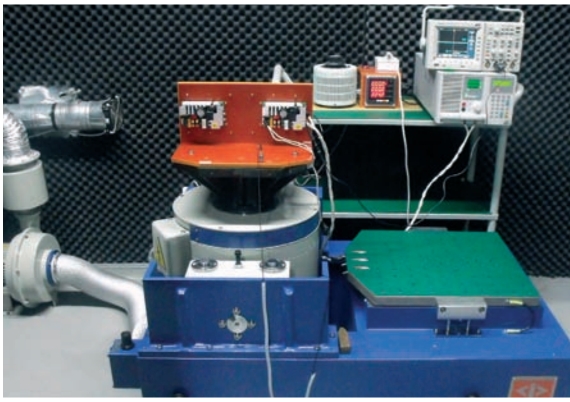
Once the design is in production it is essential that our manufacturing facilities produce excellent quality product. Our manufacturing is state of the art within our industry. We use machinery and processes that can guarantee the manufacturing quality of the product. For example the production process starts by etching a 2D code onto the printed circuit board by laser. This allows the product to be scanned through every part of the production process so we can ensure it has been through every step. It also facilitates electronic capture of the data we use to ensure we have 100% traceability of all the critical components.

Our facilities also make use of equipment such as Automatic Optical Inspection machines. This equipment ensures that all the components are populated onto the printed circuit boards and that the components have the correct orientation and have been properly soldered. This equipment can carry out a detailed inspection process at a speed and level of accuracy that no human operator could match.

All of our products are then run at elevated temperate for a number of hours including cycling the products on and off. This process, known as burn in, gives us and our customers confidence that the products will meet the high reliability specification we have for them once in the field.

After the burn in process all products will go through a full functional test on automated test equipment to ensure they meet their full specification. These are just some examples of what we do to ensure the quality and reliability of our products.

Not content with relying on design in quality and production processes, our quality assurance team put our products through rigorous ongoing reliability testing to demonstrate their quality and reliability over significant periods of time.



Some of the rigorous ongoing reliability testing done by our quality assurance team including shock and vibration testing.

Questions and Answers

Q What is a power converter?

A A power converter is an essential hardware component required in every piece of electrical equipment. The task of the component is to convert the relatively high voltage alternating current from the mains supply into stable low voltage direct current which is required by all electronic equipment. The power converter is also a safety critical component in any system as it protects the user of the equipment from the potentially lethal mains supply.

Q Who are XP Power's main customers?

A XP's power converter solutions are typically designed-in to the end products of major Original Equipment Manufacturers (OEM's). The Group has a highly diversified customer base of over 3,500 customers, including 94% of the S&P 500 equipment manufacturers. The list contains many well-known blue chip companies but confidentiality restrictions prevent us from naming them.

Q What end markets is XP Power exposed to?

A XP is a supplier to manufacturers of capital equipment in the worldwide Industrial, (*circa* 47% of sales) Healthcare (*circa* 30% sales) and Technology (*circa* 23% of sales) markets. The group has no direct exposure to the consumer electronics sector.

Q What is the life cycle of a typical customer program?

A Once designed in to a customer program, XP has a revenue annuity over the life cycle of the customer's product which is typically 7 years and sometimes longer depending on the particular application and industry sector.

Q What is the geographic split of XP's business?

A XP operates from 27 locations in Europe, North America and Asia. Revenues in the last full financial year were split North America 50%, Europe 43% and Asia 7%. However, it is worth noting that this reflects the location of our customers rather than their final end-user markets. Our view is that because we are selling into a wide variety of industrial applications, a significant proportion of our products end up in emerging markets.

Q What is XP's market share?

A In the last full financial year we estimate our market share of the power converter market was approximately 6% overall; 11% in Europe, 8% in North America and 1% in Asia.

Q What is the value that XP Power provides to its customers?

A Our proposition to our customers is to reduce their costs of manufacture and operation. We achieve this by producing new products that consume less power, take up less space, reduce installation times and which are highly reliable in service. These factors add up to enable them to gain a competitive advantage.

> "Once designed into a customer programme we enjoy a typical revenue annuity of 7 years."

Q What are the growth drivers for XP Power's markets?

A The increasing importance of energy efficiency for environmental, reliability and economic reasons; the necessity for ever smaller products; the accelerating rate of technological change; and the increasing proliferation of electronic equipment, all set a strong foundation for medium term growth in demand for XP Power's products.

Q What is XP's growth strategy?

A XP has a long-established strategy of investing in its own product development and manufacturing capabilities to build a market leading product portfolio. The development of an industry leading in-house manufacturing capability and vertical integration is at the heart of this strategy and is leading to multiple new program wins which are driving our growth in market share.

Q Why is a manufacturing capability important?

A Our major OEM customers require that their suppliers have complete control over the production process to guarantee product quality. These customers will only work with "preferred" or "approved" suppliers whose production facilities have met stringent quality control criteria. XP's manufacturing facility has an excellent track record in this respect and the decision in 2006 to move into manufacturing has opened up many new revenue opportunities that were previously unavailable to the Group.

Q What are the main potential risks to the business?

A XP has a very well diversified customer base with no single customer accounting for more than 5% of revenues so the risk from the loss of an individual customer is minimal. The principle risks relate to disruption to our supply chain or to a major supplier.

Q Who are XP's main competitors?

A Like our customer base, the competitive landscape is also diverse and the key competitors also vary according to the end market sector. XP Power considers its larger competitors to be Artesyn (formerly Emerson), Cosel, Power-One, SL Industries and TDK-Lambda, all of which have a worldwide capability. In addition, there are a large number of much smaller suppliers in the industry who generally serve only their local market.

Q What differentiates XP from its main competitors?

A We have the largest and best trained direct sales force in the industry. Our larger competitors are generally not as close to the customer as they often sell through distribution and reps. Therefore we are in a much better position to deliver genuine value to our customers. We also have a much larger standard product portfolio than our competitors which gives us an advantage when customers are choosing preferred suppliers as we are more likely to have a standard product that will work in their application. Finally, our smaller size and flexibility allows us to provide excellent service. In summary: Knowledge, Speed and Flexibility set XP apart from its competitors.

> "Knowledge, Speed and Flexibility set XP apart from its competitors."

Q What is XP Power's attitude to the environment?

A XP Power has set its self the goal of being the leader in our industry in addressing the effect we have on the environment. We have placed environmental performance at the heart of our operations both in terms of minimising the impact its activities have on the environment and in its product development strategy. These practices and initiatives not only resonate with our customers and employees; they also make significant commercial sense as countries legislate to reduce power wastage, improve recyclability of manufactured goods and ban the use of harmful chemicals.

XP's successful application to become a Full Member of the Electronic Industry Citizenship Coalition reflects the major progress achieved by the Group in enhancing the energy efficiency of its power converters in recent years and its ongoing commitment to improving its environmental performance. The group's new production facility in Vietnam is the most energy efficient power converter factory anywhere in the world.

Q Does XP Power pay a dividend?

A Yes, dividends are paid on a quarterly basis, dependent on the performance of the business in the relevant period. We have a progressive dividend policy and the profitability and cash generative nature of our business model means we have increased the dividend every year since 2002.

ECP 225: With a very low profile and small footprint these ultra compact power converters occupy significantly less volume than similar rated power units on the market.

Our Sustainability Story

XP Power serves customers in the industrial, healthcare and technology segments of the global market for power converters — a £1.6 billion addressable market, with equipment using an estimated 20 million Gigawatt Hours (GWh) of electrical power per annum sold each year. The potential to improve power converter efficiency and reduce this enormous aggregate energy demand is a major environmental opportunity. XP Power is pleased to be leading the power converter industry in improving product efficiency and environmental performance.

By far the greatest impact we can have on the environment is encouraging our customers to use our latest ultra-efficient "Green XP Power" products which waste less energy, consume less physical material and avoid the use of hazardous substances. The benefit to the environment of adopting these new high efficiency products is significant and ongoing, with energy savings accumulating over the typical seven year life of our customers' equipment.

"By far the greatest impact we can have on the environment is encouraging our customers to use our ultra-efficient 'Green XP Power' products which waste less energy, consume less physical material and avoid the use of hazardous substances."

The Greatest Impact

Historically, electronic power conversion has been a notoriously inefficient process. The original linear transformers still in use today in some sectors, are typically less than 50% efficient with more than half the input power wasted as heat. XP Power does not operate in this area, specialising instead in power controllers utilising modern "switching" techniques enabled by semiconductor technology, which are much smaller and more efficient.

Modern power converters have typical efficiencies of 80%. While this is a major improvement over legacy products, XP Power has developed technologies that further reduce energy wastage, resulting in products which are up to 95% efficient.

The magnitude of these hard-won efficiency savings should not be underestimated. An 80% efficient product will waste 20% of the input power in the conversion process. Therefore, to provide 100 Watts of power at the output requires input power of 125 Watts wasting 25 Watts as heat. If the efficiency is increased up to 95%, only 105 Watts of input power is now required to deliver 100 Watts at the output. This is a five-fold improvement — a staggering difference and a potentially vast saving when aggregated across the operating lifetimes of electronic equipment. To capture these gains requires a greater number of higher cost components. The payback period in terms of reduced electricity consumption is generally less than a year. Our challenge is to continue to develop such products and sell the benefits to our customers. We believe this will be helped by energy efficiency legislation, pioneered in the consumer electronic and office equipment markets, likely to be applied to the industrial and healthcare markets we serve.

To help in selling the benefits to medical equipment customers we commissioned a study with Inekon Energy Efficiency Consulting in Germany. Inekon catalogued and analysed the power conversion products used in a typical hospital in Stuttgart to understand the efficiencies and the standby power consumption. Some of the findings of this study are as follows:

Over 1,000 power converters were deployed in the medical equipment used within the hospital, consuming 306 MWh per year. The average efficiency of the power converters used in this equipment is only 77% resulting in 23% of the input power being wasted. Few of these power converters incorporated any functionality to reduce the power consumption while in standby mode.

In comparison, XP Power's most efficient medical power converters are up to 95% efficient and have low standby power functionality. Inekon has estimated that the hospital in question could reduce its power consumption by up to 32.5 MWh per year, or 11% from medical devices, if the equivalent XP Power converters were used. This represents CO_2 emissions of 18.6 tonnes and substantial ongoing cost savings. The energy wasted would be reduced by almost half!

Our task now is to convince more of our customers to incorporate higher efficiency power converters in their products. Many of our customers accept the cost benefits of using an ultra-efficient product. They gain both lower operating costs and improved reliability, which is a direct by-product of the high efficiency design. Improving efficiency reduces "lost power" which manifests itself as heat. Heat is a significant problem within electronic devices as the lifetime of the components shortens rapidly with an elevation of temperature. In addition, heat needs to be removed from the power converter and customers' equipment, usually by means of a mechanical fan, which is often the most unreliable part of the power conversion system. Since ultra-high efficiency products do not require fan cooling, they are inherently more reliable and the uptake of our latest "green power" products is — so far — being driven principally by this desire for higher reliability.

Green XP Power revenue

(£ millions)

In 2013 we shipped a record £9.4 million (2012 – £8.1 million) of high efficiency "green" products representing 9.3% of total revenue (2012: 8.6%).

We estimate that the annual savings in CO_2 emissions from these products versus a standard 80% efficiency converter are a massive 12,000 tonnes. This annual saving will recur each year for the lifetime of the product, which we estimate conservatively as seven years. This would bring the estimated lifetime savings in this typical example to 84,000 tonnes of CO_2, clearly illustrating the huge scale of the opportunity to reduce harmful emissions. This example applies to just one year of shipments; the potential cumulative effect of multiple years of shipments of our green products is enormous.

Managing Direct Environmental Impacts

We have conducted a review of our impact on the environment and, as discussed above, established that the greatest contribution we can make to protect the environment is by developing and promoting our ultra-efficient, class-leading "Green XP Power" products. In parallel, we are ensuring we adopt good environmental practices within our facilities and the communities in which we operate.

In 2009 we established an environmental committee chaired by our senior non-executive director, David Hempleman-Adams. Beneath that committee we have put in place a network of environmental representatives for each of our key sites. These environmental representatives share ideas and best practice across our Company and promote and encourage responsible environmental behaviour amongst our employees.

The environmental initiatives we have put in place include:

- Low energy lighting
- Water reduction initiatives such as water saving toilets
- Encouraging the use of electric cars by the installation of charging stations in our key North American facilities
- Holding employee awareness events promoting Earth Day, cycling to work and ride sharing
- Recycling of our waste materials
- Unplugging power converters overnight
- Using electronic burn in equipment which is able to reuse 50% of the burn in power
- Recycling our solder waste on site

As well as the numerous initiatives detailed above, when we built our new Vietnamese facility we had an ideal opportunity to take another step forward and commission the most environmentally advanced manufacturing facility within our industry.

Our Vietnamese facility, located in Ho Chi Minh City, meets the demanding Gold Plus rating of the BCA Green Mark Scheme, the leading environmental standard set by the Singapore Building and Construction Authority for non-residential buildings in tropical climates. This rating covers not only the energy efficiency of the building but also water efficiency, environmental protection, indoor environmental quality and other green features and innovations.

A photovoltaic solar panel array helps provide power to the facility and rain water is collected for use within "grey water" systems in the building. High efficiency air conditioning systems have been deployed and energy saved through an efficient building envelope.

We recycled 2.3 tons of solder during the year.

Corporate Responsibility

Our Vietnam factory is the most environmentally friendly manufacturing facility in our industry.

We are proud that this is not only the most environmentally friendly building in our industry but was also the first BCA Green Mark certified facility in Vietnam.

CO_2 Emissions

In 2009 we set ourselves a target of reducing our CO_2 emissions per unit of revenue by 5% per annum over the next five years. This aim aligns us with the Chinese Government's target of reducing carbon emissions per unit of GDP by 40% to 45% between 2005 and 2020. We measure our CO_2 emissions in accordance with the internationally recognised Green House Gas (GHG) Protocol and our metrics include scope 1 and scope 2 emissions. The attached graph shows the three month moving average of CO_2 emissions per unit of revenue at our Kunshan facility.

Our total Green House Gas emissions for 2013 were approximately 2,640 tonnes compared with 2,190 tonnes in 2012.

XP Power's CO_2 emissions per unit of revenue increased by 7% in 2013 compared to 2012, however, we have seen a 35% reduction in this metric since we started measuring CO_2 emissions per unit of revenue in 2009. Consequently, the Group is still tracking ahead of its five year CO_2 reduction target. The additional environmental features built into our new Vietnamese facility will underpin a further improvement in the current year and beyond. Our photovoltaic solar panel array generated 58,700 kwh of electricity during the year reducing our carbon emissions by approximately 32 tonnes.

Water

XP Power does not use water within its manufacturing processes and is therefore a low-level water user. However, we are mindful that to ensure our water usage is minimized the use of alternative sources of water such as rain water is maximized and that any waste water is not contaminated. XP Power's new facility in Vietnam leads the way with an on-site water capture and recycling system supplying "grey water" to the building's plumbing systems.

Our Water Policy is to:

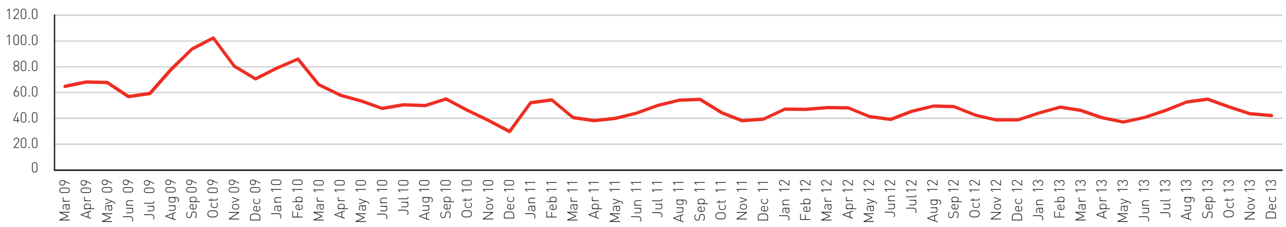
- Employ best practices to maximise the efficient use of water and minimise pollution and waste.
- Regularly review and report on the water use of our facilities and activities.
- Commit to continuous improvement in responsible water management through identifying objectives and setting measurable goals.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

We used 20.7 million litres of water in our main facilities around the world in 2013 compared with 17.5 million litres in 2012. Given water is not used in XP Power's manufacturing processes and we are a low-level user we do not set targets for water use. Nevertheless we monitor our water usage per employee.

	2013	2012
Average number of employees	**1,081**	895
Water consumed (thousand litres)	**20,700**	17,500
Water consumed per employee (thousand litres)	**19.1**	19.5

We have set ourselves a target to reduce water usage per employee by 5% per annum.

Kunshan CO_2 Emissions — kg per US$1,000 of revenue



Carbon Disclosure Project

XP Power is pleased to participate and disclose its environmental data to the Carbon Disclosure Project. The full data set provided is publically available on the Carbon Disclosure Project website at www.cdproject.net.

Harmful Substances

European legislation on the Reduction of Hazardous Substances (RoHS) came into effect in 2005. This legislation limited the levels of certain hazardous substances, including lead, in manufactured products. Although the legislation is applicable only to products sold in Europe, and at the time of its introduction was not applicable to medical products, XP Power took the decision to make all of the products it designs and manufactures compliant. This decision was not only good for the environment but also good for our business.

We target zero lead or hexavalent cadmium in our products and test this using X-ray spectroscopy on our incoming components. We are pleased to report that we believe we fully met this target in 2013.

Stakeholder Dialogue

We maintain two-way communications with our employees on environmental issues via our environmental representatives and regular awareness events.

A number of our key customers engage with us on environmental issues, generally via completion of questionnaires and many of our larger customers have also conducted environmental audits on our facilities, all of which we have passed. We also hold regular engagement days for our key suppliers where we encourage them to adopt sound environmental practices and adopt the Electronic Industry Citizenship Coalition Code of Conduct. Our policy is to disengage with suppliers who have unacceptable environmental performance.

The non-executive members of our environmental committee also keep themselves up-to-date on environmental issues by attending relevant conferences and events on the effects of environmental change on the planet. This not only keeps their knowledge up-to-date but also gives XP Power exposure to new practices and ideas that can be used within our business to improve our performance.

Managing Social Impacts

Electronic Industry Citizenship Coalition (EICC)

The Electronic Industry Citizenship Coalition (EICC) is an industry organisation of leading electronics manufacturers which seeks to improve working and environmental conditions through the promotion of an industry Code of Conduct for global electronics supply chains. The EICC Code of Conduct is the highest recognised standard for our industry on environmental and corporate social responsibility issues and also addresses the treatment of employees and their well-being, health and safety and business ethics.

XP Power achieved Full Membership of the EICC in March 2011. We have adopted the EICC Code of Conduct and have been working with our key suppliers to ensure they too are compliant with the Code. We are actively engaged with the EICC and have representation on the EICC's Environmental Sustainability Working Group and associated Water and Training sub-groups.

The EICC framework is enabling us to make continuous improvements to our performance on environmental matters but also in employee relations, health and safety and business ethics.

FTSE4Good

XP Power has been a constituent of the FTSE4Good Index, since September 2011.

The FTSE4Good Index is a tool to help responsible investors identify and objectively measure the performance of companies that meet globally recognised corporate responsibility standards.

For inclusion, eligible companies must meet criteria in the following categories:

- Working towards environmental sustainability;
- Upholding and supporting universal human rights;
- Ensuring good supply chain labour standards;
- Countering bribery; and
- Mitigating and adapting to climate change.

XP Power received Applied Materials 2013 Sustainability Award for our overall corporate commitment to all sustainability elements and our demonstrated best practices in green product design.

Left to Right: Jim White, VP Global Supply Chain, Applied Materials; Bob Halliday, SVP, CFO, Applied Materials; Jay Warner, VP North America Sales, XP Power; Amy Ng, Strategic Account Manager, XP Power; Marc Haugen, Group VP, Worldwide Operations and Supply Chain, Applied Materials.

Corporate Responsibility

Employee relations

Our people are our most important asset and we make great efforts to ensure an environment of open communication with frequent opportunities for two-way communication between management and staff. In addition, XP Power's factories have employee committees which provide a more formal mechanism for staff to feed back issues and ideas to management. These meetings have proved to be excellent forums for promoting environmental awareness with employees subsequently suggesting many excellent ideas to improve our performance.

All main sites have environmental representatives who champion environmental awareness and share best practice and ideas across the Company. They meet regularly to assess progress and these meetings are chaired by the Chief Executive. Feedback from these meetings is also shared with the Environmental Committee.

XP Power's workforce is free to join unions and we have formal policies in place to ensure staff are treated fairly and have equal opportunities.

Diversity

XP Power operates in a global market and recognises its talented and diverse workforce as a key competitive advantage. Our business success is a reflection of the quality and skill of our people and the Group is committed to seeking out and retaining the finest talent.

XP Power believes in treating all people with respect and dignity. We strive to create and foster a supportive and understanding environment in which all individuals realise their maximum potential within the Company regardless of their differences.

We believe our diversity benefits individuals, teams, our company as a whole and our customers. We recognise that each employee brings their own unique capabilities, experiences and characteristics to their work and we value diversity at all levels of the Company.

Charitable activities

Our employees around the world have continued to engage with the communities in which we operate. As well as providing open days for school students, we have donated XP Power educational kits to local primary schools in Asia, Europe and North America to encourage an interest in technology and electronics. Our employees have participated in food banks and raised money for many charities.

Leading the Way

We consider that we are continuing to lead the way in our industry regarding environmental matters, particularly with our class leading ultra-high efficiency Green XP Power product offering. This is a key business driver for us from which we expect to gain a long term commercial advantage.

"This is a key business driver for us from which we expect to gain a long term commercial advantage"

Supporting the local communities in which we operate: Donating to the Woolacombe Surf Life Saving Club.

XP industrial

Case Study

The Opportunity

The customer supplies capital equipment to the food and beverage industry. Historically they had used old fashioned linear power converters in their equipment which have a large footprint, are heavy and highly inefficient producing significant amounts of waste heat. For their new programme the customer had decided to evaluate more modern and efficient switching power supplies such as those designed by XP Power. However, the customer had no experience working with these types of products.

By its nature the end equipment operates in a harsh environment with elevated temperatures and has the characteristic of multiple peak loads. As the customer was used to using old fashioned linear power converters they were unable to provide us with a detailed specification. We flew one of our application engineers to the customer's design centre to work "shoulder to shoulder" with their team. We worked with their engineers to understand their requirements in detail and develop the specification. We undertook a significant amount of testing including peak load scenarios, thermal chamber testing, efficiency testing, and real world simulations providing detailed reports acting as an extension to their engineering team. The project involved a significant amount of interaction with the customer's engineering team to understand the operation of their system. The customer was also under an extremely tight deadline.

The customer's equipment operates in a harsh environment with elevated temperatures and peak loads.

Benefits to the Customer

- By using an XP Power converter rather than the old fashioned linear power converter allowed the customer's equipment to function with a "universal input" to cope with the different mains voltages around the world. This allowed them to cut down the different variants of their equipment from 82 to around 20; resulting in significant cost savings.
- Using a highly efficient XP Power converter resulted in less heat being produced in the system resulting in higher system reliability.
- On-site design in assistance from our application engineer significantly improved the customer's design cycle and time to market.
- The XP Power solution had a much smaller footprint and weight than the prior products the customer was using.
- The testing and reports we provided gave the customer the comfort they needed that the power converter would have long term reliability within the harsh environment of their system.
- The fact that we had a standard off the shelf product suitable for the application radically reduced the engineering resource required by the customer.

Summary

By providing rapid and excellent technical design in support we were able to save the customer significant amounts of money and get them to market extremely quickly. The program is worth over $1 million per year to XP Power and should continue for many years.

The fact that we had an ultra-efficient Green XP Power product available allowed us to win this business and provide the customer with cost and performance benefits within their system.

Chief Executive's Review

"2013 was another encouraging year for XP Power. We continued to execute against our long term strategy and evidence suggests we have continued to take market share."

Duncan Penny
Chief Executive

Overview

2013 was an encouraging year for XP Power. We continued to execute our long term strategy and evidence suggests we have continued to take market share. Since the summer of 2013 we have seen evidence of a slow but gradual improvement in the markets we serve and revenue and earnings growth has resumed following the poor environment for capital equipment spending that characterised 2012. If this improvement is sustained we would expect 2014 to be another year of growth for the Group.

Our new Vietnam manufacturing facility reached levels of production that meant it started to contribute to our gross margins from June 2013. Increased revenues of our own designed and manufactured product also contributed to an improvement in gross margins. These positive influences fully offset the rapid wage inflation that we have continued to witness in China.

Our strategy and business model once again allowed us to produce class leading operating income of £23.3 million or 23.0% of operating margin (2012: £21.0 million or 22.4%) and excellent free cash flow of £17.7 million (2012: £20.9 million) which enabled net debt to be reduced from £10.6 million at the beginning of 2013 to £3.5 million at the year-end. This significant reduction was achieved after returning £10.0 million to shareholders in the form of dividends.

The Group continued to make excellent progress with its strategy of increasing penetration of its target blue-chip customer accounts. We expect that this sustained focus on customers with leadership positions in their respective markets will enable us to take further market share.

Our broad and up-to-date portfolio of class leading products, many of which are highly efficient, combined with excellent engineering support, and the assured quality and reliability facilitated by our move into manufacturing, is increasingly making us the power converter provider of choice for many large customers.

The Vietnam facility gives us the capability to produce our own magnetic components which not only enhances our value proposition to our customers — in terms of control of the manufacturing process, flexibility and lead times — but also provides a second geographical capability to mitigate the effect of rapidly increasing costs in China.

Our own designed product revenues reached a new record and grew 11% to £64.2 million, representing 64% of our total revenues (2012: 62%). Own designed products generate higher gross margins, and give us the capability to design tailor-made power control solutions for our customers, making XP Power an increasingly attractive partner for our larger target customers.

The Vietnam facility — A second geographical capability to mitigate rapidly increasing costs in China.

Key Performance Indicators Aligned With Our Strategy

The Group has defined five key performance indicators which are closely aligned with its strategy, and which demonstrate the significant progress made over the last five years.

Key Performance Indicator	Strategy points	2009	2010	2011	2012	2013	Target
Number of new product introductions	Develop a strong pipeline of leading edge products	30	31	38	19	31	Note (1)
"Green" product revenues	Expansion of high efficiency "Green" products	—	£2.8m	£5.0m	£8.1m	£9.4m	Note (2)
Own design product revenues	Target and increase penetration of key accounts Increase contribution of own design products	£26.2m	£44.1m	£59.2m	£57.6m	£64.2m	Note (3)
Proportion of own design products	Manufacture our own products	39%	48%	57%	62%	64%	Note (4)
Earnings per share	Target and increase penetration of key accounts	40.8p	83.7p	106.4p	81.3p	95.1p	Note (5)

1. **Number of new product introductions = the number of new product families launched to our sales team and customers during the year including both own design and labelled products**

   The Group does not have an absolute long term target for this metric. Also not all products are equal in terms of their complexity and potential future revenue. For instance even though the number of products released in 2012 reduced, the development teams were working on a large programme of products that will release in a later period. In assessing new product opportunities our development teams consider the potential revenue from a new product family as well as the total number of product introductions.

2. **"Green" product revenues = revenues generated from products which meet the high efficiency and low stand-by power requirements set by XP Power to qualify them to carry the "Green XP Power" logo**

   The Group does not have an absolute long term target for this metric but we would expect the growth rate of these products to significantly outpace the growth rate of total revenues.

3. **Own design revenue = revenue derived from products designed by XP Power or where XP Power owns the design and outsources manufacture**

   The Group does not have an absolute long term target for this metric. However, the Group targets to grow this metric by a double digit percentage each year.

4. **Proportion of own design revenue = revenue from own design products as a percentage of total revenue**

   We are targeting to achieve 75% own design revenue over the course of time.

5. **Earnings per share = diluted earnings per share adjusted for amortisation of intangibles associated with acquisitions and exceptional charges or profits**

   There is no absolute long term target set for this metric but the Group targets to grow this metric by a double digit percentage each year. The compound growth rate for this metric over the last five years has been 22%.

   We are pleased to report improvements in all our key performance indicators in 2013.

Chief Executive's Review

From concept to fulfilment, our research and development teams on three continents continue to improve our broad product offering.

Markets

XP Power supplies power control solutions to Original Equipment Manufacturers ("OEMs") of capital goods, who themselves supply the healthcare, technology and industrial sectors with high value products. The increasing importance of energy efficiency, for both environmental and economic reasons, the necessity for ever smaller products, the rate of technological change and the increasing proliferation of electronic equipment, all contribute to underpin the strength of medium term demand for XP Power's power conversion products.

The worldwide available market for XP Power's products was estimated to be £1.7 billion per annum in 2013. We estimate XP Power's global market share to be around 6% in 2013. Across North America and Europe, XP Power currently has around 8% and 11% respectively of its available market, while across Asia our share is estimated to be 1%. This illustrates the significant commercial opportunities that remain open to XP Power, and the Board is confident that the Group's competitive advantages over many of its peers will allow it to take further share in each of its key markets.

The sector split of 2013 revenues was as follows: Industrial increased 8% to £47.5 million (2012: £43.8 million), Healthcare increased 16% to £30.2 million (2012: £26.0 million) and Technology declined 3% to £23.4 million (2012: £24.1 million).

Our healthcare business continued to perform strongly due to its broad and up to date product portfolio combined with the wholly-owned manufacturing facilities which are essential to give the quality control that healthcare customers demand. Our value proposition has also enabled greater penetration of the larger customers in the sector.

We have seen a broad but gradual recovery in the demand from most of our customers and segments during the second half of 2013; particularly the industrial sector. We have also made good in-roads into areas such as test and measurement and 3D printing which we report under industrial. The technology sector also benefited from a gradual recovery in demand from the semi-conductor manufacturing equipment makers, which began to take hold in the second half of the year.

According to geography our 2013 revenues were split: Europe up 7% to £43.8 million (2012: £40.8 million), North America up 10% to £50.0 million (2012: £45.4 million) and Asia down 5% to £7.3 million (2012: £7.7 million). Asian revenues in 2012 and 2013 were, as expected, affected by one unusually large technology sector programme reaching the end of its lifespan.

Our major blue chip customers require market leading, highly reliable products. We maintained a consistent investment in research and development throughout the year and our product pipeline remains the broadest and freshest in the industry. The attractions of this continually evolving portfolio of market leading products enabled the Group to win a number of new programs in the year, underpinning revenue growth in future years.

International Network

Increasingly, the design and manufacturing process of major international OEMs takes place across different continents, with these blue-chip companies demanding global support. In response, XP Power has established an international network of offices which offers the necessary customer support across technical sales, design engineering, logistics and operations. This network gives XP Power a strong competitive advantage over both its smaller competitors, who do not have the scale and geographic reach to serve global customers, and its larger competitors, who often lack the operational flexibility to provide excellent service and speed. We believe that this balance is key to our success in winning new contracts and offers XP Power the opportunity to further increase its market share.

XP Power's mix of quick response capability and global reach is a major competitive advantage. XP Power maintains a network of 27 sales offices spread over North America, Europe and Asia, with a further 16 distributors supporting its smaller customers. The size and scope of this network is kept under continuous review to ensure the business remains best placed to capitalise on growth opportunities in each of its geographies.

XP Power has the largest, most technically trained sales force in the industry. Our detailed in-house training programme demands that the sales force pass numerous technology and customer service modules, making them a "value add" partner to our customers' product development teams. Management believes that this gives the business a competitive edge compared to many within its peer group.

The North American network consists of 17 sales offices and an extensive engineering services function based in Northern California. This network allows XP Power to provide its major customers with local, face to face support and rapid response times.

In Europe, the XP Power network consists of 8 sales offices and a further 9 distributor offices. In addition, XP Power has engineering services centres in Germany and the UK.

The Asian sales activities are run from Shanghai and Singapore, where we also manage a network of 7 distributors serving the region. We also added a direct sales presence in India during the year.

Market Leading Technology

A long term commitment to invest in research and development of new products has been the cornerstone of XP Power's growth strategy. We consider that we now have the broadest, most up to date portfolio of products in the industry, many with class leading efficiency.

Gross research and development spend was £5.3 million in 2013 (2012: £5.3 million), and 31 new product families were introduced in the year.

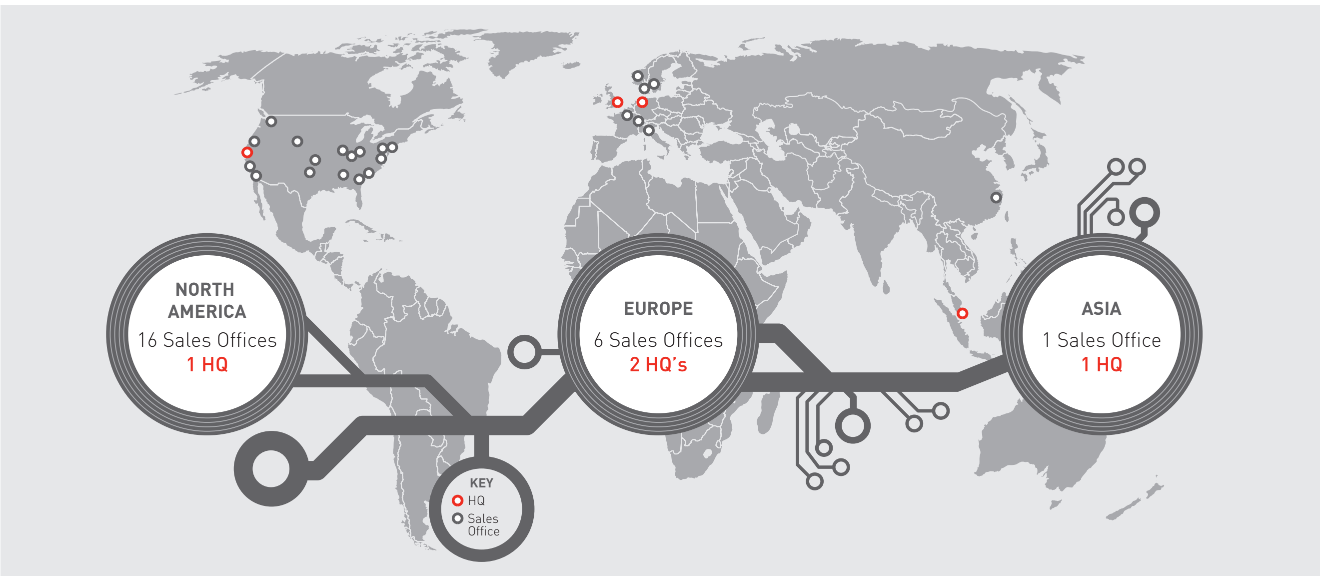
As previously reported, having established such a broad portfolio, the rate of new product introductions has slowed with more of our engineering resource now focused on modifications to existing products to meet the precise requirements of individual customers. Over half of the products we sell are modified from the original standard version in some form or another.

Manufacturing Capabilities

Our target customers demand the ultimate in terms of quality control to ensure the reliability and safety for the life of their equipment. Complete control of manufacturing is therefore critical to ensure strict management of the production processes and components that go into our products, and also gives us opportunities to reduce our product costs. The capability and performance of our Kunshan facility, which was commissioned in 2009, has been instrumental in winning new programmes and customers.

"XP Power's mix of quick response capability and global reach is a major competitive advantage."

We maintain a network of 27 sales offices throughout the world.



Chief Executive's Review

In 2012 we commenced production at our new magnetics facility in Ho Chi Minh City, Vietnam. The Vietnam facility gives us the capability to produce our own magnetic components, which not only enhances our value proposition to our customers but also provides a second geographical base to mitigate the effect of rapidly increasing costs in China.

Production volumes at the Vietnam facility increased steadily throughout the year and it has been profitable since June 2013. The facility is currently providing approximately 60% of our magnetics demand. We expect to start production of power converters in Vietnam in the second half of 2014.

The Environment and Sustainability

In 2009 we established an Environmental Committee that immediately set the goal of making XP Power the leader in environmental issues within our industry. Much has been achieved since 2009 and our progress is set out in detail in the Corporate Responsibility Report on pages 12 to 16.

Our new Vietnamese magnetics facility is the most environmentally friendly power converter manufacturing facility in the world meeting the Gold Plus rating of the BCA Green Mark requirements; the leading standards set by the Singapore Building and Construction Authority for non-residential buildings in tropical climates. We are proud that this is not only the most environmentally friendly facility in our industry but is the first BCA Green Mark certified industrial facility in Vietnam.

The biggest impact XP Power can have on the environment is to promote its high efficiency green products, which consume and waste less energy on an ongoing basis. Revenues from these green products continue to increase. In 2012 we shipped £8.1 million of green products or 8.6% of revenue, compared with £5.0 million or 4.8% of revenue in 2011. In 2013 we have seen further progress, shipping £9.4 million or 9.3% of revenue. We have made this metric one of our key performance indicators. We estimate that the green products we shipped in 2013 will save approximately 84,000 tonnes of CO_2 emissions over their expected lifetime compared with a conventional 80% efficient power converter. We expect this to be an increasingly important factor for our customer base when choosing their suppliers.

Outlook

Design wins in 2013 have continued to be positive and we are pleased with the further headway that has been made in achieving approved or preferred supplier status at new key accounts.

We remain confident in our strategy of targeting customers with strong leadership positions in their respective markets. These blue chip customers find the Group's broad, up to date product offering and in-house manufacturing capabilities extremely attractive, especially as they are supported with very high service levels. We consider that these competitive strengths allied to an improving macroeconomic backdrop place, XP Power in a strong position to capitalise on its medium term growth ambitions.

Duncan Penny
Chief Executive

"We remain confident regarding our strategy of targeting customers with strong leadership positions in the respective markets in which they operate. These customers find our broad and up-to-date product offering and manufacturing capabilities extremely attractive, especially given they are supported with very high service levels. We consider that this puts XP Power in a strong position to capitalise on its growth ambitions."

"Group revenue increased by 8% during the year to £101.1 million with revenue from our own designed products increasing 11% to £64.2 million."

Jonathan Rhodes
Finance Director

Revenue and operating profit

Group revenue increased by 8% during the year to £101.1 million with revenue from our own designed products increasing 11% to £64.2 million, representing 64% (2012: 62%) of total revenue. These increases reflect continuing market share gains from designing our own products into target blue-chip customers combined with gradually improving trading conditions, particularly during the second half of 2013. Exchange rate volatility has an impact on the Group's revenue and costs with our largest exposure being to the US Dollar. The average rate of the US Dollar strengthened against Sterling during 2013 to \$1.56 (2012: \$1.58), thus in constant currency Group revenue increased by 6%.

The Group's gross margin in 2013 equalled our previous record high benefiting from an improvement in product mix and the Vietnam factory positively contributing to margin during the second half of the year. In line with our expectation, the margin recovered from the previous year's dip to 49.1% (2012: 47.8%).

Operating expenses for the year totalled £26.3 million compared with £23.9 million in 2012. The additional expenditure in the year was a consequence of the increased activity and, to a lesser extent, exchange rate exposure. Costs associated with the launch of our biennial catalogue, which is now in a digital mobile app format, coupled with a £0.3 million increase in net product development expenditure, were further reasons for the year on year increase. In accordance with the requirements of IAS 38, £2.2 million of product development expenditure was capitalised in 2013 (2012: £2.2 million) and £1.3 million was amortised (2012: £1.0 million). Gross expenditure on product development was £5.3 million (2012: £5.3 million).

Operating profit improved by 11% over the previous year to £23.3 million (2012: £21.0 million), resulting in an operating profit margin of 23%.

Taxation

The tax charge for the year was £4.5 million (2012: £4.5 million) which represents an effective tax rate of 19.7% (2012: 22.2%).

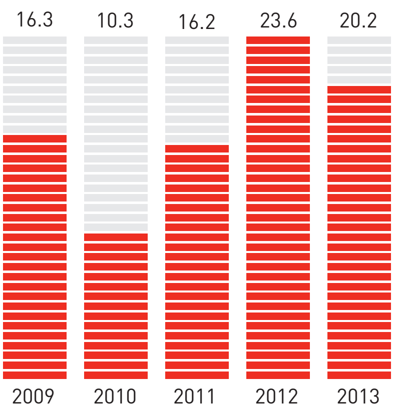
Earnings per share

Basic earnings per share increased by 17.3% from 81.7p to 95.8p. Diluted earnings per share improved by 16.9% from 81.3p to 95.1p.

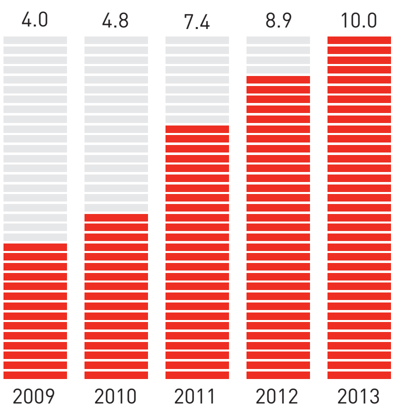
Dividends

Our policy is to increase dividends progressively whilst maintaining an appropriate level of cover. This year's financial performance in terms of profitability and operating cash flow has enabled us to recommend a final dividend of 19 pence per share which together with the quarterly dividends already paid gives a total dividend for the year of 55 pence per share, an increase of 10% over the previous year. Dividend cover for the year was 1.7.

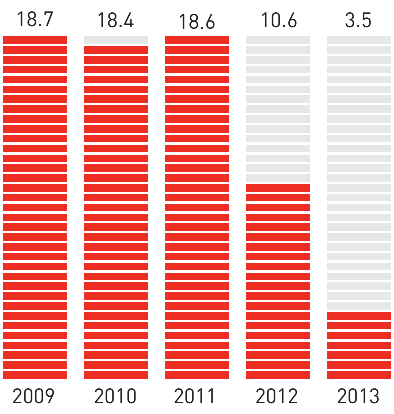
Operating Cash Flow (£ millions) **-14%**



Shareholder dividends (£ millions) **+12%**



Net debt (£ millions) **-67%**



Financial Review

Cash Flow

The Group's strong cash generation allowed us to further reduce the net debt during the year to £3.5 million at 31 December 2013 compared with £10.6 million at 31 December 2012. From free cash flow of £17.7 million (2012: 20.9 million), returns to shareholders in the form of dividend payments increased for the tenth successive year and totalled £10.0 million in terms of cash outflow compared with £8.9 million in 2012. Net cash used in investing activities ended the year at £3.0 million (2012: £5.8 million), predominantly for property, plant and equipment and capitalised product development. 2012 included a £1.9 million deferred consideration payment to acquire an additional stake in an existing subsidiary.

"The Group's strong cash generation allowed us to further reduce the net debt during the year to £3.5 million at 31 December 2013 compared with £10.6 million at 31 December 2012."

Derivatives

The Group's financial instruments consist of cash, money market deposits, overdrafts, and various other items such as trade receivables and trade payables that arise directly from its business operations.

The Group uses forward currency contracts to convert Sterling and Euro long positions to cover the US Dollar short positions in its parent company. The Group had £13.7 million of forward currency contracts outstanding at 31 December 2013 (2012: £10.5 million).

Funding

In October 2013 the Group renewed its annual working capital facility at a reduced level of US Dollar 10.0 million (2012: US Dollar 12.5 million), priced at the Bank of Scotland (BOS) base rate plus a margin of between 2.0% and 3.0% depending on the ratio of Net Debt to EBITDA. At 31 December 2013, £1.2 million representing 19.7% of the working capital facility was drawn down.

No changes were made to the term debt facility which expires at the end of September 2014. This facility has a December 2013 outstanding balance of US Dollar 12.0 million with quarterly repayments at US Dollar 1.5 million and pricing of LIBOR plus a margin of between 1.75% and 2.25% depending on the ratio of Net Debt to EBITDA.

Both the working capital facility and term debt facility are provided by Bank of Scotland PLC.

Substantial Interests

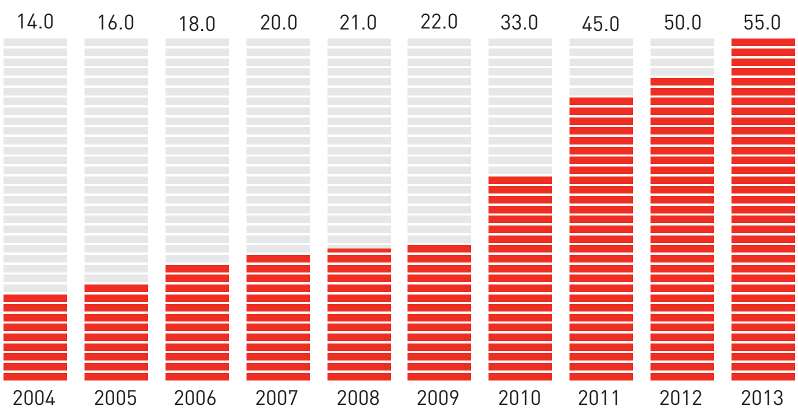
Other than the Directors' interests (see Directors' Remuneration Report), at 31 December 2013 the Company was aware of the following interests in 3% or more of the issued ordinary share capital of the Company:

	Number of shares	%
Standard Life Investments	1,596,077	8.3%
Generation Investment Management	987,010	5.1%
Aberdeen Asset Managers Ltd	921,300	4.8%
Artemis Fund Managers Limited	902,367	4.7%
Hargreave Hale	829,901	4.3%
Old Mutual Global Investors	634,000	3.3%
Henderson Global Investors	632,562	3.3%

Jonathan Rhodes
Finance Director

Ten year dividend history

(pence)



Chairman's Overview

Larry Tracey
Chairman

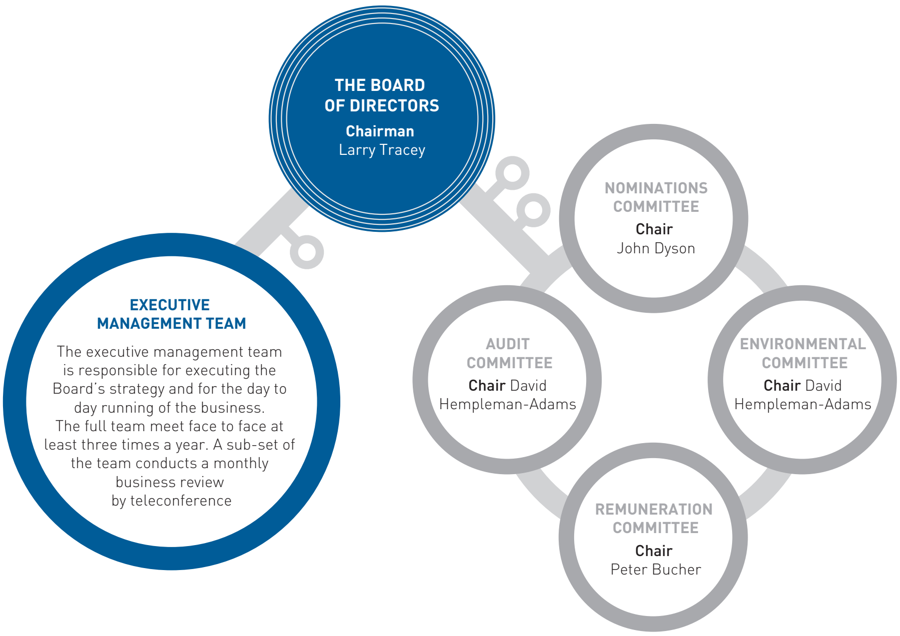
The Board of Directors' primary remit is to achieve consistent earnings and dividend growth superior to our peer group whilst keeping risk under control and reported numbers entirely accurate.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Adjusted Earnings per share	12.4	23.6	30.6	37.0	31.4	34.8	40.8	83.7	106.4	81.3	95.1
Dividend per share	12	14	16	18	20	21	22	33	45	50	55

The Nominations Committee have approached a number of successful directors whom they believed would add value to our business resulting in the non-executive structure we now have. Earnings and dividends continue to grow faster than our quoted peers. Directors with an engineering background are considered key.

The control of risk and accuracy of reported numbers is the remit of the Audit Committee. Four of the nine directors are qualified accountants. We have had no errors between our management numbers and our reported numbers since listing in 2000.

The Remuneration Committee ensures that the Directors and key employees' interests are closely aligned with those of the shareholders and the success of this can be measured by the low director/key employee turnover rate and the very favourable pay to performance ratios compared to our quoted peers.



The executive directors have an average length of service of 12 years and an average age of 46.

Growth rate over the past 10 years:

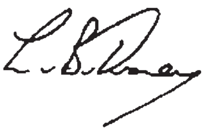
Adjusted Earnings per share:	767%
Dividend per share:	458%
Total Directors' Remuneration:	121%

We have a very numerate, technically focussed experienced Board of Directors. Our challenge over the next few years is to recruit one or two younger non-executive directors who have only been exposed to the post internet communications technologies.

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

We have tried to clearly layout how we meet the five sections of the Code, namely leadership, effectiveness, accountability, remuneration and relations with shareholders. For the benefit of shareholders who are not familiar with the Code we have set out the main principles of the Code in detail and have stated how we have addressed them in this report.

I am pleased to report that throughout the year ended 31 December 2013 the Company has been in full compliance with the provisions of the Code.



Larry Tracey
Chairman

Board of Directors

Larry Tracey Chairman (age 66)

Larry co-founded Powerline plc ("Powerline") in 1979, where he focused on the strategic direction of the business. In March 1984, he was responsible for the flotation of Powerline on the Unlisted Securities Market of the London Stock Exchange and earnings grew 220% in its three years as a quoted company. Larry headed Powerline's expansion into Germany and the US. Powerline was acquired by Chloride plc in September 1987.

In May 1990, Larry joined the Board of XP Power as an Executive Director. In April 2000, he was appointed as Chief Executive Officer of the Group, and in April 2002 he was appointed as Executive Chairman. On 3 February 2003 he stepped down from the role of Chief Executive and continued in the role of Executive Chairman.

Larry moved to the role of non-executive Chairman on 1 May 2012.

James Peters Deputy Chairman (age 55)

James has over 30 years' experience in the power supply industry and trained with Marconi Space and Defence Systems, prior to joining Coutant Lambda, one of the UK's major power supply companies, as an internal sales engineer. He joined Powerline shortly after its formation in 1980 and was involved in all aspects of the business.

In November 1988, he founded XP. In April 2000, he was appointed as European Managing Director of the Group and was responsible for the overall management of the Group's European businesses. On 3 February 2003, James was appointed as Deputy Chairman. James moved to a non-executive role on 1 May 2012.

Duncan Penny Chief Executive (age 51)

Between October 1998 and March 2000, Duncan was the Controller for the European, Middle Eastern and African regions for Dell Computer Corporation, prior to which he spent eight years working for LSI Logic Corporation where he held senior financial positions in both Europe and Silicon Valley. From 1985 to 1990, Duncan spent five years at Coopers & Lybrand in general practice and corporate finance.

He joined XP Power in April 2000 as Group Finance Director. On 3 February 2003, he was appointed as Chief Executive.

Mike Laver President, Worldwide Sales & Marketing (age 51)

Mike has 20 years' experience in the power supply industry. After completing his degree in Electrical Engineering at UC Santa Barbara, Mike held sales and technical positions with Power Systems Distributors, Compumech and Delta Lu Research. He joined ForeSight Electronics in 1991 and held various senior roles.

Mike is currently responsible for the worldwide sales and marketing. He joined the Board on 20 August 2002.

Jonathan Rhodes Finance Director (age 42)

Jonathan joined the Group in July 2008 as European Financial Controller.

Prior to joining XP Power, Jonathan spent 9 years with JCDecaux in various senior financial positions including Head of Financial Reporting. During his tenure at JCDecaux he worked in both their UK and North American organisations. Prior to that, he spent 3 years with Mills & Allen.

In December 2011 Jonathan was appointed as Finance Director of XP Power.

Andy Sng General Manager, Asia (age 43)

Andy joined the Group in July 2005 as General Manager for Asia to start and head up our Shanghai operations. He joined the Board in April 2007.

Prior to joining XP Power, Andy worked in the power converter industry for eight years in various technical and commercial roles with companies such as Silicon Systems (Singapore) and Advanced Micro Devices (Singapore).

Andy's current key responsibility is to drive sales in Asia.

Peter Bucher Non-Executive Director (age 70)

Peter joined the board on 1 January 2014 and is well known within the power converter industry. He spent his entire career at Traco Electronic AG ("Traco") in Zurich, Switzerland. Peter joined Traco in 1967 and in 1985 was appointed managing director, a position he held until his retirement in 2009. Under Peter's leadership Traco was built into a highly respected company with revenues in excess of US$100M.

Peter is chairman of the Remuneration Committee.

John Dyson Non-Executive Director (age 65)

John is Chairman of Medvivo Group Ltd, formed in January 2013 from the combination of Telehealth Solutions Ltd with Wiltshire Medical Services Ltd. He has been CEO of Telehealth Solutions Ltd since 2006, a start-up aimed at providing assistive technology to enable and improve the care of patients with long term diseases in their own homes.

He served as Chief Executive of Pace plc from May 2003 to May 2006 prior to which he had been Finance Director since November 1997.

Before Pace, he held senior positions in both Silicon Valley and Europe for LSI Logic Corporation from June 1990 to November 1997. From September 1988 to June 1990 John was co-founder and Managing Director of Modacom Limited, prior to which he was Finance Director of Norbain Electronics plc (1986-1988) and Case Group plc from 1977 to 1986. He qualified as a Chartered Accountant in 1975.

John joined the Board of XP Power in June 2000 and is the chairman of the Nominations Committee.

David Hempleman-Adams Senior Non-Executive Director (age 56)

David joined the Board on 16 June 2008 and has a record of achievement in both business and exploration. David joined Robnorganic Systems in 1984 as sales and marketing director becoming CEO and then Chairman. He is now the Chairman of Global Resins Limited. Both companies are involved in the formulation and manufacture of resin systems for the electrical market. He has been in this market for 24 years. David is a founder and director of Hempleman Investment Company Limited which owns and manages business land and premises, also a director of Cold Climates which offers Adventure Experiences.

David is also involved in charity work notably as a Trustee of the Duke of Edinburgh Award Scheme and St John's Ambulance.

David is the senior non-executive director and chairman of the Audit Committee.

Risk Management

Board Responsibility

Like many other international businesses, the Group is exposed to a number of risks which may have a material effect on its financial performance. The Board has overall responsibility for the management of risk and sets aside time at its meetings to identify and address risks.

Risks Specific to the Industry in which the Group Operates

Fluctuations in foreign currency	Risk mitigation
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.	The Group reviews balance sheet and cash flow currency exposures and where considered appropriate uses forward exchange contracts to hedge these exposures. Any forward contract requires the approval of both the Chairman and Chief Executive.

Competition	Risk mitigation
The power supply market is diverse and competitive in Asia, Europe and North America. 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 the barriers to entry are low and there is, therefore, a risk that competition could quickly increase particularly from emerging low cost manufacturers in Asia.	The Group reviews activities of its competition, in particular product releases, and stays up to date with new technological advances in our industry especially those relating to new components and materials. The Group also tries to keep its cost base competitive by operating in low cost geographies where appropriate.

Risks Specific to the Group

Dependence on manufacturing facilities	Risk mitigation
The Group is dependent on its manufacturing facilities in China and Vietnam for the production of the majority of its products. Any issues that cause disruption at these production facilities could have a material adverse effect on their businesses.	The Group reviews the risks that may cause a disruption in supply and has developed disaster recovery plans to help cope with unexpected events.

Dependence on key personnel	Risk mitigation
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 any of their respective executive officers or other key employees could have a material adverse effect on their businesses.	The Group undertakes performance evaluations and reviews to help it stay close to its key personnel. Where considered appropriate the Group also makes use of financial retention tools such as equity awards.

Loss of key customers/suppliers	Risk mitigation
The Group is dependent on retaining its key customers and suppliers. Should the Group lose a number of its key customers or a key supplier this could have a material impact on the Group's businesses financial condition and results of operations. However, for the year ended 31 December 2013, no one customer accounted for more than 5% of revenue.	The Group mitigates this risk by providing excellent service. Customer complaints and non-conformances are reviewed monthly by members of the executive management team. On the supply side we conduct regular audits of our key suppliers and in addition keep large amounts of safety inventory of key components.

Shortage, non-availability or technical fault with regard to key electronic components

The Group is reliant on the supply, availability and reliability of key electronic components. If there is a shortage, non-availability or technical fault with any of the key electronic components this may impair the Group's ability to operate its business efficiently and lead to potential disruption to its operations and revenues.

Risk mitigation

The Group mitigates this risk by keeping large safety inventories of key components.

Fluctuations of revenues, expenses and operating results

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, 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

The Group's profitable and robust business model helps mitigate risks from the factors set out above.

Management stretch

The management team is likely to be faced with increased challenges associated with any sustained adverse macroeconomic conditions. With the financial markets uncertain, the management team must also be able to adapt to the changing conditions and implement corrective measures as they are needed. It could adversely affect the Group if the management team is not able to successfully cope with these challenges.

Risk mitigation

Performance against key goals and resourcing of these is reviewed at the executive management team meetings.

Information Technology Systems

The business of the Group relies to a significant extent on information technology systems used in the daily operations of its operating subsidiaries. Any failure or impairment of those systems or any inability to transfer data onto any new systems introduced could cause a loss of business and/or damage to the reputation of the Group together with significant remedial costs.

Risk mitigation

The Group has disaster recovery plans in place to help deal with disruption including information technology issues. The Group's key data is replicated on different sites and backed up. In 2014 we will also be moving certain of our systems into the cloud.

Risks relating to taxation of the Group

The Group is exposed to corporation tax payable in many jurisdictions including the USA where the effective rate can be as high as 40.0%, the UK where the corporation tax rate is currently 23.0% and a number of European jurisdictions where the rates vary between 22.0% – 33.3%. In addition, the Group has manufacturing activities in China and Hong Kong where the corporation tax rates are 25% and 16.5% respectively and sales companies in Singapore and Switzerland where the corporation tax rates are 17.0% and 18.0% respectively.

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. This could have an impact on earnings and potentially its share price.

Risk mitigation

The Group has a Treasurer who keeps our taxation position under review.

Key:
Same risk
Higher risk
Lower risk

Compliance

LEADERSHIP

A.1 The Role of the Board

Main Principle:
Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.

The directors have considered the composition and structure of the Board and have concluded that it is appropriate for a Company of the size and complexity of XP Power. The involvement of Larry Tracey (Chairman) and James Peters (Deputy Chairman) as founders and substantial shareholders is considered of benefit to shareholders in general aligning interests of shareholders with the Board.

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

- approval of strategic plans, financial plans and budgets and any material changes to them
- oversight of the Group's operations, ensuring competent and prudent management, sound planning, an adequate system of internal control and adequate accounting and other records
- changes to the structure, size and composition of the Board
- consideration of the independence of non-executive directors
- review of management structure and senior management responsibilities
- with the assistance of the Remuneration Committee, approval of remuneration policies across the Group
- final approval of annual financial statements and accounting policies
- approval of the dividend policy
- approval of the acquisition or disposal of subsidiaries and major investments and capital projects
- delegation of the Board's powers and authorities including the division of responsibilities between the Chairman, Chief Executive and the other Executive Directors.

A.2 Division of Responsibilities

Main Principle:
There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered power of decision.

The roles of Chairman (Larry Tracey) and Chief Executive (Duncan Penny) are separate and clearly defined. The Chairman is responsible for the running of Board Meetings as well as taking the lead on strategy. The Chief Executive is responsible for the day to day running of the Company.

A.3 The Chairman

Main Principle:
The chairman is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role.

The Chairman sets the calendar and agenda of the Board and facilitates the discussions. The Chairman also initiates and coordinates the processes defined below which evaluate the effectiveness of the Board and of the individual directors.

A.4 Non-executive directors

Main Principle:
As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

Other than their normal attendance and participation in discussions at Board meetings the non-executive directors actively participate in the Company's strategy meetings and are able to question, challenge and coach the managers attending these meetings.

In July 2013 all directors attended an offsite meeting to review the strengths and weaknesses of the company.

David Hempleman-Adams is the senior independent non-executive director.

EFFECTIVENESS

B.1 The Composition of the Board

Main Principle:
The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

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

The Board considers that John Dyson and David Hempleman-Adams to be independent. While certain corporate governance organisations have expressed a view that John Dyson should not be considered independent by virtue of his long length of service, the Board's view is that he is independent in character and judgement and that there are no relationships or circumstances which are likely to affect his judgement. In addition, John Dyson's length of service and knowledge of the Company are considered to be of significant benefit.

The Corporate Governance guidelines do not consider Larry Tracey or James Peters to be independent by virtue of their previous executive roles. However, they are both founders and as substantial shareholders their membership of the Board is considered beneficial to shareholders as a whole.

B.2 Appointments to the Board

Main Principle:
There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.

Nomination Committee

The Nomination Committee consists of Larry Tracey, James Peters, John Dyson and David Hempleman-Adams. It is chaired by John Dyson and reviews and considers the appointment of new directors. All non-executive directors are given the opportunity to interview any proposed candidates. Any appointment of a new director is voted on by the whole Board.

The Nomination Committee met twice during the year on 9 July 2013 and 12 December 2013. All members of the committee were present at both meetings.

The Terms of Reference of the Nomination Committee are available in the Corporate Governance section of the Company's website www.xppower.com.

B.3 Commitment

Main Principle:
All directors should be able to allocate sufficient time to the Company to discharge their responsibilities effectively.

There were seven Board Meetings during the year. The attendees were as follows:

Date	Attendees
22 February2013	All
11 April 2013	All except Duncan Penny
8 July 2013	All
26 July 2013	All except David Hempleman-Adams
19 September 2013	All
10 October 2013	All
12 December 2013	All

B.4 Development

Main Principle:
All directors should receive induction on joining the Board and should regularly update and refresh their knowledge and skills.

Directors receive an induction on joining the Board. Non-executive directors are introduced to senior managers below board level and participate in strategy meetings. They are also able to meet with managers on an informal basis to help them gain a deeper understanding of the business and contribute ideas.

B.5 Information and Support

Main Principle:
The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The Board receives "flash" reports, detailed management accounts and detailed financial forecasts on a monthly basis to enable it to review trading performance, forecasts and strategy implementation. Board meeting materials are provided in advance of Board meetings to allow directors sufficient time to prepare adequately.

B.6 Evaluation

Main Principle:
The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

The Board has a process for performance evaluation that has been applied to the Board and its Committees for 2013.

This process was based on completion of a questionnaire by the directors in relation to the Board and each of the Committees of which they were members and to the performance of individual directors. The responses were collated and reviewed by the Chairman and distributed to all Directors for discussion at a Board meeting. In addition, the senior non-executive director conducted individual reviews with each non-executive director concerning the functioning of the Board and the performance of each individual director and reported back to the Chairman.

The outcome of the 2012 review was for the Board to have a more in depth review of the strengths, weaknesses, threats and opportunities of the Company. As a result of this a detailed offsite review was held during July 2013.

B.7 Re-election

Main Principle:
All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

All directors offer themselves for election every three years.

ACCOUNTABILITY

C.1 Financial and Business Reporting

Main Principle:
The Board should present a balanced and understandable assessment of the Company's position and prospects.

The Board considers that both the Interim Report and Annual Report and Accounts, supported by quarterly trading updates which are timetabled at the beginning of each year, comprehensively fulfil this requirement. The Annual Report includes a detailed description of the Group's strategy and business model which has enabled it to generate significant value over a prolonged period of time.

Going Concern

The Directors, after making enquiries, are of the view, as at the time of approving the accounts, that there is a reasonable expectation that the Company will have adequate resources to continue operating for the foreseeable future and therefore the going concern basis has been adopted in preparing these accounts.

C.2 Financial and Business Reporting

Main Principle:
The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

The Board acknowledges that it is responsible for the Group's internal controls and for reviewing their effectiveness. The Group's internal controls are designed to manage rather than eliminate the risk of failure to meet business objectives, and can only provide reasonable not absolute assurance against material misstatement or loss.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place during the entire financial year and has remained in place up to the approval date of the Annual Report and Financial Statements. The identified risks and the processes by which these are addressed are documented, reviewed and updated at Board meetings. The risk management process and internal control systems are regularly reviewed by the Board and Audit Committee.

C.3 Audit Committee and Auditors

Main Principle:

The Board should establish formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles, and for maintaining an appropriate relationship with the Company's auditor.

As might be expected in a group of this size, a key control procedure is the day to day supervision of the business by the executive directors supported by managers within the Group companies and internal audits. Authority matrices are in place to clearly define who is able to authorise particular transactions, transfer funds, commit company resources and enter into particular agreements.

Audit Committee

The Audit Committee consists of non-executive directors David Hempleman-Adams (chairman) and John Dyson. Despite not being considered independent by certain corporate governance institutions, the Board considers that John Dyson's financial background, public company experience and knowledge of the business gained over a number of years make him well equipped to serve on the Audit Committee.

The Audit Committee met three times during 2013, the attendees were as follows:

Date	Attendees
21 February 2013	All
25 July 2013	All
8 November 2013	All

The Committee is responsible for, amongst other things, ensuring that the financial performance of the Group is properly reported and monitored, focusing particularly on compliance with legal requirements, accounting standards, and the requirements of the UK Listing Authority. The Committee also meets with the auditors and reviews the reports from the auditors without executive Board members present. No significant internal control failings or weaknesses were reported in 2013.

As part of its remit, the Audit Committee also keeps under review the nature and extent of audit and non-audit services provided to the Group by the auditors. The Committee has formalised its policy and approved a set of procedures in relation to the appointment of external auditors to undertake audit and non-audit work. Under this policy:

- the award of audit-related services to the auditors in excess of £50,000 must first be approved by the Chairman of the Audit Committee, who in his decision to approve will take into account the aggregate of audit-related revenue already earned by the auditor in that year. Audit related services include formalities relating to borrowing, shareholder and other circulars, regulatory reports, work relating to disposals and acquisitions, tax assurance work and advice on accounting policies;
- the award of tax consulting services to the auditors in excess of £100,000 must first be approved by the Chairman of the Audit Committee;
- the award of other non-audit related services to the auditors in excess of £20,000 must first be approved by the Chairman of the Audit Committee; and
- the auditors will be required to make a formal report to the Audit Committee annually on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity.

The Terms of Reference of the Audit Committee are available in the Corporate Governance section of the Company's website www.xppower.com.

Audit Committee Performance Evaluation

During the year, the Audit Committee reviewed its performance. The Committee considered it had the skills to perform its responsibilities, particularly through John Dyson's financial and audit experience. Actions for improvement focused on review of the scope of the activity of the Internal Audit Reviews and their findings.

Internal Audit

The finance group conduct regular peer to peer balance sheet reviews, the results of which are reported to the Audit Committee as well as the Finance Director and Chief Executive. In addition, the Audit Committee reviews and approves the scope and schedule for these reviews. The Board considers that this process fulfils the internal audit function for a Group of the size and complexity of XP Power.

No significant internal control failings have been identified as a result of internal audits during 2013.

REMUNERATION

D.1 The Level and Components of Remuneration

Main Principle:

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the Company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Our approach to remuneration is set out in detail in the Report of the Remuneration Committee on pages 36 to 45.

D.2 Procedure

Main Principle:

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Our policy regarding remuneration is set out in detail in the Report of the Remuneration Committee on pages 36 to 45. No director participates in the deciding of their own remuneration. The Committee was chaired by James Peters until Peter Bucher was appointed a non-executive of the Company on 1 January 2014.

The Terms of Reference of the Remuneration Committee are available in the Corporate Governance section of the Company's website www.xppower.com.

RELATIONS WITH SHAREHOLDERS

E.1 Dialogue with Shareholders

Main Principle:

There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The Group engages in two-way communication with both its institutional and private investors and responds quickly to all queries received. The Group uses its website www.xppower.com to give private investors access to the same information that institutional investors receive in terms of investor presentations and research where it is permitted to be distributed. Interested parties are also able to register for the Group's email alert service on this website to receive timely announcements and other information published from time to time.

The Board members receive any feedback prepared by brokers or our financial PR company following meetings with shareholders in order to keep in touch with shareholder opinion.

E.2 Constructive Use of the AGM

Main Principle:

The Board should use the AGM to communicate with investors and to encourage their participation.

The Annual General Meeting is used as an opportunity to communicate with shareholders and Directors are available to answer any questions.

Other Governance and Statutory Disclosures

Directors

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

Peter Bucher
(appointed 1 January 2014)
John Dyson
David Hempleman-Adams
Mike Laver
Duncan Penny
James Peters
Jonathan Rhodes
Andy Sng
Larry Tracey

In accordance with the Company's Articles of Association Peter Bucher, John Dyson, Mike Laver and Jonathan Rhodes retire and, being eligible, offer themselves for re-election at the Annual General Meeting.

David Hempleman-Adams was nominated as Senior Non-Executive Director on 13 December 2012.

Directors' Interests in Shares or Share Options

The present membership of the Board and the interests of the Directors in the shares of XP Power Limited are set out in the Directors' Remuneration Report.

Dividends

Interim dividends were paid and are proposed as follows:

Period	Payment date	Amount	2012 Comparative
First Quarter	10 July 2013	11.0 pence	10.0 pence
Second Quarter	10 October 2013	12.0 pence	11.0 pence
Third Quarter	10 January 2014	13.0 pence	12.0 pence
Fourth Quarter (proposed)	10 April 2014	19.0 pence	17.0 pence
Total		55.0 pence	50.0 pence

We are proposing a final dividend of 19.0 pence per share which would be payable to members on the register on 14 March 2014 and will be paid on 10 April 2014. This would make the total dividend for the year 55.0 pence (2012: 50.0 pence) which is an increase of 10%.

Audit Committee

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

David Hempleman-Adams (chairman)
John Dyson

All members of the Audit Committee were non-executive directors.

David Hempleman-Adams took over the chair of the Audit Committee from John Dyson on 13 December 2012.

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act. In performing those functions, the Committee reviewed:

- The audit plan of the Company's independent auditor and its report on internal accounting controls arising from the statutory audit;
- The assistance given by the Company's management to the independent auditor; and
- The balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2013 before their submission to the Board of Directors, as well as the independent auditor's report on the balance sheet of the Company and the consolidated financial statements of the Group.

The Audit Committee has recommended to the Board that the independent auditor, PricewaterhouseCoopers LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept reappointment.

On behalf of the directors

Larry Tracey
Chairman
24 February 2014

Duncan Penny
Chief Executive

Directors' Remuneration Report

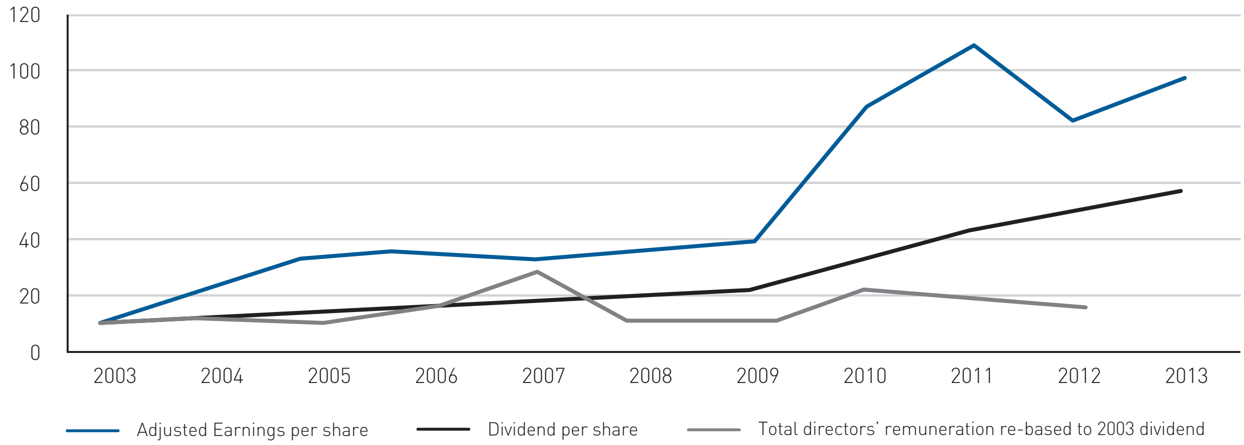
Introduction

This report is on the activities of the remuneration committee for the period to 31 December 2013. It sets out the remuneration policy and remuneration details for the executive and non-executive directors of the Company. It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. This is the first time the Company has prepared the report in accordance with the amended Regulations. The report is split into three main areas; the statement by the chair of the remuneration committee, the annual report on remuneration and the policy report. The policy report will be subject to a binding shareholder vote at the 2014 Annual General Meeting and the policy will take effect from the date on which the resolution is passed. The annual report on remuneration provides details on remuneration in the period and some other information required by the Regulations. It will be subject to an advisory shareholder vote at the 2014 Annual General Meeting.

The auditors are required to report to the shareholders on certain parts of the Directors' Remuneration Report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the annual report on remuneration that are subject to audit are indicated in that report. The statement by the chair of the remuneration committee and the policy report are not subject to audit.

The Chairman's Annual Statement

The Remuneration Committee ensures that the Directors and key employees' interests are closely aligned with those of the shareholders and the success of this can be measured by the low director/key employee turnover rate and the very favourable pay to performance ratios compared to our quoted peers.



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Adjusted Earnings per share (pence)	12.4	23.6	30.6	37.0	31.4	34.8	40.8	83.7	106.4	81.3	95.1
Dividend per share (pence)	12	14	16	18	20	21	22	33	45	50	55
Total directors' remuneration re-based to 2003 dividend (pence)	12.0	14.7	13.3	17.4	27.1	14.5	14.3	22.3	18.9	15.7	14.6
Total directors' remuneration (£'000)	804.7	988.3	892.6	1,167.7	1,816.1	969.8	956.0	1,497.4	1,264.4	1,054.7	976.8

The 11 person executive management team have an average age of 46 and average length of service of 15 years. The executive directors also have an average age of 46 and an average length of service of 12 years.

As stated above, this is the first year we have applied Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. I joined the Board of XP Power on 1 January 2014 and took over the chair of the Remuneration Committee from James Peters. The change in chairmanship of the remuneration committee was in response to engagement with some of the Company's larger shareholders.

During 2013 there was only one substantive change in the remuneration of directors. The base salary of our Finance Director, Jonathan Rhodes, was increased from £100,000 to £125,000 per annum to bring it more in line with market for this position.

With the exception of Andy Sng, General Manager Asia, no bonuses will be paid to executive directors in respect of 2013. Andy Sng who is incentivised based on the gross margin achieved in the Asia business. All other executive directors have bonuses based on exceeding the profit after tax achieved in 2011 which was the Company's record year for earnings to date. The committee's view is that bonus payments should be set at this level to align the interests of executives and shareholders.

Peter Bucher
Remuneration Committee Chairman

Annual Report on Remuneration

The members of the Remuneration Committee during 2013 were John Dyson, David Hempleman-Adams, James Peters and Larry Tracey (all Non-Executive Directors). The committee was chaired by James Peters until Peter Bucher was appointed a non-executive director of the Company on 1 January 2014.

The Committee makes recommendations to the Board. No Director plays a part in any discussion regarding his own remuneration.

There were two Remuneration Committee Meetings during the year and the dates of the meeting and attendees were as follows:

Date	Attendees
9 July 2013	All
12 December 2013	All

Performance Evaluation

During the year, the Committee reviewed its performance and considered it had the skills and experience to perform its responsibilities.

Remuneration Policy for the Executive Directors

Executive remuneration packages are prudently designed to attract, motivate and retain directors of the high calibre needed to maintain the Group's position and to reward them for enhancing shareholder value. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

The Committee consider the experience and value the individual directors contribute to the Group in assessing their level of pay.

There are five main elements of the remuneration package for executive directors and senior management:

- basic annual salary;
- benefits-in-kind;
- annual profit share payments;
- long term share incentives; and
- pension arrangements.

The Company's policy is that a proportion of the remuneration of the Executive Directors should be performance-related. As described below, executive directors may earn annual profit shares together with the long term benefits of participation in share option schemes.

Basic salary

Directors' basic salaries are reviewed by the Committee each year and when an individual changes position or responsibility. Basic salaries for all directors were reviewed as follows:

Executive	Base salary	Date of last review	Effective date of last increase
Mike Laver	US$330,000	13 December 2013	1 January 2012
Duncan Penny	£260,000	13 December 2013	1 January 2012
Jonathan Rhodes	£125,000	13 December 2013	1 July 2013
Andy Sng	S$225,000	13 December 2013	1 January 2008

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

Benefits-in-kind

The executive and non-executive directors receive certain benefits-in-kind, principally life assurance and private medical insurance. In addition Andy Sng receives a housing allowance relating to his relocation to Shanghai where he spends approximately half his time.

Annual Profit Share Payments

The Committee establishes the profit thresholds that must be met for each financial year before a cash bonus is to be paid. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is growth in profit after tax. Account is also taken of the relative success of the different parts of the business for which the executive directors are responsible. No profit shares are payable in respect of 2013 with the exception of Andy Sng who is incentivised based on the gross margin of the Asian business rather than profit after tax.

There are no changes to the bonus arrangements for directors in 2014. Bonuses for Duncan Penny, Mike Laver and Jonathan Rhodes are based on a proportion of after tax profits beyond that achieved in 2011, which was the Company's record year for profit after tax to date. Andy Sng's bonus is based on the gross profits of the Asia business. All bonuses are capped at 50% of base salary.

Long Term Share Incentives

Deferred Payment Share Plan

The Group has operated a deferred payment share plan which gave participants the opportunity to purchase shares in the Company at market value with payment deferred until the shares are sold. This arrangement strongly aligns the interest of the participant directly with those of the shareholders with the participant exposed to any increase or decrease in the market value of the shares concerned. Shares purchased under this arrangement cannot be sold for four years from the date of the award. Dividends accruing on the shares are paid to the participants.

Share Option Plans

The Group operated The XP Power Share Option Plan (the "Plan") as approved by the shareholders on 2 April 2012. This Plan allowed the Company to grant options up to 1,924,229 shares representing 10% of the issued share capital at the time the Plan was set up. Shares granted under the Plan vest after 4 years and vesting of these options is subject to XP's Total Shareholder Return ("TSR") relative to the FTSE350 Electronic and Electrical Equipment Sector as set out in the following table:

TSR relative to the FTSE350 Electronic and Electrical Equipment Sector	Percentage of award that vests
Top 20th percentile	100%
Median	25%
Below median	Zero

There is no re-measurement of performance criteria.

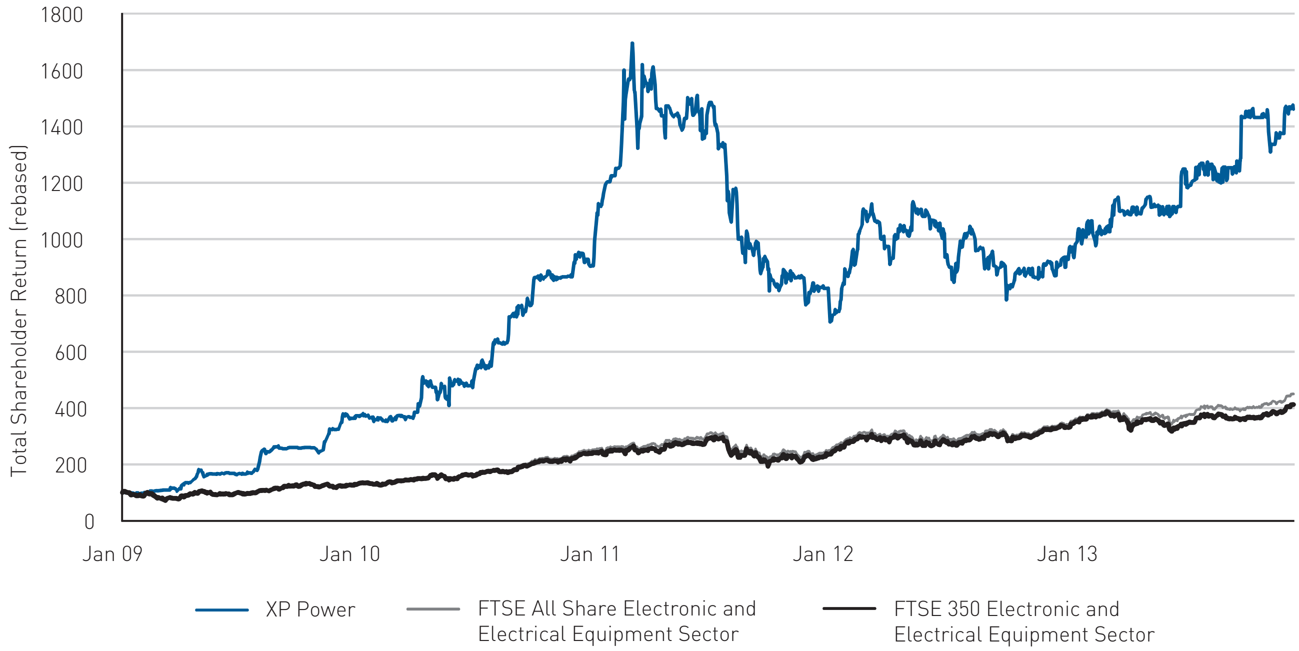
Pension Arrangements

In the UK the Group operates a "Stakeholder Pension Scheme" and contributes 3% of base salary into this scheme on behalf of the participants including executive directors.

In the USA, the Group operates a defined contribution "401K Plan". The Group matches the director's contribution to this plan up to a maximum of 2% of salary.

Performance Graph

The following graph shows the Company's performance, compared with the performance of the FTSE 350 Electronic and Electrical Equipment Price Index.



The compound average growth rate total shareholder return from 1 January 2009 until 31 December 2013 was 71%.

Chief Executive Remuneration

The table below sets out the details of the director undertaking the role of chief executive officer (CEO).

£ Thousands	Base salary	Pension	Relocation expenses	Benefits	Annual bonus payout	Total CEO remuneration
2009	178	5	73	4	—	260
2010	223	8	75	11	58	375
2011	235	7	77	8	—	328
2012	254	8	8	4	—	274
2013	260	8	—	3	—	271

Relocation expenses relate to Duncan Penny's relocation from the UK to Singapore for the period 2007 to 2012.

The table below shows the percentage change in remuneration of the director undertaking the role of chief executive officer and the company's employees as a whole in 2013 and 2012.

Percentage increase in remuneration in 2013 compared with 2012

	CEO	Chosen employee group Note 1
Base salary Note 2	2%	2%
All taxable benefits Note 3	-25%	3%
Annual bonuses	0%	0%
Total	-1.1%	2%

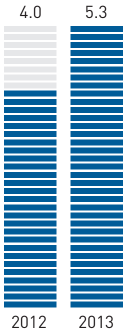
Note 1 – The chosen employee group for this comparison excludes Chinese employees where there has been significant salary inflation

Note 2 – the remuneration committee increased the Chief Executive's base salary to £260,000 per annum with effect from 1 January 2012 but this increase was waived for the first quarter of 2012 due to economic conditions

Note 3 – excludes 2012 relocation expenses. If 2012 relocation expenses were included taxable benefits declined -75%

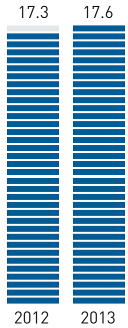
Total pay for manufacturing
(£ Millions)

+31%



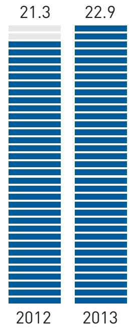
Total pay for sales, administration and R&D
(£ Millions)

+2%



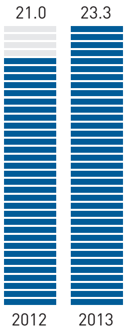
Total employee pay
(£ Millions)

+7%



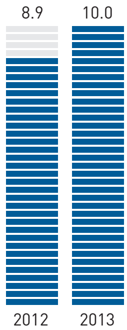
Operating income
(£ Millions)

+11%



Dividends
(£ Millions)

+11%



£ Millions	Total pay for manufacturing (included in cost of sales)	Total pay for sales, administration and R&D (included in operating expenses)	Total employee pay	Operating income	Dividends
2012	4.0	17.3	21.3	21.0	8.9
2013	5.3	17.6	22.9	23.3	10.0
Increase	31%	2%	7%	11%	11%

All Non-executive directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association. The annual fee for each non-executive director is set out below:

Non-Executive	Fee	Date of last review	Effective date of last increase
Larry Tracey	£50,000	13 December 2013	See Note below
James Peters	£50,000	13 December 2013	See Note below
John Dyson	£50,000	13 December 2013	1 January 2010
David Hempleman-Adams	£30,000	13 December 2013	1 January 2013
Peter Bucher	£30,000	Not applicable	Appointed 1 January 2014

Larry Tracey and James Peters moved to non-executive roles from 1 May 2012. Prior to that date their annual base salaries were £203,330 and £197,585 respectively and the date of their last increase was 1 January 2005.

Directors' Remuneration Report

Aggregate Directors' Remuneration

The total amounts for directors' remuneration were as follows:

£	**2013**	2012
Basic salaries	**691,818**	788,107
Benefits in kind	**69,026**	76,173
Profit share	**12,534**	—
Money purchase pension contributions	**22,179**	23,076
Non-executive director fees	**181,216**	167,371
Total remuneration	**976,773**	1,054,727

Directors' Remuneration for 2013

Name of Director	Salary and fees	Profit share	Pension	Benefits	2013 Total
£					
Executive					
Duncan Penny	260,000	—	7,800	3,253	271,053
Mike Laver	204,082	—	4,082	9,488	217,652
Jonathan Rhodes	112,500	—	3,375	1,668	117,543
Andy Sng	115,236	12,534	6,922	45,495	180,187
Non-Executive					
Larry Tracey	50,000	—	—	6,055	56,055
James Peters	50,000	—	—	3,067	53,067
John Dyson	50,000	—	—	—	50,000
David Hempleman-Adams	30,000	—	—	—	30,000

Directors' Remuneration for 2012

Name of Director	Salary and fees	Pension	Benefits	2012 Total
£				
Executive				
Larry Tracey (up to 30 April 2012)	63,914	1,917	8,315	74,146
James Peters (up to 30 April 2012)	63,914	1,917	2,222	68,053
Duncan Penny	254,012	7,547	12,279	273,838
Mike Laver	192,977	3,860	6,552	203,389
Jonathan Rhodes	100,000	3,000	1,102	104,102
Andy Sng	113,292	4,834	45,703	163,829
Non-Executive				
Larry Tracey (from 1 May 2012)	33,333	—	—	33,333
James Peters (from 1 May 2012)	33,333	—	—	33,333
John Dyson	50,000	—	—	50,000
Michael Hafferty (retired on 31 December 2012)	25,176	—	—	25,176
David Hempleman-Adams	25,176	—	—	25,176

In the year under review, there were no increases to the base salaries for the executive directors other than Jonathan Rhodes whose base salary was increased from £100,000 per annum to £125,000 per annum with effect from 1 July 2013; for all other staff (excluding Chinese manufacturing staff) the average increase was approximately 2%.

The profit thresholds in order to trigger profit share payments were not met for 2013, therefore no profit shares are payable to executive directors in respect of 2013. As stated above Andy Sng received an incentive based on the gross margin of the Asian business.

Directors' Interests in Ordinary Shares of XP Power Limited

	At 31 December 2013	At 1 January 2013
Executive		
Mike Laver [a]	136,494	136,494
Duncan Penny	326,990	326,990
Jonathan Rhodes		
Andy Sng	6,000	6,000
Non-executive		
Larry Tracey [b]	1,226,838	1,396,838
James Peters	2,191,754	2,191,754
John Dyson [c]	—	15,000
David Hempleman-Adams	9,450	9,450

There is no requirement for directors to hold shares in the Company.

(a) Mike Laver participated in the deferred payment share scheme and as at 31 December 2013, the outstanding balance of the deferred payment share scheme is £220,880.

(b) Larry Tracey sold 120,000 shares at a price of £10.80 on 26 February 2013 and 50,000 shares sold at £15.00 on 11 October 2013.

(c) John Dyson sold 15,000 shares at a price of £11.32 on 8 March 2013.

In addition to the directors' interests in the ordinary shares of the Company, the following directors have interests in share options:

			As at 31 December 2013	As at 1 January 2013
Executive	**Date of grant**	**Exercise price**	**Number of shares**	**Number of shares**
Mike Laver	10 October 2012	£9.46	75,000	75,000
Duncan Penny	10 October 2012	£9.46	75,000	75,000
Jonathan Rhodes	10 October 2012	£9.46	20,000	20,000
Andy Sng [d]	21 April 2005	£4.11	15,000	20,000
	26 April 2007	£5.072	30,000	30,000
	10 October 2012	£9.46	20,000	20,000

(d) Andy Sng exercised options over 5,000 ordinary shares in the Company, granted on 21 April 2005 under the Company's Share Option Plan on 19 November 2013 at a price of £4.11 per Ordinary Share, and subsequently sold 5,000 Ordinary Shares at a price of £15.80 each.

The above options that were granted on 10 October 2012 will vest on the fourth anniversary from the date of grant. The vesting of these options is subject to XP's Total Shareholder Return ("TSR") relative to the FTSE350 Electronic and Electrical Equipment Sector as set out in the following table:

TSR relative to the FTSE 350 Electronic and Electrical Equipment Sector	Percentage of award that vests
Top 20th percentile	100%
Median	25%
Below median	Nil

Share options held by Andy Sng are fully vested.

No share options were granted during the year.

The highest and lowest closing mid market prices of the shares of XP Power Limited during 2013 were £16.30 and £9.72 per share respectively. The closing mid-market price on 31 December 2013 was £15.89 per share.

Statement of voting at the Annual General Meeting

The Group is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed here.

The following table sets out actual voting in respect of the approval of the 2012 remuneration report:

Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
12,263,564	96.8%	399,730	3.2%	12,663,294	172,199

Policy Report

The information in this section of the Directors' Remuneration Report is not subject to audit.

The policy is that a proportion of the remuneration package should be performance related. The following table provides a summary of the key components of the remuneration package for directors.

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Salary and fees	Provide a basic salary or fee that would be expected for the position	Base salaries and fees set by the Remuneration Committee and reviewed annually	As set by the Remuneration Committee	None	There are no provisions for recovery of salary and fees
All taxable benefits	Provide basic benefits that would be expected for the position	Benefits set by the Remuneration Committee and reviewed annually	Private health care and life assurance up to 3 times base salary	None	There are no provisions for recovery of taxable benefits
Annual bonuses	Align interests of executives and shareholders in the short term	Based on a proportion of after tax profits exceeding the best year profit after tax (Andy Sng's bonus is based on gross margin for the Asia business)	Up to 50% of base salary	Exceeding the profit after tax achieved in 2011 which is the Company's record year for profit after tax to date	There are no provisions for recovery of annual bonuses
Long term share incentive plans	Align the interests of executives and shareholders in the long term	Share option scheme with options vesting after 4 years from grant	Price at time of exercising less grant price	Total shareholder return has to be in the top 20th percentile of the FTSE350 Electronic and Electrical Equipment Sector for 100% vesting; vesting is only 25% if below the 20th percentile but above the median percentile and zero if below the median percentile	There are no provisions for recovery of long term share incentive plans
Pensions	Provide a basic pension benefit that would be expected for the position	Percentage of base salary between 2 to 3% depending on geography paid into a defined contribution scheme	2 to 3% depending on geography	None	There are no provisions for recovery of pension payments contributions

The performance targets above were chosen as they are considered suitable for aligning the interests of the executives with those of shareholders.

The following table provides a summary of the key elements of the remuneration package for non-executive directors:

Element	Purpose	Operation
Fees	Attract and retain individuals of high calibre	Fixed as set by the remuneration committee
Additional fees payable for other duties to the Company	Not applicable	Included in the fixed annual fee
Other items	Private healthcare	As set by the remuneration committee

Approach to Recruitment Remuneration

In the event of the recruitment of a new executive or non-executive director the committee would take into consideration the structure and levels of the remuneration for existing directors and prevailing market together with the skills and value it believed the new director would bring to the Company. It is therefore expected that a new director's package would include the same elements as existing directors and the maximum level of variable remuneration would also be capped at 50% of base salary as it is for existing executive directors.

Directors' Service Contracts

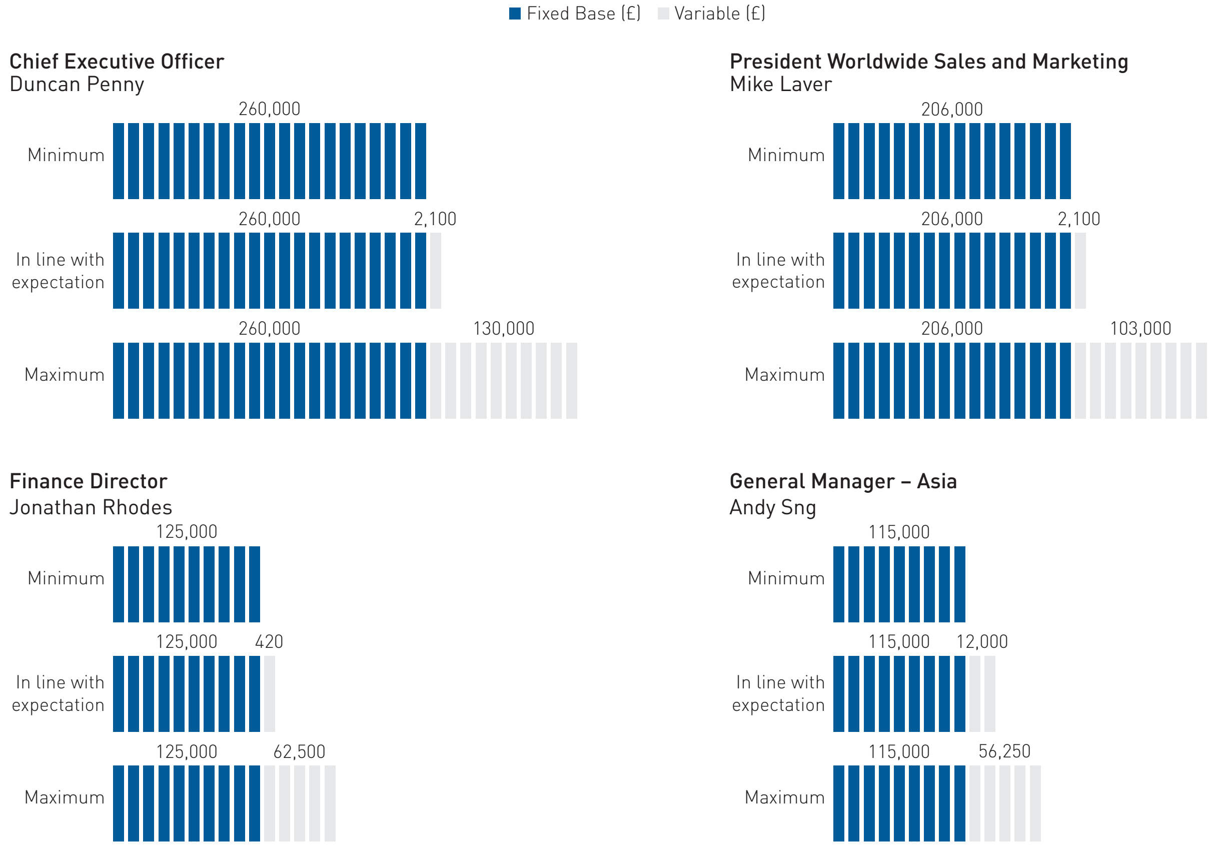
The executive directors' contracts run for an indefinite period, with the Company being able to terminate the contracts without cause giving 12 months notice. When a director is terminated without cause, the director is entitled to a termination payment of 12 months of basic pay. Directors' service contracts are available for inspection at the Annual General Meeting of the Company.

Non-Executive Directors

The non-executive directors' contracts run for an indefinite period, with the Company being able to terminate the contracts without cause giving 12 months' notice. If the shareholders do not re-elect a non-executive director, or they are retired from office under the Articles, their appointment terminates automatically, with immediate effect and without compensation. Non-executive directors are not entitled to share options or pensions.

Illustration of the Application of the Remuneration Policy

The charts below give an indication of the level of remuneration that would be received by each executive director in accordance with the directors' remuneration policy in its first year of operation (excluding share price appreciation):



The charts provide estimates of the potential future reward opportunities for each executive director, and the potential split between the different elements of remuneration under three different performance scenarios; "Minimum", "In line with expectation" and "Maximum".

The fixed element of remuneration includes base salary, benefit in kind and pension contributions. The benefits in kind are measured according to their taxable value as follows:

Position	Name	Base salary	Benefits	Pension	Total fixed pay
Chief Executive	Duncan Penny	£260,000	£3,253	£7,800	£271,053
Finance Director	Jonathan Rhodes	£125,000	£1,668	£3,750	£130,418
President Worldwide Sales and Marketing	Mike Laver	$330,000	$15,342	$6,600	$351,942
General Manager Asia	Andy Sng	S$225,000	S$88,752	S$9,600	S$323,352

The "In line with expectation" scenario has been calculated based on the 2014 approved budget.

The "Maximum" scenario has been calculated assuming that the directors achieve the maximum allowed variable bonus which is capped at 50% of their respective base salaries. In order for all directors to achieve the maximum variable bonus profit after tax would have to reach £46 million.

The Company provides share options as a long term incentive to executive directors. Unvested share options vest in October 2016. It is not possible to predict the value of these awards as it is dependent on the share price at the time the options vest and is also contingent on meeting the performance criteria of total shareholder return versus the FTSE350 Electronic and Electrical Equipment Sector. The table below shows the number of unvested share options and their potential value assuming the share price was £15.89 which was the closing price on 31 December 2013:

	Total shareholder return less than median percentile	Total shareholder return between median percentile and 20th percentile	Total shareholder return above the 20th percentile
Duncan Penny	Zero	£120,563	£482,250
Mike Laver	Zero	£120,563	£482,250
Jonathan Rhodes	Zero	£32,150	£128,600
Andy Sng	Zero	£32,150	£128,600

Statement of Consideration of Employment Conditions Elsewhere in the Company

The Remuneration Committee takes account of the pay and employment conditions of employees elsewhere in the Company when setting the remuneration of executive directors. However, it does not consult other employees when setting executive directors remuneration.

The Remuneration Committee has not employed any remuneration consultants.

Statement of Shareholder Views

The Company has received views from shareholders that it did not consider James Peters independent by virtue of him previously holding an executive position within the Company. This is despite the fact that James Peters is a major shareholder and the Board considered that his interests would therefore be strongly aligned with all shareholders. In view of this Peter Bucher was appointed as the new chair of the remuneration committee following his appointment on 1 January 2014.

Approval

This report was approved by the Board of Directors on 24 February 2014 and signed on its behalf by:

Peter Bucher
Remuneration Committee Chairman

Statement by Directors

In the opinion of the Directors,

(a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 48 to 90 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

Larry Tracey
Chairman
24 February 2014

Duncan Penny
Chief Executive

Report on the Financial Statements

We have audited the accompanying financial statements of XP Power Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 90, which comprise the consolidated balance sheets of the Group and balance sheet of the Company as at 31 December 2013, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and International Financial Reporting Standards as adopted by the European Union, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and International Financial Reporting Standards as adopted by the European Union so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013, and of the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Report on other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2013

£ Millions	Note	**2013**	2012
Revenue	4	**101.1**	93.9
Cost of sales		**(51.5)**	(49.0)
Gross profit		**49.6**	44.9
Expenses			
Distribution and marketing		**(21.2)**	(19.1)
Administrative		**(0.7)**	(0.7)
Research and development	7	**(4.4)**	(4.1)
Operating profit		**23.3**	21.0
Finance cost	6	**(0.4)**	(0.8)
Profit before income tax		**22.9**	20.2
Income tax expense	8	**(4.5)**	(4.5)
Profit for the year		**18.4**	15.7
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss:			
Cash flow hedges	24	**(0.1)**	(0.2)
Exchange differences on translation of foreign operations	24	**(0.3)**	(0.6)
Other comprehensive income for the year, net of tax		**(0.4)**	(0.8)
Total comprehensive income for the year		**18.0**	14.9
Profit attributable to:			
Equity holders of the Company	24	**18.2**	15.5
Non-controlling interests	24	**0.2**	0.2
		18.4	15.7
Total comprehensive income attributable to:			
Equity holders of the Company		**17.8**	14.7
Non-controlling interests		**0.2**	0.2
		18.0	14.9
Earnings per share attributable to equity holders of the Company (pence per share)			
— Basic	10	**95.8**	81.7
— Diluted	10	**95.1**	81.3

Consolidated Balance Sheet

As at 31 December 2013

£ Millions	Note	2013	2012
ASSETS			
Current Assets			
Cash and cash equivalents	15	**5.0**	4.1
Inventories	16	**20.4**	19.8
Trade receivables	17	**15.4**	14.2
Other current assets	18	**1.4**	1.2
Total current assets		**42.2**	39.3
Non-current assets			
Goodwill	11	**30.6**	30.5
Intangible assets	12	**8.5**	7.6
Property, plant and equipment	13	**12.7**	13.2
Deferred income tax assets	23	**0.5**	0.3
ESOP loan to employees	26	**1.0**	1.2
Total non-current assets		**53.3**	52.8
Total assets		**95.5**	92.1
LIABILITIES			
Current liabilities			
Current income tax liabilities	8	**1.1**	1.6
Trade and other payables	19	**12.7**	11.1
Borrowings	21	**8.5**	7.3
Derivative financial instruments	22	**0.1**	0.2
Total current liabilities		**22.4**	20.2
Non-current liabilities			
Provision for deferred contingent consideration	20	**1.7**	1.5
Borrowings	21	**—**	7.4
Deferred income tax liabilities	23	**2.0**	1.7
Total non-current liabilities		**3.7**	10.6
Total liabilities		**26.1**	30.8
NET ASSETS		**69.4**	61.3
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	24	**27.2**	27.2
Treasury shares	24	**(1.0)**	(1.2)
Merger reserve	24	**0.2**	0.2
Hedging reserve	24	**(0.3)**	(0.2)
Translation reserve	24	**(8.0)**	(7.7)
Retained earnings	24	**51.1**	42.8
		69.2	61.1
Non-controlling interests	24	**0.2**	0.2
TOTAL EQUITY		**69.4**	61.3

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2013

£ Millions	Note	Attributable to equity holders of the Company							Non-controlling interests	Total equity
		Share capital	Treasury shares	Merger reserve	Hedging reserve	Translation reserve	Retained earnings	Total		
Balance at 1 January 2012		27.2	(1.0)	0.2	—	(7.1)	36.3	55.6	0.2	55.8
Sale of treasury shares	24	—	0.3	—	—	—	(0.1)	0.2	—	0.2
Purchase of treasury shares	24	—	(0.5)	—	—	—	—	(0.5)	—	(0.5)
Employee share option plan expenses		—	—	—	—	—	—	—	—	—
Dividends paid	9	—	—	—	—	—	(8.9)	(8.9)	(0.2)	(9.1)
Total comprehensive income for the year	24	—	—	—	(0.2)	(0.6)	15.5	14.7	0.2	14.9
Balance at 31 December 2012		27.2	(1.2)	0.2	(0.2)	(7.7)	42.8	61.1	0.2	61.3
Sale of treasury shares	24	—	0.1	—	—	—	—	0.1	—	0.1
Purchase of treasury shares	24	—	—	—	—	—	—	—	—	—
Employee share option plan expenses		—	0.1	—	—	—	—	0.1	—	0.1
Dividends paid	9	—	—	—	—	—	(9.9)	(9.9)	(0.2)	(10.1)
Total comprehensive income for the year	24	—	—	—	(0.1)	(0.3)	18.2	17.8	0.2	18.0
Balance at 31 December 2013		**27.2**	**(1.0)**	**0.2**	**(0.3)**	**(8.0)**	**51.1**	**69.2**	**0.2**	**69.4**

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2013

£ Millions	Note	2013	2012
Cash flows from operating activities			
Profit for the year		**18.4**	15.7
Adjustments for			
— Income tax expense		**4.5**	4.5
— Amortisation and depreciation	4	**2.7**	2.3
— Finance cost	6	**0.4**	0.8
— ESOP expenses		**0.1**	—
— Gain on fair valuation of derivative financial instruments		**(0.2)**	(0.1)
— Unrealised currency translation (gain)/ loss		**(0.4)**	0.5
Change in the working capital			
— Inventories		**(0.6)**	2.2
— Trade and other receivables		**(1.4)**	3.2
— Trade and other payables		**1.6**	(0.3)
— Provision for liabilities and other charges		**0.1**	(0.9)
Income tax paid	8	**(5.0)**	(4.3)
Net cash generated from operating activities		**20.2**	23.6
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired		**—**	(0.1)
Purchases and construction of property, plant and equipment	13	**(1.0)**	(2.5)
Research and development expenditure capitalised	12	**(2.2)**	(2.2)
Proceeds from disposal of property, plant and equipment		**0.1**	0.4
ESOP loans repaid		**0.2**	0.5
Payment of deferred consideration	20	**—**	(1.9)
Net cash used in investing activities		**(2.9)**	(5.8)
Cash flows from financing activities			
Repayment of borrowings		**(3.8)**	(4.2)
Sale of treasury shares		**0.1**	—
Net purchase of treasury shares by ESOP		**—**	(0.5)
Interest paid		**(0.3)**	(0.5)
Dividend paid to equity holders of the Company	9	**(9.9)**	(8.9)
Dividend paid to non-controlling interests	24	**(0.2)**	(0.2)
Net cash used in financing activities		**(14.1)**	(14.3)
Net increase in cash and cash equivalents		**3.2**	3.5
Cash and cash equivalents at beginning of financial year		**0.5**	(3.3)
Effects of currency translation on cash and cash equivalents		**0.1**	0.3
Cash and cash equivalents at end of financial year	15	**3.8**	0.5

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2013

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 are set out in the Markets and Products sections of the Annual Report on pages 7 to 8.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of XP Power Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (IFRSs as adopted by the EU).

The consolidated financial statements have been prepared on the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of these accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

(a) Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

(b) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that would be expected to have a material impact on the Group.

(ii) New standards and interpretations issued not yet adopted

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU.

- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations issued not yet adopted (continued)

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Foreign currency translation

(a) Functional and presentation currency

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

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Non-monetary items measured at fair value in foreign currencies are translated using exchange rates at the date when the fair values are determined. Currency translation differences on these items are included in other comprehensive income.

(c) Translation of Group entities' financial statements

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date;

(ii) income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly and the average rate is not considered a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated using the exchange rates at the dates of the transactions;

(iii) exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal of the entity giving rise to such reserve; and

(iv) goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the date of the balance sheet.

2.3 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for goods provided in the ordinary course of the Group's business, net of discounts, Value Added Tax/Goods and Services Tax, returns and rebates, and after eliminating sales within the Group.

(a) Sales of goods are recognised when a Group entity has shipped the goods to locations specified by its customers in accordance with the sales contract and the collectability of the related receivable is reasonably assured.

(b) Interest income is recognised using the effective interest method.

2. Summary of significant accounting policies (continued)

2.4 Group accounting

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

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

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

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.5 Property, plant and equipment

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the profit or loss when the changes arise.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds less cost to sell and the carrying amount of the asset, and are recognised in the profit or loss.

2.6 Intangible assets

(a) Goodwill

The excess of the consideration transferred, the amount of non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill. Goodwill on acquisitions of subsidiaries is included in "Intangible assets".

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(b) Internally generated intangible assets – research and development expenditure

Expenditure on research activities are recognised as an expense as incurred.

An internally generated intangible asset arising from the Group's product development is recognised only if all of the following criteria are met:

- There is an ability to use or sell the asset;
- Management intends to complete the asset and use or sell it;
- It can be demonstrated the asset will generate probable future economic benefits;
- It is technically feasible to complete the asset so that it will be available for use;
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- The expenditure attributable to the asset during its development can be reliably measured.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives, which vary between 4 and 7 years depending on the exact nature of the project undertaken. Amortisation commences when the product is ready and available for use.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of significant accounting policies (continued)

2.8 Borrowing costs

All borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to the construction or development of properties which are capitalised using an average financing rate.

2.9 Financial assets

(a) Classification

The Group classifies its financial assets depending on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group's financial assets comprise loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date, which are presented as non-current assets. Loans and receivables are presented as "trade receivables", "other current assets" , "cash and cash equivalents" and "ESOP loans to employees" in the balance sheet.

(b) Recognition/derecognition

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in the income statement. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

(c) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(d) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and the liability simultaneously.

2.10 Trade and other payables

Trade payables are obligations to pay for goods that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

2. Summary of significant accounting policies (continued)

2.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance expense. Changes in the estimated timing or amount of the expenditure or discount rate are recognised in the income statement when the changes arise.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

2.13 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are charged to profit or loss on a straight-line basis over the period of the lease.

2.14 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, on whether the derivatives designated as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group periodically uses foreign exchange forward contracts to hedge the foreign currency exposures and interest rate swaps to hedge floating interest rate exposures.

Cash flow hedge

(i) Interest rate swaps

The Group has entered into interest rate swaps that are cash flow hedges for the Group's exposure to interest rate risk on its borrowings. These contracts entitle the Group to receive interest at floating rates on notional principal amounts and oblige the Group to pay interest at fixed rates on the same notional principal amounts, thus allowing the Group to raise borrowings at floating rates and swap them into fixed rates.

The fair value changes on the effective portion of interest rate swaps designated as cash flow hedges are recognised in the hedging reserve and transferred to the profit or loss when the interest expense on the borrowings is recognised in the profit or loss.

2. Summary of significant accounting policies (continued)

2.14 Derivative financial instruments and hedging activities (continued)

(ii) Currency forwards

The Group has entered into currency forwards that qualify as cash flow hedges against highly probable forecasted transactions in foreign currencies. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecasted transaction is no longer expected to occur, the cumulative gains and losses that were previously recognised in equity are transferred to profit or loss immediately.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 22. Movements on the hedging reserve in other comprehensive income are shown in Note 24. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining expected life/or maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.16 Current and deferred income tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2. Summary of significant accounting policies (continued)

2.17 Cash and cash equivalents

For the purpose of presentation in the consolidated cash flow statement, cash and cash equivalents include cash on hand, deposits with financial institutions and bank overdrafts. Bank overdrafts are presented as current liabilities on the balance sheet.

2.18 Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in the profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital account, when new ordinary shares are issued, or to the "treasury shares" account, when treasury shares are reissued to employees.

2.19 Retirement benefit costs

The Group operates several defined contribution plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities on a mandatory, contracted or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

2.20 Employee leave entitlements

Employee entitlements to annual leave are recognised in profit or loss when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to the balance sheet date.

2.21 Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity, net of tax, from the proceeds.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid including any directly attributable incremental cost (net of income taxes) is deducted from equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the retained earnings of the Company.

2.22 Dividend distribution

Dividend distributions to the Company's shareholders are recognised when the dividends are approved for payment.

2. Summary of significant accounting policies (continued)

2.23 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in the income statement.

2.24 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers who are responsible for allocating resources and assessing performance of the operating segments.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, as described in Note 2, management has made the following judgements and estimations that have the most significant effect on the amounts recognised in the financial statements.

(a) Recoverability of Capitalised R&D

During the year £2.2 million (2012: £2.2 million) of development costs were capitalised bringing the total amount of development cost capitalised as intangible assets as of 31 December 2013 to £8.5 million (2012: £7.6 million), net of amortisation. Management has reviewed the balances by project, compared the carrying amount to expected future revenues and profits and is satisfied that no impairment exists and that the costs capitalised will be fully recovered as the products are launched to market. New product projects are monitored regularly and should the technical or market feasibility of a new product be in question, the project would be cancelled and capitalised costs to date removed from the balance sheet and charged to the income statement.

(b) Impairment of Goodwill

The Group tests annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the goodwill is determined from value in use calculations. The key assumptions and estimates for the value in use calculations are those regarding the discount rates, growth rates and expected changes to sales and overheads during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units.

The Group prepares cash flow forecasts derived from the most recent financial results and takes into account industry growth forecasts for the next five years and extrapolates cash flows for the following five years assuming no growth from that date. The carrying amount of goodwill as at 31 December 2013 was £30.6 million (2012: £30.5 million) with no impairment adjustment required for 2013.

Management assessed that there are no realistic foreseeable changes that will result in impairment loss on the goodwill allocated to the North America and Europe operating segments.

(c) Estimation of future deferred contingent consideration payments

As of the 31 December 2013 balance sheet date the Group has recorded estimated future payments related to the acquisition of the final of 16.0% of Powersolve Electronics Limited in early 2017. When discounted to present value the total of these payments are estimated at £1.7 million and that amount is reflected on the balance sheet as of the 2013 year end. Since the final payment will be dependent on the actual future financial performance of the business an estimate is required to approximate future business conditions. Refer to Note 20 for more details.

If Powersolve's future earnings increase or decrease by 10% year on year for January 2014 to January 2016, the deferred consideration will be affected by £0.2 million. There will be no impact to net profit or total equity as changes in estimates of the deferred consideration are adjusted against goodwill.

(d) Deferred income tax

The Group has exposures to income taxes in numerous jurisdictions. The Group's tax position includes judgements about past and future events and relies on estimates and assumptions. Although the Directors believe that the estimates and assumptions supporting our positions are reasonable and are supported by external advice, our ultimate liability in connection with these matters will depend upon the outcome of tax assessments that have been raised or may be raised in the future. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made and could adversely affect our financial position, results and cash flows.

4. Segmental reporting

Management has determined the operating segments based on the reports reviewed by the Chief Operating Decision Makers (CODM) that are used to make strategic decisions. The Chief Operating Decision Makers are the Executive Board of Directors who will review the operating results and forecasts to make decisions about resources to be allocated to the segments and assess their performance.

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

The Executive Board of Directors assesses the performance of the operating segments based on net sales and operating income. Net sales for geographic segments are based on the location of the design win rather than where the end sale is made. The operating income for each segment includes net sales to third parties, related cost of sales, operating expenses directly attributable to the segment, and a portion of corporate expenses. Costs excluded from segment operating income include stock-based compensation expense, income taxes, various non-operating charges, and other separately managed general and administrative costs.

Segment assets consist primarily of property, plant and equipment, goodwill, intangible assets, inventories, receivables, cash and cash equivalents and exclude tax assets.

Segment liabilities comprise trade and other current liabilities, derivative financial instruments, borrowings, deferred contingent consideration and exclude tax liabilities.

Capital expenditure comprises additions to property, plant and equipment.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2013 is as follows:

£ Millions	**2013**	2012
Revenue		
Europe	**43.8**	40.8
North America	**50.0**	45.4
Asia	**7.3**	7.7
Total Revenue	**101.1**	93.9
Reconciliation of segment results to profit before income tax:		
Europe	**7.4**	7.4
North America	**13.3**	11.2
Asia	**0.9**	0.9
Segment result	**21.6**	19.5
Research and development	**(4.4)**	(4.1)
Finance cost	**(0.4)**	(0.8)
Corporate recovery from operating segment	**6.1**	5.6
Profit before income tax	**22.9**	20.2
Income tax expense	**(4.5)**	(4.5)
Profit for the year	**18.4**	15.7

The Group operates in the following countries:

£ Millions	**2013**	2012
North America	**50.0**	45.4
United Kingdom	**23.9**	22.4
Singapore	**7.3**	7.7
Germany	**9.4**	8.7
Switzerland	**3.5**	3.0
Other countries	**7.0**	6.7
Total Revenue	**101.1**	93.9

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2013

4. Segmental reporting (continued)

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

£ Millions	Year to 31 December 2013 Europe	North America	Asia	Total	Year to 31 December 2012 Europe	North America	Asia	Total
Other Information								
Capital additions	**0.3**	**0.2**	**0.5**	**1.0**	0.4	0.2	1.9	2.5
Depreciation	**0.3**	**0.2**	**0.9**	**1.4**	0.4	0.2	0.7	1.3
Intangible assets additions	**0.4**	**1.2**	**0.6**	**2.2**	0.4	1.2	0.6	2.2
Amortisation	**0.3**	**0.7**	**0.3**	**1.3**	0.1	0.8	0.1	1.0
Balance sheet								
Goodwill	**10.6**	**19.4**	**0.6**	**30.6**	10.5	19.4	0.6	30.5
Other non-current assets	**2.6**	**9.1**	**10.5**	**22.2**	2.9	8.2	10.9	22.0
Inventories	**1.5**	**6.4**	**12.5**	**20.4**	1.4	6.8	11.6	19.8
Trade receivables	**5.8**	**7.2**	**2.4**	**15.4**	6.4	6.1	1.7	14.2
Other current assets	**0.5**	**0.2**	**0.7**	**1.4**	0.5	0.2	0.5	1.2
Cash	**3.2**	**0.8**	**1.0**	**5.0**	2.9	0.2	1.0	4.1
Segment assets	**24.2**	**43.1**	**27.7**	**95.0**	24.6	40.9	26.3	91.8
Unallocated deferred income tax				**0.5**				0.3
Consolidated total assets				**95.5**				92.1
Trade and other payables	**(1.9)**	**(1.8)**	**(9.0)**	**(12.7)**	(2.1)	(1.6)	(7.4)	(11.1)
Other current liabilities	**—**	**—**	**(0.1)**	**(0.1)**	—	—	(0.2)	(0.2)
Deferred contingent consideration	**(1.7)**	**—**	**—**	**(1.7)**	(1.5)	—	—	(1.5)
Segment liabilities	**(3.6)**	**(1.8)**	**(9.1)**	**(14.5)**	(3.6)	(1.6)	(7.6)	(12.8)
Unallocated corporate liabilities				**(8.5)**				(14.6)
Unallocated deferred and current income tax				**(3.1)**				(3.4)
Consolidated total liabilities				**(26.1)**				(30.8)

Analysis by customer

The revenue by class of customer was as follows:

£ Millions	Year to 31 December 2013 Europe	North America	Asia	Total	Year to 31 December 2012 Europe	North America	Asia	Total
Technology	**9.1**	**11.3**	**3.0**	**23.4**	10.4	9.9	3.8	24.1
Industrial	**25.3**	**19.0**	**3.2**	**47.5**	22.1	18.9	2.8	43.8
Healthcare	**9.4**	**19.7**	**1.1**	**30.2**	8.3	16.6	1.1	26.0
Total	**43.8**	**50.0**	**7.3**	**101.1**	40.8	45.4	7.7	93.9

There is no individual external customer that represents 10% or more of the Group's total revenue.

Non-current assets by countries:

£ Millions	2013	2012
North America	**28.5**	27.6
United Kingdom	**4.0**	4.3
Singapore	**2.7**	3.1
Germany	**0.3**	0.3
Switzerland	**3.6**	3.6
Other countries	**13.7**	13.6
Total non-current assets	**52.8**	52.5

5. Employee compensation (including Directors)

£ Millions	2013	2012
Wages and salaries	**19.7**	18.5
Pensions	**3.2**	2.9
Total	**22.9**	21.4

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

6. Finance cost

£ Millions	2013	2012
Interest expense on bank loans and overdrafts	**0.3**	0.5
Unwinding of discount on deferred consideration (Note 20)	**0.1**	0.3
Total	**0.4**	0.8

7. Expenses by nature

£ Millions	2013	2012
Profit for the year is after charging:		
Amortisation of intangibles	**1.3**	1.0
Depreciation of property, plant and equipment	**1.4**	1.3
Employee compensation	**22.9**	21.4
Foreign exchange losses	**(0.2)**	—
Loss on foreign exchange forward	**0.2**	0.1
Purchases of inventories	**46.4**	42.3
Changes in inventories	**(0.6)**	2.2
Fees paid to auditors:		
Audit	**0.4**	0.3
Other services — tax	**0.1**	0.1
Rent/lease expense	**1.3**	1.2
Finance cost	**0.4**	0.8
Other charges	**4.6**	3.0
Total	**78.2**	73.7

Included in the above is net research and development expenditure as follows:

£ Millions	2013	2012
Gross research and development expenditure	**5.3**	5.3
Research and development expenditure capitalised	**(2.2)**	(2.2)
Amortisation of development expenditure capitalised	**1.3**	1.0
Net research and development expenditure	**4.4**	4.1

8. Income taxes

£ Millions	2013	2012
Singapore corporation tax		
— current year	**1.2**	1.0
— adjustment in respect of prior year	**—**	—
Overseas corporation tax		
— current year	**3.4**	3.1
— adjustment in respect of prior year	**(0.2)**	0.6
Current income tax	**4.4**	4.7
Deferred income tax		
— current year	**0.1**	0.2
— adjustment in respect of prior year	**—**	(0.4)
Income tax expense	**4.5**	4.5

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

The differences between the total income tax expense shown above and the amount calculated by applying the standard rate of Singapore income tax rate to the profit before income tax are as follows:

£ Millions	2013	2012
Profit before income tax	**22.9**	20.2
Tax on profit at standard Singapore tax rate of 17%	**3.9**	3.4
Tax incentives	**(0.7)**	(0.7)
Higher rates of overseas corporation tax	**1.8**	1.6
Non-deductible expenditure	**—**	0.1
Deduction for gains on employee share options	**(0.3)**	(0.1)
Adjustment in respect of prior year	**(0.2)**	0.2
Income tax expense	**4.5**	4.5

Deferred tax liabilities of £6.9 million (2012: £5.9 million) have not been recognised on the unremitted earnings of overseas subsidiaries. As these earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

Movement in current income tax liabilities:

£ Millions	2013	2012
At 1 January 2013	**(1.6)**	(1.3)
Currency translation differences	**—***	—*
Income tax paid	**5.0**	4.3
Income tax payable — current year	**(4.6)**	(4.0)
— prior year	**0.1**	(0.6)
At 31 December 2013	**(1.1)**	(1.6)

* These balances are less than £0.1 million.

8. Income taxes (continued)

The tax (charge)/credit relating to components of other comprehensive income are as follows:

£ Millions	**2013** **Before tax**	**Tax (charge)**	**After tax**
Cash flow hedges	**(0.1)**	**—**	**(0.1)**
Currency translation differences	**(0.3)**	**—**	**(0.3)**
Other comprehensive income	**(0.4)**	**—**	**(0.4)**
Current tax		**—**	
Deferred tax		**—**	
		—	

£ Millions	2012 Before tax	Tax (charge)	After tax
Cash flow hedges	(0.2)	—	(0.2)
Currency translation differences	(0.6)	—	(0.6)
Other comprehensive income	(0.8)	—	(0.8)
Current tax		—	
Deferred tax		—	
		—	

9. Dividends

Amounts recognised as distributions to equity holders in the period:

	2013 **Pence per share**	**£ Millions**	2012 Pence per share	£ Millions
Prior year third quarter dividend paid	**12.0****	**2.3**	11.0	2.1
Prior year final dividend paid	**17.0***	**3.2**	15.0	2.8
First quarter dividend paid	**11.0**^	**2.1**	10.0*	1.9
Second quarter dividend paid	**12.0**^	**2.3**	11.0*	2.1
Total	**52.0**	**9.9**	47.0	8.9

* Dividends in respect of 2012 (50.0p)

^ Dividends in respect of 2013 (55.0p)

The third quarter dividend of 13.0 pence per share was paid on 10 January 2014. The proposed final dividend of 19.0 pence per share for the year ended 31 December 2013 is subject to approval by shareholders at the Annual General Meeting scheduled for 7 April 2014 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 10 April 2014 to members on the register as at 14 March 2014.

10. Earnings per share

The calculations of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company are based on the following data:

£ Millions	2013	2012
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company)	**18.2**	15.5
Earnings for earnings per share	**18.2**	15.5
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**18,990**	18,978
Effect of potentially dilutive share options (thousands)	**157**	76
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,147**	19,054
Earnings per share from operations		
Basic	**95.8p**	81.7p
Diluted	**95.1p**	81.3p
Diluted adjusted*	**95.1p**	81.3p

* Refer to Key Performance Indicators for additional disclosure.

11. Goodwill

£ Millions	2013	2012
Cost		
At 1 January	**30.5**	31.3
Provision for deferred contingent consideration (Note 20)	**0.1**	(0.9)
Recognised on acquisition of subsidiaries	**—**	0.1
Foreign currency translation	**—***	—*
At 31 December	**30.6**	30.5
Accumulated impairment loss		
At 31 December	**—**	—
Carrying Amount		
At 31 December	**30.6**	30.5

* These balances are less than £0.1 million.

Goodwill arises on the consolidation of subsidiary undertakings.

A change in deferred contingent consideration of £0.1 million in 2013 was due to an increase in the forecasted earnings related to the Powersolve acquisition. The final amount due in 2017 is related to the prior three years' earnings the estimates for which, based on 2013 performance, were revised upwards.

For the purpose of impairment testing, goodwill has been allocated to the operating segments identified in Note 4.

The recoverable amount of the goodwill is determined from value in use calculations. The key assumptions and estimates for the value in use calculations are those regarding the discount rates, growth rates and expected changes to sales and overheads during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units (a rate of 6.9% was used for 2013 and for 2012, the rate was 6.6%).

11. Goodwill (continued)

The Group prepares cash flow forecasts derived from the most recent financial results and takes into account industry growth forecasts for the next five years and extrapolates cash flows for the following five years assuming no growth from that date. Management has forecast year on year increases in sales and overheads at an average of 5.0% and 3.0% respectively. The carrying amount of goodwill as at 31 December 2013 was £30.6 million (2012: £30.5 million) with no impairment adjustment required for 2013.

For the purpose of the impairment test, the Group has adopted what it believes to be reasonable EBITDA assumptions for the period from 1 January 2014 to 31 December 2018. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill to exceed its recoverable amount.

12. Intangible assets

£ Millions	Development costs	Trade marks	Total
Cost			
At 1 January 2012	9.1	1.0	10.1
Additions	2.2	—	2.2
At 1 January 2013	**11.3**	**1.0**	**12.3**
Additions	2.2	—	2.2
At 31 December 2013	**13.5**	**1.0**	**14.5**
Amortisation			
At 1 January 2012	2.7	1.0	3.7
Charge for the year	1.0	—	1.0
At 1 January 2013	**3.7**	**1.0**	**4.7**
Charge for the year	1.3	—	1.3
At 31 December 2013	**5.0**	**1.0**	**6.0**
Carrying Amount			
At 31 December 2013	**8.5**	**—**	**8.5**
At 31 December 2012	7.6	—	7.6

The amortisation period for development costs incurred on the Group's products varies between four 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.

13. Property, plant and equipment

£ Millions	Freehold land	Leasehold land and buildings	Buildings	Plant and equipment	Motor vehicles	Building improvements	Projects under development	Total
Cost								
At 1 January 2012	0.2	3.6	1.5	9.7	0.5	1.6	4.0	21.1
Additions	—	—	—	1.2	0.2	0.1	1.0	2.5
Disposals	—	—	—	(0.6)	(0.1)	—	—	(0.7)
Transfer	—	4.7	—	0.1	—	—	(4.8)	—
Foreign currency translation	—	(0.1)	(0.1)	(0.3)	—	—	(0.2)	(0.7)
At 1 January 2013	**0.2**	**8.2**	**1.4**	**10.1**	**0.6**	**1.7**	**—**	**22.2**
Additions	—	—	—	0.6	0.2	—	0.2	1.0
Disposals	—	—	—	(0.3)	(0.2)	—	—	(0.5)
Transfer	—	—	—	0.2	—	—	(0.2)	—
Foreign currency translation	—	—	—	—	—	—	—	—
At 31 December 2013	**0.2**	**8.2**	**1.4**	**10.6**	**0.6**	**1.7**	**—**	**22.7**
Depreciation								
At 1 January 2012	—	0.3	0.1	6.4	0.2	1.2	—	8.2
Charge for the year	—	0.1	0.1	0.9	0.1	0.1	—	1.3
Disposals	—	—	—	(0.2)	(0.1)	—	—	(0.3)
Foreign currency translation	—	—	—	(0.2)	—	—	—	(0.2)
At 1 January 2013	**—**	**0.4**	**0.2**	**6.9**	**0.2**	**1.3**	**—**	**9.0**
Charge for the year	—	0.2	—	0.9	0.2	0.1	—	1.4
Disposals	—	—	—	(0.3)	(0.1)	—	—	(0.4)
Foreign currency translation	—	—	—	—	—	—	—	—
At 31 December 2013	**—**	**0.6**	**0.2**	**7.5**	**0.3**	**1.4**	**—**	**10.0**
Carrying Amount								
At 31 December 2013	**0.2**	**7.6**	**1.2**	**3.1**	**0.3**	**0.3**	**—**	**12.7**
At 31 December 2012	0.2	7.8	1.2	3.2	0.4	0.4	—	13.2

The Group has entered into agreements to lease land and buildings ranging from 48 years to 999 years.

Depreciation is charged so as to allocate the long leasehold items over their estimated useful lives.

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the income statement when the changes arise.

The Group has pledged all property, plant and equipment as collateral to secure banking facilities granted to the Group.

14. Subsidiaries

Details of principal subsidiaries as at 31 December 2013, all of which are consolidated are as follows:

Name of Subsidiary	Place of Incorporation/ ownership (or registration) and operation	Proportion of Ownership 2013 (%)	Proportion of Ownership 2012 (%)	Auditor of subsidiaries
XP Power AG	Switzerland	**100**	100	Karpf Treuhand & Revisions AG
XP Power LLC	USA	**100**	100	Exempted to be audited by local statutory law
XP PLC	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power ApS	Denmark	**100**	100	Deloitte
XP Power GmbH	Germany	**100**	100	Exempted to be audited by local statutory law
XP Power Norway AS	Norway	**100**	100	Inter Revisjon Oslo AS
XP Power SA	France	**100**	100	Deloitte
XP Power Sweden AB	Sweden	**100**	100	Deloitte
Powersolve Electronics Limited*	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power (Shanghai) Co., Limited	China	**100**	100	Shanghai JunFu PCZ/Jiahua CPA
XP Power Srl	Italy	**100**	100	Exempted to be audited by local statutory law
XP Power (Hong Kong) Limited	HK	**100**	100	PricewaterhouseCoopers Limited
XP Power Singapore Holdings Pte Limited	Singapore	**100**	100	PricewaterhouseCoopers LLP
XP Power (Vietnam) Co., Limited	Vietnam	**100**	100	PricewaterhouseCoopers (Vietnam) Limited
XP Power Singapore Manufacturing Pte Ltd	Singapore	**100**	100	PricewaterhouseCoopers LLP

* The legal shareholding and the proportion of voting power held is 84% (2012: 84%).

15. Cash and cash equivalents

£ Millions	2013	2012
Cash at bank and on hand	**5.0**	4.1
Total	**5.0**	4.1

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

£ Millions	2013	2012
Cash at bank and on hand (as above)	**5.0**	4.1
Less: Bank overdrafts (Note 21)	**(1.2)**	(3.6)
Cash and cash equivalents per consolidated cash flow statement	**3.8**	0.5

15. Cash and cash equivalents (continued)

Reconciliation of changes in Cash and Cash Equivalents to movements in Net Debt

£ Millions	2013	2012
Net increase in cash and cash equivalents	**3.2**	3.5
Repayment of borrowings	**3.8**	4.2
Effects of currency translation	**0.1**	0.3
Movement in net debt	**7.1**	8.0
Net debt at start of year	**(10.6)**	(18.6)
Net debt at end of year	**(3.5)**	(10.6)

Reconciliation to free cash flow

£ Millions	2013	2012
Net cash inflow from operating activities	**20.2**	23.6
Research and development expenditure capitalised	**(2.2)**	(2.2)
Net interest paid	**(0.3)**	(0.5)
Free cash flow	**17.7**	20.9

16. Inventories

£ Millions	2013	2012
Goods for resale	**13.1**	12.9
Raw materials	**7.0**	6.7
Work-in-progress	**0.3**	0.2
Total	**20.4**	19.8

The cost of inventories recognised as an expense and included in "cost of sales" amounts to £51.5 million (2012: £49.0 million).

17. Trade receivables

£ Millions	2013	2012
Trade receivables	**15.4**	14.2
Total	**15.4**	14.2

The average credit period taken on sales of goods is 56 days (2012: 56 days). No interest is charged on the outstanding receivables balance. The carrying amounts of trade receivables approximate their fair values.

18. Other current assets

£ Millions	2013	2012
Other receivables and prepayments	**1.4**	1.2
Total	**1.4**	1.2

19. Trade and other payables

£ Millions	2013	2012
Trade and other payables	**12.7**	11.1
Total	**12.7**	11.1

Trade creditors and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The carrying amounts of trade and other payables approximate their fair values.

20. Provision for deferred contingent consideration

£ Millions	2013	2012
At 1 January	**1.5**	4.0
Movement in provision during the year	**0.1**	(0.9)
Payment	**—**	(1.9)
Adjustment for unwinding of discount rate	**0.1**	0.3
At 31 December	**1.7**	1.5
Current portion of provision for deferred contingent consideration	**—**	—
Non-current portion of provision for deferred contingent consideration	**1.7**	1.5
Total	**1.7**	1.5

The Group owns 84.0% (2012: 84.0%) of the shares of Powersolve Electronics Limited ("Powersolve") and had entered into an agreement on 19 December 2011 to purchase the remaining 16.0% of the shares in 2017.

The commitment to purchase the remaining ownership has been accounted for as deferred consideration and is calculated based on the expected future payment which will be based on a predefined multiple of the earnings for 3 years ending 2016.

The future payment is discounted to the present value, with the discount amortised to interest expense each period as the payment draws nearer. At each reporting period, the anticipated future payment is recalculated and an adjustment made accordingly, with a corresponding adjustment to goodwill. As a result of the purchase commitment and the amount of control XP Power Limited exerts over Powersolve, the Powersolve results are fully consolidated in the Group with a non-controlling interest charge made in the amount of dividends that will be payable for that year to the non-controlling shareholders.

21. Borrowings

The borrowings are repayable as follows:

£ Millions	2013	2012
On demand or within one year	**8.5**	7.3
In the second year	**—**	7.4
	8.5	14.7
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(8.5)**	(7.3)
Total repayable after 12 months	**—**	7.4

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

December 2013				
£ Millions	**GBP**	**USD**	**EUR**	**TOTAL**
Bank overdrafts	**0.5**	**0.5**	**0.2**	**1.2**
Bank loans	**—**	**7.3**	**—**	**7.3**
Total	**0.5**	**7.8**	**0.2**	**8.5**
December 2012				
£ Millions	GBP	USD	EUR	TOTAL
Bank overdrafts	2.4	1.2	—	3.6
Bank loans	—	11.1	—	11.1
Total	2.4	12.3	—	14.7

21. Borrowings (continued)

The average interest rates paid were as follows:

	2013	2012
Bank overdrafts	**2.4%**	2.9%
Bank loans	**2.2%**	2.5%

The fair value of the Group's bank loans and overdrafts are the same as their book value.

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

1. Bank overdrafts are repayable on demand. The bank overdrafts are secured on the assets of the Group. At 31 December 2013, the Group had an overdraft of £1.2 million (2012: £3.6 million). In October 2013, the Group renewed its annual working capital facility, which is reduced from US$12.5 million (£7.7 million) to US$10 million (£6.1 million), priced at Bank of Scotland's base rate plus a margin of between 2.0% and 3.0% depending on the ratio of Net Debt to EBITDA (2012: priced at the Bank of Scotland's base rate plus a margin of 2.5%).

2. The Group has a term debt facility with Bank of Scotland at US$12 million (£7.3 million) with quarterly repayment of US$1.5 million (£0.9 million) and a final repayment of US$9.0 million (£5.5 million) due on expiry of the facility in September 2014. The term loan is priced at LIBOR plus a margin of between 1.75% and 2.25% depending on the ratio of Net Debt to EBITDA. (2012: priced at LIBOR plus a margin of 2.0%).

3. The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

4. Management assessed all loan covenants have been complied with as of 31 December 2013.

22. Derivative financial instruments

Forward foreign exchange contracts

The Group utilises currency derivatives to hedge highly probable forecast transactions. The instruments purchased are denominated in the currencies of the Group's principal markets.

(a) Qualify for hedge accounting

In 2013, the total notional amount of outstanding currency forward contracts that the Group has committed is £8.2 million (2012: £6.6 million). These contracts are to hedge against exchange movements on future sales and qualify for hedge accounting.

December 2013 **£ Millions**	**Contract notional amount**	**Fair value (liability)**
Forward foreign exchange contracts	**8.2**	**(0.3)**
Current portion	**7.1**	**(0.3)**
Non-current portion	**1.1**	**—**
Total	**8.2**	**(0.3)**

December 2012 **£ Millions**	Contract notional amount	Fair value (liability)
Forward foreign exchange contracts	6.6	(0.2)
Current portion	4.4	(0.2)
Non-current portion	2.2	—
Total	6.6	(0.2)

22. Derivative financial instruments (continued)

(b) Do not qualify for hedge accounting

Certain currency forward contracts were taken up to protect against exchange movements on future purchases of goods. These contracts did not qualify for hedge accounting.

The total notional amount and fair value asset/(liability) of the forward contracts is as follows:

December 2013 **£ Millions**	**Contract notional amount**	**Fair value asset**
Forward foreign exchange contracts	**5.5**	**0.2**
Current portion	**5.5**	**0.2**
Total	**5.5**	**0.2**

December 2012 **£ Millions**	Contract notional amount	Fair value asset
Forward foreign exchange contracts	3.9	—*
Current portion	3.9	—*
Total	3.9	—*

* These are balances less than £0.1 million.

23. Deferred income taxes

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

£ Millions	**Accelerated tax depreciation**	**Goodwill amortisation**	**Share based payment**	**Capitalised development costs**	**Other temporary differences**	**Total**
At 1 January 2012	(0.3)	(0.9)	0.3	(1.6)	0.9	(1.6)
Charge to income statement	0.1	0.1	(0.1)	—	0.1	0.2
At 1 January 2013	**(0.2)**	**(0.8)**	**0.2**	**(1.6)**	**1.0**	**(1.4)**
Charge to income statement	—	—	0.2	(0.2)	(0.1)	(0.1)
Total	**(0.2)**	**(0.8)**	**0.4**	**(1.8)**	**0.9**	**(1.5)**

£ Millions	**2013**	2012
Deferred tax assets		
— To be recovered after more than 12 months	**0.5**	0.3
— To be recovered within 12 months	**—**	—
	0.5	0.3
Deferred tax liabilities		
— To be recovered after more than 12 months	**(2.0)**	(1.7)
	(2.0)	(1.7)
Deferred tax liabilities (Net)	**(1.5)**	(1.4)

24. Share capital and reserves

Called up share capital

£ Millions	2013	2012
Allotted and fully paid 19,242,296 ordinary shares (2012: 19,242,296)	**27.2**	27.2

As at 31 December 2013, the Group's Employee Share Ownership Plan (ESOP) held 227,746 (2012: 241,296) shares carrying a value of £1,182,717 (2012: £1,305,789) owned by the Trust.

Merger reserve

£ Millions	2013	2012
Balance at 31 December	**0.2**	0.2

Treasury shares

£ Millions	2013	2012
Balance at 1 January	**(1.2)**	(1.0)
Sale of treasury shares	**0.1**	0.3
Purchase of treasury shares	**—**	(0.5)
Employee share option plan expenses	**0.1**	—
Balance at 31 December	**(1.0)**	(1.2)

Hedging reserve

£ Millions	2013	2012
Balance at 1 January	**(0.2)**	—
Fair value losses	**(0.1)**	(0.2)
Balance at 31 December	**(0.3)**	(0.2)

Translation reserve

£ Millions	2013	2012
Balance at 1 January	**(7.7)**	(7.1)
Exchange differences on translation of foreign operations	**(0.3)**	(0.6)
Balance at 31 December	**(8.0)**	(7.7)

Retained earnings

£ Millions	2013	2012
Balance at 1 January	**42.8**	36.3
Profit for the year	**18.2**	15.5
Loss on treasury shares	**—**	(0.1)
Dividends paid	**(9.9)**	(8.9)
Balance at 31 December	**51.1**	42.8

Non-controlling interests

The non-controlling shareholders are entitled to their share of any dividend declared. £0.2 million was paid to Powersolve non-controlling shareholders in 2013. The balance payable for 2013 was £0.2 million (2012: £0.2 million).

25. Operating leases and other commitments

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under operating leases which fall due as follows:

£ Millions	2013	2012
Within one year	**1.0**	1.1
In the second to fifth years inclusive	**2.1**	2.2
After five years	**0.4**	0.7
Total	**3.5**	4.0

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

26. ESOP loan to employees

£ Millions	2013	2012
ESOP loan to employees	**1.0**	1.2
Total	**1.0**	1.2

The Group offers interest free loans to employees to purchase Company shares under a deferred payment scheme. Under this scheme payment is deferred until the shares are sold. The shares cannot be sold until four years from the date of acquisition. However, the loan becomes interest bearing after 10 years. The Group does not classify a portion of this loan under current assets as the Company cannot predict when the employees will repay their loans.

27. Pensions

The total pensions cost recognised are £3.2 million (2012: £2.9 million) for the Group.

In the USA, the Group operates a defined contribution "401K Plan". The Group can contribute an amount matching the employees' contribution up to a maximum of 2% of the employees' total earnings. The total cost charged to income of £1.4 million (2012: £1.4 million) represents the Group's "matching" contribution.

In the United Kingdom and Europe, the Group operates a defined contribution pension scheme for its employees with contributions amounting to £1.1 million (2012: £1.1 million).

In Asia, the Group contributes to the defined contribution plans regulated and managed by the governments of the countries in which the Group operates. The Group's contribution to the defined contribution plans is charged to the profit and loss account in the period to which the contributions relate and the total cost charged to income was £0.7 million (2012: £0.4 million).

For the financial year ended 31 December 2013

28. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

As at 31 December 2013, the Company's Employee Share Ownership Plan has provided interest rate free loans totalling £220,879 (2012: £220,879) to 1 Director (2012: 1 Director) for the deferred payment share scheme. The detailed information is provided for in the Directors' Remuneration Report on page 36 to 45.

The remuneration of the Directors of the Group is set out below for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of the individual Directors is provided in the Directors' Remuneration Report on pages 36 to 45.

	2013 £	2012 £
Short-term employee benefits	**954,594**	1,031,651
Post employment benefits	**22,179**	23,076
Total Directors' remuneration	**976,773**	1,054,727

29. Share-based payments

Options have been granted under the Company's Approved Share Option Schemes. The numbers outstanding, subscription prices and exercise periods are as follows:

Number of shares	Exercise Price	Grant Date	Expiry Date
15,000	£4.11	21 April 2005*	21 April 2015
2,500	£3.20	14 December 2005*	14 December 2015
6,000	£3.90	28 September 2006*	28 September 2016
73,750	£5.073	26 April 2007*	26 April 2017
345,000	£9.46	10 October 2012*	10 October 2022
442,250			

* Approved option schemes, vesting in four equal annual instalments from the exercisable date.

	2013		2012	
	Number of share options	**Weighted average exercise price (pence)**	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of the year	**466,800**	**822**	199,200	417
Granted during the year	**—**	**—**	345,000	946
Forfeited during the year	**(1,000)**	**507**	—	—
Exercised during the year	**(23,550)**	**431**	(77,400)	332
Outstanding at the end of the year	**442,250**	**844**	466,800	822
Exercisable at the end of the year	**97,250**	**480**	121,800	471

The weighted average share price at the date of exercise for the share options exercised during the period was £14.79p (2012: £11.40p). The options outstanding at 31 December 2013 had a weighted average exercise price of 844p (2012: £822p), and a weighted average remaining contractual life of 7.5 years.

In 2013, the Group has taken a charge of £0.1 million (2012: £0.03 million) to recognise the issuance of employee share based options. The fair value of options was determined using the Black Scholes Model with a share price of £10.09 and a weighted average exercise price of £9.46, standard deviation of expected share returns of 0.0171, and an annual risk free interest rate of 0.33%. The volatility measured as the standard deviation of expected share price returns was based on statistical analysis of share prices over the last 1 year.

30. Financial risk management

The Group's activities expose it to capital risk, currency risk (including both transactional and translational currency risk), interest rate risk, credit risk and liquidity risk. The Group seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

(a) Capital risk

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 21, cash and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 24.

The Board reviews the capital structure of the business and considers the cost of capital and risks associated with each class of capital. The Group aims to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

(b) Currency risk

The Group operates in Asia, Europe and North America and its activities expose it to transactional risks resulting from changes in foreign currency exchange rates. The Group monitors and manages these transactional foreign exchange risks relating to the operations of the Group through internal reports analysing major currency exposures. Where possible, the Group seeks to offset exposures by matching monetary asset and liability exposures in like currencies against each other often using its bank facilities to square off or reduce exposures. To manage the currency risk, the Group manages the overall currency exposure mainly through currency forwards. The Group's risk management policy is to hedge a portion of highly probable forecast purchases transactions by our customers.

In addition the Group is exposed to translation risk when the results of its various operations are translated from their local functional currencies to Sterling, the Group's reporting currency. In particular a significant proportion of the Group's revenues and earnings are derived in US Dollars. The Group is therefore exposed to risk when these US Dollar revenue streams are translated into Sterling for Group reporting purposes. The Group regards this as a fundamental consequence of operating in markets which are dominated by US Dollar transactions. The Group does not hedge this translational risk as there is no underlying mismatch of foreign currencies as the translation is merely performed for reporting the Group's results in Sterling.

30. Financial risk management (continued)

(b) Currency risk (continued)

The Group's transactional currency exposure based on the information provided to key management is as follows:

£ Millions	**GBP**	**EUR**	**USD**	**Others**	**TOTAL**
At 31 December 2013					
Financial assets					
Cash and cash equivalents	**1.4**	**1.0**	**2.2**	**0.4**	**5.0**
Trade receivables	**2.1**	**1.4**	**11.8**	**0.1**	**15.4**
Other current assets	**0.6**	**—**	**0.6**	**0.2**	**1.4**
ESOP loan to employees	**1.0**	**—**	**—**	**—**	**1.0**
Sub-total	**5.1**	**2.4**	**14.6**	**0.7**	**22.8**
Financial liabilities					
Borrowings	**(0.5)**	**(0.2)**	**(7.8)**	**—**	**(8.5)**
Trade and other payables	**(1.0)**	**(0.6)**	**(10.5)**	**(0.6)**	**(12.7)**
Other financial liabilities	**(1.6)**	**(0.1)**	**—**	**—**	**(1.7)**
Sub-total	**(3.1)**	**(0.9)**	**(18.3)**	**(0.6)**	**(22.9)**
Net financial assets/(liabilities)	**2.0**	**1.5**	**(3.7)**	**0.1**	**(0.1)**
Less: Currency forwards	**4.2**	**9.5**	**—**	**—**	**13.7**
Currency profile including non-financial assets and liabilities	**(2.2)**	**(8.0)**	**(3.7)**	**0.1**	**(13.8)**
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	**1.7**	**1.5**	**(6.9)**	**0.1**	**(3.6)**
Currency exposure of financial (liabilities)/assets	**(3.9)**	**(9.5)**	**3.2**	**—**	**(10.2)**

£ Millions	GBP	EUR	USD	Others	TOTAL
At 31 December 2012					
Financial assets					
Cash and cash equivalents	1.5	1.1	0.9	0.6	4.1
Trade receivables	2.2	1.6	10.3	0.1	14.2
Other current assets	0.6	—	0.4	0.2	1.2
ESOP loan to employees	1.2	—	—	—	1.2
Sub-total	5.5	2.7	11.6	0.9	20.7
Financial liabilities					
Borrowings	(1.4)	—	(13.3)	—	(14.7)
Trade and other payables	(1.3)	(0.5)	(8.8)	(0.5)	(11.1)
Other financial liabilities	(1.5)	—	—	—	(1.5)
Sub-total	(4.2)	(0.5)	(22.1)	(0.5)	(27.3)
Net financial assets/(liabilities)	1.3	2.2	(10.5)	0.4	(6.6)
Less: Currency forwards	3.9	6.6	—	—	10.5
Currency profile including non-financial assets and liabilities	(2.6)	(4.4)	(10.5)	0.4	(17.1)
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	2.6	1.4	(13.3)	0.2	(9.1)
Currency exposure of financial (liabilities)/assets	(5.2)	(5.8)	2.8	0.2	(8.0)

30. Financial risk management (continued)

(b) Currency risk (continued)

If the US Dollar and Euro change against Sterling by 1% and 7% respectively (2012: US Dollar 1%, Euro 7%) with all other variables including tax rate being held constant, the effects arising from the net financial (liability)/asset position will be as follows:

£ Millions	**2013 Profit after tax**	2012 Profit after tax
Group		
EUR against GBP		
— strengthened	**(0.7)**	(0.4)
— weakened	**0.7**	0.4
USD against GBP		
— strengthened	**—***	—*
— weakened	**—***	—*

* These are balances less than £0.1 million.

The impact of the currency risk on the other comprehensive income is not significant.

(c) Interest rate risk

The Group's borrowings are at variable interest rates and are denominated in a number of currencies including Euros, Sterling, Swiss Francs and US Dollars. If the average interest rates on these borrowings increased/decreased by 0.5% (2012: 0.5%) with all other variables including tax rate being held constant, the profit after tax will be lower/higher by £61,000 (2012: £92,000) as a result of higher/lower interest expense on these borrowings.

(d) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. For trade receivables the Group adopts a policy of only dealing with customers of appropriate credit history or rating. For other financial assets, the Group adopts the policy of only dealing with high credit quality counterparties.

The Group's business is highly fragmented reducing the credit exposure to any one customer. At the balance sheet date no trade receivable represented more than 5% of the total trade receivables balance.

The credit risk for trade receivables by geographic area is as follows:

£ Millions	**2013**	2012
By geographical areas		
Europe	**5.8**	6.4
US	**7.2**	6.1
Asia	**2.4**	1.7
	15.4	14.2

£ Millions	**2013**	2012
By type of customers		
Non-related parties	**15.4**	14.2
	15.4	14.2

30. Financial risk management (continued)

(d) Credit risk (continued)

The age analysis of trade receivables past due and/or impaired is as follows:

£ Millions	2013	2012
Past due 0 – 2 months	**8.4**	7.8
Past due 3 – 4 months	**0.7**	0.5
Past due over 4 months	**0.2**	0.1
	9.3	8.4

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

£ Millions	2013	2012
Gross amount	**0.4**	0.3
Less: Allowance for impairment	**(0.3)**	(0.3)
	0.1	—
Beginning of financial year	**(0.3)**	(0.2)
Allowance made	**—**	(0.1)
Allowance utilised	**—**	—
End of the financial year	**(0.3)**	(0.3)

(e) Liquidity risk

The table below analyses the maturity profile of the Group's derivative and non-derivative financial liabilities at the balance sheet date based on contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

£ Millions	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years	Total
Group					
At 31 December 2013					
Trade and other payables	**12.7**	**—**	**—**	**—**	**12.7**
Provision for deferred contingent consideration	**—**	**—**	**1.7**	**—**	**1.7**
Derivative financial instruments	**0.1**	**—**	**—**	**—**	**0.1**
Borrowings	**8.5**	**—**	**—**	**—**	**8.5**
Total	**21.3**	**—**	**1.7**	**—**	**23.0**

£ Millions	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years	Total
Group					
At 31 December 2012					
Trade and other payables	11.1	—	—	—	11.1
Provision for deferred contingent consideration	—	—	1.5	—	1.5
Derivative financial instruments	0.2	—	—	—	0.2
Borrowings	7.3	7.4	—	—	14.7
Total	18.6	7.4	1.5	—	27.5

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

30. Financial risk management (continued)

(f) Fair value measurements

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at 31 December 2013:

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
£ Millions				
Assets				
Derivatives used for hedging	**—**	**—**	**—**	**—**
Liabilities				
Derivatives used for hedging	**—**	**(0.1)**	**—**	**(0.1)**

2012	Level 1	Level 2	Level 3	Total
£ Millions				
Assets				
Derivatives used for hedging	—	—*	—	—
Liabilities				
Derivatives used for hedging	—	(0.2)	—	(0.2)

* These are balances less than £0.1 million.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. These derivative financial instruments are included in Level 2.

31. Other information

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of XP Power Limited on 24 February 2014.

Company Balance Sheet

As at 31 December 2013

£'000	Note	2013	2012
ASSETS			
Current Assets			
Cash and cash equivalents	4	**653**	856
Trade and other receivables	5	**12,068**	12,615
Other current assets	6	**495**	266
Inventories	8	**4,747**	5,363
Total current assets		**17,963**	19,100
Non-current assets			
Investments in subsidiaries	3	**29,786**	29,786
Property, plant and equipment	9	**1,687**	1,753
Intangible assets	10	**2,069**	1,791
Long term receivable	13	**5,121**	4,444
Total non-current assets		**38,663**	37,774
Total assets		**56,626**	56,874
LIABILITIES			
Current liabilities			
Trade and other payables	12	**9,802**	8,743
Current income tax liabilities	14	**1,212**	1,015
Derivative financial instruments	7	**81**	184
Bank overdraft	15	**491**	2,565
Total current liabilities		**11,586**	12,507
Non-current liabilities			
Derivative financial instruments	7	**13**	—
Deferred income tax liabilities	11	**273**	233
Total non-current liabilities		**286**	233
Total liabilities		**11,872**	12,740
NET ASSETS		**44,754**	44,134
EQUITY			
Share capital	16	**29,786**	29,786
Hedging reserve	16	**(325)**	(214)
Translation reserve	16	**(272)**	(69)
Retained earnings	16	**15,565**	14,631
TOTAL EQUITY		**44,754**	44,134

Notes to the Company Balance Sheet

For the financial year ended 31 December 2013

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 Company's operations and its principal activities are manufacturing, providing power supply solutions and acting as an investment holding company.

2. Basis of accounting policies

The principal accounting policies are set out in Note 2 under the Group Consolidated Financial Statements.

3. Investment in subsidiaries

£'000	**2012**	2012
Cost at carrying value		
At 1 January	**29,786**	29,786
Additions	**—**	—
At 31 December	**29,786**	29,786

Name of Subsidiary	**Place of Incorporation/ Ownership (or registration) and operation**	**Proportion of Ownership % 2013**	**Proportion of Ownership % 2012**	**Auditor of subsidiaries**
XP Power Plc	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power Singapore Holdings Pte Limited	Singapore	**100**	100	PricewaterhouseCoopers LLP

4. Cash and cash equivalents

£'000	**2013**	2012
Cash at bank	**653**	856
Total	**653**	856

The Company's cash at bank is denominated into the following currencies:

	GBP £ '000	**USD £ '000**	**EUR £ '000**	**SGD £ '000**	**JPY £ '000**	**SEK £ '000**	**DKK £ '000**	**NOK £ '000**	**TOTAL £ '000**
At 31 December 2013									
Cash at bank	**22**	**180**	**330**	**73**	**—**	**2**	**46**	**—**	**653**

	GBP £ '000	USD £ '000	EUR £ '000	SGD £ '000	JPY £ '000	SEK £ '000	DKK £ '000	NOK £ '000	TOTAL £ '000
At 31 December 2012									
Cash at bank	13	67	586	134	4	—	30	22	856

The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

Notes to the Company Balance Sheet

For the financial year ended 31 December 2013

5. Trade and other receivables

£'000	2013	2012
Trade receivables	**2,309**	1,656
Trade receivables from Group companies	**9,759**	10,959
Total	**12,068**	12,615

The average credit period taken on sales of goods is 58 days (2012: 43 days). No interest is charged on the outstanding receivables balance.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

6. Other current assets

£'000	2013	2012
Deposit	**54**	180
Other receivables and prepayments	**441**	86
Total	**495**	266

The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

7. Derivative financial instruments

The total notional amount of outstanding currency forward contracts that the Company has committed is £8.2 million (2012: £6.6 million). These contracts are to hedge against exchange movements on future sales and qualify for hedge accounting.

As at 31 December 2013, the fair value liability of the currency forward contracts recognised under a hedging reserve is £325,000 (2012: £214,000) (Note 16).

December 2013 **£'000**	**Contract notional amount**	**Fair value (liability)**
Current portion	**7,053**	**(312)**
Non-current portion	**1,134**	**(13)**
Total	**8,187**	**(325)**

December 2012 **£'000**	Contract notional amount	Fair value (liability)
Current portion	4,401	(214)
Non-current portion	2,200	—
Total	6,601	(214)

Certain currency forward contracts were taken up to protect against exchange movements on future sales. These contracts did not qualify for hedge accounting.

The total notional amount and fair value asset of the forward contracts is as follows:

£'000	2013	2012
Contract notional amount	**5,543**	3,855
Fair value asset of the contracts	**231**	30

8. Inventories

£'000	2013	2012
Goods for resale	**4,747**	5,363

The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

9. Property, plant and equipment

£ '000	Freehold land	Building	Plant and equipment	Motor vehicles	Building improvements	Total
Cost						
At 1 January 2012	187	1,493	902	10	297	2,889
Additions	—	—	25	—	43	68
Disposals	—	—	(10)	—	—	(10)
Foreign currency translation	(7)	(56)	(34)	—	(11)	(108)
At 1 January 2013	**180**	**1437**	**883**	**10**	**329**	**2,839**
Additions	—	—	127	—	6	133
Disposals	—	—	—	—	—	—
Foreign currency translation	(1)	(11)	(6)	—	(2)	(20)
At 31 December 2013	**179**	**1,426**	**1,004**	**10**	**333**	**2,952**
Depreciation						
At 1 January 2012	—	140	528	10	269	947
Charge for the year	—	43	117	—	22	182
Disposals	—	—	(8)	—	—	(8)
Foreign currency translation	—	(5)	(20)	—	(10)	(35)
At 1 January 2013	**—**	**178**	**617**	**10**	**281**	**1,086**
Charge for the year	—	43	119	—	25	187
Disposals	—	—	—	—	—	—
Foreign currency translation	—	(1)	(5)	—	(2)	(8)
At 31 December 2013	**—**	**220**	**731**	**10**	**304**	**1,265**
Carrying Amount						
At 31 December 2013	**179**	**1,206**	**273**	**—**	**29**	**1,687**
At 31 December 2012	180	1,259	266	—	48	1,753

The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

10. Intangible assets

£'000	2013	2012
Cost		
Balance at 1 January	**1,910**	1,296
Additions	**628**	614
Balance at 31 December	**2,538**	1,910
Amortisation		
Balance at 1 January	**119**	63
Additions	**350**	56
Balance at 31 December	**469**	119
Carrying Amount		
Balance at 31 December	**2,069**	1,791

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

Amortisation commences when the products are ready for sale.

For the financial year ended 31 December 2013

11. Deferred income taxes

The following are the major deferred tax liabilities recognised by the Company and movements thereon during the current and prior reporting period:

£'000	Accelerated tax depreciation	Capitalised development costs	Other temporary differences	Total
At 1 January 2012	(49)	(96)	(7)	(152)
Charge to income	10	(91)	—	(81)
At 1 January 2013	(39)	(187)	(7)	(233)
Charge to income	—	(27)	(15)	(42)
Exchange difference	—	2	—	2
At 31 December 2013	**(39)**	**(212)**	**(22)**	**(273)**

£'000	2013	2012
Deferred tax liabilities — to be recovered after more than 12 months	**(273)**	(233)
Total	**(273)**	(233)

12. Trade and other payables

£'000	2013	2012
Trade payables and other creditors	**4,313**	4,581
Amount payable to Group companies	**5,489**	4,162
Total	**9,802**	8,743

Trade payables and other creditors principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade and other payables approximates their fair value.

The Company borrows from subsidiaries at an interest rate of 1.5% — 2.5% above LIBOR. The borrowing is repayable upon demand.

13. Long term receivable

£'000	2013	2012
Loan to related parties	**5,121**	4,444
Total	**5,121**	4,444

Loan to XP Power Vietnam is recoverable on demand and bears interest at LIBOR plus 1.5% per annum.

14. Current income tax liabilities

£'000	2013	2012
At 1 January	**1,015**	1,325
Currency translation differences	**(25)**	(45)
Income tax paid	**(945)**	(1,287)
Current year tax expense	**1,167**	1,022
At 31 December	**1,212**	1,015

15. Bank overdraft

£'000	**2013**	2012
Bank overdraft	**491**	2,565
Total	**491**	2,565

The Company's bank overdraft is denominated in the following currencies:

	GBP £ '000	**USD £ '000**	**Total £ '000**
At 31 December 2013			
Bank overdraft	491	—	491
At 31 December 2012			
Bank overdraft	1,385	1,180	2,565

16. Share capital and reserves

Share capital

£'000	**2013**	2012
Allotted and fully paid 19,242,296 ordinary shares	**29,786**	29,786

Retained earnings

£'000	**2013**	2012
Balance at 1 January	**14,631**	11,826
Dividends paid	**(9,872)**	(8,931)
Profit for the year	**10,806**	11,736
Balance at 31 December	**15,565**	14,631

Translation reserve

£'000	**2013**	2012
Balance at 1 January	**(69)**	485
Exchange differences on translation	**(203)**	(554)
Balance at 31 December	**(272)**	(69)

Hedging reserve

£'000	**2013**	2012
Balance at 1 January	**(214)**	(49)
Fair value gains/(losses)	**(111)**	(165)
Balance at 31 December	**(325)**	(214)

Notes to the Company Balance Sheet

For the financial year ended 31 December 2013

17. Financial risk management

The Company's activities expose it to capital risk, currency risk (including both transactional and translational currency risk), interest rate risk, credit risk and liquidity risk. The Company seeks to minimise adverse effects from the unpredictability of financial markets on the Company's financial performance.

(a) Capital risk

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt, cash and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 16.

(b) Currency risk

The Company operates in Asia, Europe and North America and its activities expose it to transactional risks resulting from changes in foreign currency exchange rates. The Company monitors and manages these transactional foreign exchange risks relating to the operations of the Company through internal reports analysing major currency exposures. Where possible the Company seeks to offset exposures by matching monetary asset and liability exposures in like currencies against each other often using its bank facilities to square off or reduce exposures. To manage the currency risk, the Company manages the overall currency exposure mainly through currency forwards. The Company's risk management policy is to hedge a portion of highly probable forecast sales transactions.

In addition the Company is exposed to translation risk when the results of its operations and balance sheet are converted from its functional currency to Sterling, the Group's reporting currency. In particular a significant proportion of the Company's revenues and earnings are derived in US Dollars. The Company regards this as a fundamental consequence of operating in markets which are dominated by US Dollar transactions. The Company does not hedge this translational risk as there is no underlying mismatch of foreign currencies as the translation is merely performed for reporting the Company's results in Sterling.

The Company's currency exposure based on the information provided to key management is as follows:

At 31 December 2013 **£ '000**	**GBP**	**EUR**	**USD**	**Others**	**Total**
Financial Assets					
Cash and cash equivalents	22	330	180	121	653
Trade and other receivables	—	1,631	10,176	261	12,068
Other current assets	275	1	132	87	495
Long term receivables	—	—	—	—	—
Subtotal	297	1,962	10,488	469	13,216
Financial Liabilities					
Borrowings	(491)	—	—	—	(491)
Trade and other payables	(4,444)	(31)	(4,865)	(462)	(9,802)
Subtotal	(4,935)	(31)	(4,865)	(462)	(10,293)
Net financial (liabilities)/assets	(4,638)	1,931	5,623	7	2,923
Less: Currency forwards	4,200	9,530	—	—	13,730
Currency profile including non-financial assets and liabilities	(8,838)	(7,599)	5,623	7	(10,807)
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	—	—	5,623	—	5,623
Currency exposure of financial (liabilities)/assets	(8,838)	(7,599)	—	7	(16,430)

17. Financial risk management (continued)

(b) Currency risk (continued)

At 31 December 2012

£ '000	GBP	EUR	USD	Others	Total
Financial Assets					
Cash and cash equivalents	13	586	67	190	856
Trade and other receivables	2	1,364	11,094	155	12,615
Other current assets	203	(65)	48	80	266
Long term receivables	—	—	4,444	—	4,444
Subtotal	218	1,885	15,653	425	18,181
Financial Liabilities					
Borrowings	(1,385)	—	(1,180)	—	(2,565)
Trade and other payables	(3,505)	195	(5,218)	(215)	(8,743)
Subtotal	(4,890)	195	(6,398)	(215)	(11,308)
Net financial (liabilities)/assets	(4,672)	2,080	9,255	210	6,873
Less: Currency forwards	3,855	6,601	—	—	10,456
Currency profile including non-financial assets and liabilities	(8,527)	(4,521)	9,255	210	(3,583)
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	—	—	9,255	—	9,255
Currency exposure of financial (liabilities)/assets	(8,527)	(4,521)	—	210	(12,838)

(c) Interest rate risk

The Company borrows from subsidiaries at an interest rate of 1.5% — 2.5% above LIBOR.

(d) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Company. For trade receivables the Company adopts a policy of only dealing with customers of appropriate credit history or rating. For other financial assets, the Company adopts the policy of only dealing with high credit quality counterparties.

The Company is not exposed to significant credit risk as the majority of the sales are made to the subsidiaries.

The Company does not hold any collateral and the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments on the balance sheet.

(e) Liquidity risk

The table below analyses the maturity profile of the Company's financial liabilities at the balance sheet date based on contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

£'000	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
At 31 December 2013					
Trade and other payables	**9,802**	**—**	**—**	**—**	**9,802**
Bank overdraft	**491**	**—**	**—**	**—**	**491**
Total	**10,293**	**—**	**—**	**—**	**10,293**

£'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2012					
Trade and other payables	8,743	—	—	—	8,743
Bank overdraft	2,565	—	—	—	2,565
Total	11,308	—	—	—	11,308

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

17. Financial risk management (continued)

(f) Fair value measurements

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the liabilities measured at fair value at 31 December 2013:

£'000	**Level 1**	**Level 2**	**Level 3**	**Total**
2013				
Liabilities				
Derivatives used for hedging	**—**	**(94)**	**—**	**(94)**

£'000	Level 1	Level 2	Level 3	Total
2012				
Liabilities				
Derivatives used for hedging	—	(184)	—	(184)

Five Year Review

	2013 £ Millions	2012 £ Millions	2011 £ Millions	2010 £ Millions	2009 £ Millions
Results					
Revenue	**101.1**	93.9	103.6	91.8	67.3
Profit from operations	**23.3**	21.0	25.3	19.7	9.6
Profit before tax	**22.9**	20.2	24.3	18.6	8.4
Assets employed					
Non-current assets	**53.3**	52.8	52.7	47.7	45.6
Current assets	**42.2**	39.3	46.9	43.1	26.9
Current liabilities	**(22.4)**	(20.2)	(28.2)	(32.0)	(15.8)
Non-current liabilities	**(3.7)**	(10.6)	(15.6)	(16.0)	(24.2)
Net assets	**69.4**	61.3	55.8	42.8	32.5
Financed by					
Equity	**69.2**	61.1	55.6	42.6	32.2
Non-controlling interests	**0.2**	0.2	0.2	0.2	0.3
	69.4	61.3	55.8	42.8	32.5
Key statistics (pence)					
Earnings per share	**95.8**	81.7	107.1	83.9	39.4
Diluted earnings per share	**95.1**	81.3	106.4	83.2	39.3
Diluted adjusted earnings per share	**95.1**	81.3	106.4	83.7	40.8
Share price in the year (pence)					
High	**1,630.0**	1,283.0	1,950.0	1,100.0	455.0
Low	**972.0**	805.0	870.0	418.5	115.8
Dividends per share (pence)	**55.0**	50.0	45.0	33.0	22.0

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