XP Power

POWERING THE WORLD'S CRITICAL SYSTEMS

XP POWER
ANNUAL REPORT & ACCOUNTS
for the year ended 31 December 2014

stock code: XPP

XP POWER – POWERING THE WORLD'S CRITICAL SYSTEMS

Power is a vital resource and its efficient use is becoming ever more critical as electronic systems become pervasive in all areas of our lives, as the world continues to urbanise and as climate change becomes a growing concern.

XP Power's portfolio of leading edge, ultra-high efficient products are helping the world's leading manufacturers to create technologies and products to face these trends head on.

Our power converters live inside the world's critical systems, taking the electrical mains supply from the grid and converting it into the correct form of electricity to power our customers' equipment in critical applications in the industrial, healthcare and technology industries.

Our long term investment in research and development has resulted in the broadest, most up to date product portfolio in the industry and has positioned XP Power as a key partner for the world's leading manufacturers of critical capital equipment.

OUR INVESTMENT PROPOSITION

- Exposure to a **broad cross section** of end markets – Industrial, Healthcare and Technology – 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 6% of revenue.
- A **growing** penetration of a global, blue chip customer base.
- **Powerful 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 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 seven years.
- **Progressive Dividend** – the business model allows for a progressive dividend which is paid quarterly.

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NAVIGATING THE REPORT

For further information within this document and relevant page numbers

CONTROL WHEN IT'S CRITICAL

XP INDUSTRIAL

Powering state of the art 3D printers, test and measurement, factory automation, signs and screens, industrial printers and other critical applications.

STRATEGIC REPORT

OUR PERFORMANCE

CHAIRMAN'S STATEMENT

"We have again achieved underlying growth in revenues and earnings and taken share from the competition. In addition we have strengthened the Board, and enhanced our competitive position by producing the first complete power converters in our Vietnam facility and implementing a new Customer Relationship Management system."

James Peters Chairman

23 February 2015

Our progress

2014 was a year of significant progress on many fronts despite economically challenging conditions for the industrial electronics markets. Against this backdrop, we have again achieved underlying growth in revenues and earnings and taken share from the competition. In addition, we have strengthened the Board, and enhanced our competitive position by producing the first complete power converters in our Vietnam facility and implementing a new Customer Relationship Management system across the Group.

Revenues were £101.1 million (2013: £101.1 million), representing a 5% increase in constant currency. Order intake was £105.1 million (2013: £103.7 million) setting a new record for the Group and representing an increase of 6% in constant currency. Revenues from XP Power's own designed product – a key indicator of our strategic progress – grew by 5% (or 11% in constant currency) to £67.2 million (2013: £64.2 million) representing 66% of revenue (2013: 64%) and setting another new record.

Gross margin improved to 49.6% (2013: 49.1%), driven by favourable product mix and manufacturing efficiencies. Operating margins also improved to 24.2% (2013: 23.0%).

As a result earnings per share for 2014 grew by 6% to 101.1 pence (2013: 95.1 pence), demonstrating the effectiveness of our business model. This growth, combined with our usual strong free cash generation, allowed us to increase the dividend once again while achieving the significant milestone of moving from a net debt to a net cash position.

The compound average growth rate of earnings per share has been 20% over the last five years.

Governance and Board of Directors

We have strengthened our Board of Directors significantly over the past year.

On 1 January 2014 Peter Bucher joined the Board as a Non-Executive Director. Peter has excellent commercial and technical experience in the power converter industry and has already made a valuable contribution to the business during 2014.

I am also pleased to welcome Terry Twigger to our Board with effect from 1 January 2015. As the former CEO of Meggitt PLC, Terry has a wealth of international and public company experience in the engineering sector, including numerous successful acquisitions. I am confident he will make a significant contribution to the growth of our business.

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, the Board is recommending a final dividend of 22 pence per share for the fourth quarter of 2014. This dividend will be payable to members on the register on 13 March 2015 and will be paid on 9 April 2015.

When combined with the interim dividends for the previous quarters, the total dividend for the year will be 61 pence per share (2013: 55 pence), an increase of 11%.

The compound average growth rate of our dividend has been 23% over the last five years.

Our Talented People

We have significant strength and depth in our organisation. 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 less than 45 and average length of service of over 15 years. The breadth and depth of experience and collective teamwork of our people delivers genuine value to our customers.

Building a Sustainable Business

The Group believes it leads its industry on environmental performance and places sustainability at the heart of its business model. We are building a sustainable business that can grow and prosper in the long term, including how we support and provide genuine value to our customers, how we treat and reward our people, through to our business ethics.

Outlook

While the global economic outlook again looks mixed in the year ahead, we believe we can grow our revenues as the new designs won in 2014 and prior years enter production. We also plan to invest in additional sales and engineering resources in North America during 2015 to help drive further growth.

We enter 2015 with a strong balance sheet having closed 2014 in a debt free position. This places us in an excellent position to make bolt on acquisitions to further broaden our product offering and engineering capabilities.

James Peters
Chairman

FINANCIAL HIGHLIGHTS

Order Intake
(£ millions)

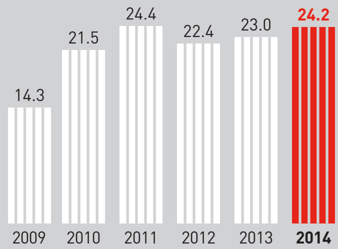
+6%

in constant currency

Operating Margin (%)

+120

basis points



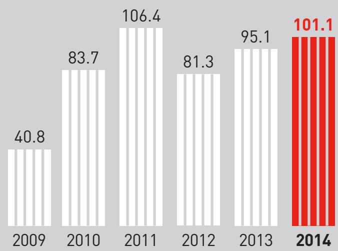
Revenue
(£ millions)

+5%

in constant currency

Earnings per Share (pence)

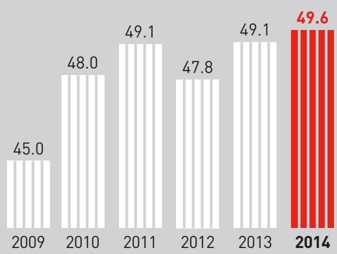
+6%



Gross Margin
(%)

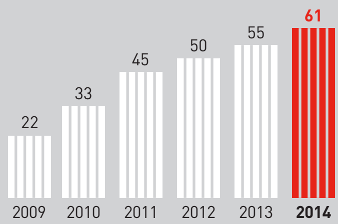
+50

basis points



Dividend per Share (pence)

+11%



OPERATIONAL HIGHLIGHTS

- Proven strategy of developing and manufacturing our own range of market leading products produced another year of strong progress
- First complete power converters manufactured at the Vietnam facility
- Order intake increased to £105.1 million setting a new record for the Group, an increase of 6% in constant currency
- XP Power's own-design revenues increased to a record £67.2 million, an increase of 11% in constant currency and representing a record 66% of revenue
- Sales of high efficiency products increased by 36% to £18.6 million representing 18% of revenues
- Strong earnings and continued strong cash flows resulted in a net cash position of £1.3 million at year-end (2013: net debt of £3.5 million)
- Total dividend for the year increased by 11% to 61 pence per share (2013: 55 pence per share)

XP POWER AT A GLANCE

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

Powering and Protecting the World

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 function. 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 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 a vital part of any piece of electrical equipment.

Meeting Our Customers' Requirements

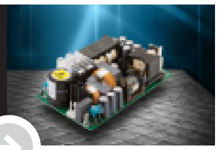
Our customers manufacture capital equipment and we target the healthcare, industrial and technology markets. We do not have any direct exposure to consumer electronics or high volume low margin business seen in the computing and datacentre industries. The equipment our products power is often mission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

Allowing Our Customers to Gain a Competitive Advantage

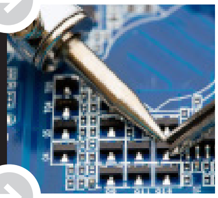
XP Power reduces the production and running costs of our customers' equipment enabling them to gain a competitive advantage.

What we Offer

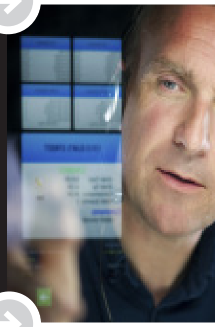
Broad, leading-edge product line with ultra-high efficiency



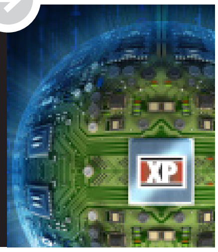
Class leading manufacturing ensuring excellent quality, reliability and competitive cost



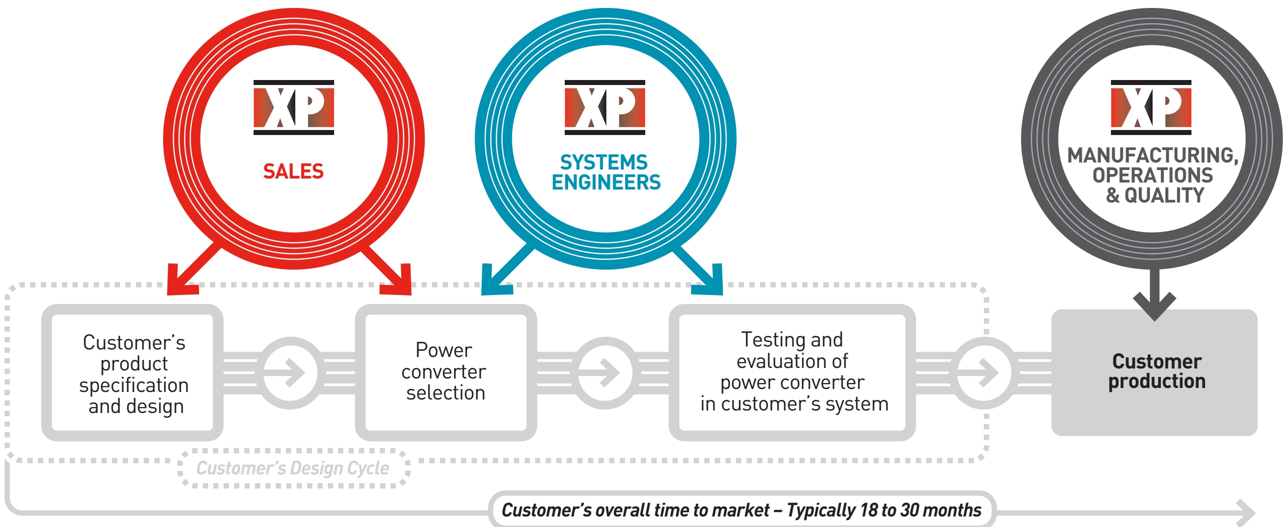
Class leading customer service and support through highly knowledgeable and experienced sales team (the largest in the industry) and power systems engineers

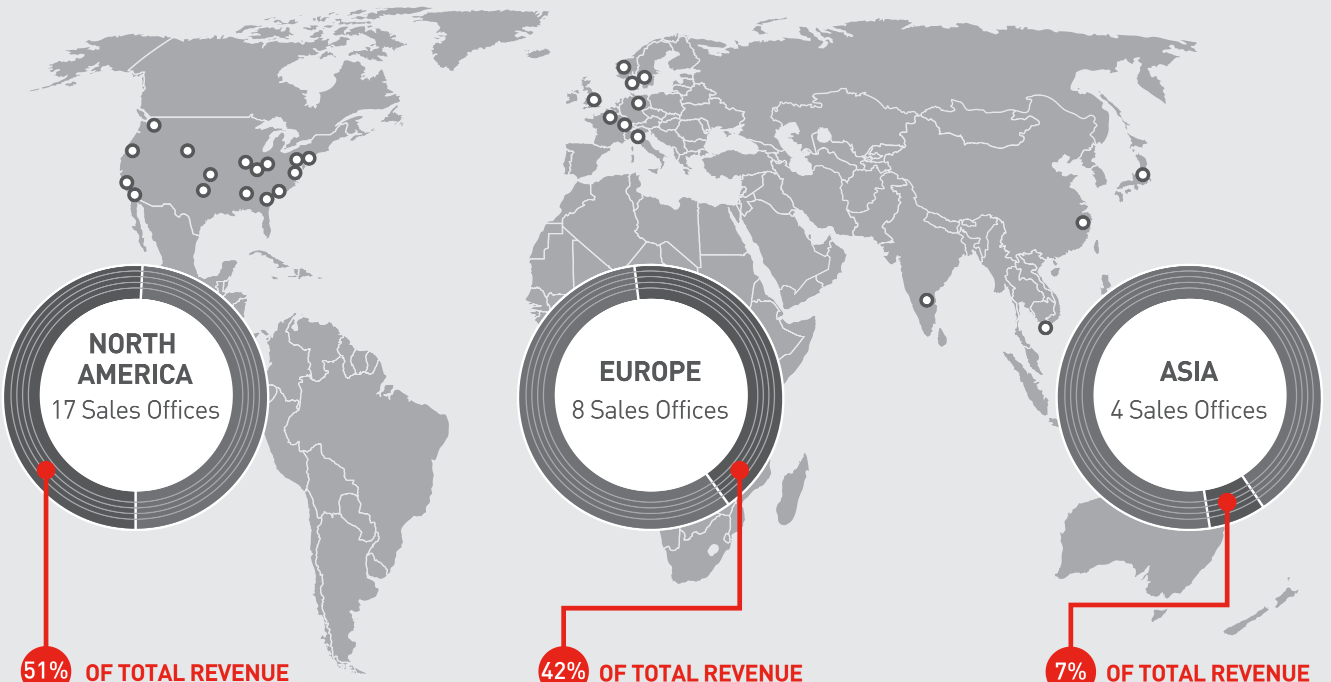


Engineering on three continents providing excellent design support during design in to reduce time to market



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





51% **OF TOTAL REVENUE**
2013 revenue US$78.4 million
2014 revenue US$84.9
UP 8.3%

42% **OF TOTAL REVENUE**
2013 revenue GB£43.8 million
2014 revenue GB£42.2 million
DOWN 3.7%

7% **OF TOTAL REVENUE**
2013 revenue US$11.5 million
2014 revenue US$12.6 million
UP 9.6%

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 29 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.

NORTH AMERICA

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.

EUROPE

In Europe, the XP Power network consists of eight sales offices and a further nine distributor offices. In addition, XP Power has engineering services centres in Germany and the UK. A direct sales office was added in Israel early in 2015.

ASIA

We have four direct sales offices in Asia run from Singapore, where we also manage a network of seven distributors serving the region. A direct sales presence was added in Japan during the year.

OUR MARKETPLACE

We continue to develop a fresh portfolio of leading edge, ultra-high efficiency products, allowing us to take further market share.

The Markets We Serve

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 500 Equipment Manufacturers:

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

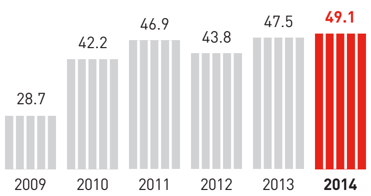
The diversity of our business is a significant strength, with no one customer exceeding more than 6% of revenue. Further, there is no one dominant player in the markets we address due to the diversity of customer requirements.

Revenue Trends

Revenue trends by sector are set out below.

Industrial

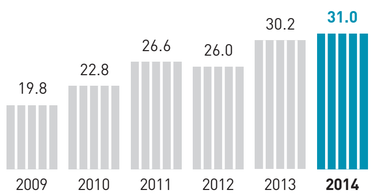
Industrial Revenue (£ millions)



Industrial remains our most diverse end market.

Healthcare

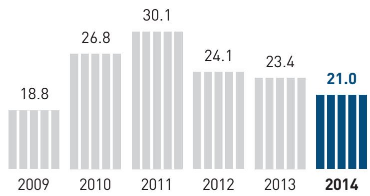
Healthcare Revenue (£ millions)



Further gains from corporate approvals at the major blue chip customers offset by the effect of the weakening US Dollar.

Technology

Technology Revenue (£ millions)

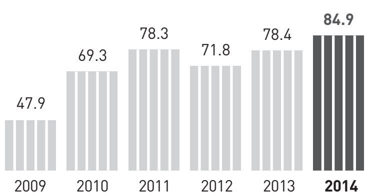


Technology continues to be the most cyclical sector.

Revenue by geography is set out as follows expressed in US Dollars to highlight the underlying trends in North America and Asia.

North America

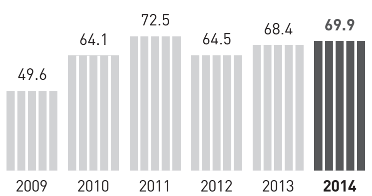
North America Revenue (US$ millions)



The North American market shows steady momentum driven by larger opportunities in blue chip accounts.

Europe

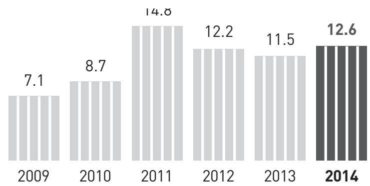
Europe Revenue (US$ millions)



The market in Europe remains mixed. It has been more difficult to grow in the markets such as the UK where the Group already has a strong share and the programmes are more project based. However, central and southern Europe where XP Power is a comparative newcomer are showing sustained growth.

Asia

Asia Revenue (US$ millions)

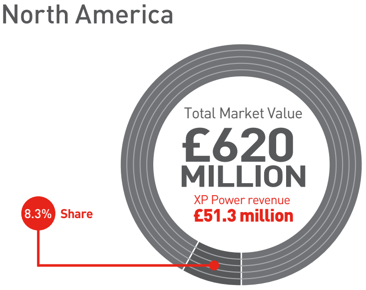


In prior years, the Asia business had benefitted from one unusually large account which peaked in 2011 and reduced to zero in 2013 when the programme went end of life. The Asian business is now showing steady growth from customers that place value on XP Power's value proposition.

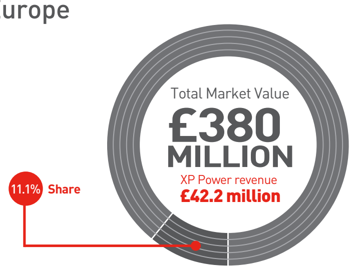
Market Size and Opportunity

We estimate that XP Power has a 6% share of the available global market.

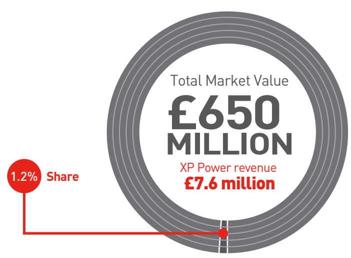
North America



Europe



Asia



Source: MicroTech Consultants 2014 Report

GROWTH DRIVERS

There are a number of different growth drivers for our business:

Energy Efficiency and Reliability

The requirement from customers and legislation for products to consume and waste less energy is driving demand for more efficient power converters. This goes hand in hand with reliability for critical applications as ultra-high efficiency products do not require relatively unreliable fans to cool them and cooler systems mean key components such as electrolytic capacitors have longer lifetimes.

Innovation

Our customers' competitive need to launch new products offering increased productivity and functionality whilst reducing harmful environmental impacts. In addition, our customers are trying to differentiate their products from their competitors which frequently results in different or new power conversion requirements.

New Products

The diverse product requirements of XP Power's target market provide opportunities to enter new niches and provide flexible solutions.

Penetration

Our blue chip customer base provides good opportunities to win additional new product programmes from multiple engineering teams across the globe. We have gained corporate approval at many blue chip companies over the past few years. We now need to capitalise on these approvals and win a larger share of the business that is available.

Healthcare

A global population that is both increasing and ageing, coupled with increased legislation, is driving the deployment of more healthcare devices, particularly in the home. This in combination with new technologies and treatments becoming available makes healthcare an excellent sector for XP Power. The customers in this area demand the ultimate in quality and reliability and appreciate and value XP Power's value proposition.

Proliferation of Electronic Devices

Electronic devices are becoming more and more pervasive in our lives as new technologies and innovation emerges. These devices require power converters to operate, expanding XP Power's potential markets.

Legislation

Our industry continues to be the subject of an increasing raft of legislation from numerous countries and standard setters relating to areas such as environmental impacts, safety requirements, and above all energy efficiency. The compliance costs of keeping up with this legislation favour a company the size of XP Power where we are large enough to be able to devote resources to this yet agile enough to respond quickly with new products or documentation as required.

Capital Equipment

Our products are designed into and power capital equipment and as such are subject to the capital equipment cycles. While industrial company investment in capital has been subdued over recent history due to global economic conditions, new capital investment does generally lead to greater productivity and we consider that the medium and long term opportunities remain positive for capital equipment. This is particularly the case as we see labour costs rising significantly in emerging markets.

Expansion of "Green" Products

Climate change and emission of greenhouse gases is becoming a more significant issue as emerging countries develop and urbanise. XP Power has taken a leading role in developing ultra-efficient products which consume and waste less energy and that are suitable for use in healthcare and industrial applications.

How We're Responding to Take Advantage

The trends that are driving growth in our markets demand a broad range of products, many of which are required to be leading in terms of efficiency.

We have responded by maintaining and expanding our product development in downturns, resulting in XP Power establishing the broadest, most up to date portfolio of products. Many of these have leading edge efficiency and are being well received by our customers. In particular we see opportunities in the healthcare sector where the customers are extremely demanding but value the proposition we offer.

We have also identified a number of attractive subsectors in the industrial space where are customers also value what we have to offer.

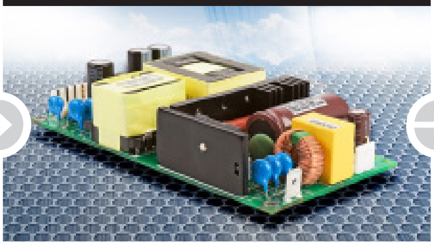
As well as an excellent product portfolio we also recognise that the world is becoming more competitive and our costs have to be competitive in order for XP Power and our customers to prosper. Our move into Vietnam, where labour costs are significantly less than China, and are not escalating at the same rate, will give us an attractive cost base in combination with an excellent product portfolio and local service and support.

OUR STRATEGY

To allow us to achieve our vision – "To inspire our people to be The Experts in Power delivering genuine value to our customers" - XP Power has followed a clear and consistent strategy of moving up the value chain, powered by six strategic initiatives:

Development of a strong pipeline of **leading-edge products**

Expansion of our high efficiency "green" products



Targeting key accounts and increasing the penetration of existing key accounts

Our Progress in 2014

We released 26 new product families, in 2014 (2013: 31 new product families). Some of which are amongst our most technologically advanced ever including the CCL400 which is a 400 Watt unit capable of running without a fan.

Revenue from "green" products increased by 36% to £18.6 million representing 18% of revenues (2013: £13.7 million or 14% of revenues) setting a new record for the Group.

We signed strategic purchasing agreements or gained approved supplier status with 36 key customers in 2014.

In addition revenue from the top 30 customers represented 40% of revenue (2013: 39%).

Plans for 2015

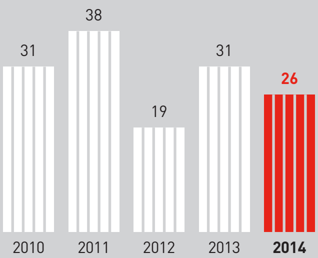
- Further product releases including "green" products
- Search for suitable bolt on acquisitions to expand our product portfolio

- Further "green" product releases are planned for 2015 which should continue to drive further revenue growth
- In addition we have a number of successful design wins of green products released in 2014 and before which we expect will enter production and drive revenues in 2015

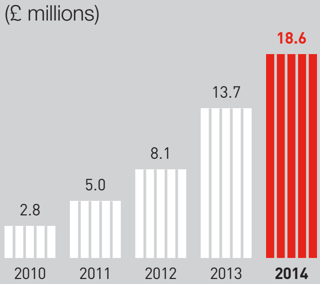
- Continue to grow our share of customers' business where we are preferred or approved suppliers

How We'll Measure Our Success

New product families released

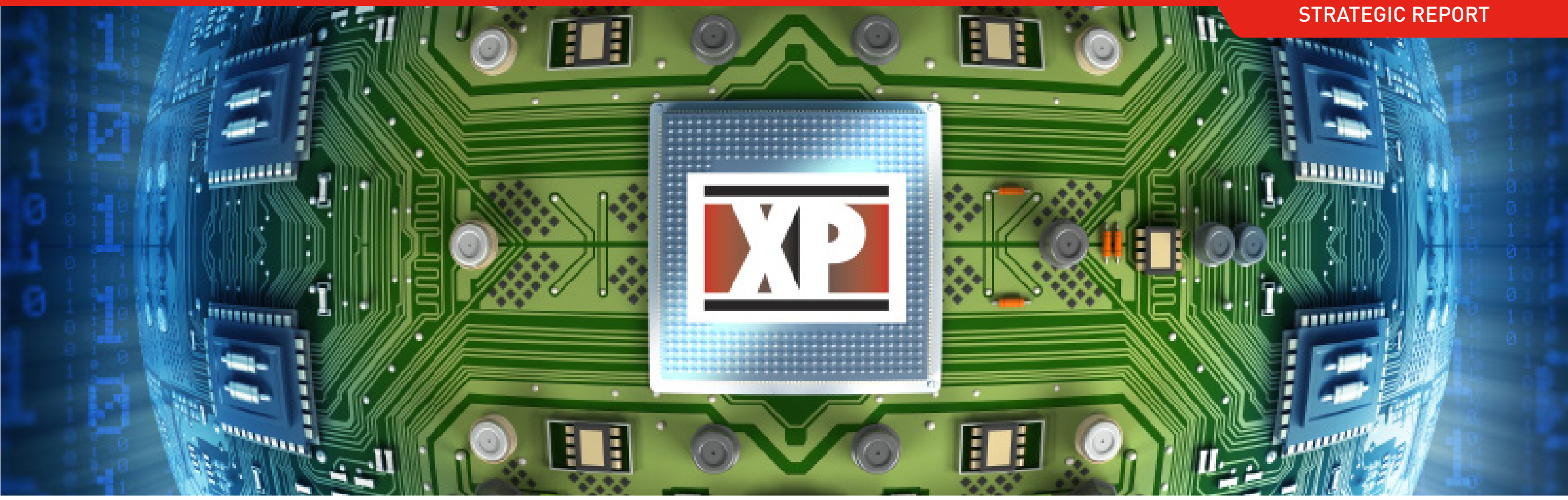


"Green" product revenue
(£ millions)

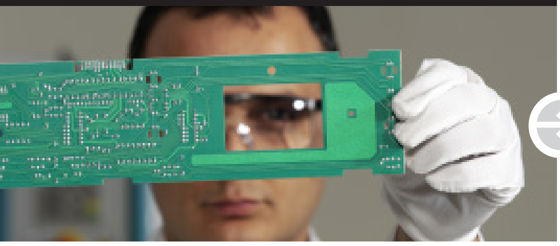


- New strategic customer agreements
- Growth in business from key customers

Read more about our Key Performance Indicators on pages 32 and 33.



Enhancing our value proposition to our customers by becoming a manufacturer



In 2012 we became more vertically integrated when we started manufacture of magnetic components in our new Vietnamese facility. This gives us access to lower costs and quicker lead times for these critical components.

In 2014 we started manufacture of the first complete power converters in our Vietnam factory, which will preserve our cost advantage and expand our capacity to meet customer demand.

In 2014 we manufactured a record 1.3 million power supplies.

- Continue the qualification of power converters in Vietnam
- Continue to ramp our magnetics production in Vietnam to maintain cost competitiveness
- Enhance our manufacturing capabilities in our China facility for the higher complexity product we shall be releasing in 2015

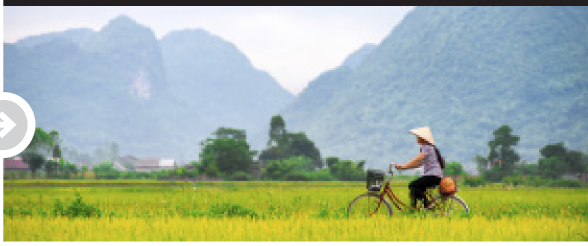
Increasing the high margin contribution of our own designed/manufactured products

We have seen a further increase in our own designed product in 2014 to £67.2 million or 66% of revenue (2013: £64.2 million or 64% of revenue), setting a new record.

This mix effect resulted in an increase in gross margin to 49.6%, which is also a record for the group.

- We have a number of product releases planned for 2015 which should allow us to continue the trend of growing the own design/manufactured products in absolute terms and as a percentage of the overall revenue

Leading our industry on environmental matters



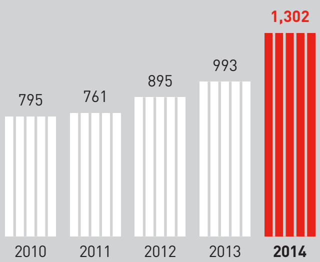
We gained our “Green Mark” Gold certificate for the environmental performance of our Vietnam manufacturing facility. This facility is the most environmentally friendly in our industry and is the first of its kind to be awarded this rating in Vietnam.

We also undertook a number of other initiatives including insulating and upgrading the windows in our UK facility.

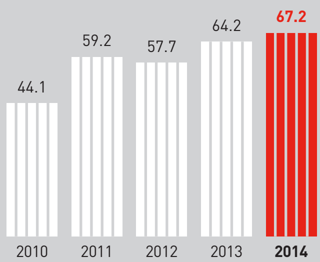
We also continued to launch a number of high efficiency products including the CCL400 which is a 400 Watt unit that will run without the need for a fan.

- We will continue to release products with class leading efficiency suitable for use in healthcare and industrial applications

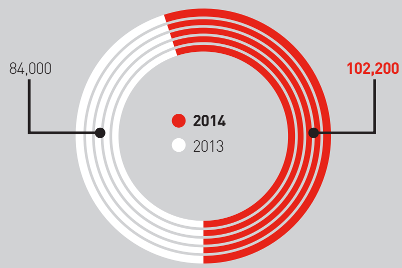
Number of units manufactured
(Thousands)



Own design revenue
(£ millions)



Lifetime CO_2 Emission savings from “green” products
(Tonnes)



OUR BUSINESS MODEL

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

How We Manage Our Relationships

Our Customers are at the Heart of what We Do

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, backed up by highly skilled power systems engineers, combined with the safety and reliability benefits of world class manufacturing provide a compelling value proposition to our customers.

Having come from a sales and marketing background in our former incarnation as a distributor, then moved into design and then later into manufacture, we have a unique understanding of our customers and the market compared to much of our competition.

Managing Our Supply Chain Carefully

The management of our supply chain is critical to our success. Quality and reliability are paramount to our customers, who often provide critical healthcare or industrial systems. For that reason we need excellent suppliers with high quality standards.

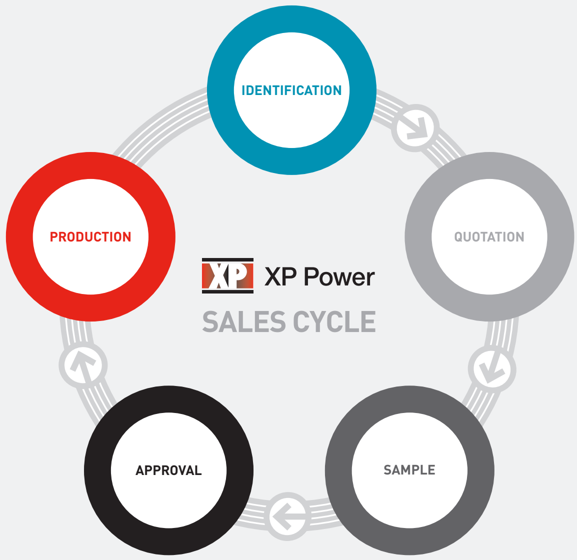
We have a rigorous approval process which looks at all aspects of a supplier before we engage with them. This not only includes a prospective supplier's quality systems and standards, but also their financial viability and, of course, their environmental performance and treatment of their people.

We are a full member of the Electronic Industry Citizen Coalition (EICC) and have adopted the EICC Code of Conduct throughout our organisation. This not only deals with environmental standards but also treatment of people, health and safety and business ethics.

Our customers demand excellent quality and security of supply and strong corporate social responsibility standards.

How we Add Value through the Sales Cycle

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.



1 IDENTIFICATION

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

2 QUOTATION

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

3 SAMPLE

One or more samples are provided to the customer for them to evaluate in their system. This is a critical stage of the sale and we often find that the first company providing a sample that works in the equipment will win the design slot. Speed is therefore of the essence.

4 APPROVAL

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

5 PRODUCTION

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

How We Differentiate ourselves

Our 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 less than 45 and average length of service of over 15 years. The breadth and depth of experience and collective teamwork of our people deliver genuine value to our customers.

Our Products

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.

Our Design 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.

Our Green Innovation

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.

Our 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 programmes 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.

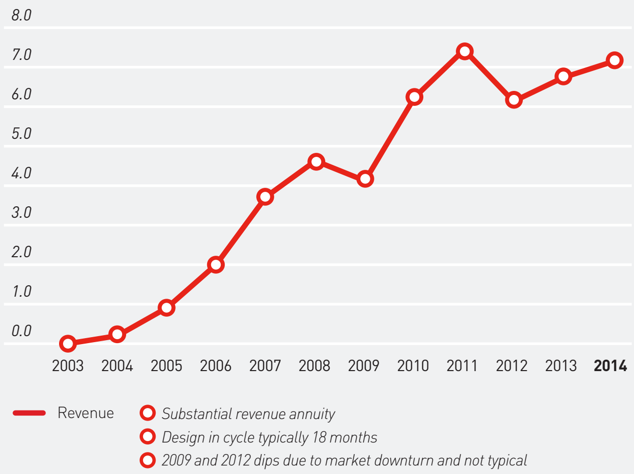
See page19 for more detail

Generating Long-Term Revenue Annuities and Shareholder Value

Generating Revenue Streams through Strong Annuities

Although the time from identification of a customer programme can be very long (typically 18 to 30 months), once the product is designed into our customers' equipment we enjoy an ongoing revenue annuity for a large number of years. Typically this is around seven years but can be longer or shorter depending on the industry sector and particular application. Our pipeline of programme wins with significant customers continues to build.

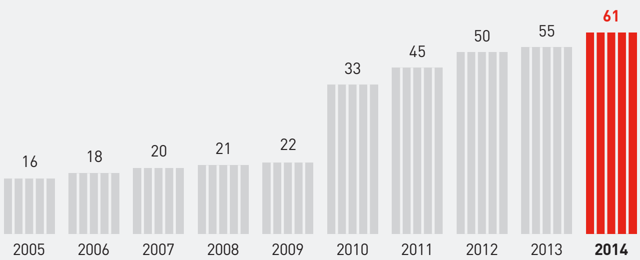
Revenue lifecycle from ECM40/60 product family



Progressive dividend policy

Our business model and clear strategy, consistently applied, has not only resulted in long term growth and profitability and also strong free cash flow. This has enabled us to adopt a progressive approach to the dividend which is paid quarterly.

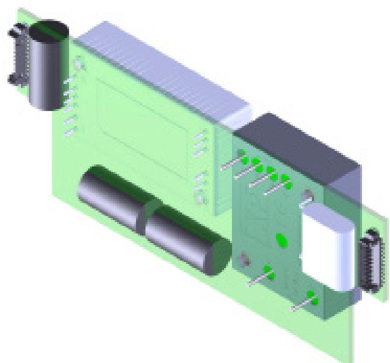
10 year dividend history (pence per share)



The compound average growth rate of the dividend per share has been 23% over the last 5 years and 16% over the last 10 years.

OUR MODEL IN ACTION OUR PEOPLE

The customer supplies communication equipment, serving areas such as police, fire, rescue and other emergency services markets, and came to us with a requirement for a DC/DC power converter. They had previously been working with another company which was designing them a custom power converter for their application but, despite promises of a fully compliant solution, had after a period of time discovered that the specification was too onerous for them to achieve. The solution had to meet the stringent requirements for conducted and radiated emissions and immunity, and a very tough environmental requirement. In addition, even though the maximum output power was only 15 Watts, it had to fit inside a relatively small space the customer had allowed for the power converter in their system.



After our people had worked closely on site with the customer regarding the requirements, our team of experienced design and applications engineers came up with a solution based on one of our standard filters and DC/DC modules. These are designed in our standard product design centres and built in our manufacturing facility, ensuring a low cost proven technology product. These parts are qualified to the electrical specifications required and are designed in such a way to utilise the enclosure in which they are placed as a heat sink. This means they can be used within small enclosures and radiate a large proportion of the unwanted heat to the outside environment. This helps to keep the internal temperature low and maximise component lifetimes.

The tougher part of the design was the required EMC performance. Because the end application was a communications system, the limits that needed to be met were very low, allowing the system to be used in harsh, noisy environments. This combined with the space constraints, as is often the case with this type of application, did not allow for ideal component placement. So, utilising the expertise of our design engineers and in-house conducted and radiated emissions facilities, we were able to perfect the circuit before performing the final tests and gaining approval in an expensive third party test house. Having our own EMC facilities and dedicated engineer meant a very fast turnaround for the customer, keeping costs to a minimum.

Having an experienced design and applications team which understood the customer's requirements helped to ensure that the design risks were low. Being local to the customer allows for our engineers to be seen as part of the customer's design team. This meant that ideas and thoughts could be quickly shared, understood and acted upon. Basing the design around standard parts ensured that the cost expectations of the customer were met, and removing the need to design the filter and power conversion stages from scratch helped to ensure short design timescales.

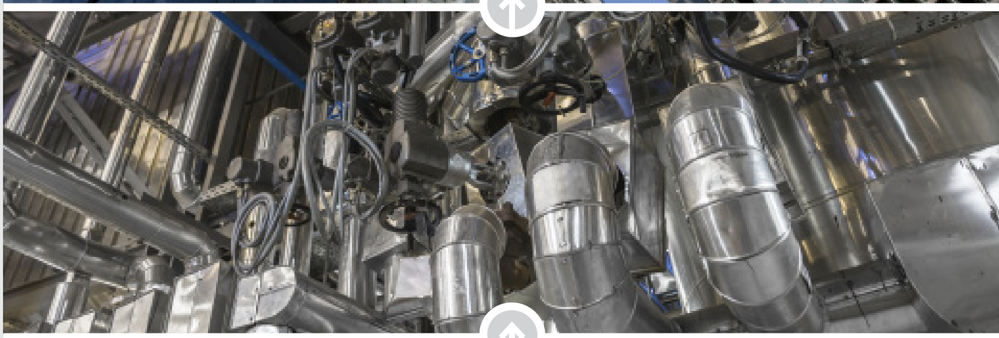
OUR MODEL IN ACTION OUR PRODUCTS

A manufacturer of building control systems based in Europe uses our standard ECE05 encapsulated AC/DC power module in a wall mounted control panel. The ECE05 was selected for its very high efficiency and very small size, utilising the benefits of low heat dissipation, low profile and small footprint to minimise the internal ambient temperature and maximise the available space for the end application within the enclosure.

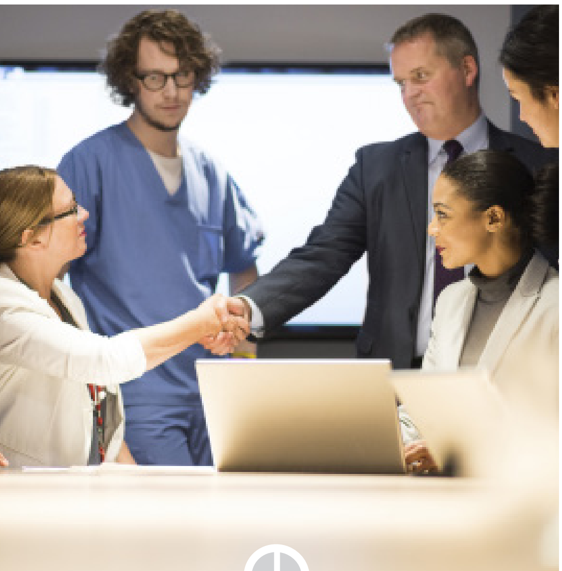
Due to the customer's high quantity expectations of the next development, which offers a reduced feature set at a lower price, cost was a key driver for all system elements including the power converter. The customer approached XP Power to discuss the application and cost targets compared to an in-house development for the power converter.

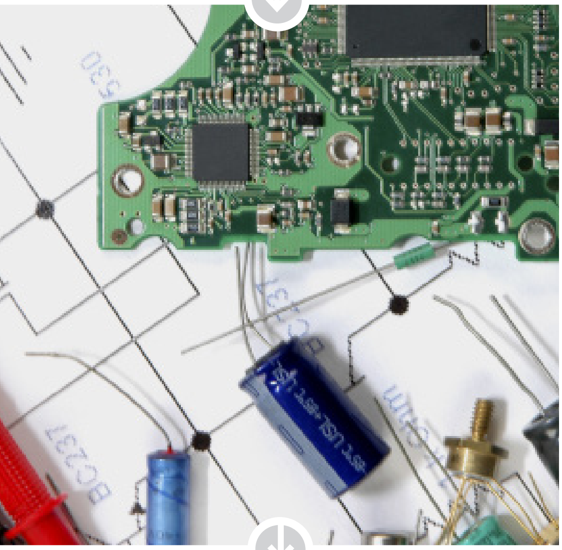
Working with the engineering group at the customer to fully understand the precise needs of the application and match the power converter to the system needs, we were able to compromise certain specification elements of the standard product while maintaining the key efficiency and size benefits, adopting a simplified feedback and control system for a modified version of the ECE05 and removing the case and encapsulation. The simplified control system significantly reduced the component count and combined with the removal of the case and encapsulation realised a modified standard version at significantly lower cost, beating the original target cost for the power converter.

Adopting this modified standard approach also ensured that the key elements of the development and production of the power converter including design verification, specification verification testing, safety agency approvals and Electro-Magnetic Compatibility along with the manufacturing and test processes are managed by XP Power rather than by the end user, further reducing the cost of the design and manufacture of the end equipment throughout its lifecycle.



OUR MODEL IN ACTION OUR DESIGN ENGINEERING





How XP manage the life cycle from design to manufacture.

Our broad portfolio of innovative new products stems from design engineering groups on three continents, sharing an agile approach to product development and feeding our Asian manufacturing facilities.

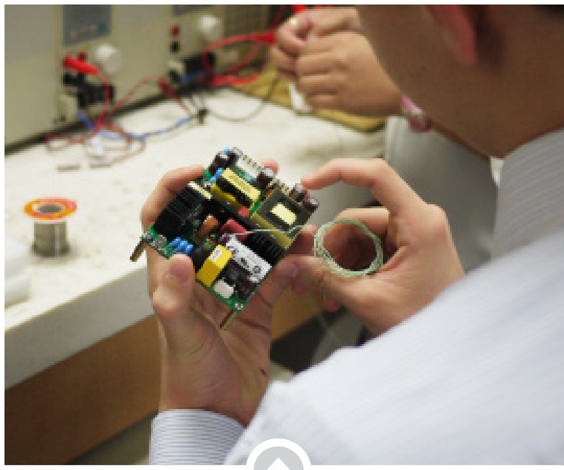
New product ideas are generated and nurtured through a group of multidiscipline people from sales, marketing, technical support and research and development. The diversity and customer facing experience of this group, coupled with a large direct sales force, allows us to directly translate and aggregate the needs of our wide customer base into our new product specifications.

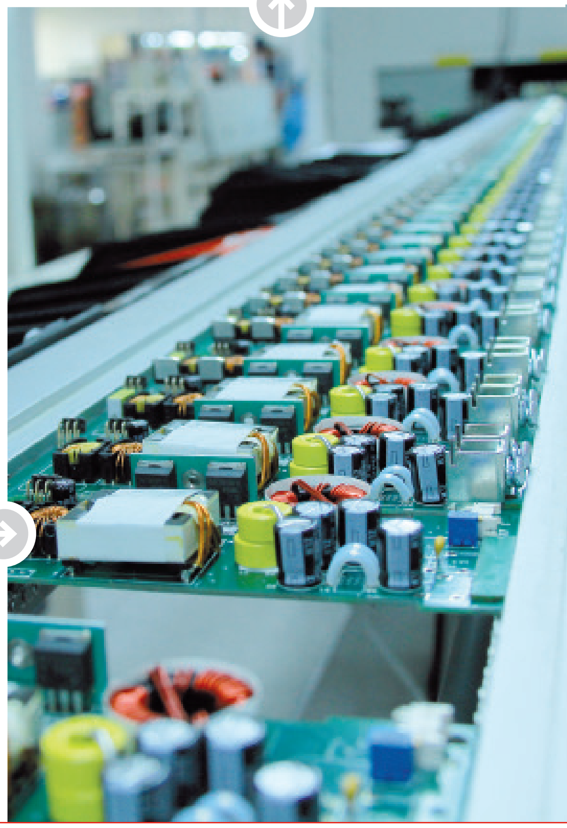
This customer knowledge is key throughout the design cycle in ensuring that our product designs remain focused on the core customer requirements, keeping feature creep to a minimum. We also share the new product roadmap with our entire sales team and key customers as early as possible to again sanity check the direction of the project. Our key customers will also share their future power requirements and trends with us so that we are able to develop products to meet their future needs.

The design itself starts with the sound principle of approved components selected from approved vendors and utilised with strict de-rating and lifetime rules. Parametric, cost and user needs are verified at each stage of the project along with design for manufacture assessments and quality control checks.

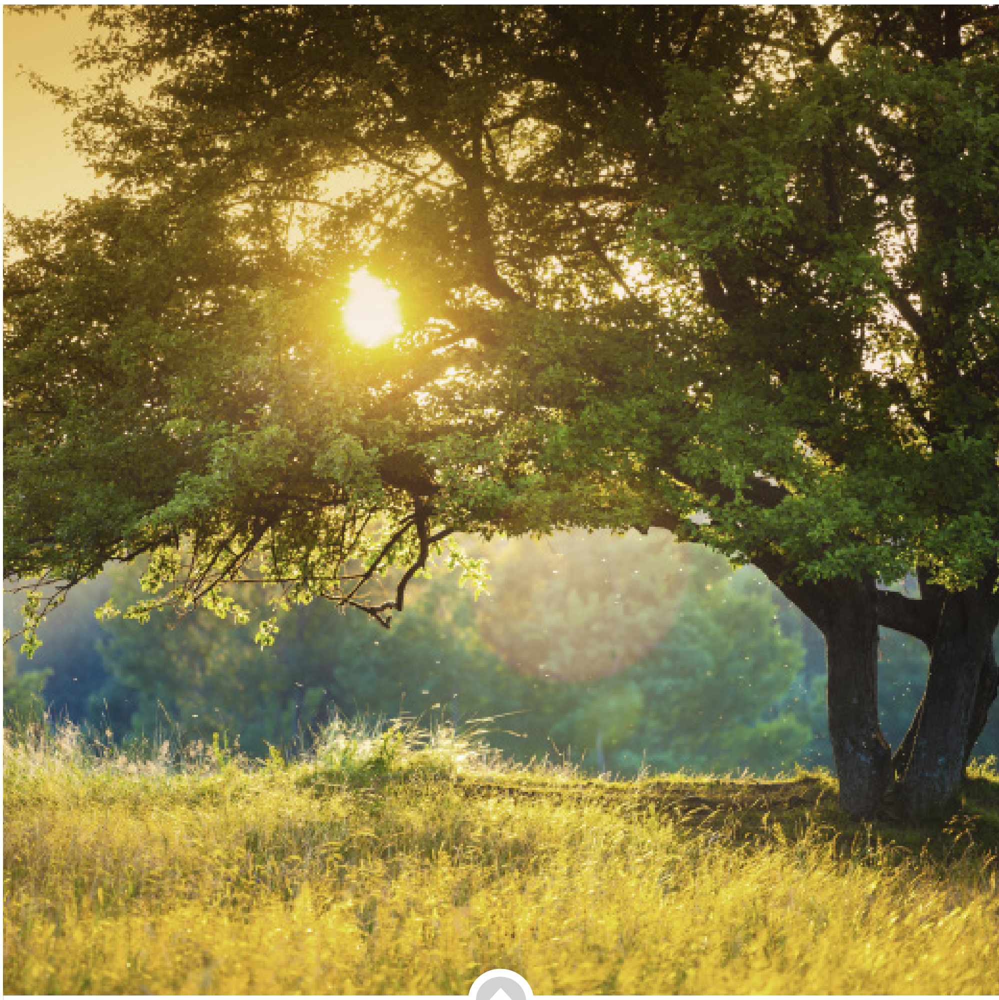
Regular design reviews ensure that the project team has a platform to share progress, remove roadblocks and reach out for input into any off specification areas that may have been identified.

Once a design reaches the appropriate control gate we run a small manufacturing batch which provides products for the launch to our sales team and allows product to be sampled to key customers.





OUR MODEL IN ACTION OUR GREEN INNOVATION



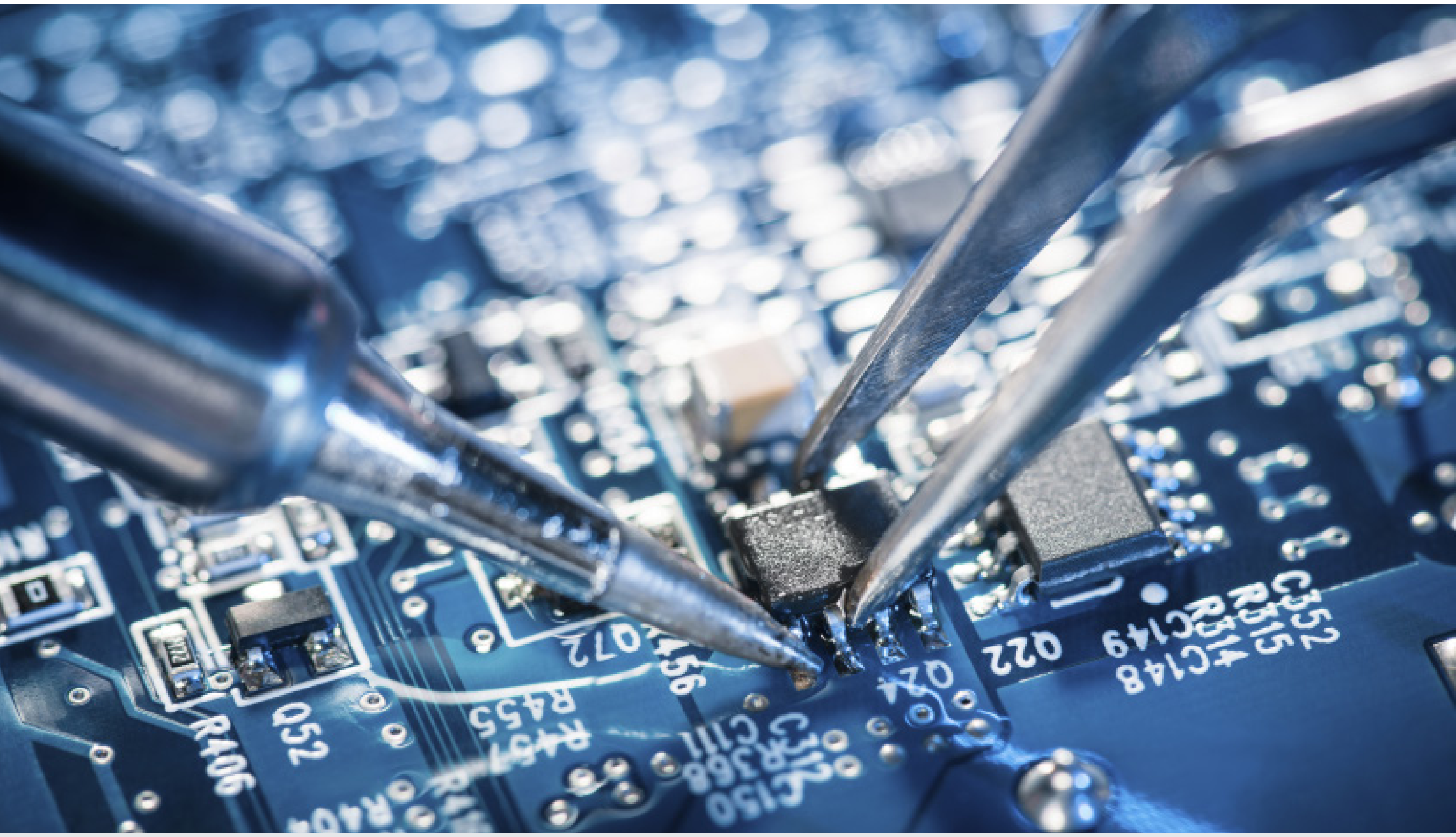
There are two important elements which our customers value when considering green issues.

First, our target customers will only engage with suppliers who have high standards of corporate social responsibility. In this regard our membership of the Electronic Industry Citizenship Coalition (EICC) whose Code of Conduct covers environmental, treatment of people, and health and safety, as well as business ethics, has been extremely helpful in gaining approved or preferred supplier status. When our customers audit our facilities it is immediately evident that we take environmental matters seriously and have chosen to lead our industry on environmental performance.

Second, our customers are increasingly looking for product that is leading edge in terms of its efficiency and consequently its reliability. XP Power has the broadest, most up-to-date portfolio of products, many of which have class leading levels of efficiency. This makes us an ideal partner for power converter solutions when customers are determining who they select as their preferred vendor.

These two factors make a powerful and compelling proposition and demonstrate the value of XP Power's green innovation.

OUR MODEL IN ACTION OUR MANUFACTURING



As XP Power moved up the value chain we identified an opportunity to move into manufacturing and offer our customers the assurance of absolute control over the manufacturing process, including full traceability of components to ensure the highest standards of quality and reliability. The addition of our own state-of-the-art manufacturing capability has been transformational to our business and has been instrumental in the winning of new programmes.

State-of-the-Art Manufacturing Capabilities

Our first state-of-the-art manufacturing facility, located at Kunshan, near Shanghai, China, opened in June 2009. It uses class leading manufacturing techniques and equipment. This process starts with rigorous supplier selection and incoming component inspection, through to automatic testing of the final product. Throughout the manufacturing process we make use of the latest capital equipment to improve throughput and enhance product reliability. This includes the latest automatic pick and place technology, computer controlled wave soldering, automatic optical inspection, in-process testing, full product burn-in and then, finally, full function automatic testing of the completed product.

Our manufacturing capability is instrumental in winning more business with key blue chip customers, who insist on detailed factory audits before awarding contracts. Customer audits of the Kunshan facility have been very successful, with a number of key customers commenting that it is the best power converter factory that they have visited.

We recognised that moving into manufacturing would enhance our value proposition to these customers and allow us to realise the full potential of the portfolio of leading edge products we had developed. Our performance since opening our new Kunshan, China factory in 2009, particularly in the healthcare sector, is a validation of the success of this strategy.

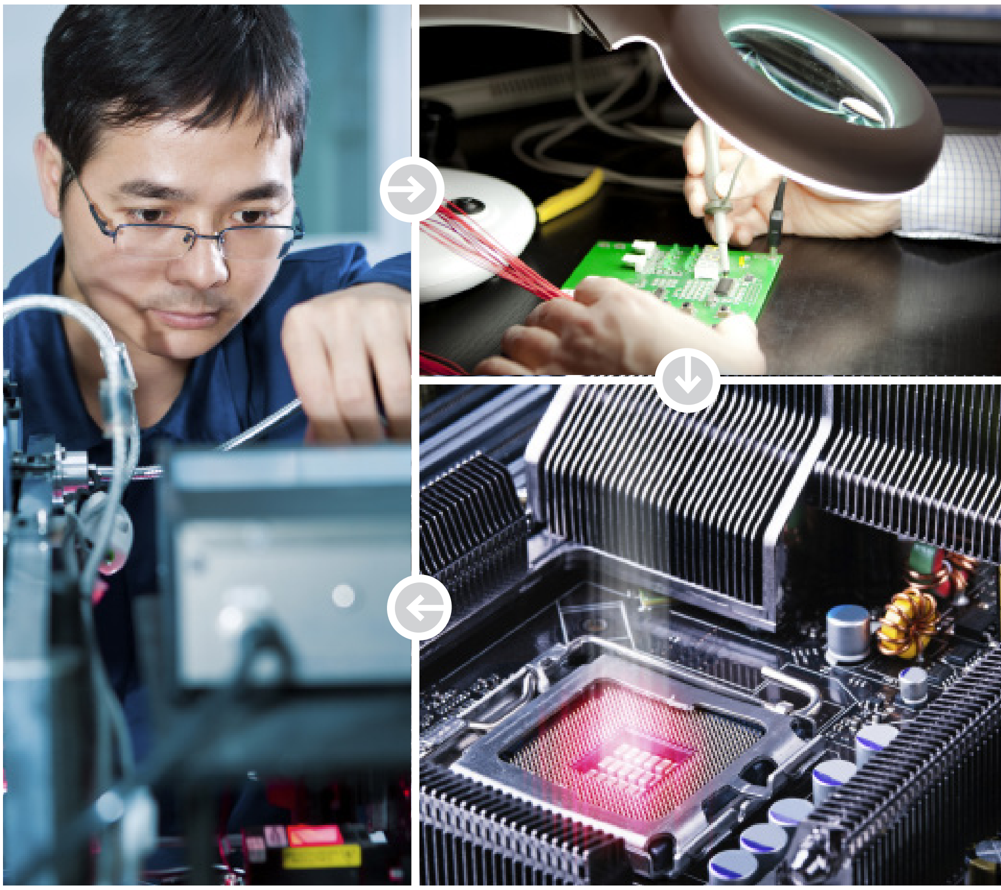
Further Expansion – Vietnam

In the first quarter of 2012 we became more vertically integrated and commenced manufacture of magnetic components in our new facility located in Ho Chi Minh City, Vietnam. This facility is both state-of-the-art for our industry and the most environmentally friendly power converter manufacturing facility in the world. The environmental features of the facility are set out in our environmental report on page 21.

This further vertical integration enhances the value proposition to our customers, reduces our lead times and mitigates the effect of rising costs in China. We started manufacturing the first complete power converters in Vietnam in the fourth quarter of 2014.

OUR MODEL IN ACTION OUR QUALITY AND RELIABILITY

Quality and reliability are paramount to our customers. The power solutions we provide are often powering mission critical systems and therefore XP Power's customers cannot accept any downtime. Quality and reliability are considered at every stage, starting early in the product development life cycle and consistently throughout the entire production process.



Prior to a design development, XP Power starts with understanding customer expectations, not just on product quality but all facets of the business. This information is communicated to our New Product Creation team that works with the other teams so there is a clear understanding of all the requirements.

Once a design project has started there are various programmes in place to provide the most reliable product to our customer base. In addition to strict component selection criteria, we have our own industry leading component de-rating guidelines that we adhere to. 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.

Other tools and techniques employed include:

- Failure Mode and Effect Analysis of both our design and process. This helps us identify possible failures within our design and manufacturing process.
- Highly Accelerated Life Testing is performed for new product releases. This helps us identify weaknesses of our design and take further actions to improve reliability.
- Specification Verification Test which is a comprehensive test of all the specification parameters.
- Extended Burn In Life Test which is a continuous test at elevated temperatures until point of failure. This data is collected and acted upon as needed.
- Package Drop Test to ensure our packaging is robust for both air and ocean transportation methods.

Once our products are in mass production it is essential that our manufacturing facilities produce excellent quality product. We continue to monitor performance, through our Ongoing Reliability Test programme. Products are randomly taken from the manufacturing line and are tested on an ongoing basis. These tests are to ensure the reliability of the product has not been compromised throughout the life cycle.

Our manufacturing is state of the art within our industry. We use equipment and processes that assure the manufacturing quality of the product.

Our facilities make use of equipment such as Automatic Optical Inspection machines. This equipment ensures that all the components are correctly populated onto the printed circuit boards, have the proper orientation and are properly soldered. This equipment can carry out a detailed inspection process more efficiently and effectively than human inspection.

These are just some of the programmes in place to ensure we provide exceptional quality and a highly reliable power solution to our customers. At XP Power it's not about meeting customer expectations, but exceeding customer expectations. Our customers rely on our products for various types of applications. Any downtime as a result of the power solution could have significant ramifications, therefore at XP Power quality and reliability is of the upmost importance.

COMMITTED TO SUSTAINABILITY

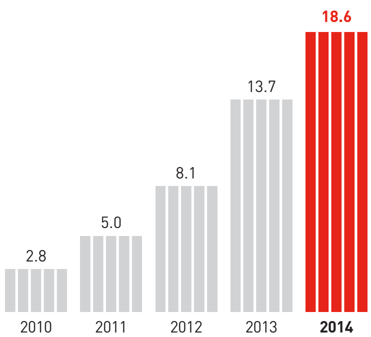
"We are continuing to lead our industry regarding environmental matters; particularly with our class leading ultra-high efficiency Green XP Power product offering. This a key business driver for us from which we expect to gain a long term commercial advantage."

Sean Ross Environmental Committee Chairman and Vice President of Quality Assurance

23 February 2015

"Green" Product Revenue

(£ Million)



What We Stand For

We are fully committed to leading our industry on corporate social responsibility matters. We believe we can play a pivotal role in the world of industrial and healthcare electronics where our ultra-high efficiency products can save energy and reduce greenhouse gas emissions year after year.

In 2009 we established an environmental committee to help us achieve our vision of leading our industry on environmental matters. Beneath that committee we 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 and engagement in the local communities in which we operate.

Managing Our Environmental Impacts

We conducted a review of our impact on the environment and it was clearly evident that the greatest contribution we can make to protect the environment is by developing and encouraging our customers to adopt our ultra-high efficiency products. These class leading "Green XP Power" products waste less energy, consume less physical material and avoid the use of hazardous substances. These energy savings will occur year after year for the period in which the customers' end equipment is operating.

In parallel, we are ensuring we adopt good environmental practices within our facilities and the communities in which we operate.

Our Sustainability Strategy

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 converters 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.

Our Key Stakeholders

In order to communicate our policies and progress relating to corporate social responsibility issues we have structured our report around our key stakeholders as follows:

- Our customers (page 22)
- Our people and their health and safety (page 23)
- Our suppliers (page 24)
- Our communities (page 25)

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

The Most Environmentally Friendly Manufacturing Facility in 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.

Other environmental initiatives implemented by our team of Environmental Representatives:

- 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

The Real Environmental Impact We Have!

In 2014 we shipped a record £18.6 million (2013: £13.7 million) of high efficiency "Green XP Power" products representing 18% of revenue (2013: 14%).

We estimate that the annual savings in CO_2 emissions from these products versus a standard 80% efficiency converter are a massive 14,600 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 102,200 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.

WITH OUR CUSTOMERS

"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."

Delivering Higher Efficiency Power Converters to Our Customers

Our customers clearly see the benefits of ultra-high efficiency power converters when we see the growth in our "Green XP Power" revenues. Many customers are willing to pay the premium for these products due to their higher performance.

The interesting aspect of ultra-high efficiency products is that they are also inherently more reliable. Once the power converter gets to a level of efficiency that it is producing very little waste energy as heat it no longer needs a mechanical fan to cool it. If the system engineer can dispense with a mechanical fan they have now removed the most unreliable part of the power system. In addition, as the power converter runs cooler the electronic components which are sensitive to heat, such as electrolytic capacitors, have longer lifetimes. The result is that not only is the power system consuming and wasting less energy it has also become significantly more reliable. This is of particular benefit when we consider that many of our products are designed into critical applications in the healthcare and high end industrial sectors where product failure and downtime are not acceptable.

The additional benefit of dispensing with fan cooling is that the system does not require vents to expel the waste heat so can be sealed to prevent ingress of liquids and other material that could affect its reliability.

It is for these reasons that our customers who are concerned about reliability have been keen to adopt and design our ultra-high efficiency products into their equipment.

Developments During the Year

Having established the customer demand for ultra-high efficiency products we have continued to expand our product portfolio in this area. We consider that we have the lead portfolio of high efficiency products, many of them certified for use in healthcare equipment.

We have consistently raised the power level at which our products can operate without the need for fan cooling. While it is comparatively straightforward to design products in the 100 Watt power range that do not require fan cooling, the challenges become much greater as the power levels increase.

In the first half of 2014 we released the CCB200. This a cost effective power converter which can deliver 200 Watts of power without need for fan cooling. Impressively, this unit can deliver this level of power at high ambient temperatures right across its input range and can achieve levels of 95% efficiency.

We have now pushed the bar even higher with the release of the CCL400, which can deliver 400 Watts of power without the need for a fan.

Focus for 2015

We will continue to meet our customers' current and anticipated requirements for high efficiency products and continue to expand our product portfolio in this area.

We are working on a number of exciting new products which we expect to launch during 2015.

CCB200 – able to produce 200 Watts of power with efficiency levels up to 95% without the need for fan cooling

CCL400 – a class leading ultra-high efficiency product able to deliver 400 Watts of power without the need for fan cooling

COMMITTED TO SUSTAINABILITY

WITH OUR PEOPLE AND THEIR HEALTH AND SAFETY

Our People

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 encourage and promote ideas for engagement with the local communities in which we operate. 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.

Like many companies, we also have a formal "whistle blowing" process where employees can raise concerns on any matter at the highest level of management.

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.

Diversity Metrics

Male	Executive	Management	All other	Total
Asia	2	20	422	444
Europe	6	10	68	84
North America	3	21	81	105
Total Male	**11**	**51**	**571**	**633**

Female	Executive	Management	All other	Total
Asia	0	6	658	664
Europe	0	4	28	32
North America	0	6	26	32
Total Female	**0**	**16**	**712**	**728**

Stakeholder Dialogue

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

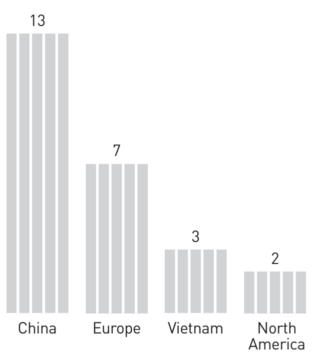
A number of our key customers engage us on environmental issues, generally via completion of questionnaires and many of our larger customers have also conducted environmental audits on our facilities, all of which we have passed. We also hold regular engagement days for our key suppliers where we encourage 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.

Health and Safety

We take the health and safety of our employees extremely seriously. We ensure we comply with all local legislation relating to health and safety and the standards set out in the Electronic Citizenship Coalition Code of Conduct. We also expect our suppliers to adopt the same standards as we do relating to the safety and well-being of their employees.

Health and Safety Metrics

Number of Minor Accidents



We did not have any serious health and safety incidents during the year.

WITH OUR SUPPLIERS

XP Power Supplier Day – Kunshan, China

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.

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.

Integrity of Our Supply Chain

As well as adopting the standards set by the EICC Code of Conduct we also work closely with our suppliers to encourage them to adopt the same high standards. Our supplier audit process includes evaluating our suppliers' performance against the environmental, treatment of labour, health and safety and business ethics standards set out in the EICC Code of Conduct. Our policy is to disengage with suppliers found to be environmentally negligent or non-compliant with our policies.

As well as conducting regular supplier audits we also host a supplier day at our China facility which, amongst other things, allows us to communicate our expectations so we can work closely together on improving environmental, corporate social responsibility and commercial issues.

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.

COMMITTED TO SUSTAINABILITY

TO OUR ENVIRONMENT AND COMMUNITIES

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 CO_2 emissions data 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 2014 were approximately 3,068 tonnes compared with 2,640 tonnes in 2013.

XP Power's CO_2 emissions per unit of factory revenue were flat compared to 2013, however we have seen a 35% reduction in this metric since we started measuring CO_2 emissions per unit of factory 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 60,916 kwh of electricity during the year reducing our carbon emissions by approximately 33 tonnes.

CO_2 Emissions Data

	2014	2013	2012
CO_2 Emissions (tonnes)	**3,068**	2,598	2,188
CO_2 Emissions per unit of factory revenue (kg/$1,000)	**46**	46	43

Water Data

	2014	2013	2012
Average number of employees	**1,160**	1,081	895
Water consumed (thousand litres)	**25,300**	21,200	17,500
Water consumed per employee (thousand litres)	**21.8**	19.6	19.5

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 rainwater is maximized and that any wastewater 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 maximize the efficient use of water and minimize 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 25.3 million litres of water in our main facilities around the world in 2014 compared with 21.2 million litres in 2013. Given water is not used in XP Power's manufacturing processes, we are a low-level user of water. Nevertheless we monitor our water usage per employee.

We have set ourselves a target to reduce water usage per employee each year.

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.

TO OUR ENVIRONMENT AND COMMUNITIES

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 levels of lead and hexavalent cadmium in our products as low as is practically possible with current technology. We test this using X-ray spectroscopy on our incoming components and are pleased to report that we believe we fully met this target in 2014.

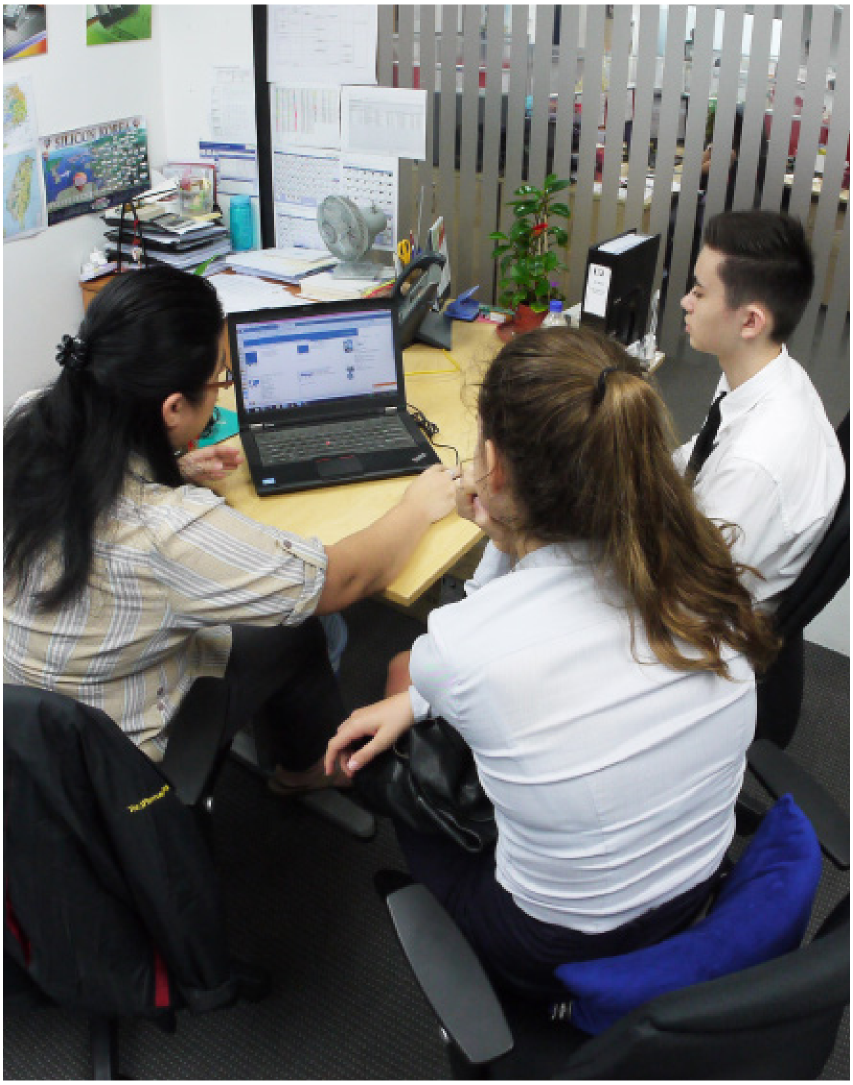
Community Relations

Our worldwide network of Environmental Representatives also encourage and spearhead involvement in the communities in the locations where we operate. Our employees around the world have continued to engage with their local communities. 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 Industry

We believe 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 not only good for our environment but also a key business driver for us from which we expect to gain a long term commercial advantage.



XP Power Singapore provides work experience to local schools

Helping Out in the Community

XP Power employees helping out in the community; in Sunnyvale, California at the local food bank and in Singapore providing work experience to local schools.

XP Power Sunnyvale Employees help out at the Food Bank

OUR PERFORMANCE

XP TECHNOLOGY

Powering state of the art semiconductor manufacturing equipment, communications infrastructure, video and broadcast equipment and other critical applications.

OPERATING AND FINANCIAL REVIEW

"Our design wins were also encouraging in 2014 and the North American and Asian businesses are showing encouraging momentum. While we are not immune from capital equipment cycles and the global economy, we currently expect to grow revenues in 2015. We also intend to increase our investment in sales and engineering resources in the coming year to fuel further future growth."

Duncan Penny Chief Executive Officer

Jonathan Rhodes Finance Director

Review of the year

The Group grew earnings despite continued mixed market conditions and currency headwinds and achieved a record order intake of £105.1 million (2013: £103.7 million) in the year. We have also once again outpaced our competition and taken further market share.

Revenues for 2014 on a reported basis were £101.1 million (2013: £101.1 million), reflecting the weakness of the US Dollar versus Sterling in 2014 compared with 2013. Revenues in constant currency were ahead by 5%.

As well as our strong financial performance we also made solid operational progress, commencing production of the first complete power converters in our Vietnam factory, providing additional manufacturing capacity at lower cost than our existing Chinese facility. We have also implemented a new Customer Relationship Management system to enhance collaborative working and provide better customer service and knowledge to the business. Last but not least, we introduced two class-leading ultra-high efficiency products - the CCB200 and CCL400 power converters.

Progress across our marketplace

The Group's geographic performance was mixed across the year, largely reflecting the varied macro economic conditions prevailing in North America, Europe and Asia.

Our North American business has shown some clear momentum driven by strong design wins in larger blue chip customers. Revenues in local currency (US Dollars) were up by 8.3% to $84.9 million (2013: $78.4 million). North American revenues increased by 2.6% on a reported basis to £51.3 million (2013: £50.0 million). The outlook in North America is encouraging and we will be expanding our sales and power systems engineering resource in this market during 2015.

The European markets have been the most challenging, particularly those countries where we already have a high market share, such as the UK. European revenues declined by 3.7% to £42.2 million (2013: £43.8 million). Despite the more challenging economic conditions in Germany and southern Europe, we saw revenue growth in these areas driven by our ability to aggressively take market share. We have also recently established a direct sales presence in Israel where we see good medium term opportunities.

Asia also performed well, albeit off a smaller base. Asia revenues increased by 4.1% on a reported basis to £7.6 million (2013: £7.3 million). Underlying revenues in US Dollar were up by 9.6% to $12.6 million (2013: $11.5 million). The Asian business successfully replaced a large programme that went end of life in 2013. We also added a direct sales presence in Japan during the year, where our industry-leading product offering is already enabling us to win against the strong local competition.

The sector splits of 2014 revenues were as follows: Industrial increased 3.4% to £49.1 million (2013: £47.5 million), Healthcare increased 2.6% to £31.0 million (2013: £30.2 million) and Technology declined 10.3% to £21.0 million (2013: £23.4 million). The 6% effect of a weaker US Dollar versus Sterling noted above is also applicable to the sector splits.

We believe the improvement we have seen in Industrial and Healthcare is principally due to market share growth as new programmes have entered into production. Industrial is the most diverse and fragmented sector for XP Power but we can see good progress in industrial printing, test and measurement and 3D printing applications.

Our Healthcare segment continues to strengthen. We expect this sector will show higher growth rates in the medium term as we are now approved vendors at all the key players in this market, yet still have a relatively small share of their available business. These customers in particular appreciate our service and support, and the breadth of our ultra efficient, and therefore reliable, products within our portfolio.

Technology continues to be the most challenging and cyclical segment. The semiconductor equipment manufacturers, where we have a strong customer base historically, are highly cyclical. We have also seen a decline in some other technology programmes outside of the semiconductor equipment manufacturers, which we continue to work to replace with new business.

Our global footprint enhancing our offer

Our North American business has shown greatest momentum during 2014 where we have been able to engage with larger customers with larger individual programme sizes. These customers are frequently leaders in their fields of expertise and are often providing critical equipment into the specific industries they serve. These customers recognise the value we add through our broad portfolio of class-leading products backed up by excellent service and support. We are therefore investing in

OPERATING AND FINANCIAL REVIEW

the expansion of our sales and engineering support capabilities in the North American market in 2015, with aim of accelerating revenue growth from these larger customers.

The global nature of our customers means we can be working simultaneously on two or even three continents on the same customer programme. The customer may choose to design in one location and require the product to be shipped and supported in others. Collaborative working with fast and efficient communication and information sharing is therefore critical to offering the high level of customer service for which we are renowned. For this reason we upgraded our Customer Relationship Management system during the year, implementing a brand new platform which was rolled out across the entire organisation. In January 2015 we successfully also rolled out SAP to our North American organization, which means we are running the same integrated system across all our sales businesses. This will ensure our systems are efficient and up to date – and capable of supporting our future growth.

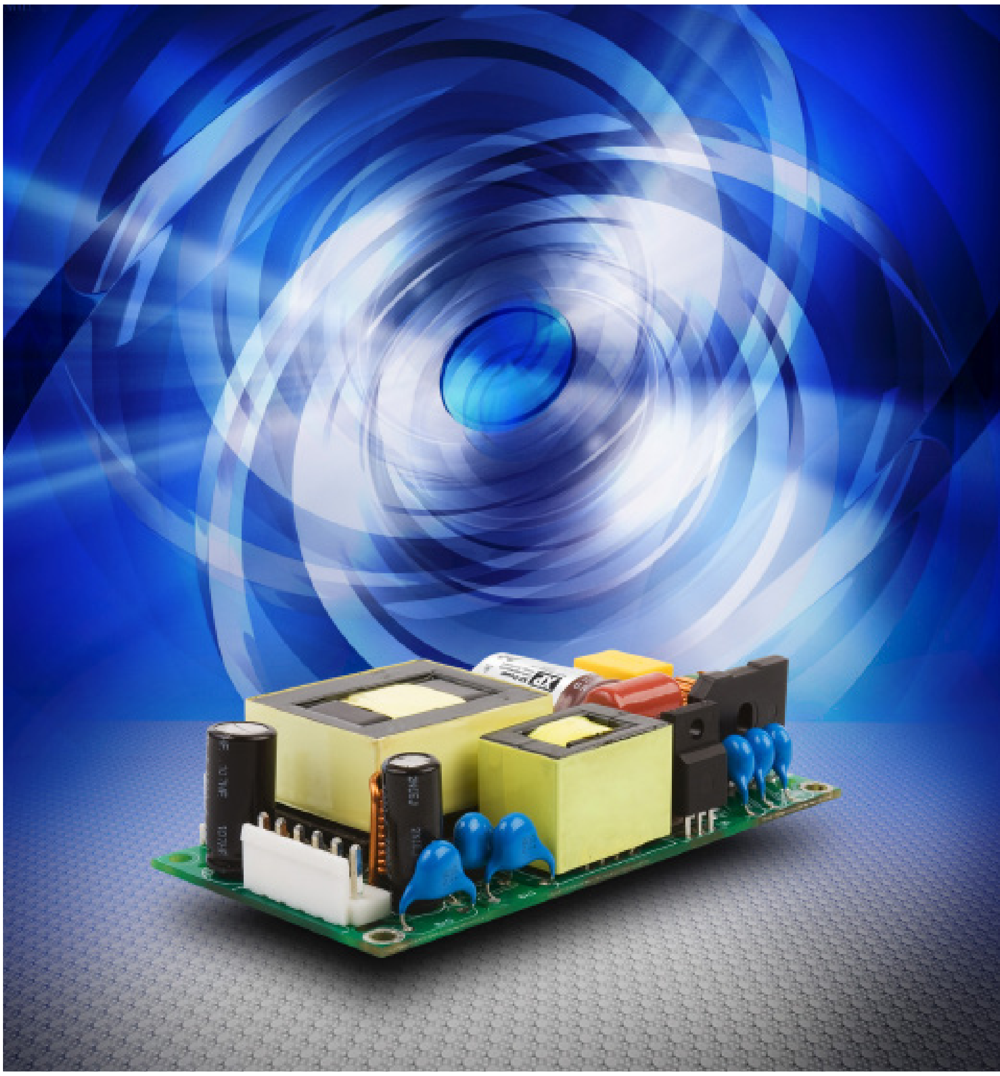
Research and development

We have continued to invest in research and development to expand our portfolio of ultra-high efficiency products. These products are inherently more reliable as they do not require mechanical fans to cool them and continue to attract strong customer interest.

In the first half of 2014 we released the CCB200, which is a compact product able to produce 200 Watts of power without the need for fan cooling, and which can operate at full power at up to 70 degrees Celsius without de-rating.

In the second half of 2014 the CCB200 was joined by the even more advanced CCL400, which produces 400 Watts of power without the need for fan cooling.

These products have been well received by our customers and our design win pipeline for both is strong.



Manufacturing progress

In 2012 we began production of magnetic components to incorporate into our power converters at a new facility in Vietnam. Production volumes and quality to date have both been very encouraging. In the fourth quarter of 2014 we started to produce the first complete power converters in Vietnam, as planned. This addition of a second full manufacturing site adds needed capacity and also enhances our cost competitiveness owing to the lower costs in Vietnam compared to our existing Chinese facility.

The quality from Vietnam has been excellent and we are pleased and excited with the progress made at this facility and by its future potential.

The ECP 180 Series has an ultra compact 2 x 4" footprint, occupying 46% less than the industry standard 3 x 5" size.

Revenue and operating profit

Revenues for the twelve months ended 31 December 2014 of £101.1 million (2013: £101.1 million) were ahead of those achieved in 2013 by 5% in constant currency.

Exchange rate volatility has an impact on Group revenue as over 70% of revenues are derived in US Dollars. The average rate of the US Dollar weakened against Sterling during 2014 to 1.65 (2013: 1.56).

The Group's gross margin in 2014 set a new record at 49.6% due to a higher mix of our own designed product, in combination with improved factory loading as our factories benefited from the mix changes and produced in higher volumes. In 2014 £67.2 million of our revenues were from own designed products (2013: £64.2 million) representing 66% of overall revenue (2013: 64%).

Operating expenses for the year totalled £25.6 million compared with £26.3 million in 2013. As with revenue the weakening of the US Dollar versus Sterling had an impact but in this case it reduced reported operating expenses by £0.7 million.

Operating profit improved by 5% over the previous year to £24.5 million (2013: £23.3 million) resulting in an increased operating margin of 24.2% (2013: 23.0%).

Taxation

The tax charge for the year was £4.8 million (2013: £4.5 million) which represents an effective tax rate of 19.8% (2013: 19.7%). We expect that the effective tax charge will increase further in 2015 and is likely to be in the range of 23.0% to 24.5%.

Earnings per share

Basic earnings per share increased by 7% from 95.8 pence to 102.1 pence per share. Diluted earnings per share increased by 6% from 95.1 pence to 101.1 pence per share.

Dividends

Our policy is to increase dividends progressively whilst maintaining an appropriate level of cover. This year's financial performance in terms of both profitability and cash flow has enabled the Board to recommend a final dividend of 22 pence per share which, together with the quarterly dividends already paid, gives a total dividend for the year of 61 pence per share (2013: 55 pence per share) an increase of 11%. Dividend cover for the year was 1.67 times.

Cash flow, funding and net cash

The Group's strong cash generation allowed us to move from net debt of £3.5 million at the beginning of the year to a net cash position of £1.3 million at the end of the year. This is after returning £10.8 million to shareholders in dividends.

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 £12.4 million of forward currency contracts outstanding at 31 December 2014 (2013: £13.7 million).

Funding

In September 2014 the Group's existing term debt facility expired and was considered unnecessary to renew. At the same time the Group renewed its annual working capital facility at a level of US$ 15.0 million (2013: US$ 10.0 million). This facility stepped down to US$ 12.5 million on 1 January 2015 and then to US$ 7.5 million from 1 July 2015. The facility is priced at the Bank of Scotland base rate plus a margin of 1.75%.

At 31 December 2014, £2.5 million (representing 25.9%) of the working capital facility was drawn down. Bank of Scotland PLC provides the facility.

Substantial Interests

Other than the Directors' interests (see Directors' Remuneration Report), at 31 December 2014 the Company was aware of the following interests in three per cent or more of the issued ordinary share capital of the Company:

	Number of shares	%
Aberdeen Asset Management Limited	1,930,959	10.0%
Standard Life Investments	1,773,671	9.2%
Mawer Investment Management	1,591,775	8.3%
Hargreave Hale	1,543,096	8.0%
Artemis Fund Managers	894,611	4.7%
Henderson Global Investors	795,050	4.1%
Generation Investment Management	782,238	4.1%
Old Mutual Global Investors	727,000	3.8%

Outlook for 2015

We remain confident of our prospects for 2015. The Group achieved a record order intake of £105.1 million in 2014 and currently the US Dollar has strengthened in our favour compared to the average rate of 1.65 to Sterling prevailing in 2014.

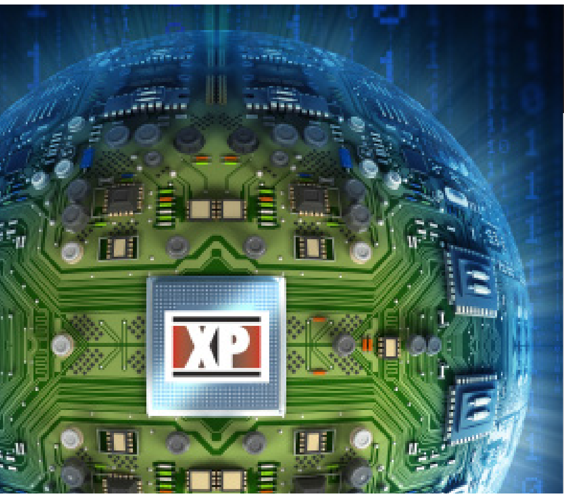
Our design wins were also encouraging in 2014 and the North American and Asian businesses are showing encouraging momentum. We also intend to increase investment in our sales and engineering resources in the coming year to help fuel further future growth. While we are not immune from capital equipment cycles and global economic conditions we continue to expect further revenue growth in 2015.

Duncan Penny
Chief Executive

Jonathan Rhodes
Finance Director

OUR KEY PERFORMANCE INDICATORS

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.



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.

"Green" product revenues

Revenue 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.

Target achieved

Number of new product introductions: N/A

Not all products are equal in terms of their complexity and potential future revenue. 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.

"Green" product revenues: YES

We would expect the growth rate of these products to significantly outpace the growth rate of total revenues.

Progress in 2014

Number of new product introductions

- Twenty-six new product families were released in 2014 (2013: 31) with continued emphasis on high efficiency.

"Green" product revenues

- Revenue from "green" products increased by 36% versus a total revenue increase of 5% in constant currency.
- "Green" products now represent 18% of total revenues (2013: 14%).

Plans for 2015

Number of new product introductions

- New product releases have been identified to complement and expand our broad product offering.
- Expanding existing engineering resource and bolt on acquisitions are being targeted to further expand our product range.

"Green" product revenues

- We expect the growth momentum of "green" product revenues to continue in 2015 with successful design wins with products released in 2013 and 2014 entering production to drive revenues in 2015, and plans for further "green" product releases in 2015.

Linked to remuneration

Number of new product introductions: NO

"Green" product revenues: NO

Linkage to Strategy

Number of new product introductions

- Develop a strong pipeline of leading edge products

"Green" product revenues

- Expansion of high efficiency "Green" products

Own design revenues (£ millions)

Revenue derived from products designed by XP Power or where XP Power owns the design and outsources manufacture

YES

The Group targets to grow this metric by a double digit percentage each year

- Revenue from own design revenue grew by 11% year on year in constant currency.
- A consequential record gross margin at 49.6% was achieved as a result of both this improved mix and the factory absorption benefit from manufacturing these own design products ourselves.

- An increase in engineering resource is planned in 2015 to ensure new product development continues apace unhindered by sustaining engineering.

NO

- Target and increase penetration of key accounts
- Increase contribution of own design products

Proportion of own design products

Revenue from own design products as a percentage of total revenue

YES

The Group is targeting to achieve 75% own design revenue over the course of time. We are making consistent and steady progress towards this target.

- Our proportion of own design revenue climbed to 66% of total revenue (2013: 64%) making further progress against our overall long-term target.
- With all own design products being manufactured in house, capacity has been expanded in 2014 with power converters now being produced in our Vietnam facility.

- We have a number of product releases planned for 2015 which should allow us to continue the trend of growing the proportion of own design revenue.
- Ramping up production of power supplies in Vietnam should help mitigate labour cost increases to help maintain gross margin levels

NO

- Manufacture our own products

Earnings per share (pence)

Diluted earnings per share adjusted for amortisation of intangibles associated with acquisitions and exceptional charges or profits

NO

The Group targets to grow this metric by a double digit percentage each year.

- Earnings per share (EPS) grew by 6% over the previous year, below our target.
- Whilst our financials benefit from a natural hedge against fluctuations in the US Dollar exchange rate, there is a limited impact on earnings from the weaker US Dollar in 2014.

- With a strong order backlog and continued design wins, we expect to continue to grow earnings per share.
- Additional investment in sales and engineering capacity through 2015 should accelerate future growth in earnings.

YES

- Target and increase penetration of key accounts

MANAGING OUR RISKS

Board Responsibility

Like many other international businesses the Group is exposed to a number of risks that may have a material effect on its financial performance.

External Risks

Risk	Mitigation	Change
Fluctuations in foreign currency 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 Chief Executive and Finance Director.	=
Competition 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.	+

Internal Risks

Risk	Mitigation	Change
Dependence on manufacturing facilities 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. With manufacturing of power converters in the Vietnam facility now possible, each manufacturing facility can now act as a backup in the event of a disaster.	−
Dependence on key personnel The future success of the Group is substantially dependent on the continued services and continuing contributions of its Directors, senior management and other key personnel. The loss of the services of 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 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 2014, no one customer accounted for more than 6% 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.	=

The Board has overall responsibility for the management of risk and sets aside time at its meetings to identify and address risks.

Internal Risks

Risk	Mitigation	Change
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.	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.	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.	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.	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. During 2014 certain systems have been consolidated and others have been moved into the Cloud. Further migration to Cloud based systems will continue in 2015.	=
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 21.0%, Switzerland where the corporation tax rate amounts to 18.0% and a number of European jurisdictions where the rates vary between 22.0% and 33.3%. In addition, the Group has manufacturing activities in China, Vietnam and Hong Kong where the corporation tax rates are 25%, 22% and 16.5% respectively and a sales and head office operation in Singapore where the corporation tax rate is 17.0%. 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.	The Group has a dedicated Treasurer who keeps our taxation position under review.	+

CONTROL WHEN IT'S VITAL

XP HEALTHCARE

Powering critical healthcare devices and laboratory diagnostic equipment.

GOVERNANCE

DIRECTORS AND OFFICERS

James Peters

Non-Executive Chairman
(age 56)

Duncan Penny

Chief Executive
(age 52)

James has over 30 years' experience in the power converter industry and trained with Marconi Space and Defence Systems, prior to joining Coutant Lambda, one of the UK's major power converter 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 and on 30 June 2014 appointed as Non-Executive Chairman. James moved to a non-executive role on 1 May 2012.

James is chairman of the Nominations Committee.

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, World Wide
Sales and Marketing
(age 52)

Jonathan Rhodes

Finance Director
(age 43)

Mike has 20 years' experience in the power converter 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 prior to their acquisition of XP Power in 2000.

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

Jonathan joined the finance team of XP Power in July 2008 as European Controller. Prior to joining the Group, Jonathan spent nine years with JCDecaux in various senior financial positions including Head of Financial Reporting and worked in both its UK and North American operations. Prior to that, he spent three years with Mills & Allen.

Jonathan was appointed Finance Director in December 2011.

Andy Sng

General Manager, Asia
(age 44)

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 has worked in the power supply industry for eight years in various technical and commercial roles with companies such as Silicon Systems (Singapore) and Advanced Micro Devices (Singapore).

Peter Bucher

Non-Executive Director
(age 71)

Peter joined the Board on 1 January 2014, he is well known within the power converter industry and 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 66)

John was appointed Chief Executive of Pace Micro Technology plc in May 2003, prior to which he had been Finance Director since November 1997. John retired from Pace Micro Technology plc during 2006 and co-founded a new business called Telehealth Solutions Ltd which developed communications technology to remotely monitor medical devices.That business was subsequently acquired by Medvivo and John became chairman of that group until his retirement in February 2015.

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.

John joined the Board of XP Power in June 2000.

Terry Twigger

Senior Non-Executive Director (age 65)

Terry joined the Board on 1 January 2015 and has a wealth of public company experience.

Terry joined Meggitt PLC, the FTSE100 global engineering group specialising in extreme environment components and smart sub-systems for aerospace, defence and energy markets, in July 1993 and spent 20 years with the group, the last 12 as Chief Executive. During his tenure as Chief Executive Meggitt grew its revenues from £0.4Bn to £1.6Bn through a combination of organic growth and numerous successful acquisitions. He retired from Meggitt in May 2013 and is currently a non-executive director of Essentra plc, the supplier of specialist plastic, fibre, foam and packaging products.

Terry is the Senior Non-Executive Director and chairman of the Audit Committee.

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

"The Board of Directors' primary responsibility is to set the strategy to achieve consistent earnings and dividend growth superior to our peer group whilst keeping risk under control and reported numbers entirely accurate. I consider that we have achieved this objective."

James Peters Chairman

23 February 2015

I am pleased to report that Terry Twigger joined the Board on 1 January 2015. As the former CEO of Meggitt PLC, a FTSE 100 company, Terry has a wealth of international and public company experience and a financial background. Terry has assumed the role of senior non-executive director and now chairs the Audit Committee.

Peter Bucher joined the Board on 1 January 2014. Peter has excellent commercial and technical experience of the power converter industry and has already made a valuable contribution to the business during 2014.

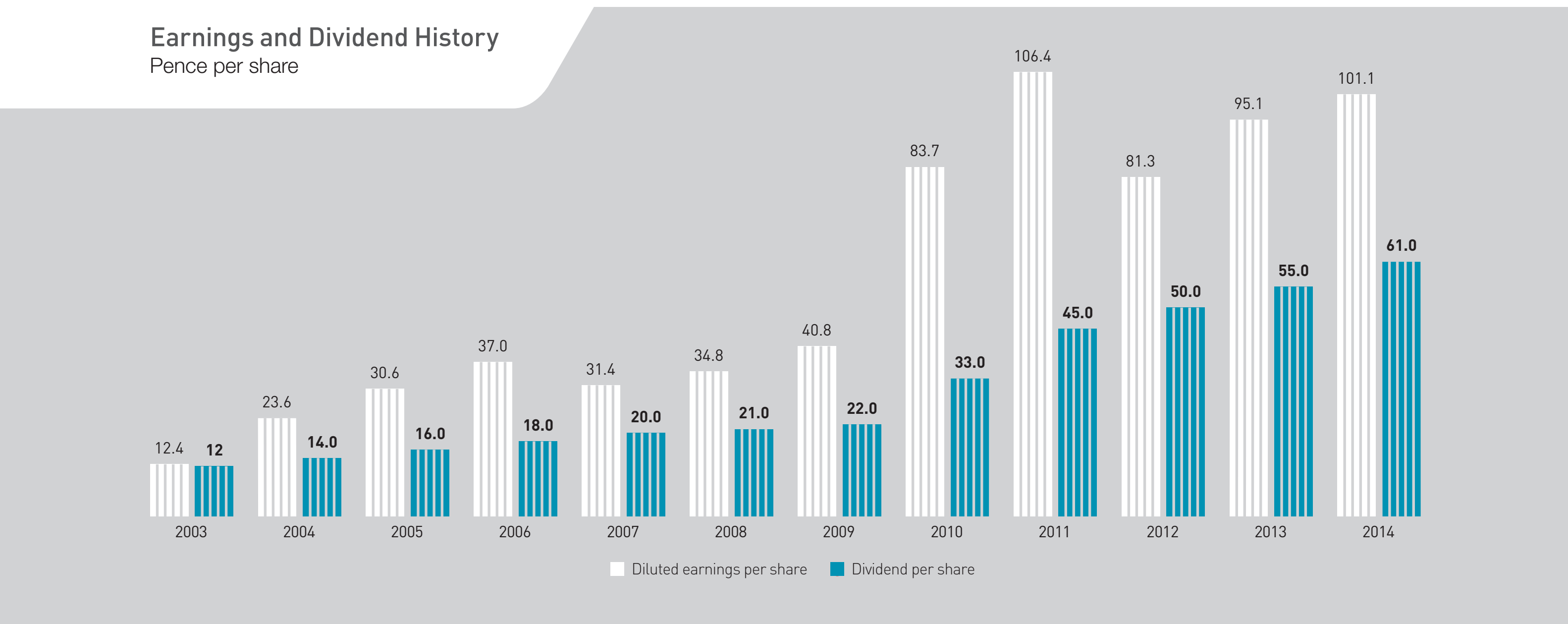
The introduction of these two new, independent, non-executive directors give extra breadth and depth to our Board from both a business and corporate governance perspective.

The board now consists of eight members; four of which have technical experience in the power converter industry and four of which are qualified accountants.

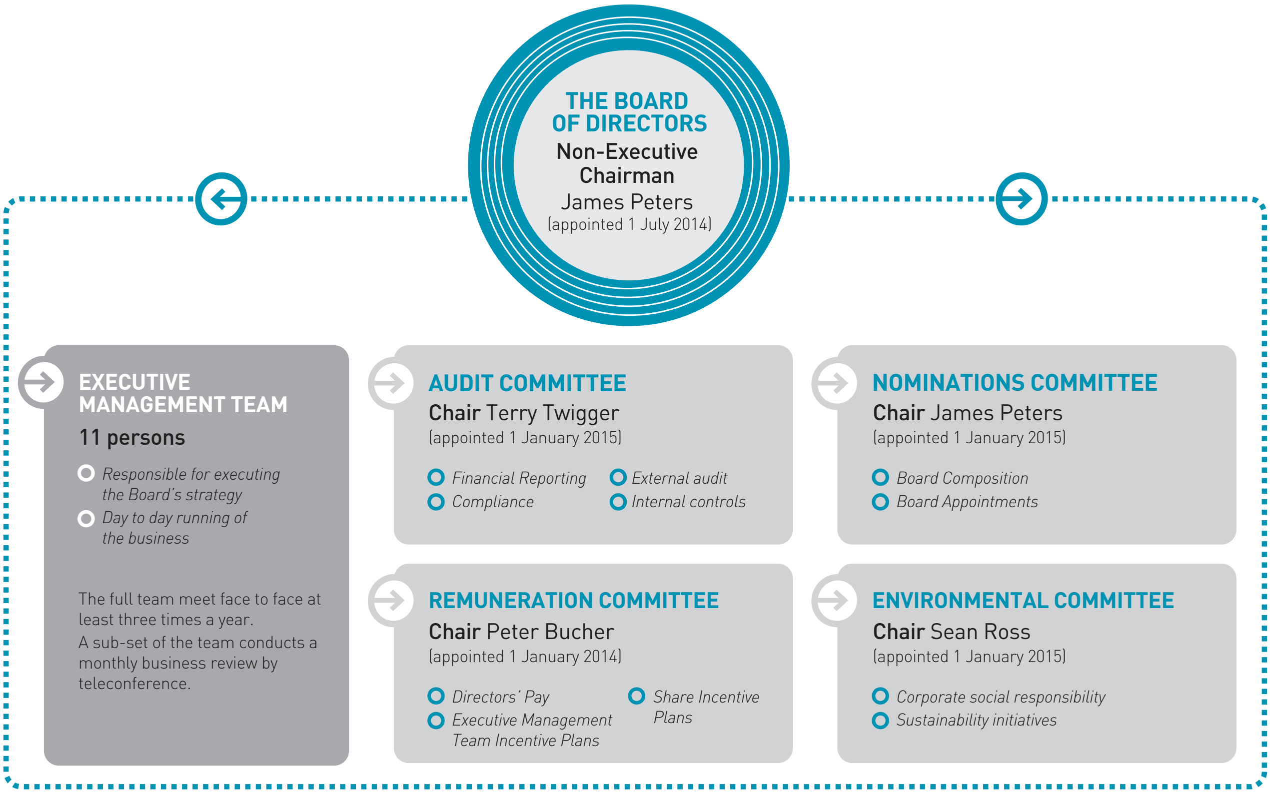
In the following pages we set out our approach to corporate governance. Under the Singapore Companies Act, Chapter 50, the Company is not required to follow the Singapore Corporate Governance Code. The Company has voluntarily agreed to the principles of corporate governance contained in the UK Corporate 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 2014 the Company has been in full compliance with the provisions of the Code.



CORPORATE GOVERNANCE REPORT



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 James Peters (Non-Executive Chairman) as a founder with a substantial shareholding is considered of benefit to shareholders, aligning the 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 Non-Executive Chairman (James Peters) 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.

CORPORATE GOVERNANCE REPORT

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 October 2014 directors attended a meeting in Singapore to review the group's sales strategy and manufacturing output.

Terry Twigger 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 Terry Twigger, John Dyson and Peter Bucher to be independent. While certain corporate governance organisations have expressed a view that John Dyson should not be considered independent by virtue of his 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 James Peters to be independent by virtue of his previous executive roles. However, as a founder and substantial shareholder his 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 James Peters, John Dyson and Terry Twigger (appointed 1 January 2015). Both Larry Tracey and David Hempleman-Adams resigned during the year on 30 June 2014 and 31 December 2014 respectively. The committee was chaired by John Dyson until James Peters was appointed with effect from 1 January 2015.

The committee 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 three times during the year. The attendees were as follows:

Date	Attendees
2 May 2014	All except Larry Tracey and James Peters (Neither Larry Tracey nor James Peters were invited to the meeting, but were informed of the meeting and the purpose of the meeting)
9 October 2014	All except David Hempleman-Adams
18 December 2014	All except David Hempleman-Adams

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

Date	Attendees
21 February 2014	All
10 April 2014	All except Andy Sng
7 July 2014	All
25 July 2014	All
9 October 2014	All except David Hempleman-Adams
18 December 2014	All except David Hempleman-Adams

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 2014.

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.

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 at least 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 on-going 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 members during the year were non-executive directors David Hempleman-Adams 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 committee was chaired by David Hempleman-Adams until he resigned on 31 December 2014. Terry Twigger was appointed a non-executive director of the Company and chair of the Audit Committee on 1 January 2015.

The Audit Committee met three times during 2014, the attendees were as follows:

Date	Attendees
19 February 2014	All
24 July 2014	All
1 October 2014	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 2014.

CORPORATE GOVERNANCE REPORT

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.

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 2014.

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 45 to 55.

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 45 to 55. No director participates in the deciding of their own remuneration. Peter Bucher is chairman of the Remuneration Committee.

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. This includes video interviews with the Chief Executive and Finance Director. 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.

REPORT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

The Remuneration Committee's main aim is to ensure that payments to Directors and key employees are appropriate and closely aligned with shareholders' interests.

This has been successful when measured by the low director/key employee turnover rate and the very favourable pay to performance ratios compared to our quoted peers.

Peter Bucher
Remuneration Committee Chairman

23 February 2015

Introduction

This report is on the activities of the remuneration committee for the period to 31 December 2014. 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. 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 2015 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 2015 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's main aim is to ensure that payments to Directors and key employees are appropriate and closely aligned with shareholders' interests.

This has been successful when measured by the low director/key employee turnover rate and the very favourable pay to performance ratios compared to our quoted peers.

Details of Executive remuneration are included later in the report.

No bonuses will be paid to executive directors in respect of 2014, with the exception of Andy Sng, General Manager Asia, who is incentivised based on the gross margin achieved in the Asia business. The bonuses for these directors have been based on exceeding the profit after tax achieved in 2011, which was the Company's record year for earnings to date. The committee was concerned that this performance related measure has not been achieved for three years and as a result, the committee reviewed whether the performance measure for the directors' variable compensation is an appropriate incentive to drive further earnings growth.

During 2014 the major changes taken on directors' remuneration have been:

- An agreement to amend the performance measures for directors' and key employees' annual bonuses from 2015.
- All non-executive director salaries, except the chairman (unchanged at £50,000 per annum) were brought in line at £40,000 per annum effective 1 January 2015.
- The base salary of our Finance Director, Jonathan Rhodes, was increased from £125,000 to £140,000 per annum with effect from 1 July 2014 to bring it more in line with the market for this position.

REMUNERATION REPORT – POLICY

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 profit before tax exceeding that achieved in 2014. (Mike Laver and Andy Sng's bonus are based on gross margin)	Up to 100% of base salary	Exceeding the profit before tax achieved in 2014.	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 100% of base salary as it is for existing executive directors.

Directors' Service Contracts

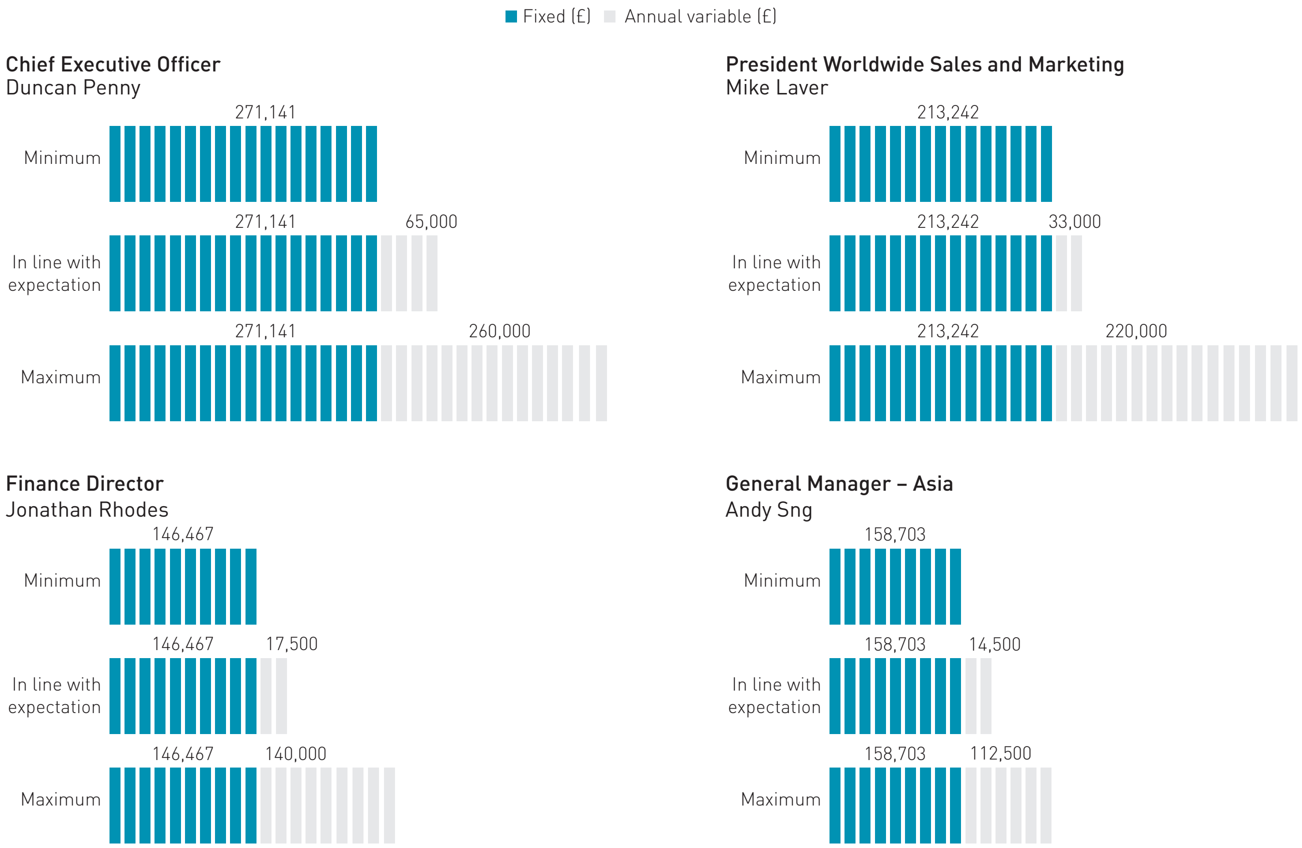
The executive directors' contracts run for an indefinite period, with the Company being able to terminate the contracts without cause giving 12 months notice. When a director is terminated without cause, the director is entitled to a termination payment of 12 months of basic pay. Directors' service contracts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



REMUNERATION REPORT – POLICY

The "In line with expectation" scenario has been calculated based on the 2015 approved budget.

The "Maximum" scenario has been calculated assuming that the directors achieve the maximum allowed variable bonus which is capped at 100% of their respective base salaries. In order for all directors to achieve the maximum variable bonus profit before tax would have to reach £43.8 million.

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	£3,341	£7,800	£271,141
Finance Director	Jonathan Rhodes	£140,000	£2,267	£4,200	£146,467
President Worldwide Sales and Marketing	Mike Laver	US$330,000	US$16,393	US$6,600	US$352,993
General Manager Asia	Andy Sng	S$225,000	S$80,006	S$12,400	S$317,406

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 £13.98 which was the closing price on 31 December 2014:

	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	£84,750	£339,000
Mike Laver	Zero	£84,750	£339,000
Jonathan Rhodes	Zero	£22,600	£90,400
Andy Sng	Zero	£22,600	£90,400

REMUNERATION REPORT – ANNUAL REPORT

The members of the Remuneration Committee during 2014 were all non-executive directors; Peter Bucher (chair), John Dyson, David Hempleman-Adams (resigned 31 December 2014), James Peters and Larry Tracey (resigned 30 June 2014).

From 1 January 2015 the Remuneration Committee comprises non-executive directors; Peter Bucher (chair), John Dyson and James Peters.

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

There were four Remuneration Committee meetings during the year and the dates of the meeting and attendees were as follows:

Date	Attendees
8 January 2014	All except David Hempleman-Adams
25 July 2014	All
9 October 2014	All except David Hempleman-Adams
18 December 2014	All except David Hempleman-Adams

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	18 December 2014	1 January 2012
Duncan Penny	£260,000	18 December 2014	1 January 2012
Jonathan Rhodes	£140,000	18 December 2014	1 July 2014
Andy Sng	S$225,000	18 December 2014	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. 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 to the directors in respect of 2014 with the exception of Andy Sng who is incentivised based on the gross margin of the Asian business rather than profit after tax.

During the year the committee reviewed the performance measure for the directors' variable compensation to assess whether it is an appropriate incentive in driving growth. The committee resolved to change the bonus arrangements for directors in 2015. Bonuses for Duncan Penny and Jonathan Rhodes will be based on a proportion of profit before tax beyond that achieved in 2014. Mike Laver's bonus will be based on the gross profits of the Group. Andy Sng's bonus remains unchanged based on the gross profits of the Asia business. All bonuses are capped at 100% 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 could not 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.

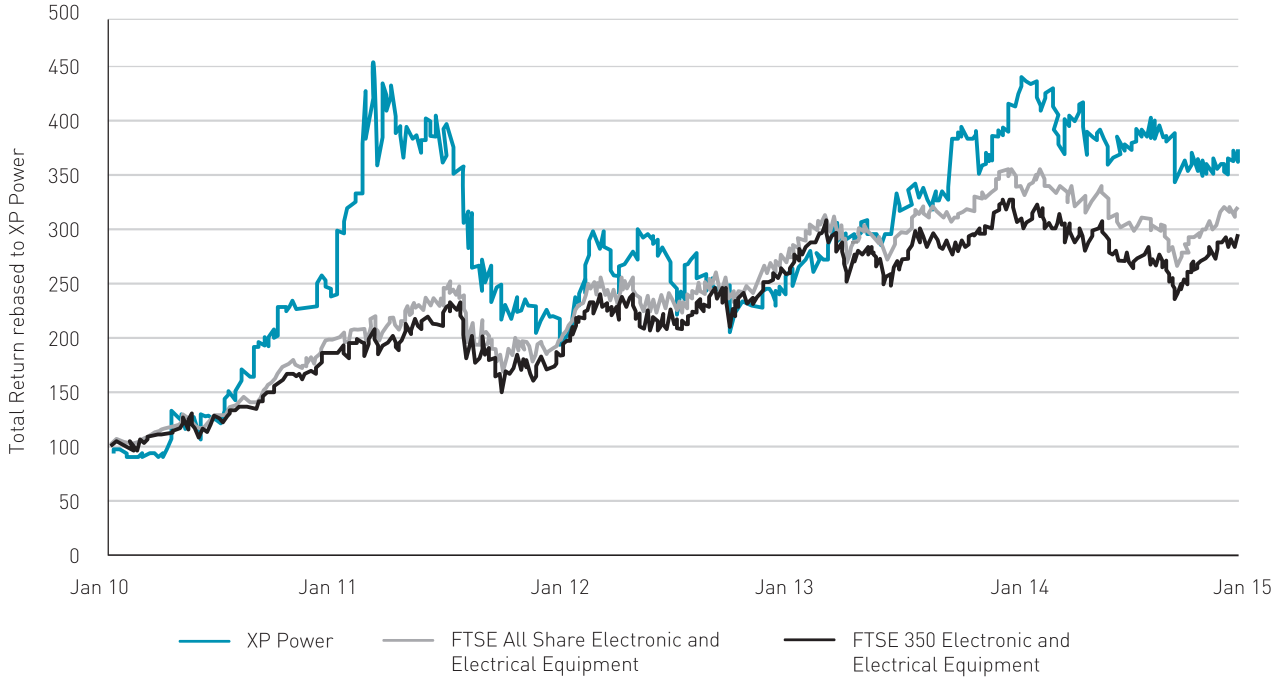
Pension Arrangements

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 2010 until 31 December 2014 was 29%.

Chief Executive Remuneration

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

£ Thousands	Base salary	Pension	Relocation expenses	Benefits	Annual bonus payout	Total CEO remuneration
2010	223	8	75	11	58	375
2011	235	7	77	8	—	328
2012	254	8	8	4	—	274
2013	260	8	—	3	—	271
2014	**260**	**8**	**—**	**3**	**—**	**271**

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

REMUNERATION REPORT – ANNUAL REPORT

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 2014 and 2013.

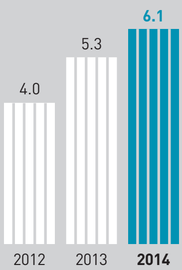
Percentage increase in remuneration in 2014 compared with 2013	CEO	Chosen employee group[1]
Base salary	0%	2%
All taxable benefits	0%	3%
Annual bonuses	0%	1%
Total	0%	2%

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

Total pay for manufacturing

(£ millions)

+15%



Total pay for sales, administration and R&D

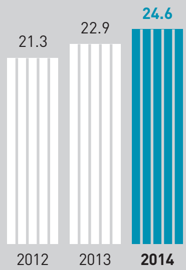
(£ millions)

+5%

Total employee pay

(£ millions)

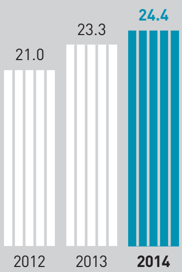
+7%



Operating income

(£ millions)

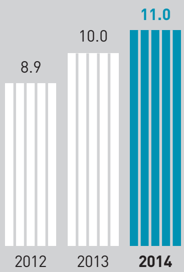
+5%



Dividends

(£ millions)

+10%



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 change
James Peters	£50,000	9 October 2014	25 July 2014
Peter Bucher	£40,000	9 October 2014	1 January 2015
John Dyson	£40,000	9 October 2014	1 January 2014
Terry Twigger	£40,000	Not applicable	Appointed 1 January 2015

Aggregate Directors' Remuneration

The total amounts for directors' remuneration were as follows:

£	2014	2013
Basic salaries	**699,513**	691,818
Benefits in kind	**58,537**	69,026
Profit share	**8,310**	12,534
Money purchase pension contributions	**21,685**	22,179
Non-executive director fees	**170,000**	181,216
Total remuneration	**958,045**	976,773

Directors' Remuneration for 2014

Name of Director	Salary and fees	Profit share	Pension	Benefits	2014 Total
£					
Executive					
Duncan Penny	260,000	–	7,800	3,341	**271,141**
Mike Laver	199,352	–	3,987	9,903	**213,242**
Jonathan Rhodes	132,500	–	3,975	1,808	**138,283**
Andy Sng	107,661	8,310	5,923	38,289	**160,183**
Non-Executive					
Larry Tracey (resigned 30 June 2014)	25,000	–	–	2,110	**27,110**
James Peters	45,000	–	–	3,086	**48,086**
John Dyson	40,000	–	–	–	**40,000**
David Hempleman-Adams (resigned 31 December 2014)	30,000	–	–	–	**30,000**
Peter Bucher	30,000	–	–	–	**30,000**

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

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 £125,000 per annum to £140,000 per annum with effect from 1 July 2014; 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 2014, therefore no profit shares are payable to executive directors in respect of 2014. 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 2014	At 01 January 2014
Executive		
Mike Laver [(a)]	**123,969**	136,494
Duncan Penny	**326,990**	326,990
Andy Sng	**6,000**	6,000
Non-executive		
James Peters [(b)]	**2,049,279**	2,191,754

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

[(a)] Mike Laver participated in the deferred payment share scheme. He sold 12,525 of these shares at a price of £17.55 on 27 February 2014. As at 31 December 2014, the outstanding balance of the deferred payment share scheme is £157,346.

[(b)] James Peters sold 62,475 shares at a price of £17.55 on 28 February 2014 and 20,000 shares at a price of £17.00 on 4 March 2014. He also transferred 60,000 shares to his daughter on 5 March 2014.

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

	Date of grant	Exercise price	At 31 December 2014 Number of shares	At 01 January 2014 Number of shares
Executive				
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	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

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 granted prior to 10 October 2012 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 2014 were £17.98 and £13.40 per share respectively. The closing mid-market price on 31 December 2014 was £13.98 per share.

Statement of voting at the Annual General Meeting

The Group is committed to on-going 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 2013 remuneration policy and 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
Approval of remuneration policy	9,273,779	86.3%	1,466,971	13.7%	10,740,750	1,452,029
Approval of remuneration report	12,150,139	99.6%	46,585	0.4%	12,196,724	1,321

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 23 February 2015 and signed on its behalf by:

Peter Bucher
Remuneration Committee Chairman

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
Mike Laver	Duncan Penny
James Peters	Jonathan Rhodes
Andy Sng	Terry Twigger (appointed 1 January 2015)

In accordance with the Company's Articles of Association Duncan Penny, James Peters, Andy Sng and Terry Twigger retire and, being eligible, offer themselves for re-election at the Annual General Meeting. In addition John Dyson and Peter Bucher will also offer themselves for re-election at the Annual General Meeting.

Larry Tracey retired from the Board on 30 June 2014 and David Hempleman-Adams retired from the Board on 31 December 2014.

Terry Twigger was nominated as Senior Non-Executive Director and chair of the audit committee on his appointment.

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	2013 Comparative
First Quarter	10 July 2014	12.0 pence	11.0 pence
Second Quarter	10 October 2014	13.0 pence	12.0 pence
Third Quarter	9 January 2015	14.0 pence	13.0 pence
Fourth Quarter (proposed)	9 April 2015	22.0 pence	19.0 pence
Total		**61.0 pence**	**55.0 pence**

We are proposing a final dividend of 22.0 pence per share which would be payable to members on the register on 13 March 2015 and will be paid on 9 April 2015. This would make the total dividend for the year 61.0 pence (2013: 55.0 pence) which is an increase of 11%.

Audit Committee

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

David Hempleman-Adams (chair); retired 31 December 2014
John Dyson

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

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act. In performing those functions, the 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 2014 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 re-appointment.

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 61 to 105 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 2014 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and

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

On behalf of the directors

James Peters
Non-Executive Chairman
23 February 2015

Duncan Penny
Chief Executive

CONTROL WHEN IT'S VITAL

FINANCIALS

INDEPENDENT AUDITOR'S REPORT

to the members of XP Power Limited

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 61 to 105, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2014, 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 income statement 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 2014, 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

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2014

£ Millions	Note	2014	2013
Revenue	4	**101.1**	101.1
Cost of sales		**(51.0)**	(51.5)
Gross profit		**50.1**	49.6
Expenses			
Distribution and marketing		**(20.6)**	(21.2)
Administrative		**(0.7)**	(0.7)
Research and development	7	**(4.3)**	(4.4)
Operating profit		**24.5**	23.3
Finance cost	6	**(0.2)**	(0.4)
Profit before income tax		**24.3**	22.9
Income tax expense	8	**(4.8)**	(4.5)
Profit for the year		**19.5**	18.4
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss:			
Cash flow hedges	24	**0.9**	(0.1)
Exchange differences on translation of foreign operations	24	**1.7**	(0.3)
Other comprehensive income for the year, net of tax		**2.6**	(0.4)
Total comprehensive income for the year		**22.1**	18.0
Profit attributable to:			
Equity holders of the Company	24	**19.4**	18.2
Non-controlling interests	24	**0.1**	0.2
		19.5	18.4
Total comprehensive income attributable to:			
Equity holders of the Company		**22.0**	17.8
Non-controlling interests		**0.1**	0.2
		22.1	18.0
Earnings per share attributable to equity holders of the Company (pence per share)			
– Basic	10	**102.1**	95.8
– Diluted	10	**101.1**	95.1

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

£ Millions	Note	2014	2013
ASSETS			
Current Assets			
Cash and cash equivalents	15	**3.8**	5.0
Inventories	16	**25.2**	20.4
Trade receivables	17	**16.0**	15.4
Other current assets	18	**1.7**	1.4
Derivative financial instruments	22	**0.3**	—
Total current assets		**47.0**	42.2
Non-current assets			
Goodwill	11	**30.6**	30.6
Intangible assets	12	**9.9**	8.5
Property, plant and equipment	13	**14.4**	12.7
Deferred income tax assets	23	**0.3**	0.5
ESOP loan to employees	26	**0.9**	1.0
Total non-current assets		**56.1**	53.3
Total assets		**103.1**	95.5
LIABILITIES			
Current liabilities			
Current income tax liabilities	8	**1.7**	1.1
Trade and other payables	19	**14.4**	12.7
Borrowings	21	**2.5**	8.5
Derivative financial instruments	22	**—**	0.1
Total current liabilities		**18.6**	22.4
Non-current liabilities			
Provision for deferred contingent consideration	20	**1.7**	1.7
Deferred income tax liabilities	23	**2.5**	2.0
Total non-current liabilities		**4.2**	3.7
Total liabilities		**22.8**	26.1
NET ASSETS		**80.3**	69.4
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	24	**27.2**	27.2
Merger reserve	24	**0.2**	0.2
Treasury shares	24	**(1.1)**	(1.0)
Hedging reserve	24	**0.6**	(0.3)
Translation reserve	24	**(6.3)**	(8.0)
Retained earnings	24	**59.6**	51.1
		80.2	69.2
Non-controlling interests	24	**0.1**	0.2
TOTAL EQUITY		**80.3**	69.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2014

		Attributable to equity holders of the Company								
£ Millions	Note	**Share capital**	**Treasury shares**	**Merger reserve**	**Hedging reserve**	**Translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2013		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
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**
Sale of treasury shares	24	—	0.1	—	—	—	(0.1)	—	—	—
Purchase of treasury shares	24	—	(0.3)	—	—	—	—	(0.3)	—	(0.3)
Employee share option plan expenses		—	0.1	—	—	—	—	0.1	—	0.1
Dividends paid	9	—	—	—	—	—	(10.8)	(10.8)	(0.2)	(11.0)
Total comprehensive income for the year	24	—	—	—	0.9	1.7	19.4	22.0	0.1	22.1
Balance at 31 December 2014		**27.2**	**(1.1)**	**0.2**	**0.6**	**(6.3)**	**59.6**	**80.2**	**0.1**	**80.3**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2014

£ Millions	Note	2014	2013
Cash flows from operating activities			
Profit for the year		**19.5**	18.4
Adjustments for			
— Income tax expense		**4.8**	4.5
— Amortisation and depreciation	4	**3.1**	2.7
— Finance cost	6	**0.2**	0.4
— ESOP expenses		**0.1**	0.1
— Loss/(gain) on fair valuation of derivative financial instruments		**0.6**	(0.2)
— Unrealised currency translation loss/(gain)		**1.2**	(0.4)
Change in the working capital			
— Inventories		**(4.8)**	(0.6)
— Trade and other receivables		**(0.9)**	(1.4)
— Trade and other payables		**1.7**	1.6
— Provision for liabilities and other charges		**(0.1)**	0.1
— Income tax paid	8	**(3.6)**	(5.0)
Net cash generated from operating activities		**21.8**	20.2
Cash flows from investing activities			
Purchases and construction of property, plant and equipment	13	**(2.9)**	(1.0)
Research and development expenditure capitalised	12	**(2.9)**	(2.2)
Proceeds from disposal of property, plant and equipment		**0.1**	0.1
ESOP loans repaid		**0.1**	0.2
Net cash used in investing activities		**(5.6)**	(2.9)
Cash flows from financing activities			
Repayment of borrowings		**(7.3)**	(3.8)
Sale of treasury shares		**0.1**	0.1
Purchase of treasury shares by ESOP		**(0.3)**	—
Interest paid		**(0.1)**	(0.3)
Dividend paid to equity holders of the Company	9	**(10.8)**	(9.9)
Dividend paid to non-controlling interests	24	**(0.2)**	(0.2)
Net cash used in financing activities		**(18.6)**	(14.1)
Net (decrease)/increase in cash and cash equivalents		**(2.4)**	3.2
Cash and cash equivalents at beginning of financial year		**3.8**	0.5
Effects of currency translation on cash and cash equivalents		**(0.1)**	0.1
Cash and cash equivalents at end of financial year	15	**1.3**	3.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

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 8 to 9.

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

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

(ii) New standards and interpretations issued not yet adopted

There are no other IFRSs or International Financial Reporting Interpretation Committee ("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 income statement, 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.

2. Summary of significant accounting policies (continued)

2.2 Foreign currency translation (continued)

(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.

2.4 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.

2. Summary of significant accounting policies (continued)

2.2 Group accounting (continued)

(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 remeasured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

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 the income statement 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%

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.

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 income statement.

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.

2. Summary of significant accounting policies (continued)

2.6 Intangible assets (continued)

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

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

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

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

Internally generated intangible assets are amortised on a straight-line basis over their useful lives, which vary between 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.

2.8 Borrowing costs

All borrowing costs are recognised in the income statement 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.

2. Summary of significant accounting policies (continued)

2.6 Financial assets (continued)

(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 income statement.

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.

2.11 Provisions

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

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

2. Summary of significant accounting policies (continued)

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 remeasured 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 transaction (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) 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 the income statement.

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 forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gains and losses that were previously recognised in equity are transferred to the income statement immediately.

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

Amounts accumulated in equity are reclassified to the income statement 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.

2. Summary of significant accounting policies (continued)

2.16 Current and deferred income tax (continued)

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.

2.17 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 income statement, 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 re-issued 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 the income statement 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 re-issued.

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 re-issued 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 re-issue, 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. Segment reporting is disclosed in Note 4.

3. Critical accounting judgements and key sources of estimation uncertainty

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

(a) Recoverability of Capitalised R&D

During the year £2.9 million (2013: £2.2 million) of development costs were capitalised, bringing the total amount of development cost capitalised as intangible assets as at 31 December 2014 to £9.9 million (2013: £8.5 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 of goodwill, 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 2014 was £30.6 million (2013: £30.6 million) with no impairment adjustment required for 2014.

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 2014 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 is estimated at £1.7 million and that amount is reflected on the balance sheet. 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 2015 to January 2016, the deferred consideration will be affected by £0.1 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 recognised, 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 2014 is as follows:

£ Millions	2014	2013
Revenue		
Europe	**42.2**	43.8
North America	**51.3**	50.0
Asia	**7.6**	7.3
Total Revenue	**101.1**	101.1

Reconciliation of segment results to profit for the year:

£ Millions	2014	2013
Europe	**7.6**	7.4
North America	**13.6**	13.3
Asia	**1.7**	0.9
Segment result	**22.9**	21.6
Research and development	**(4.3)**	(4.4)
Finance cost	**(0.2)**	(0.4)
Corporate recovery from operating segment	**5.9**	6.1
Profit before income tax	**24.3**	22.9
Income tax expense	**(4.8)**	(4.5)
Profit for the year	**19.5**	18.4

4. Segmental reporting (continued)

The Group operates in the following regions and countries:

£ Millions	2014	2013
North America	51.3	50.0
United Kingdom	22.4	23.9
Singapore	7.5	7.3
Germany	8.9	9.4
Switzerland	3.4	3.5
Other countries	7.6	7.0
Total Revenue	101.1	101.1

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

	Year to 31 December 2014				Year to 31 December 2013			
£ Millions	Europe	North America	Asia	Total	Europe	North America	Asia	Total
Other Information								
Capital additions	0.5	0.5	1.9	2.9	0.3	0.2	0.5	1.0
Depreciation	0.3	0.2	1.1	1.6	0.3	0.2	0.9	1.4
Intangible assets additions	0.4	1.4	1.1	2.9	0.4	1.2	0.6	2.2
Amortisation	0.2	0.8	0.5	1.5	0.3	0.7	0.3	1.3
Balance sheet								
Goodwill	10.5	19.5	0.6	30.6	10.6	19.4	0.6	30.6
Other non-current assets	2.6	10.8	11.8	25.2	2.6	9.1	10.5	22.2
Inventories	1.4	7.9	15.9	25.2	1.5	6.4	12.5	20.4
Trade receivables	5.9	8.0	2.1	16.0	5.8	7.2	2.4	15.4
Other current assets	0.6	0.4	1.0	2.0	0.5	0.2	0.7	1.4
Cash	2.2	0.2	1.4	3.8	3.2	0.8	1.0	5.0
Segment assets	23.2	46.8	32.8	102.8	24.2	43.1	27.7	95.0
Unallocated deferred income tax	—	—	—	0.3	—	—	—	0.5
Consolidated total assets				103.1				95.5
Trade and other payables	(2.0)	(1.8)	(10.6)	(14.4)	(1.9)	(1.8)	(9.0)	(12.7)
Other current liabilities	—	—	—	—	—	—	(0.1)	(0.1)
Deferred contingent consideration	(1.6)	—	—	(1.6)	(1.7)	—	—	(1.7)
Segment liabilities	(3.6)	(1.8)	(10.6)	(16.0)	(3.6)	(1.8)	(9.1)	(14.5)
Unallocated corporate liabilities	—	—	—	(2.6)	—	—	—	(8.5)
Unallocated deferred and current income tax	—	—	—	(4.2)	—	—	—	(3.1)
Consolidated total liabilities				(22.8)				(26.1)

4. Segmental reporting (continued)

Analysis by class of customer

The revenue by class of customer was as follows:

£ Millions	Year to 31 December 2014 Europe	North America	Asia	Total	Year to 31 December 2013 Europe	North America	Asia	Total
Technology	**6.5**	**11.9**	**2.6**	**21.0**	9.1	11.3	3.0	23.4
Industrial	**25.5**	**19.9**	**3.7**	**49.1**	25.3	19.0	3.2	47.5
Healthcare	**10.2**	**19.5**	**1.3**	**31.0**	9.4	19.7	1.1	30.2
Total	**42.2**	**51.3**	**7.6**	**101.1**	43.8	50.0	7.3	101.1

There is no individual external customer that represents 6% or more of the Group's total revenue.

Non-current assets by countries:

£ Millions	2014	2013
North America	**30.3**	28.5
United Kingdom	**3.8**	4.0
Singapore	**2.9**	2.7
Germany	**0.3**	0.3
Switzerland	**3.6**	3.6
Other countries	**14.9**	13.7
Total non-current assets	**55.8**	52.8

5. Employee compensation (including Directors)

£ Millions	2014	2013
Wages and salaries	**21.1**	19.7
Pensions	**3.5**	3.2
Total	**24.6**	22.9

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

6. Finance cost

£ Millions	2014	2013
Interest expense on bank loans and overdrafts	**0.1**	0.3
Unwinding of discount on deferred consideration (Note 20)	**0.1**	0.1
Total	**0.2**	0.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2014

7. Expenses by nature

£ Millions	2014	2013
Profit for the year is after charging:		
Amortisation of intangibles	**1.5**	1.3
Depreciation of property, plant and equipment	**1.6**	1.4
Employee compensation	**24.6**	22.9
Foreign exchange loss/(gain)	**0.4**	(0.2)
(Gain)/Loss on foreign exchange forward	**(0.5)**	0.2
Purchases of inventories	**49.1**	46.4
Changes in inventories	**(4.8)**	(0.6)
Audit fee	**0.4**	0.4
Other services – tax	**0.1**	0.1
Rent/lease expense	**1.2**	1.3
Finance cost	**0.2**	0.4
Other charges	**3.0**	4.6
Total	**76.8**	78.2

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

£ Millions	2014	2013
Gross research and development expenditure	**5.7**	5.3
Research and development expenditure capitalised	**(2.9)**	(2.2)
Amortisation of development expenditure capitalised	**1.5**	1.3
Net research and development expenditure	**4.3**	4.4

8. Income taxes

£ Millions	2014	2013
Singapore corporation tax		
— current year	**1.2**	1.2
Overseas corporation tax		
— current year	**3.3**	3.4
— adjustment in respect of prior year	**(0.3)**	(0.2)
Current income tax	**4.2**	4.4
Deferred income tax		
— current year	**0.6**	0.1
Income tax expense	**4.8**	4.5

8. Income taxes (continued)

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	2014	2013
Profit before income tax	**24.3**	22.9
Tax on profit at standard Singapore tax rate of 17%	**4.1**	3.9
Tax incentives	**(0.8)**	(0.7)
Higher rates of overseas corporation tax	**1.7**	1.8
Deduction for gains on employee share options	**0.1**	(0.3)
Adjustment in respect of prior year	**(0.3)**	(0.2)
Income tax expense	**4.8**	4.5

Deferred tax liabilities of £8.3 million (2013: £6.9 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	2014	2013
At 1 January 2014	**(1.1)**	(1.6)
Currency translation differences	**(0.1)**	—*
Income tax paid	**3.6**	5.0
Income tax payable — current year	**(4.4)**	(4.6)
— prior year	**0.3**	0.1
At 31 December 2014	**(1.7)**	(1.1)

* These balances are less than £0.1 million.

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

£ Millions	2014		
	Before tax	Tax (charge)	After tax
Cash flow hedges	**0.9**	**—**	**0.9**
Currency translation differences	**1.7**	**—**	**1.7**
Other comprehensive income	**2.6**	**—**	**2.6**
Current tax		**—**	
Deferred tax		**—**	
	—	**—**	**—**

8. Income taxes (continued)

£ Millions	2013 Before tax	2013 Tax (charge)	2013 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		–	
	–	–	–

9. Dividends

Amounts recognised as distributions to equity holders in the period:

	2014		2013	
	Pence per share	**£ Millions**	Pence per share	£ Millions
Prior year third quarter dividend paid	**13.0***	**2.5**	12.0	2.3
Prior year final dividend paid	**19.0***	**3.6**	17.0	3.2
First quarter dividend paid	**12.0^**	**2.2**	11.0*	2.1
Second quarter dividend paid	**13.0^**	**2.5**	12.0*	2.3
Total	**57.0**	**10.8**	52.0	9.9

* Dividends in respect of 2013 (55.0p)
^ Dividends in respect of 2014 (61.0p)

The third quarter dividend of 14.0 pence per share was paid on 9 January 2015. The proposed final dividend of 22.0 pence per share for the year ended 31 December 2014 is subject to approval by shareholders at the Annual General Meeting scheduled for 2 April 2015 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 9 April 2015 to members on the register as at 13 March 2015.

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	2014	2013
Earnings		
Earnings for the purposes of basic and diluted earnings per share		
(profit for the year attributable to equity holders of the Company)	**19.4**	18.2
Earnings for earnings per share	**19.4**	18.2
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**18,998**	18,990
Effect of potentially dilutive share options (thousands)	**196**	157
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,194**	19,147
Earnings per share from operations		
Basic	**102.1p**	95.8p
Diluted	**101.1p**	95.1p

11. Goodwill

£ Millions	2014	2013
Cost		
At 1 January	**30.6**	30.5
Provision for deferred contingent consideration (Note 20)	**(0.1)**	0.1
Foreign currency translation	**0.1**	—*
At 31 December	**30.6**	30.6
Accumulated impairment loss		
At 31 December	**—**	—
Carrying amount		
At 31 December	**30.6**	30.6

* 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 2014 was due to a decrease 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 the 2014 performance, were revised downwards.

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 7.1% was used for 2014 and for 2013, the rate was 6.9%).

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 averages of 5.0% and 3.0% respectively. The carrying amount of goodwill as at 31 December 2014 was £30.6 million (2013: £30.6 million) with no impairment adjustment required for 2014.

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 2015 to 31 December 2019. 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 2013	11.3	1.0	12.3
Additions	2.2	—	2.2
At 1 January 2014	13.5	1.0	14.5
Additions	2.9	—	2.9
At 31 December 2014	**16.4**	**1.0**	**17.4**
Amortisation			
At 1 January 2013	3.7	1.0	4.7
Charge for the year	1.3	—	1.3
At 1 January 2014	**5.0**	**1.0**	**6.0**
Charge for the year	1.5	—	1.5
At 31 December 2014	**6.5**	**1.0**	**7.5**
Carrying amount			
At 31 December 2014	**9.9**	**—**	**9.9**
At 31 December 2013	8.5	—	8.5

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 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 1 January 2014	**0.2**	**8.2**	**1.4**	**10.6**	**0.6**	**1.7**	**—**	**22.7**
Additions	—	—	—	2.0	0.2	0.1	0.6	2.9
Disposals	—	—	—	(0.4)	(0.2)	—	—	(0.6)
Transfer	—	—	—	0.5	—	0.1	(0.6)	—
Foreign currency translation	—	0.4	0.1	0.2	—	0.1	—	0.8
At 31 December 2014	**0.2**	**8.6**	**1.5**	**12.9**	**0.6**	**2.0**	**—**	**25.8**
Depreciation								
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 1 January 2014	**—**	**0.6**	**0.2**	**7.5**	**0.3**	**1.4**	**—**	**10.0**
Charge for the year	—	0.3	—	1.1	0.1	0.1	—	1.6
Disposals	—	—	—	(0.4)	(0.1)	—	—	(0.5)
Foreign currency translation	—	—	—	0.3	—	—	—	0.3
At 31 December 2014	**—**	**0.9**	**0.2**	**8.5**	**0.3**	**1.5**	**—**	**11.4**
Carrying amount								
At 31 December 2014	**0.2**	**7.7**	**1.3**	**4.4**	**0.3**	**0.5**	**—**	**14.4**
At 31 December 2013	0.2	7.6	1.2	3.1	0.3	0.3	—	12.7

The Group has entered into agreements to lease land and buildings ranging from 37 years to 999 years.

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 2014, all of which are consolidated are as follows:

Name of Subsidiary	Place of Incorporation/ ownership (or registration) and operation	Proportion of Ownership 2014 (%)	Proportion of Ownership 2013 (%)	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	Bierholm
XP Power GmbH	Germany	**100**	100	Exempted to be audited by local statutory law
XP Power Norway AS	Norway	**100**	100	BDO AS
XP Power SA	France	**100**	100	Deloitte
XP Power Sweden AB	Sweden	**100**	100	Rodl & Partner Nordic AB
Powersolve Electronics Limited*	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power (Shanghai) Co., Limited	China	**100**	100	Shanghai Jahwa CPAs
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% (2013: 84%). Refer to Note 20.

15. Cash and cash equivalents

£ Millions	2014	2013
Cash at bank and on hand	**3.8**	5.0
Total	**3.8**	5.0

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

£ Millions	2014	2013
Cash at bank and on hand (as above)	**3.8**	5.0
Less: Bank overdrafts (Note 21)	**(2.5)**	(1.2)
Cash and cash equivalents per consolidated cash flow statement	**1.3**	3.8

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

£ Millions	2014	2013
Net (decrease)/increase in cash and cash equivalents	**(2.4)**	3.2
Repayment of borrowings	**7.3**	3.8
Effects of currency translation	**(0.1)**	0.1
Movement in net debt	**4.8**	7.1
Net debt at start of year	**(3.5)**	(10.6)
Net cash/(debt) at end of year	**1.3**	(3.5)

Reconciliation to free cash flow

£ Millions	2014	2013
Net cash inflow from operating activities	**21.8**	20.2
Research and development expenditure capitalised	**(2.9)**	(2.2)
Net interest paid	**(0.1)**	(0.3)
Free cash flow	**18.8**	17.7

16. Inventories

£ Millions	2014	2013
Goods for resale	**16.1**	13.1
Raw materials	**8.7**	7.0
Work-in-progress	**0.4**	0.3
Total	**25.2**	20.4

The cost of inventories recognised as an expense and included in “cost of sales” amounts to £51.0 million (2013: £51.5 million).

17. Trade receivables

£ Millions	2014	2013
Trade receivables	16.0	15.4
Total	**16.0**	**15.4**

The average credit period taken on sales of goods is 58 days (2013: 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	2014	2013
Other receivables and prepayments	1.7	1.4
Total	**1.7**	**1.4**

19. Trade and other payables

£ Millions	2014	2013
Trade and other payables	14.4	12.7
Current income tax liabilities	1.7	1.1
Bank loans and overdrafts (see note 21)	2.5	8.5
Derivative financial instruments	–	0.1
Total	**18.6**	**22.4**

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	2014	2013
At 1 January	1.7	1.5
Movement in provision during the year	(0.1)	0.1
Adjustment for unwinding of discount rate	0.1	0.1
At 31 December	**1.7**	**1.7**
Non-current portion of provision for deferred contingent consideration	1.7	1.7
Total	**1.7**	**1.7**

The Group owns 84.0% (2013: 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 the three 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	2014	2013
On demand or within one year	**2.5**	8.5
Total	**2.5**	8.5

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

December 2014 £ Millions	GBP	USD	EUR	TOTAL
Bank overdrafts	**0.6**	**1.8**	**0.1**	**2.5**
Bank loans	**—**	**—**	**—**	**—**
Total	**0.6**	**1.8**	**0.1**	**2.5**

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

	2014	2013
The average interest rates paid were as follows:		
Bank overdrafts	**2.3%**	2.4%
Bank loans	**1.9%**	2.2%

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 2014, the Group had an overdraft of £2.5 million (2013: £1.2 million). In October 2014, the Group renewed its annual working capital facility to US$15.0 million (2013: US$10 million). This facility steps down to US$12.5 million from 1 January 2015 and to US$7.5 million from 1 July 2015. The facility is priced at the Bank of Scotland (BOS) base rate plus a margin of 1.75%.
2. The Group has fully repaid the term debt facility with Bank of Scotland PLC with a final repayment of US$9.0 million (£5.5 million) in September 2014. This was priced at LIBOR plus a margin of 1.75% depending on the ratio of Net Debt to EBITDA. (2013: priced at LIBOR plus a margin of 2%).
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 at 31 December 2014.

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 2014, the total notional amount of outstanding currency forward contracts that the Group has committed is £6.8 million (2013: £8.2 million). These contracts are to hedge against exchange movements on future sales and qualify for hedge accounting.

December 2014 **£ Millions**	**Contract notional amount**	**Fair value asset**
Forward foreign exchange contracts	**6.8**	**0.6**
Current portion	**6.6**	**0.6**
Non-current portion	**0.2**	**—**
Total	**6.8**	**0.6**

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)

(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 2014 **£ Millions**	**Contract notional amount**	**Fair value (liability)**
Forward foreign exchange contracts	**5.6**	**(0.3)**
Current portion	**5.6**	**(0.3)**
Total	**5.6**	**(0.3)**

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

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 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)
At 1 January 2014	**(0.2)**	**(0.8)**	**0.4**	**(1.8)**	**0.9**	**(1.5)**
Charge to income statement	(0.2)	(0.1)	(0.1)	(0.3)	—	(0.7)
At 31 December 2014	**(0.4)**	**(0.9)**	**0.3**	**(2.1)**	**0.9**	**(2.2)**

£ Millions	2014	2013
Deferred tax assets		
— To be recovered after more than 12 months	**0.3**	0.5
	0.3	0.5
Deferred tax liabilities		
— To be recovered after more than 12 months	**(2.5)**	(2.0)
	(2.5)	(2.0)
Deferred tax liabilities (net)	**(2.2)**	(1.5)

24. Share capital and reserves

Called up share capital

£ Millions	2014	2013
Allotted and fully paid 19,242,296 ordinary shares (2013: 19,242,296)	**27.2**	27.2

As at 31 December 2014, the Group's Employee Share Ownership Plan (ESOP) held 237,684 (2013: 227,746) shares carrying a value of £1,392,044 (2013: £1,182,717) owned by the Trust.

Merger reserve

£ Millions	2014	2013
Balance at 31 December	**0.2**	0.2

Treasury shares

£ Millions	2014	2013
Balance at 1 January	**(1.0)**	(1.2)
Sale of treasury shares	**0.1**	0.1
Purchase of treasury shares	**(0.3)**	—
Employee share option plan expenses	**0.1**	0.1
Balance at 31 December	**(1.1)**	(1.0)

24. Share capital and reserves (continued)

Hedging reserve

£ Millions	2014	2013
Balance at 1 January	(0.3)	(0.2)
Fair value gain/(loss)	0.9	(0.1)
Balance at 31 December	**0.6**	(0.3)

Translation reserve

£ Millions	2014	2013
Balance at 1 January	(8.0)	(7.7)
Exchange differences on translation of foreign operations	1.7	(0.3)
Balance at 31 December	**(6.3)**	(8.0)

Retained earnings

£ Millions	2014	2013
Balance at 1 January	51.1	42.8
Dividend paid	(10.8)	(9.9)
Profit for the year	19.4	18.2
Loss on treasury shares	(0.1)	—
Balance at 31 December	**59.6**	51.1

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 2014. The balance payable for 2014 was £0.1 million (2013: £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	2014	2013
Within one year	1.3	1.0
In the second to fifth years inclusive	3.0	2.1
After five years	0.9	0.4
Total	**5.2**	3.5

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

26. ESOP loan to employees

£ Millions	2014	2013
ESOP loan to employees	**0.9**	1.0
Total	**0.9**	1.0

The Group offers interest free loans to employees to purchase company shares under a deferred payment scheme managed through the XP Employees' Share Ownership Plan Trust (ESOP). 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 ten 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 is £3.5 million (2013: £3.2 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 the income statement of £1.6 million (2013: £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 (2013: £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 income statement in the period to which the contributions relate and the total cost charged to the income statement was £0.8 million (2013: £0.7 million).

28. Related party transactions

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

As at 31 December 2014, the Company's Employee Share Ownership Plan has provided interest rate free loans totalling £157,346 (2013: £220,879) to 1 Director (2013: 1 Director) for the deferred payment share scheme. The detailed information is provided for in the Directors' Remuneration Report on page 49 to 55.

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 page 49 to 55.

	2014 £	2013 £
Short-term employee benefits	**936,360**	954,594
Post employment benefits	**21,685**	22,179
Total Directors' remuneration	**958,045**	976,773

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
4,000	£3.90	28 September 2006*	28 September 2016
65,250	£5.073	26 April 2007*	26 April 2017
345,000	£9.46	10 October 2012	10 October 2022
431,750			

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

	2014		2013	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of the year	**442,250**	**844**	466,800	822
Forfeited during the year	**—**	**—**	(1,000)	507
Exercised during the year	**(10,500)**	**485**	(23,550)	431
Outstanding at the end of the year	**431,750**	**852**	442,250	844
Exercisable at the end of the year	**86,750**	**480**	97,250	480

The weighted average share price at the date of exercise for the share options exercised during the period was £16.27 (2013: £14.79). The options outstanding at 31 December 2014 had a weighted average exercise price of £8.52 (2013: £8.44), and a weighted average remaining contractual life of 6.6 years.

In 2014, the Group has taken a charge of £0.1 million (2013: £0.1 million) to recognize 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 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.

30. Financial risk management (continued)

(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 purchase 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.

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 2014					
Financial assets					
Cash and cash equivalents	1.0	0.6	1.8	0.4	3.8
Trade receivables	1.9	1.5	12.4	0.2	16.0
Other current assets	0.7	–	0.8	0.2	1.7
ESOP loan to employees	0.9	–	–	–	0.9
Sub-total	4.5	2.1	15.0	0.8	22.4
Financial liabilities					
Borrowings	(0.6)	(0.1)	(1.8)	–	(2.5)
Trade and other payables	(1.2)	(0.5)	(12.4)	(0.3)	(14.4)
Other financial liabilities	(1.5)	(0.1)	(0.1)	–	(1.7)
Sub-total	(3.3)	(0.7)	(14.3)	(0.3)	(18.6)
Net financial assets/(liabilities)	1.2	1.4	0.7	0.5	3.8
Less: Currency forwards	4.9	7.5	–	–	12.4
Currency profile excluding non-financial assets and liabilities	(3.7)	(6.1)	0.7	0.5	(8.6)
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	0.6	1.3	(2.0)	0.3	0.2
Currency exposure of financial (liabilities)/assets	(4.3)	(7.4)	2.7	0.2	(8.8)

30. Financial risk management (continued)

(b) Currency risk (continued)

£ 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 excluding 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)

If the US Dollar and Euro change against Sterling by 6% and 5% respectively (2013: US Dollar 1%, Euro 7%) with all other variables, including tax rates, being held constant, the effects arising from the net financial (liability)/asset position will be as follows:

£ Millions	2014 Profit after tax	2013 Profit after tax
Group		
EUR against GBP		
– strengthened	**(0.4)**	(0.7)
– weakened	**0.4**	0.7
USD against GBP		
– strengthened	**0.2**	—*
– weakened	**(0.2)**	—*

* 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% (2013: 0.5%) with all other variables, including tax rates, being held constant, the profit after tax will be lower/higher by £33,000 (2013: £61,000) as a result of higher/lower interest expense on these borrowings.

30. Financial risk management (continued)

(d) Credit risk

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

The Group's business is highly fragmented, reducing the credit exposure to any one customer. At the balance sheet date no trade receivable represented more than 6% of the total trade receivables balance.

The credit risk for trade receivables, which are all with non-related parties, by geographic area is as follows:

£ Millions	2014	2013
By geographical areas		
Europe	**5.9**	5.8
North America	**8.0**	7.2
Asia	**2.1**	2.4
	16.0	15.4

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

£ Millions	2014	2013
Past due 0–2 months	**9.0**	8.4
Past due 3–4 months	**0.8**	0.7
Past due over 4 months	**0.3**	0.2
	10.1	9.3

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

£ Millions	2014	2013
Gross amount	**0.4**	0.4
Less: Allowance for impairment	**(0.3)**	(0.3)
	0.1	0.1
Beginning of financial year	**(0.3)**	(0.3)
Allowance made	**–**	–
Allowance utilised	**–**	–
End of the financial year	**(0.3)**	(0.3)

30. Financial risk management (continued)

(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 2014					
Trade and other payables	**14.4**	**–**	**–**	**–**	**14.4**
Provision for deferred contingent consideration	**–**	**–**	**1.7**	**–**	**1.7**
Borrowings	**2.5**	**–**	**–**	**–**	**2.5**
Total	**16.9**	**–**	**1.7**	**–**	**18.6**

£ 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

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

(f) Fair value measurements

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

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

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

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

The following table presents the assets and liabilities measured at fair value at 31 December 2014.

2014 £ Millions	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	**–**	**0.3**	**–**	**0.3**
Liabilities				
Derivatives used for hedging	**–**	**–**	**–**	**–**

30. Financial risk management (continued)

(f) Fair value measurements (continued)

2013

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

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

(g) Offsetting financial assets and financial liabilities

(i) Financial assets

	Related amounts set off in the balance sheet			Related amounts not set off in the balance sheet		
£ Millions	Gross amount – financial assets	Gross amount – financial liabilities	Net amount – financial assets presented in the balance sheet	Financial assets/ liabilities	Financial collateral received	Net amount
At 31 December 2014						
Derivative financial assets	0.6	(0.3)	0.3	—	—	0.3
	0.6	(0.3)	0.3	—	—	0.3
At 31 December 2013						
Derivative financial assets	—	—	—	—	—	—
	—	—	—	—	—	—

(ii) Financial liabilities

	Related amounts set off in the balance sheet			Related amounts not set off in the balance sheet		
£ Millions	Gross amount – financial liabilities	Gross amount – financial assets	Net amount – financial liabilities presented in the balance sheet	Financial assets/ liabilities	Financial collateral pledged	Net amount
At 31 December 2014						
Derivative financial liabilities	—	—	—	—	—	—
	—	—	—	—	—	—
At 31 December 2013						
Derivative financial liabilities	0.3	(0.2)	0.1	—	—	0.1
	0.3	(0.2)	0.1	—	—	0.1

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 23 February 2015.

COMPANY BALANCE SHEET

As at 31 December 2014

£'000	Note	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	4	**1,021**	653
Trade and other receivables	5	**12,696**	12,068
Other current assets	6	**417**	495
Derivative financial instruments	7	**263**	—
Inventories	8	**6,291**	4,747
Total current assets		**20,688**	17,963
Non-current assets			
Investments in subsidiaries	3	**29,786**	29,786
Property, plant and equipment	9	**1,859**	1,687
Intangible assets	10	**2,596**	2,069
Derivative financial instruments	7	**23**	—
Long term receivable	13	**5,783**	5,121
Total non-current assets		**40,047**	38,663
Total assets		**60,735**	56,626
LIABILITIES			
Current liabilities			
Trade and other payables	12	**10,294**	9,802
Current income tax liabilities	14	**1,416**	1,212
Derivative financial instruments	7	**—**	81
Bank overdraft	15	**507**	491
Total current liabilities		**12,217**	11,586
Non-current liabilities			
Derivative financial instruments	7	**—**	13
Deferred income tax liabilities	11	**332**	273
Total non-current liabilities		**332**	286
Total liabilities		**12,549**	11,872
NET ASSETS		**48,186**	44,754
EQUITY			
Share capital	16	**29,786**	29,786
Hedging reserve	16	**617**	(325)
Translation reserve	16	**648**	(272)
Retained earnings	16	**17,135**	15,565
TOTAL EQUITY		**48,186**	44,754

NOTES TO THE COMPANY BALANCE SHEET

For the financial year ended 31 December 2014

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	2014	2013
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 % 2014	Proportion of Ownership % 2013	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	2014	2013
Cash at bank	**1,021**	653
Total	**1,021**	653

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 2014									
Cash at bank	**43**	**780**	**145**	**50**	**1**	**—**	**2**	**—**	**1,021**

	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

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 2014

5. Trade and other receivables

£'000	2014	2013
Trade receivables	**1,840**	2,309
Trade receivables from Group companies	**10,856**	9,759
Total	**12,696**	12,068

The average credit period taken on sales of goods is 44 days (2013: 58 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	2014	2013
Deposit	**61**	54
Other receivables and prepayments	**356**	441
Total	**417**	495

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 £6.8 million (2013: £8.2 million). These contracts are to hedge against exchange movements on future sales and qualify for hedge accounting.

As at 31 December 2014, the fair value asset of the currency forward contracts recognised under a hedging reserve is £617,000 (2013: liability of £325,000) (Note 16).

December 2014 **£'000**	**Contract notional amount**	**Fair value asset**
Current portion	**6,569**	**594**
Non-current portion	**235**	**23**
Total	**6,804**	**617**

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

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

December 2014 **£'000**	**Contract notional amount**	**Fair value (liability)**
Current portion	**5,604**	**(331)**
Total	**5,604**	**(331)**

7. Derivative financial instruments (continued)

December 2013 £'000	Contract notional amount	Fair value asset
Current portion	5,543	231
Total	5,543	231

8. Inventories

£'000	2014	2013
Goods for resale	**6,291**	4,747

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 2013	180	1,437	883	10	329	2,839
Additions	—	—	127	—	6	133
Foreign currency translation	(1)	(11)	(6)	—	(2)	(20)
At 1 January 2014	**179**	**1,426**	**1,004**	**10**	**333**	**2,952**
Additions	—	—	285	—	2	287
Disposals	—	—	(28)	—	—	(28)
Foreign currency translation	9	76	55	—	17	157
At 31 December 2014	**188**	**1,502**	**1,316**	**10**	**352**	**3,368**
Depreciation						
At 1 January 2013	—	178	617	10	281	1,086
Charge for the year	—	43	119	—	25	187
Foreign currency translation	—	(1)	(5)	—	(2)	(8)
At 1 January 2014	**—**	**220**	**731**	**10**	**304**	**1,265**
Charge for the year	—	45	128	—	18	191
Disposals	—	—	(14)	—	—	(14)
Foreign currency translation	—	12	39	—	16	67
At 31 December 2014	**—**	**277**	**884**	**10**	**338**	**1,509**
Carrying amount						
At 31 December 2014	**188**	**1,225**	**432**	**—**	**14**	**1,859**
At 31 December 2013	179	1,206	273	—	29	1,687

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

10. Intangible assets

£'000	2014	2013
Cost		
Balance at 1 January	**2,538**	1,910
Additions	**1,067**	628
Balance at 31 December	**3,605**	2,538
Amortisation		
Balance at 1 January	**469**	119
Additions	**540**	350
Balance at 31 December	**1,009**	469
Carrying amount		
Balance at 31 December	**2,596**	2,069

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.

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 2013	(39)	(187)	(7)	(233)
Charge to income statement	—	(27)	(15)	(42)
Exchange difference	—	2	—	2
At 1 January 2014	**(39)**	**(212)**	**(22)**	**(273)**
Charge to income statement	(9)	(44)	8	(45)
Exchange difference	(2)	(11)	(1)	(14)
At 31 December 2014	**(50)**	**(267)**	**(15)**	**(332)**

£'000	2014	2013
Deferred tax liabilities – to be recovered after more than 12 months	**(332)**	(273)
Total	**(332)**	(273)

12. Trade and other payables

£'000	2014	2013
Trade payables and other creditors	5,061	4,313
Amount payable to Group companies	5,233	5,489
Total	10,294	9,802

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% – 1.75% above LIBOR. The borrowing is repayable upon demand.

13. Long term receivable

£'000	2014	2013
Loan to related parties	5,783	5,121
Total	5,783	5,121

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	2014	2013
At 1 January	1,212	1,015
Currency translation differences	41	(25)
Income tax paid	(1,071)	(945)
Current year tax expense	1,234	1,167
At 31 December	1,416	1,212

15. Bank overdraft

£'000	2014	2013
Bank overdraft	507	491
Total	507	491

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

£'000	GBP £'000	USD £'000	TOTAL £'000
At 31 December 2014			
Bank overdraft	507	–	507
At 31 December 2013			
Bank overdraft	491	–	491

NOTES TO THE COMPANY BALANCE SHEET

For the financial year ended 31 December 2014

16. Share capital and reserves

Share capital

£'000	2014	2013
Allotted and fully paid 19,242,296 ordinary shares	**29,786**	29,786

Retained earnings

£'000	2014	2013
Balance at 1 January	**15,565**	14,631
Dividends paid	**(10,832)**	(9,872)
Profit for the year	**12,402**	10,806
Balance at 31 December	**17,135**	15,565

Translation reserve

£'000	2014	2013
Balance at 1 January	**(272)**	(69)
Exchange differences on translation	**920**	(203)
Balance at 31 December	**648**	(272)

Hedging reserve

£'000	2014	2013
Balance at 1 January	**(325)**	(214)
Fair value gain/(loss)	**942**	(111)
Balance at 31 December	**617**	(325)

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.

17. Financial risk management (continued)

(b) Currency risk (continued)

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 2014 **£'000**	**GBP**	**EUR**	**USD**	**Others**	**Total**
Financial assets					
Cash and cash equivalents	**43**	**145**	**780**	**53**	**1,021**
Trade and other receivables	**9**	**1,025**	**17,319**	**126**	**18,479**
Other current assets	**249**	**(34)**	**137**	**65**	**417**
Subtotal	**301**	**1,136**	**18,236**	**244**	**19,917**
Financial liabilities					
Borrowings	**(507)**	**—**	**—**	**—**	**(507)**
Trade and other payables	**(5,400)**	**131**	**(4,959)**	**(67)**	**(10,295)**
Subtotal	**(5,907)**	**131**	**(4,959)**	**(67)**	**(10,802)**
Net financial (liabilities)/assets	**(5,606)**	**1,267**	**13,277**	**177**	**9,115**
Less: Currency forwards	**4,900**	**7,508**	**—**	**—**	**12,408**
Currency profile excluding non-financial assets and liabilities	**(10,506)**	**(6,241)**	**13,277**	**177**	**(3,293)**
Less: Financial (liabilities)/assets denominated in the entity's functional currencies	**—**	**—**	**13,277**	**—**	**13,277**
Currency exposure of financial (liabilities)/assets	**(10,506)**	**(6,241)**	**—**	**177**	**(16,570)**

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
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 excluding non-financial assets and liabilities	(8,838)	(7,599)	5,623	7	(10,807)
Less: Financial (liabilities)/assets denominated in the entity's functional currencies	—	—	5,623	—	5,623
Currency exposure of financial (liabilities)/assets	(8,838)	(7,599)	—	7	(16,430)

17. Financial risk management (continued)

(c) Interest rate risk

The Company borrows from subsidiaries at an interest rate of 1.5% –1.75% 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 a 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 2014					
Trade and other payables	10,294	—	—	—	10,294
Bank overdraft	507	—	—	—	507
Total	10,801	—	—	—	10,801

£'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

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

(f) Fair value measurements

The table below 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 2014:

£'000	Level 1	Level 2	Level 3	Total
2014				
Assets				
Derivatives used for hedging	**–**	**286**	**–**	**286**

17. Financial risk management (continued)

(f) Fair value measurements (continued)

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

(g) Offsetting financial assets and financial liabilities

(i) Financial assets

The Company has the following financial instrument subject to enforceable master netting arrangement or similar agreement as follows:

	Related amounts set off in the balance sheet			Related amounts not set off in the balance sheet		
	Gross amounts – financial assets	Gross amounts – financial liabilities	Net amounts – financial assets presented in the balance sheet	Financial assets/ liabilities	Financial collateral received	Net amount
As at 31 December 2014						
Derivative financial assets	**634**	**(348)**	**286**	**–**	**–**	**286**
Trade receivables	**2,660**	**(2,089)**	**571**	**10,285**	**–**	**10,856**
Total	**3,294**	**(2,437)**	**857**	**10,285**	**–**	**11,142**
As at 31 December 2013						
Derivative financial asset	—	—	—	—	—	—
Trade receivables	7,955	(2,052)	5,903	3,856	—	9,759
Total	7,955	(2,052)	5,903	3,856	—	9,759

(ii) Financial liabilities

The Company has the following financial instruments subject to enforceable master netting arrangements or similar agreement as follows:

	Related amounts set off in the balance sheet			Related amounts not set off in the balance sheet		
	Gross amounts – financial liabilities	Gross amounts – financial assets	Net amounts – financial liabilities presented in the balance sheet	Financial assets/ liabilities	Financial collateral pledged	Net amount
As at 31 December 2014						
Derivative financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**
Trade payables	**7,510**	**(2,277)**	**5,233**	**–**	**–**	**5,233**
Total	**7,510**	**(2,277)**	**5,233**	**–**	**–**	**5,233**
As at 31 December 2013						
Derivative financial liabilities	332	(238)	94	—	—	94
Trade payables	9,287	(3,804)	5,483	6	—	5,489
Total	9,619	(4,042)	5,577	6	—	5,583

FIVE YEAR REVIEW

Consolidated Information

	2014 £Millions	2013 £Millions	2012 £Millions	2011 £Millions	2010 £Millions
Results					
Revenue	**101.1**	101.1	93.9	103.6	91.8
Profit from operations	**24.5**	23.3	21.0	25.3	19.7
Profit before tax	**24.3**	22.9	20.2	24.3	18.6
Assets employed					
Non-current assets	**56.1**	53.3	52.8	52.7	47.7
Current assets	**47.0**	42.2	39.3	46.9	43.1
Current liabilities	**(18.6)**	(22.4)	(20.2)	(28.2)	(32.0)
Non-current liabilities	**(4.2)**	(3.7)	(10.6)	(15.6)	(16.0)
Net assets	**80.3**	69.4	61.3	55.8	42.8
Financed by					
Equity	**80.2**	69.2	61.1	55.6	42.6
Non-controlling interests	**0.1**	0.2	0.2	0.2	0.2
	80.3	69.4	61.3	55.8	42.8
Key statistics (pence)					
Earnings per share	**102.1**	95.8	81.7	107.1	83.9
Diluted earnings per share	**101.1**	95.1	81.3	106.4	83.2
Diluted adjusted earnings per share	**101.1**	95.1	81.3	106.4	83.7
Share price in the year (pence)					
High	**1,798.0**	1,630.0	1,283.0	1,950.0	1,100.0
Low	**1,340.0**	972.0	805.0	870.0	418.5
Dividends per share (pence)	**61.0**	55.0	50.0	45.0	33.0

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SHAREHOLDER INFORMATION

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