



POWERING THE WORLD'S CRITICAL SYSTEMS



XP POWER
ANNUAL REPORT & ACCOUNTS
for the year ended 31 December 2015

stock code: XPP

OUR VALUES



CUSTOMER FOCUS WHAT THAT MEANS TO US...

- ⊕ Always considering our customer's experience in everything we do
- ⊕ Never forgetting that without our customer we do not have a business



In an environment of relatively subdued market growth for industrial electronics, we continue to grow and capture market share. We achieve this by being customer focused and ensuring we remain an attractive power partner to our customers through the products and innovation we offer.

Our people, across the three continents where we have a presence, lie at the heart of our success. Our lean, flat, fast and flexible structure allows delivery of excellent service and support and these are the key ingredients for our continued growth.

As part of our continued drive for improvement, we have this year defined our Core Values and carried out an extensive Employee Engagement exercise. These have been immensely rewarding and insightful and will continue to help shape our future progression.

For our 2015 Annual Report we have structured our theme around our Core Values of **INTEGRITY**, **KNOWLEDGE**, **FLEXIBILITY**, **SPEED** and **CUSTOMER FOCUS**, demonstrating how intrinsically linked these are to our **DNA** and ongoing success.

Duncan Penny
Chief Executive



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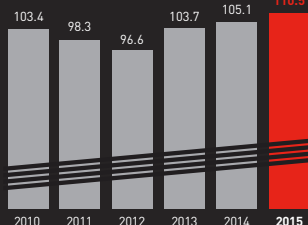
FINANCIAL AND OPERATIONAL HIGHLIGHTS IN 2015

Order Intake

(£ millions)

+5%

(+1% in constant currency)

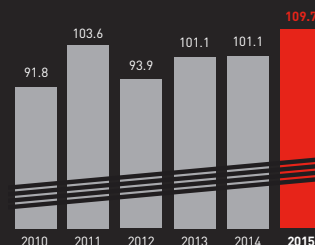


Revenue

(£ millions)

+9%

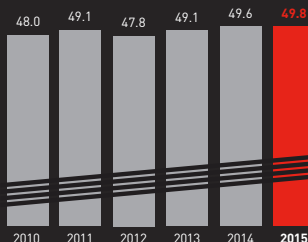
(+4% in constant currency)



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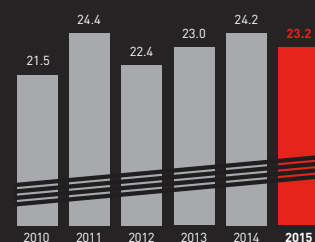
Gross Margin

(%)



Operating Margin

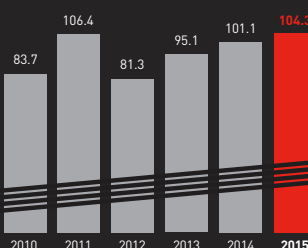
(%)



Earnings per Share

(pence)
(after adjusting for one-off costs)

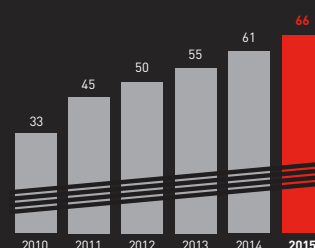
+3%



Dividend per Share

(pence)

+8%



OPERATIONAL HIGHLIGHTS

- Revenues increased by 9% (4% in constant currency) to £109.7 million (2014: £101.1 million), setting a new record for the Group
- Revenues from XP Power's own-designed products increased by 11% (7% in constant currency) to £74.6 million (2014: £67.2 million) to reach a record 68% of revenue
- Sales of high efficiency products increased by 27% to £23.6 million (2014: £18.6 million), representing 22% of revenues
- Record order intake of £110.5 million (2014: £105.1 million) – an increase of 5% (1% in constant currency)
- Power converter manufacturing at the Vietnam facility now at break-even following ramp-up in production volumes
- Acquisition of EMCO enables the Group to enter the high voltage DC-DC module market – a significant growth opportunity, with multiple customer synergies already identified
- Total dividend for the year increased by 8% to 66 pence per share (2014: 61 pence per share)

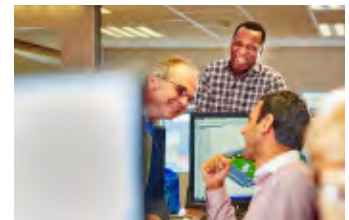


We have recently redesigned our corporate and commercial websites. Both have been designed to be responsive to multiple devices from desktop to mobile; you can always keep in touch and find out more details on XP Power at www.xppower.com

OUR INVESTMENT PROPOSITION

STRATEGIC REPORT

- +** Exposure to a **broad cross section** of end markets – Industrial, Healthcare and Technology – but with no direct exposure to consumer electronics. Read more on page [14](#)
- +** A **diverse customer base** of over 3,500 active customers, with no one customer accounting for more than 7% of revenue. Read more on page [14](#)
- +** A **growing** penetration of a global, blue chip customer base. Read more on page [15](#)
- +** **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. Read more on page [30](#)
- +** **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. Read more on pages [31](#)
- +** **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. Read more on page [13](#)
- +** An established pipeline of new class leading “green” products which operate at high efficiency. Read more on pages [18](#) and [32](#)
- +** **Progressive dividend** – the business model allows for a progressive dividend, which is paid quarterly. Read more on page [13](#)



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CHAIRMAN'S STATEMENT

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"2015 was another year of significant progress; we achieved record order intake and reported revenues. We expanded the Group with two acquisitions, one of which gives us an exciting foothold in the high voltage DC-DC module market. We ramped-up power converter production in our Vietnam facility. Our business systems have been further upgraded and we have totally revamped our website to provide significant functionality improvements to our customers."

James Peters Chairman 22 February 2016

Our Progress in 2015

2015 was another year of significant progress; despite challenging economic conditions for the industrial electronics markets. Initial indications are that the market declined in 2015, but against this backdrop, I am pleased to report that the Group achieved record levels of order intake and reported revenues. We expanded the Group with two acquisitions, the larger of which gives us an exciting foothold in the high voltage DC-DC module market. We also ramped-up power converter production in our Vietnam facility, giving us a cost advantage over many of our competitors. Our business systems have been further upgraded and we have relaunched our website to provide significant functionality improvements to our customers. In addition, we have further strengthened our Board, setting the stage for the next phase of our development.

Results

Our financial performance for the year was encouraging. Revenues were a record £109.7 million (2014: £101.1 million), an increase of 9% (4% in constant currency). Order intake was £110.5 million (2014: £105.1 million), setting a new record for the Group and representing an increase of 5% (1% in constant currency).

Gross margin improved to 49.8% (2014: 49.6%) due to improved product mix and despite start-up costs associated with power converter production in Vietnam of approximately £0.3 million and continued labour cost appreciation in China.

Profit before tax was £25.7 million, after adjusting for £0.3 million of one-off costs associated with acquisitions, an increase of 6% over the £24.3 million reported in 2014. The adjusted diluted earnings per share increased by 3% to 104.3 pence (2014: 101.1 pence).

Acquisitions

On 25 November 2015 we announced the acquisition of the assets and business of EMCO, a specialist in high voltage DC-DC modules, for a total consideration of US\$11.7 million (£7.7 million) paid in cash on completion.

EMCO is based in Northern California, with manufacturing operations in Nevada, and supplies the industrial and healthcare sectors with a broad range of standard, modified and custom high voltage products.

We are delighted to welcome EMCO to the XP Power Group and are excited about the opportunity of offering its high voltage DC-DC modules suitable for an array of applications through our well established sales channel. As well as bringing a number of exciting new customers, this acquisition will enable us to provide our existing customers with a comprehensive product offering in high voltage technologies, a market segment with robust demand fundamentals and one in which we did not previously specialise. We are confident that EMCO will have a very successful future as part of XP Power.

Strengthening our Board

We continued the process of strengthening our Board of Directors during the year.

Terry Twigger joined our Board with effect from 1 January 2015. Terry is the Senior Non-Executive Director, Chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee. 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 also pleased to welcome Polly Williams, who joined our Board from 1 January 2016 as a Non-Executive Director. Polly, a chartered accountant, is a former partner at KPMG LLP and holds a number of non-executive directorship roles, including at Jupiter Fund Management plc, TSB Group plc and Daiwa Capital Markets Europe Ltd. Polly will chair XP Power's Remuneration Committee and is a member of the Audit Committee.

Following these new appointments John Dyson will not be offering himself for re-election at the forthcoming Annual General Meeting. I would like to take this opportunity to thank John for his significant contribution to XP Power over the last 16 years.

With these latest appointments, we consider that the Board now has the appropriate experience and capabilities to take our Company to the next level of its development.

Dividend

Our continued strong financial performance, strong cash flows and confidence in the Group's long term prospects have enabled us to increase dividends consistently over a sustained period. In line with our progressive dividend policy, the Board is recommending a final dividend of 24 pence per share for the fourth quarter of 2015. This dividend will be payable to members on the register on 11 March 2016 and will be paid on 4 April 2016.

When combined with the interim dividends for the previous quarters, the total dividend for the year will be 66 pence per share (2014: 61 pence), an increase of 8%.

The compound average growth rate of our dividend has been 15% per annum over the last five years.



Our people and our values

The success of an organisation is dependent on the people and talent within it. We have significant strength and depth within our Company, with the majority of our executives having impressive lengths of service, and we have now gained new talent with the acquisition of EMCO. We also conducted an employee cultural survey to assess our people's perspective on our strengths and where we can improve. I was pleased that one of the main findings from our 2015 employee survey was that our employees are proud to be part of our Company, highlighting the significant engagement we have with our colleagues.

During 2015 we undertook an exercise to identify and distil the key aspects of the XP Power culture that has made our Company successful over a long period of time. Core values of integrity, knowledge, flexibility, speed and customer focus were identified as the key ingredients. These characteristics are part of our DNA and have been responsible for driving our performance and customer service commitment over the long term.

Sustainability

Sustainability is extremely important to our people and our customers. We punch well above our weight in this regard and set ourselves the aspirational goal of leading our industry regarding environmental and sustainability matters. This is reflected in the work we have done to produce a portfolio of ultra-high efficiency products which consume less energy, use less material and do not contain substances which are harmful to the environment. These XP "Green" Power products grew at an impressive rate of 27% in 2015 and represented 22% of total revenue for the 2015 financial year.

Our Vietnam facility is the most environmentally friendly factory in the industry with well-insulated building envelope, incorporating ultra-efficient air conditioning, low energy lighting, water capture and recycling, as well as a solar panel array. This is not only important to our customers but resonates with our employees.

We are building a sustainable business that can grow and prosper in the long term through providing genuine value to our customers, treating and rewarding our people appropriately and adhering to our business ethics.

Outlook

We are encouraged by the stronger order intake experienced in the fourth quarter of 2015 following the weakness we saw in the North American order intake in the third quarter and by the progress of the integration of EMCO. Despite the mixed global economic picture, we have positive momentum and therefore expect further growth in revenues in 2016.

We now have a new high voltage product offering which we believe we can grow using our direct sales channel and approved supplier status with our existing customer base. We also have a strong balance sheet and a business model that provides excellent cash generation to fund the existing Group and targeted acquisitions to further broaden our product offering and engineering capabilities.

James Peters
Chairman

OUR VALUES

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KNOWLEDGE WHAT THIS MEANS TO US...

- + Delivering genuine value to our customers through our knowledge and experience
- + Continually developing our skills and capabilities as individuals and as an organisation



Providing our customers high voltage technologies

The acquisition of EMCO provides us with a portfolio of high voltage power modules that we can offer to our existing customers. In addition, the acquisition brings with it a number of new customers to which we can now offer our comprehensive range of AC-DC product.

High voltage power modules are used in a multitude of healthcare, industrial and technology applications and we are very excited to have access to this product line. EMCO has a similar product strategy to XP Power in that it has a broad array of standard products but can also produce fast turn modifications of its standard products for individual customer applications.

High voltage is a specialist area and EMCO has a talented engineering team.



XP POWER AT A GLANCE

XP Power's portfolio of innovative, ultra-high efficient products is helping the world's leading manufacturers to create technologies and products.

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.

8



Our global reach, helping insulate us from market volatility



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



ASIA

We have five 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. We also acquired a majority stake in a Korean value added distributor during the year.

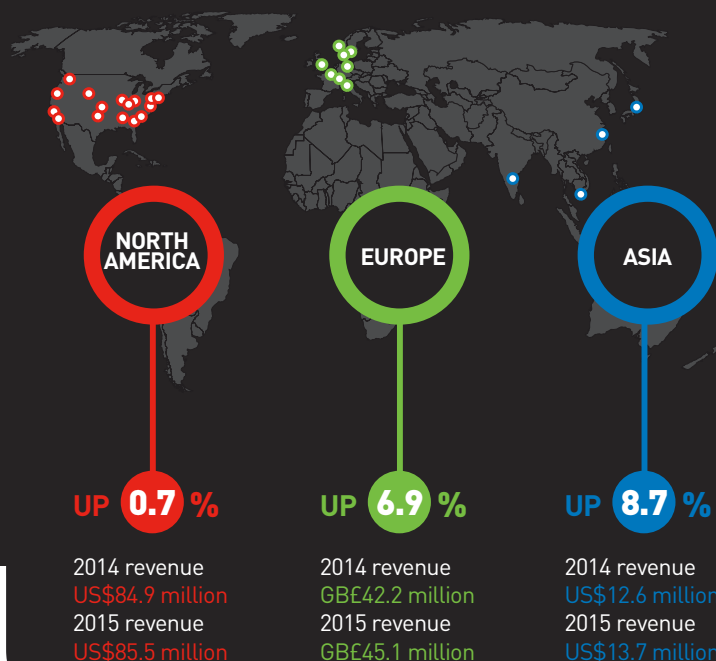
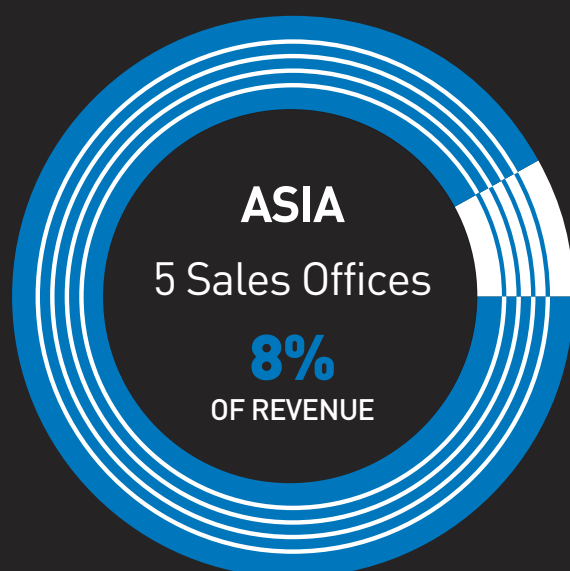
Power of our Global Reach

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 data centre industries. The equipment our products power is often mission critical so quality and reliability are paramount.

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.

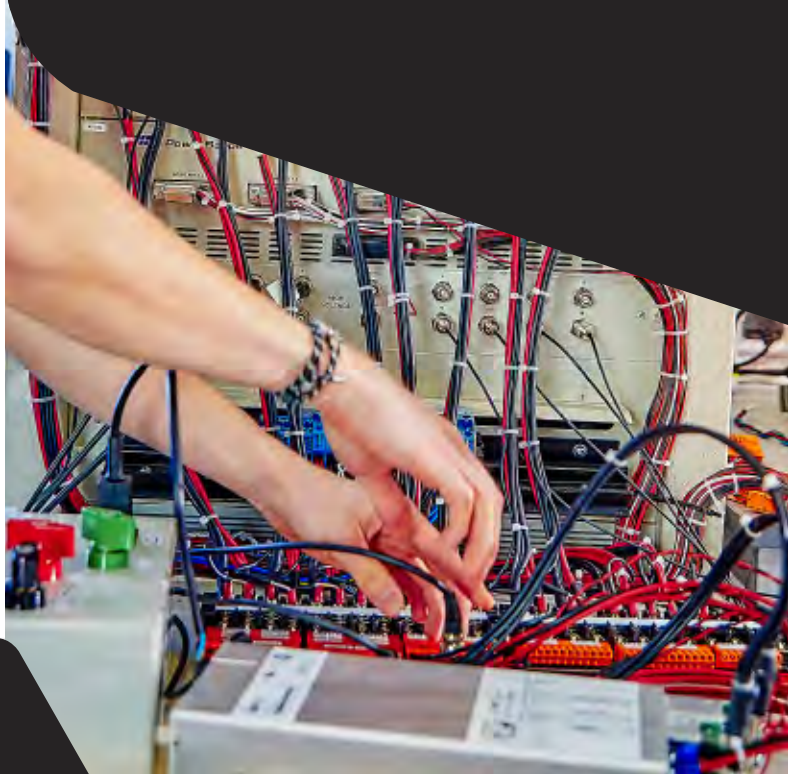


9



Meeting our customers' requirements with our powerful offering

- +** Broad, leading-edge product line with ultra-high efficiency
- +** Class leading customer service and support through highly knowledgeable and experienced sales team (the largest in the industry) and power systems engineers
- +** Class leading manufacturing ensuring excellent quality, reliability and competitive cost
- +** Engineering on three continents providing excellent design support during design in to reduce time to market



EXECUTING OUR STRATEGY – OUR SIX INITIATIVES

XP Power has followed a clear and consistent strategy of moving up the value chain, powered by six strategic initiatives. Our strategy point of increasing the contribution of our own designed/own manufactured product has been achieved, with over 68% of our product now coming from this source.

The portion of our revenue coming from own designed/own manufactured product is expected to naturally increase from current levels. As we enter 2016 we are placing emphasis on productivity as a new strategy point and in particular are looking at lean principles across the organisation to enhance our performance.

10

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 2015

We released 22 new product families in 2015 (2014: 26 new product families).

New releases included the GCS265 and GCS350 series which extend our popular GCS180 and GCS250 product lines upwards in power. With the acquisition of EMCO (see page 7) we added high voltage modules to our product portfolio.

Revenue from “green” products increased by 27% to £23.6 million representing 22% of revenues (2014: £18.6 million or 18% of revenues), setting a new record for the Group.

Revenue from the top 30 customers represented 44% of revenue (2014: 40%).

➔ Plans for 2016

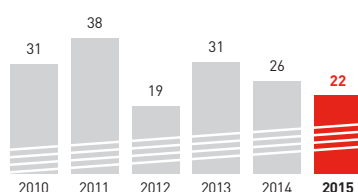
- ➔ Further product releases including “green” products are planned for 2016, including new product families in areas we do not currently cover
- ➔ Search for further suitable bolt on acquisitions to expand our product portfolio

- ➔ Further “green” product releases are planned for 2016 which should continue to drive further revenue growth
- ➔ In addition we have a number of successful design wins of “green” products released in 2015 which we expect will enter production and drive revenues in 2016

- ➔ 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

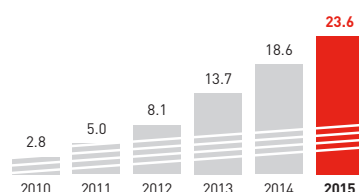


Linkage to our Core Values



“Green” product revenue

(£ millions)

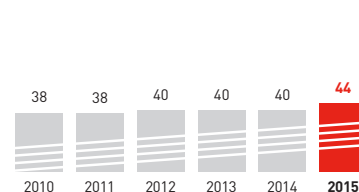


Linkage to our Core Values



Revenue from top 30 customers

(%)



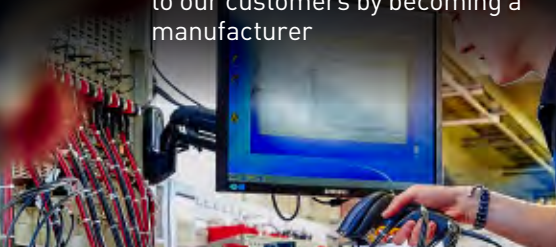
Linkage to our Core Values





To inspire our people to be **THE EXPERTS IN POWER**
delivering genuine value for our customers.

Enhancing our value proposition to our customers by becoming a manufacturer

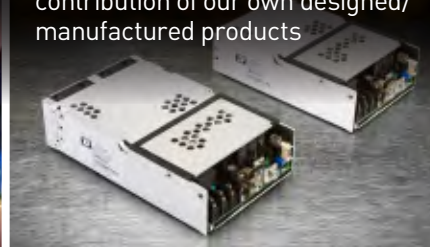


In 2012 we became more vertically integrated when we started manufacture of magnetic components in our Vietnamese facility. This gives us access to lower costs and quicker lead times for these critical components.

In 2015 we ramped the production of complete power converters in our Vietnam factory, which will preserve our cost advantage and expand our capacity to meet customer demand. We consider that the transition to manufacturer is now complete.

- Continue the qualification of power converters in Vietnam
- Continue to ramp our magnetics production in Vietnam to maintain cost competitiveness
- Apply lean principles to reduce lead times of key product series and reduce manufacturing costs

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



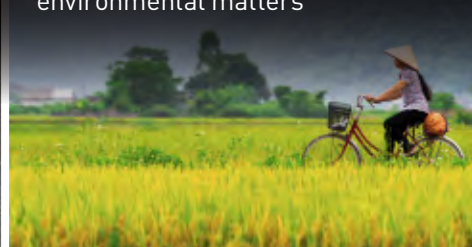
In 2015 we manufactured a record 1.4 million (2014: 1.3) million power converters.

We have seen a further increase in our own designed product in 2015 to £74.6 million or 68% of revenue (2014: £67.2 million or 66% of revenue), setting a new record.

The majority of our revenues are now coming from own designed/own manufactured products. This metric is expected to naturally grow from this point. We therefore consider this strategy point to have been achieved.

- We have a number of product releases planned for 2016 which should allow us to continue the trend of growing the own designed/manufactured products in absolute terms and as a percentage of the overall revenue
- Our design win pipeline suggests this metric will continue to rise

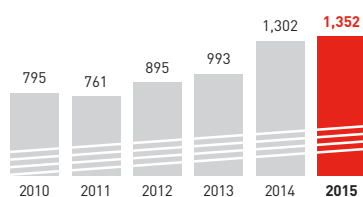
Leading our industry on environmental matters



We continued to launch a number of high efficiency products, including the GCS265 and GCS350 series products which bring high efficiency at lower cost points.

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

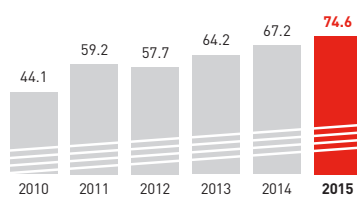
Number of units manufactured
(Thousands)



Linkage to our Core Values



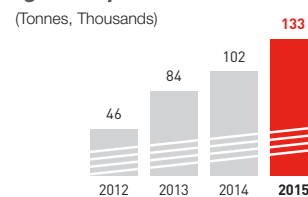
Own design revenue
(£ millions)



Linkage to our Core Values



Lifetime CO₂ emission savings from "green" products
(Tonnes, Thousands)



Linkage to our Core Values



OUR BUSINESS MODEL

Our model is to sell directly to our key customers, offering excellent service and support combined with a broad range of 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 one of 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 manufacturing, 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.

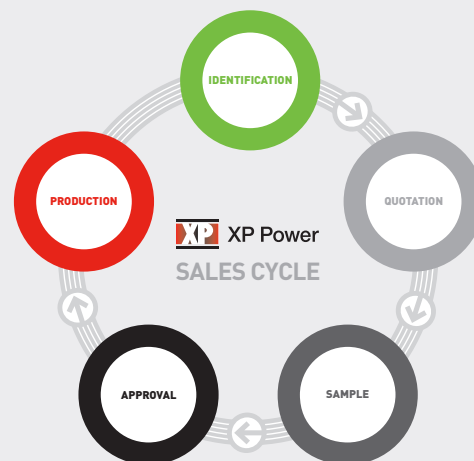
HOW WE

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.

Generally with larger customers it is not possible to engage on a specific opportunity until we are on an approved or preferred vendor list. This will involve being qualified by the customer's technical, quality and purchasing teams and may often involve a physical audit of our quality systems and a factory audit.

Our sales cycle proceeds in defined steps as follows:



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 sales person 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 who 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 product portfolio has been enhanced with high voltage modules following the acquisition of EMCO.

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 bases in China and Vietnam are 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.

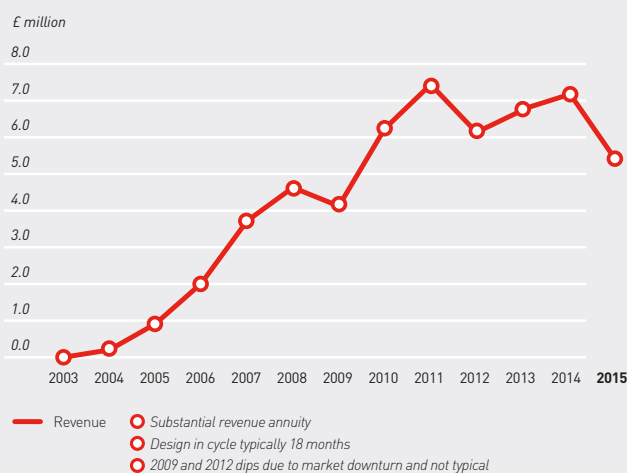


Generating long-term revenue annuities and shareholder value

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.

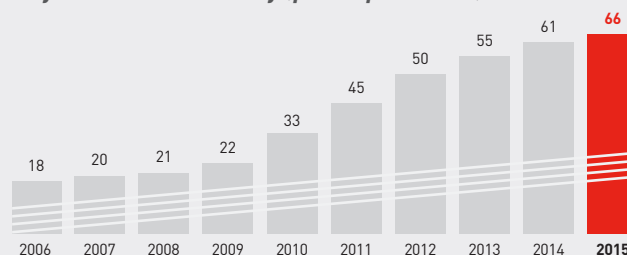
Revenue lifecycle from ECM40/60 product family



XP “Green” Power product revenue growth **+27%** Progressive dividend policy

Our business model and clear strategy, consistently applied, has resulted in long term growth, profitability and 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 15% over both the last five years and over the last ten years.

OUR MARKETPLACE

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We continue to develop a fresh portfolio of leading edge, ultra-high efficiency products, allowing us to take further market share. With the addition of high voltage modules into our portfolio from the acquisition of EMC0, we see further opportunities to grow our 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%

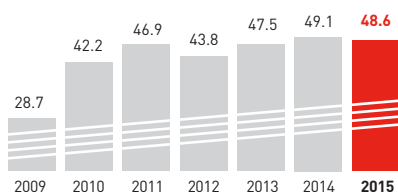
The diversity of our business is a significant strength, with no one customer exceeding more than 7% of revenue. Further, there is no one dominant player in the markets we address due to the diversity of customer requirements.

Revenue trends

Revenue trends by sector are set out below.

Industrial

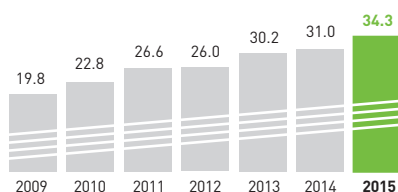
Industrial Revenue (£ millions)



Industrial remains our most diverse end market. There appears to be cyclical weakness in North America in this sector from the third quarter of 2015.

Healthcare

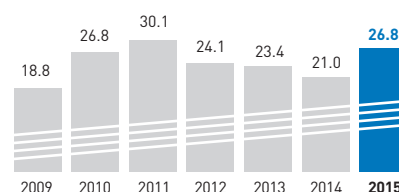
Healthcare Revenue (£ millions)



Further gains from corporate approvals at the major blue chip customers.

Technology

Technology Revenue (£ millions)

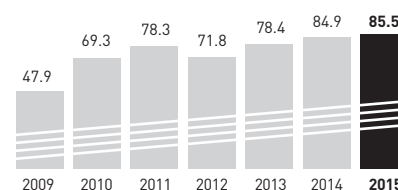


Technology continues to be the most cyclical sector but has swung back in 2015.

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

North America

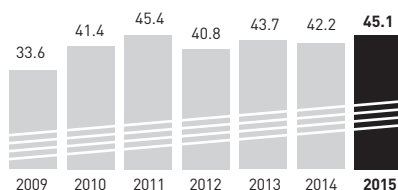
North America Revenue (US\$ millions)



The North American market shows steady momentum driven by larger opportunities in blue chip accounts but appears to have experienced some cyclical weakness in the industrial sector from the third quarter of 2015.

Europe

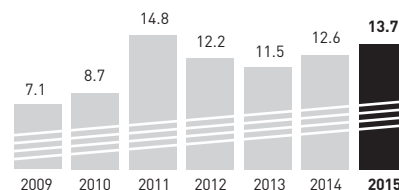
Europe Revenue (£ millions)



The market in Europe remains mixed. It has been more difficult to grow in markets such as the UK where the Group already has a strong share and the programmes are more project based. However, despite the weak Euro, growth in Europe has been robust in 2015, particularly in central Europe.

Asia

Asia Revenue (US\$ millions)

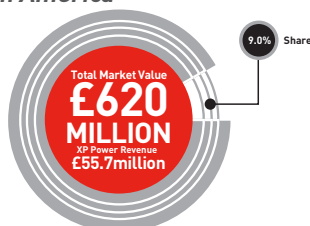


In prior years, the Asia business had benefitted from one usually large account which peaked in 2011 and reduced to zero in 2013 when the programme went out of life. The Asian business is now showing steady growth from customers that place value on XP Power's value proposition.

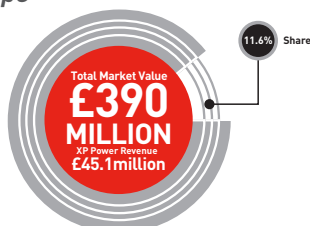
Market size and opportunity

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

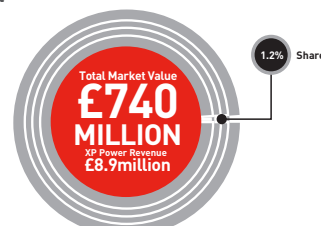
North America



Europe



Asia



Source: MicroTech Consultants 2015 Report

Driver	How we're responding
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.	We have developed a portfolio of XP "Green" Power products with class leading efficiencies
Innovation Our customers possess a 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.	With the acquisition of EMCO we now have four design centres around the globe
New products The diverse product requirements of XP Power's target market provide opportunities to enter new niches and provide flexible solutions.	We have the broadest range of standard products in our industry which are designed to be easy to modify to power the customer's specific application
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.	High voltage modules from the acquisition of EMCO increase our available market and potential penetration of our existing accounts
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.	We have the broadest, most up to date range of medically approved power converters in our industry
Proliferation of electronic devices Electronic devices are becoming more and more pervasive in our lives as new technologies and innovation emerge. These devices require power converters to operate, expanding XP Power's potential markets.	We have the broadest range of standard products in our industry which are designed to be easy to modify to power the customer's specific application
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.	We have dedicated resources devoted to safety legislation
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 equipment 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.	We have the largest direct sales force in our industry together with the broadest product portfolio so are well positioned to take advantage of any recovery in the capital equipment 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.	We have developed a portfolio of XP "Green" Power products with class leading efficiencies and have the most environmentally friendly manufacturing facility in our industry

OUR VALUES



FLEXIBILITY WHAT THIS MEANS TO US...

- ⊕ Receptive to the needs of our customers to provide outstanding customer service
- ⊕ Willing to challenge the way we do things and adapt to constantly improve and innovate
- ⊕ Collaborating with our colleagues and customers for better results

Bringing power converter production to our Ho Chi Minh city facility

Our Vietnam facility started production of magnetic windings for use in our power converters in 2012. In 2015 the volume of magnetics has continued to ramp and 4.3 million magnetic windings were produced in Vietnam during 2015 (2014: 3.6 million). In the fourth quarter of 2014 the first complete power converters were built in our Vietnam facility and during 2015 production has continued to ramp and over 0.2 million power converters were produced.

The quality of the products produced has been excellent and we expect production volumes to continue to ramp in 2016 as more products are transferred to that facility and the portion of our own manufactured product continues to advance.

Our Vietnam facility demonstrates our attitude to the environment as it is the most environmentally friendly manufacturing facility in our industry and the first industrial building to achieve the Gold Plus rating from 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 energy efficiency of the building but also water efficiency, environmental protection, indoor environmental quality and other “green” features and innovations.

Our production lines are set up for our high mix/low volume business profile. The production process is designed for high mix and fast line change, taking advantage of technology such as electronically controlled operating instructions. This approach creates the flexibility our customers value from dealing with XP Power.



Our Vietnam facility is the most environmentally friendly manufacturing facility in our industry and the first industrial building to achieve the Gold Plus rating from the BCA Green Mark Scheme, the leading environmental standard set by the Singapore Building and Construction Authority for non-residential buildings in tropical climates.

OUR COMMITMENTS TO SUSTAINABILITY

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Sean Ross Environmental Committee Chairman and Vice President of Quality Assurance

22 February 2016

"We have again successfully launched ultra-high efficiency converters within our product portfolio. These "Green XP Power" products, combined with having a leading Environmental Friendly Manufacturing Facility, help distinguish us within the industry. This is good for the environment and also sound business practice, providing us with a commercial advantage."

What we stand for

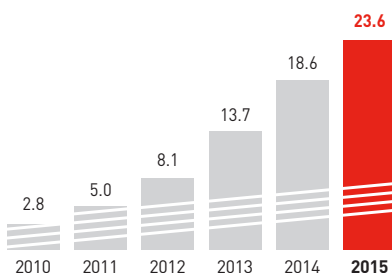
We are fully committed to leading our industry on corporate social responsibility matters. We believe we play a pivotal role in the world of industrial and healthcare electronics where our ultra-high efficiency products can save energy and reduce greenhouse gas emissions year after year.

We have again successfully launched ultra-high efficiency converters within our product portfolio. These "Green XP Power" products, combined with having a leading Environmental Friendly Manufacturing Facility, help distinguish us within the industry. This is good for the environment and also sound business practice, providing us with a commercial advantage.

An environmental committee has been established which helps us achieve our vision of leading our industry on environmental matters. To promote these ideas, local volunteer representatives within the organisation promote this vision to all of our employees. There is representation at all of our core locations throughout Asia, Europe and North America. This group meets periodically to help share best practices and ideas for future engagement within the community and ensure that we as an organisation are encouraging responsible environmental behaviour.

"Green" product revenue

(£ million)



Managing our impacts

We performed an internal assessment of all facets of our business to determine which have the most significant impact on the environment. The review concluded that the greatest contributor to environmental protection is in the power converter products we are providing to our customers. Therefore we continue to design, develop and promote ultra-high efficiency products within our standard product portfolio.

Our sustainability strategy

Power Supply "A"

XP Power Supply

Efficiency	Power Wastage	Power Requirement
80%	25%	100 Watts
95%	5%	100 Watts

The amount of inefficiency can vary depending on the type of electronic power conversion product. XP Power's strategy is to focus on those power converters with technology that is used to provide industry leading efficiencies. This helps reduce the amount of wastage and heat loss during operation within a customer's end application. In some instances the power supplies we have designed are upwards of 95% efficient, which is a significant difference from modern power supply converters which can average around 80% efficient. To further expand on the significance and the impact of a 15% difference in efficiency, the following example is provided:

Utilising Power Supply "A" would require input power of 125 Watts to provide 100 Watts of output power as there is wastage of 25 Watts.

Utilising XP Power Supply would require input power of 105 Watts to provide 100 Watts of output power as there is wastage of 5 Watts.

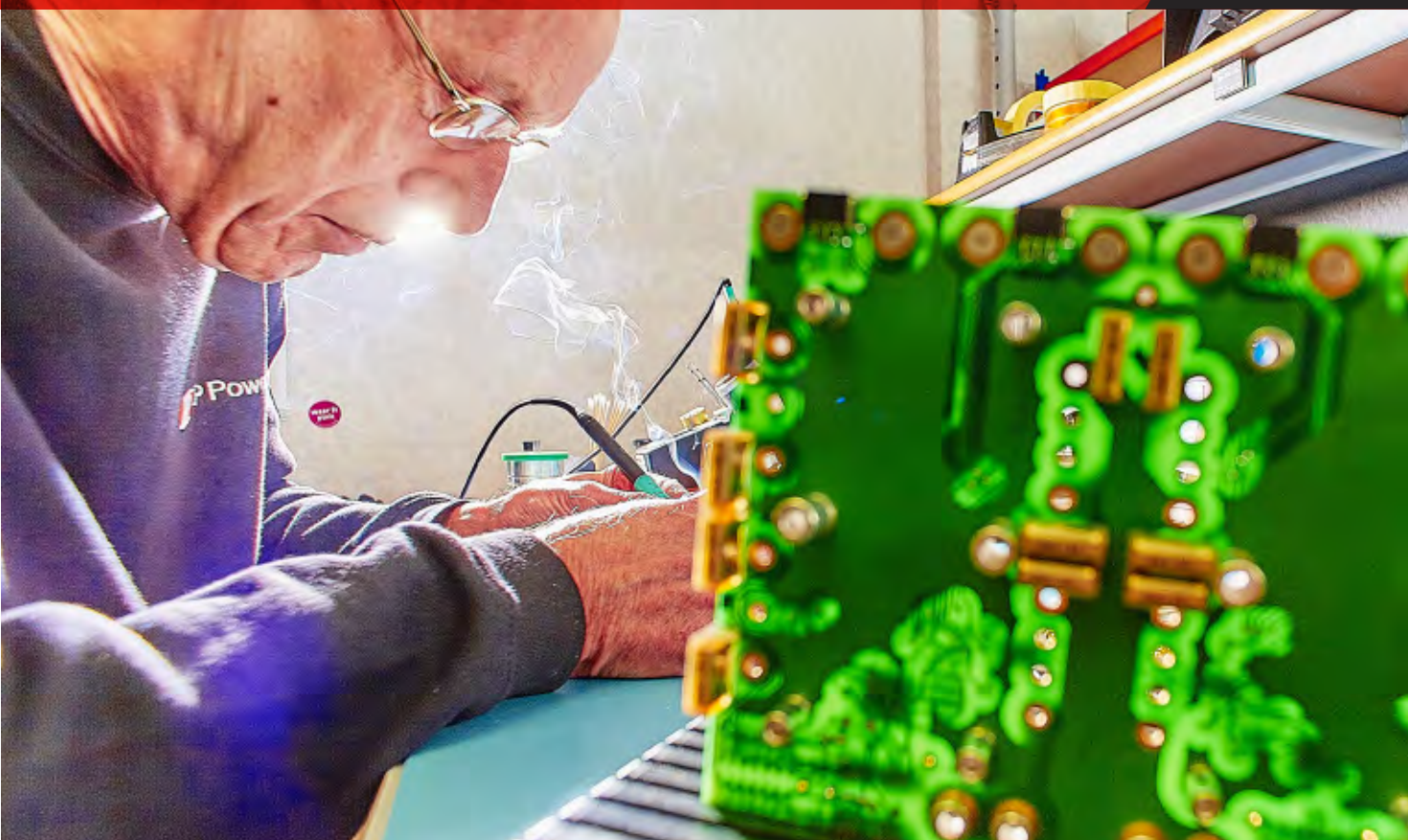
These "Green XP Power" products require less energy, consume less material and are void of hazardous substances. We continue to promote these products to our customers. By doing so, these products help with maximising energy savings during the entire lifetime of the customer's end product.

With that said, we also continue to ensure we are adopting the best practices in all of our facilities and continually promoting awareness of environmental issues.

The wastage-heat as highlighted above is calculated in Watts. There is a significant 5X difference and the overall potential for savings across the lifetime of electronic equipment. To capture these gains requires a greater number of higher cost components and more complex circuits.

The return on investment of a higher efficiency product can be captured in terms of the consumption of electricity. The full payback on electricity costs is usually within the first year of use. Therefore, we continue to promote and encourage these high efficiency products within our internal and external customers.

XP Power believes that the ongoing market trend through legislation for higher efficiency products will continue in the electronics industry. It is anticipated that these legislation requirements will be extended from consumer or office equipment, to be applied to industrial and healthcare markets that we serve.



Our key achievements in 2015

We continue to see an increase in our revenues from our “Green XP Power” product offering. In 2015 we shipped a record £23.6 million of high efficiency products representing 22% of our revenues. This is an increase of £5 million from fiscal year 2014 when we shipped £18.6 million or 18.4% of revenue.

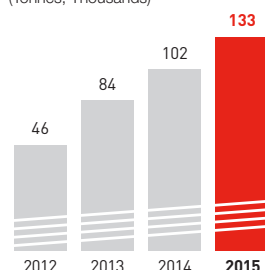
The annual savings in CO₂ emissions from these products compared to a standard 80% efficient converter are highly significant. We estimate that the emission savings from the “Green XP Power” converters we sold in 2015 total 19,000 tonnes annually. The annual savings will recur each year for the lifetime of the product, which we estimate conservatively as seven years. This would result in lifetime savings of an incredible 133,000 tonnes of CO₂. This clearly illustrates the massive scale of the opportunity to reduce harmful emissions from using our “Green XP Power” products. This example applies to just one year of shipments; the potential cumulative effect of multiple years of shipments of our “green” products is highly compelling.

Our plans for the year ahead

The focus will be to continue to add industry leading “Green XP Power” products to our product portfolio. There are a number of new products that we anticipate will be launched in the coming year which will meet customer and market expectations with ultra-high efficiency.

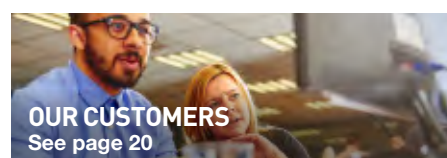
Lifetime CO₂ emission savings from “green” products

(Tonnes, Thousands)



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

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Delivering more for 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 is producing very little waste energy as heat, it no longer needs a mechanical fan for cooling. 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.

Key achievements

We have added an additional five product series to our portfolio of “Green XP Power” products. The products range from 200 – 500 Watts and upwards of 95% efficiency to meet our customer expectations.

The GCS350 product was launched in 2015. The characteristics in this product range help minimise no load power consumption in addition to maximising efficiency, with a typical efficiency of 93%. These features help with minimising the power consumed during a customer’s system idle state in addition to minimising heat wastage with such a high level of efficiency.

Our plans for the year ahead

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 anticipate a number of new and exciting products that will be launched in 2016.

OUR PEOPLE AND THEIR HEALTH AND SAFETY

STRATEGIC REPORT

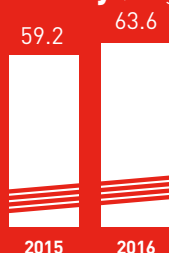
Our People

Our People are our most important asset and we make great efforts to ensure that as an organisation we have an “open door” policy to promote open lines of communication. It is critical that we continue to convey to our staff that any ideas or areas of concern should be brought to the attention of our management team. There are also regular performance reviews of our staff and this provides a more formal mechanism with open dialogue. Within our factories we have established employee committees. These committees work with the staff and provide a good forum for promoting environmental awareness, with employees subsequently suggesting any environmental ideas to improve our performance.

Employee engagement survey

We performed an employee survey to help us gauge our current cultural index within the organisation. Employees anonymously rated our performance in various facets of our business. The survey was conducted across different departments. The results were very positive. One question, with the most favourable score out of all the questions, was that employees were “proud to be part of XP Power”. This was very pleasing and considered “clearly the best” when benchmarked with other companies. That said, we also identified principal areas in which we received feedback for further improvement. The area that could be improved on is continuing to develop and train our employees for further career development. We set out a number of initiatives throughout the year to improve this.

Cultural score from Employee Engagement Survey (Target is 67.0)



Male	Executive	Management	All Other	Total
Asia	2	23	451	476
Europe	9	14	92	115
North America	3	23	91	117
Total Male	14	60	634	708

Female	Executive	Management	All Other	Total
Asia	0	6	721	727
Europe	1	4	32	37
North America	0	4	32	36
Total Female	1	14	785	800

Diversity

We operate in a global market and recognise the benefits of a diverse and talented workforce and consider this 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 difference.

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.



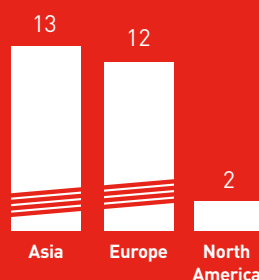
Health and safety

The health and safety of our employees is of the utmost importance. The programme we have in place focuses on preventive action to ensure that we are being proactive and therefore reducing the risk of incidents from occurring. In addition to meeting the requirements set out in the Electronic Industry Citizenship Coalition Code, there are local requirements that we continuously set out to comply with and keep abreast of any changes. There are committee members at each of our key sites who ensure any accidents are reported, acted upon and included for management review. In the previously mentioned employee engagement survey, the feedback from our people indicated that as an organisation XP Power considers the Health and Safety programme very seriously.

Our plans for the year ahead

We will continue to ensure that we provide our people the resources needed to ensure a healthy and safe working environment. Through various actions such as training, education and ongoing monitoring of our programmes we will continue to focus on preventive measures.

Health and safety (Number of incidents)



OUR SUPPLIERS

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Electronic Industry Citizenship Coalition (EICC)

As a member of the EICC, XP Power has promoted the benefits of meeting the EICC requirements to our suppliers. We hold regular engagement days with our key suppliers where we encourage them to adopt the EICC Code of Conduct. Our policy is to disengage with suppliers who do not have the same vision as XP Power regarding environmental matters and are not continuously working towards an environmental improvement programme.

Integrity of our supply chain

XP Power considers our suppliers as long term partners to our business. When we initially engage with these partners we ensure that the suppliers have sound business practices by conducting a qualification process. This process includes an assessment regarding environmental performance, treatment of labour, health and safety and business ethics standards as set out in the EICC Code of Conduct. Our ethics policy includes requirements to ensure the integrity of our relationship with our partners. The XP Power ethics policy is included within our Corporate Sustainability Manual and includes the following requirements as it pertains to suppliers:

- we will uphold high levels of business ethics in dealing with our suppliers; and
- we will not at any time take or give bribes or other means of inducement to obtain improper advantage.

These requirements have been communicated and the policy is readily available to our supply chain employees.

In 2010 the US Dodd-Frank Wall Street Reform and Consumer Protection Action was passed concerning “conflict minerals” originating from the Democratic Republic of the Congo or adjoining countries. XP Power has worked with our suppliers to try and eliminate using those sources that have originated from those countries in question. We have adopted the reporting template issued by the Global e-Sustainability Initiative (GeSI) and Electronic Industry Citizenship Coalition which we provide to our customers so they gain the necessary assurance we are not using conflict minerals in our products.

Our plans for the year ahead

We continue to work with our supply chain partners to promote best sustainability practices. This will include regular on-site visits to our suppliers and supplier engagement days at our facility. We disengage with suppliers we deem not to be in alignment with our standards and source more suitable partners.



Community relations

Our global network of Environmental Representatives encouraged even more community involvement during the past year. Our employees continue to see the benefit in giving back to communities in which we operate.

Involvement included:

- Auctioning off of personal items to generate funds that were donated to support a local charity.
- Donation of electronic tutorial kits to schools to generate interest and help provide educational resources.
- Beach family cleanup day to pick up debris and litter on the beach and surrounding areas.
- Company hike with employee contributions to support the event, with all funds being donated to support cancer research.
- Volunteering at a road race which supports a local food bank.



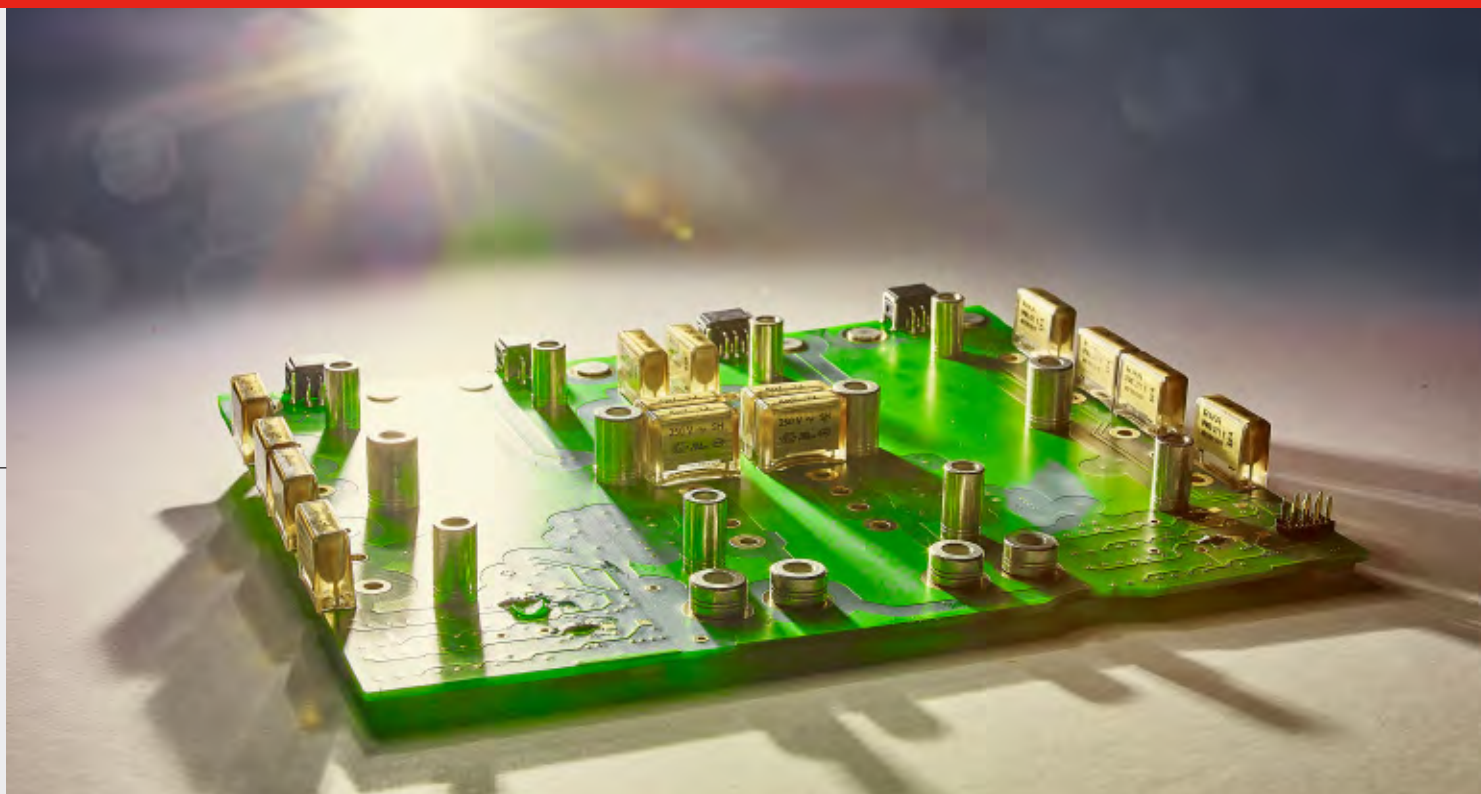
Orange County Rescue Mission project

Prior to the holiday season volunteers from XP Power Orange County, California volunteered time to support the Orange County Rescue Mission Center. This facility is a transitional facility with the goal of helping those individuals currently in unfortunate circumstances to become self-sufficient. The volunteering included separating and preparing food and the preparation of meals. The visit was also beneficial to the group that volunteered as we were able to get a better understanding of the vision of the organisation and future possibilities of how we can support the Mission Center.

Our plans for the year ahead

The environmental representatives team continues to explore additional ways in which we can help our local communities. Additional activities are planned that include volunteering time, raising funds to support local charities or providing resources for educational purposes. This is an ongoing agenda item as part of our local environmental team's periodic meetings to see how we can make a difference within the communities in which we operate.





CO₂ emissions

In 2009 we set ourselves a target of reducing CO₂ emissions per unit of revenue by 5% per annum over the next five years. This 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 CO₂ emissions in accordance with the internationally recognised Green House Gas (GHG) Protocol and our metrics include scope 1 and scope 2 emissions. The CO₂ emissions data shows the three month moving average of CO₂ emissions per unit of revenue at our Kunshan facility.

Our total Green House Gas emissions for 2015 were 3,361 tonnes of CO₂ compared to 3,068 tonnes in 2014.

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 minimised the use of alternative sources of water such as rainwater is maximised and that any wastewater is not contaminated. XP Power's facility in Vietnam leads the way with an on-site water capture and recycling system supplying "grey water" to the buildings' plumbing systems and for irrigation.

Our water policy is to:

- Employ best practice to maximise the efficient use of water and minimise pollution and waste.
- Regularly review and report on the water use of our facilities and activities.

- Commit to continuous improvement in responsible water management through identifying objectives and setting measurable goals.
- Involve and educate employees, contractors and customers in our water use programmes.
- Engage with suppliers to encourage their participation in responsible water management best practices.
- Disengage with any suppliers who may be found to be negligent or noncompliant with responsible water management and who do not aggressively implement corrective actions.

CO₂ emissions data

	2015	2014	2013	2012
CO ₂ emissions (tonnes) – China and Vietnam facility	3,361	3,068	2,598	2,188
CO ₂ emissions per unit of factory revenue (kg/\$1,000) – China facility	47	46	46	43
CO ₂ emissions per unit of factory revenue (kg/\$1,000) – Vietnam facility	141*	110	–	–

Water Data

	2015	2014	2013	2012
Average number of employees	1,448	1,160	1,081	895
Water consumed (thousand litres)	32,220	25,300	21,200	17,500
Water consumed per employee (thousand litres)	22.3**	21.8	19.6	19.5

* The increase in CO₂ emissions per unit of factory revenue in Vietnam is due to start-up of power converter manufacturing at this facility.

** The increase in water consumption per person is due to a higher proportion of new employees in the manufacturing facilities. Employees in manufacturing generally use more water.

"We continue to look at all facets of our business and the changes we can implement to make a positive impact on the environment."



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Carbon Disclosure Project

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

Harmful substances

European legislation on the Reduction of Hazardous Substances (RoHS) came into effect in 2005. The legislation limited the levels of certain hazardous substances, including lead, in manufacturing products. Although the legislation is applicable only to products sold in Europe, and at the time 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.

The RoHS directive was recast with additional requirements which came into effect in July 2011. We are pleased to report that we are compliant with the latest RoHS directive as of July 2014.

Our plans for the year ahead

We continue to look at all facets of our business and the changes we can implement to make a positive impact on the environment. We anticipate additional "Green XP Products" to be added to our product portfolio. We continue to look into additional improvements to all of our facilities, such as solar panels and high efficiency lighting systems.



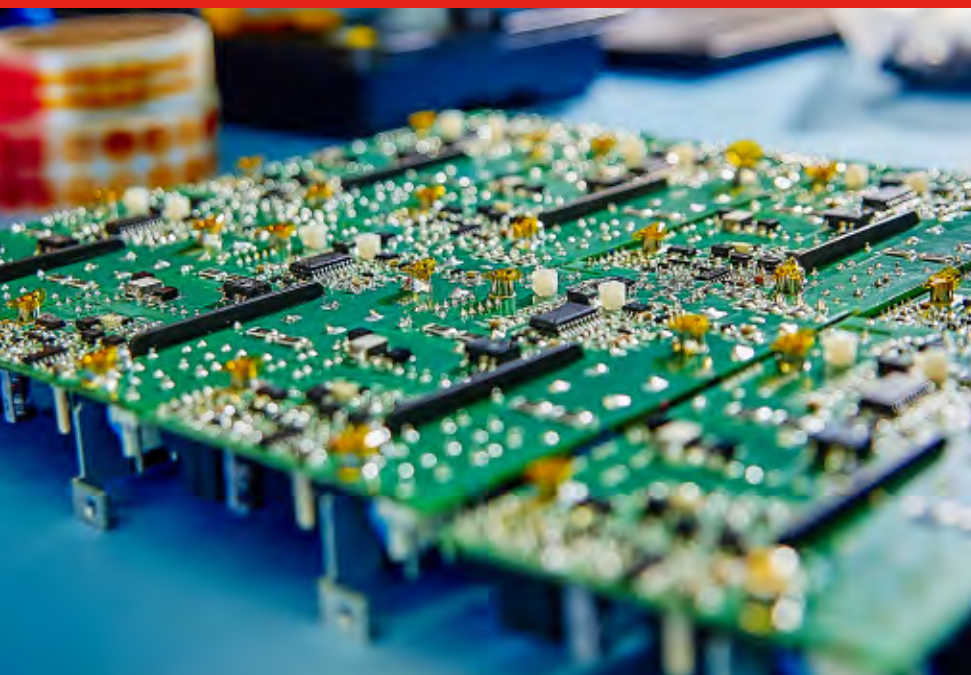
OUR VALUES

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SPEED WHAT THIS MEANS TO US...

- ⊕ Responding to our customers and colleagues with impressive speed
- ⊕ Constantly looking at faster and more efficient ways of delivering value in everything we do



Offering next day samples to our customers across the world

In 2015 we opened a new configuration centre in the UK to service our European customers. We already have such a centre in North America and in our China factory so can now provide next day samples of configured products across the world.

We know that SPEED is of the essence as power converters are designed into our customers' products at the end of their development process and so are on the critical path to market. Our configurable products are an alternative to a lengthy custom design which can take several months to design and build. We have products from 250 Watts to 2,400 Watts with 1 to 20 different output voltages.

The FLEXIBILITY of this product line and the SPEED at which we can deliver offer a compelling proposition to our customers and not only save them cost but improve their time to market.



“As we look forward, we see further opportunities to capitalise on our customer relationships and large direct sales channel by further expanding our product offering. Our acquisition of EMCO is an excellent example of this. Until now we have not had access to this high voltage technology and the acquisition opens up a significant growth opportunity in an attractive niche market characterised by numerous small players.”

Review of our year

While the market for industrial electronics remained challenging in 2015, we continued to execute our strategy successfully. We reported record order intake and revenues in the year as well as delivering our highest ever level of own designed/own manufactured product revenues.

We also completed a key acquisition taking us into a new product area. The acquisition of EMCO expands our product offering into the arena of high voltage DC-DC modules and we are extremely excited about this growth opportunity.

We have ramped up production volumes of power converters at our Vietnam facility, giving us a cost advantage over many of our competitors. From an operational perspective we have also further enhanced our business systems and reduced the lead times of some of our key products by applying lean manufacturing principles. In December 2015 we launched our revamped website to provide much greater functionality and a richer customer experience.

We remain excited by the future prospects for our business.



Strategic progress

We continue to execute a well-defined strategy which has enabled our Company to take market share consistently over many years. This strategy can be summarised as follows:

- Development of a strong pipeline of leading-edge products;
- Expansion of our range of high efficiency “green” products;
- Targeting key accounts and increasing the penetration of existing key accounts;
- Enhancing our value proposition to our customers by becoming a manufacturer;
- Increasing the contribution of our own designed/manufactured products; and
- Leading our industry on environmental matters.

When we review this list the clear evidence is that we continue to make significant progress. We have the broadest, most up to date portfolio of products in the industry, many of which are class leading in terms of efficiency and low stand-by power. Our portfolio of XP “Green” Power products grew an impressive 27% in 2015 to £23.6 million (2014: £18.6 million), demonstrating how enthusiastically these products are now being adopted by our customers. We also continue to see revenues from our own designed/manufactured products grow at a faster rate than our other products.

We consider that our transition from a sales distribution company, through the addition of a design capability, to designer and manufacturer is now complete. We are clearly recognised as a designer and

manufacturer by key customers in the industrial, healthcare and technology markets. Revenues from our own-designed products set a new record of £74.6 million in the year, representing 68% of revenue (2014: 66%). We expect further growth in this area in 2016.

As we have gained preferred or approved supplier status with numerous blue chip companies, we are being exposed to new opportunities in new product areas. Our Company is an attractive partner to larger blue chip customers who are keen to reduce costs by dealing with a smaller number of key suppliers. Our broad range of products, excellent customer service, low cost Asian manufacturing capability and engineering support on three continents make us an ideal strategic partner to these companies. We have established this position with our standard product offering but now see attractive opportunities for these larger customers to engage in custom designs. We have already deployed more of our engineering services resource into these areas but also see opportunities for further acquisitions where our customer relationships and supplier approvals at key customers can be combined with acquired custom engineering expertise.

As we look forward, we see further opportunities to capitalise on our customer relationships and large direct sales channel by further expanding our product offering. Our acquisition of EMCO is an excellent example of this. EMCO specialises in high voltage DC-DC converters or modules. We supply AC-DC power converters to many customers that are also using these high voltage products and our AC-DC converter solution may often, in fact, be providing the DC power to the high voltage modules



Jonathan Rhodes Finance Director///Duncan Penny Chief Executive Officer

22 February 2016

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in the customer's system. Until now we have not had access to this high voltage technology and the acquisition opens up a significant growth opportunity in an attractive niche market characterised by numerous small players.

Productivity will be a key focus area for us moving forward. We have excellent customer service and operating margins, demonstrating that we have an efficient and effective business model. As our organisation grows geographically and in complexity we are striving to retain and build on the core values of knowledge, flexibility and speed that have underpinned our success to date. We have continued to upgrade our systems and have employed new talent with experience in complex operations and lean process techniques.

Marketplace

In 2015, during the second half in particular, we have seen a number of interesting changes in the revenue profile of the different geographies and sectors which we serve.

Since 2012 we have seen consistent growth in our North America business. In 2013 revenues grew 9% to \$78.4 million; in 2014 revenues grew a further 8% to \$84.9 million. In 2015 revenues only grew 1% to \$85.5 million and that growth essentially came from the addition of EMCO, which contributed revenues of \$0.8 million from 25 November 2015. The weakness came entirely from the industrial sector, which declined 18%, although this was almost entirely compensated for by an impressive 31% growth in the technology sector. After a number of challenging years the technology sector in North America has bounced back strongly. Technology represented 30% of revenues in North

America in 2015 (2014: 23%), offsetting the weakness in the industrial sector which represented 31% of revenues in 2015 (2014: 39%). Order intake during the third quarter of 2015 was noticeably weak at only \$17.3 million but orders rebounded to \$23.6 million in the fourth quarter, giving us greater confidence for 2016.

Our Asian business continued to grow despite the widely reported slow-down in China. Asian revenues grew 9% in 2015 to \$13.7 million (2014: \$12.6 million). The customers driving this increase generally have demand for their end products outside of the emerging markets. Asia followed a similar pattern to North America, with the technology and healthcare sectors demonstrating much stronger growth than industrial. Healthcare revenues showed very strong growth of 24% in Asia. Technology revenues also grew robustly at 16% whereas industrial revenues were flat.

Our European business grew by 7% to £45.1 million (2014: £42.2 million) having declined in the prior year. This was despite the translational effect of a comparatively weak Euro. The industrial business in Europe grew by 6% but could not outpace the effect of new customer programmes within healthcare, which grew by 11% in 2015.

The geographic split of reported revenue was maintained year-on-year. Overall, North America represented 51% of revenue (2014: 51%), Asia represented 8% of revenue (2014: 8%) and Europe represented 41% of revenue (2014: 41%). The average exchange rate for the US Dollar compared to Sterling was 1.54 in 2015 versus 1.65 in 2014, representing a 6.7% strengthening of the US Dollar. This caused North America and Asia revenues to be inflated due to translation.

The overall picture by sector reflects the narrative above. Industrial represented 44% of revenue (2014: 49%), healthcare represented 31% of revenue (2014: 31%) and technology represented 25% of revenue (2014: 20%). All our products are designed into capital equipment so our revenues will always be affected by capital equipment cycles; however, our exposure to a large number of end markets helps mitigate the cyclicality in any particular sector, producing an underlying resilience in our business model.

We continue to perform well against our traditional established competition. Our broad standard product offering and excellent customer service delivered by the largest direct sales force in our industry is a compelling proposition. We expect our competition to emerge from Asia as companies with low cost manufacturing and engineering capabilities attempt to tap into areas of industrial and healthcare markets in Europe and North America. As a result, we need to ensure we continue to drive down our manufacturing costs and maintain our reputation as the experts in power to mitigate this threat.

Expanding our global operations

In May 2015 we acquired a 51% stake in a value-added distributor of power products in South Korea for a cash consideration of US\$2.1 million. The company has been distributing XP Power's products since 2008 and, although it is a niche player, South Korea is an interesting market for industrial electronics. Importantly, the company has an excellent engineering services capability which enables it to customise power solutions to make them easier to integrate into the customer's end equipment.

OPERATING AND FINANCIAL REVIEW

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We also set up a sales office in Israel early in 2015. Although typical design-in cycles from identification of an opportunity to realising the first revenue are around 18 months, we are already identifying good opportunities in this high technology market.

We continue to actively seek acquisitions that will enable us to expand our product portfolio and engineering capabilities.

Research and development

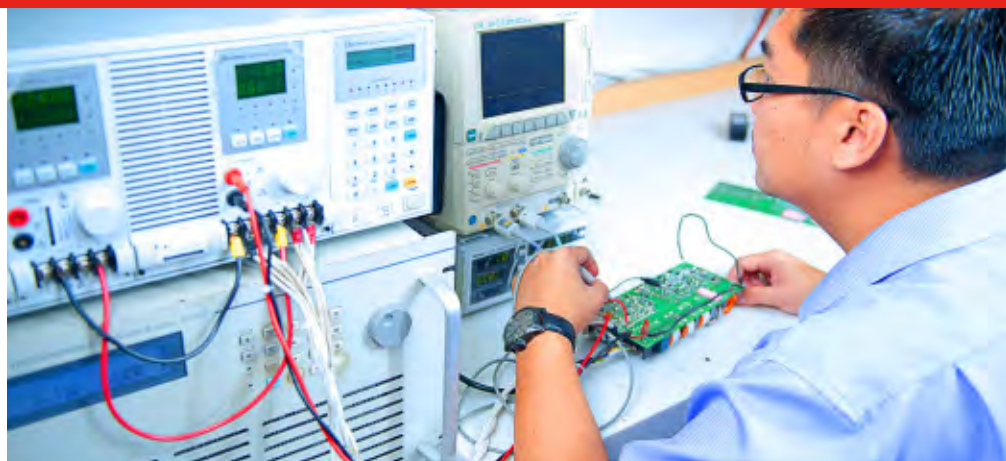
We have continued to invest in research and development to further expand our portfolio of products and the size of our addressable market opportunity. We increased our design engineering resource and capabilities during the year in both our North America and United Kingdom design centres, including the introduction of a firmware capability for which we are seeing increasing demand. We released 22 new product families in 2015 (2014: 26) with 17 of these classified as ultra-high efficiency.

New product releases included the GCS265 and GCS350 series which extend our popular GCS180 and GCS250 product families upwards in power. These new ranges offer high efficiency at a lower price point and have been enthusiastically received by our customers.

With the acquisition of EMCO we gained a new design centre of talented engineers in Northern California specialising in high voltage DC-DC modules. These products are used in a multitude of applications including semiconductor manufacturing, healthcare, industrial printing, electrostatic precipitation, detection, analytical devices and many others. This is an exciting new area for us and our sales team is already identifying new opportunities for these products within our existing customer base.

Manufacturing

In 2015 we produced 1.4 million power converters compared with 1.3 million in 2014. Production volumes of magnetics windings at our Vietnam facility have continued to ramp-up and in 2015 we produced 4.3 million windings compared to 3.6 million in 2014. In the fourth quarter of 2014 we started to produce the first pre-production samples of complete power converters in Vietnam. We are pleased to report that power converter production in Vietnam has continued to build and totalled 0.2 million units in 2015. This addition of a second manufacturing site adds much needed capacity and also enhances our cost competitiveness as production costs



in Vietnam are significantly lower than our existing Chinese facility.

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

We continue to make process improvements in our manufacturing facilities, where we are applying more lean process principles. Our internal yields continue to improve and we have redesigned some of our processes to reduce product lead times to provide an even better service to our customers and reduce our freight costs.

Enhancing our digital presence

In December 2015 we launched our completely revamped website at xppower.com. The new mobile-optimised site is specifically designed to improve interaction and the overall user experience. Site enhancements include additional product selector tools, a rapid datasheet finder, and more comprehensive company information covering topics such as standards certification, conformance to environmental specifications and quality assurance information.

The product section has been extended to include high voltage power modules following the recent completion of the EMCO acquisition.

The site provides localised content in French, German, Italian and Chinese.

Distribution

In the first quarter of 2014 we announced that we have been accepted as a supplier to Digikey, the electronic components distributor, in addition to our existing arrangements with Premier Farnell/Newark. These are excellent channels to service smaller customers and to gain widespread brand recognition for our products. 2015 was therefore the first full year of the Digikey

arrangement and we are pleased that this has provided excellent growth in this channel, enabling us to reach even more customers.

Systems development

Efficient and robust systems are essential in order for us to manage an international business with a highly diverse customer base. In 2014 we upgraded our Customer Relationship Management Systems across all three regions. This has allowed us to collaborate and share information much more effectively and provide even better customer service. From the beginning of January 2015 we replaced our North America business systems with SAP and are now running the same Enterprise Resource Management System across all three geographies, which further enhances the speed and capability of our internal reporting.

We also began running the EMCO sales through SAP from the beginning of 2016 so we can now see the entire sales business real time on one consolidated system.

This integrated approach ensures that we have the robust systems and reporting necessary to support our future growth.

Revenue and order intake

Revenues grew 9% over the prior year (4% in constant currency) to £109.7 million (2014: £101.1 million) setting a new record for the Group. Order intake grew by 5% (1% in constant currency) to £110.5 million (2014: £105.1 million), also setting a new record for the Group. Revenues from our own designed product – a key indicator of our strategic progress – grew by 11% (or approximately 7% in constant currency) to £74.6 million (2014: £67.2 million), representing 68% of revenue (2014: 66%) and setting another new record.

Margins

Gross margin showed modest improvement to 49.8% (2014: 49.6%), largely due to product mix and despite start-up costs associated with power converter production in Vietnam of approximately £0.3 million and continued labour cost inflation in China. Operating margins declined from 24.2% in 2014 to 23.3% primarily as a result of the one-off costs associated with acquisitions of £0.3 million (2014: nil) as well as the extra resource added to our engineering and sales functions to drive future revenue growth.

Profit before tax was £25.4 million (2014: £24.3 million). After adding back one-off costs associated with acquisitions of £0.3 million (2014: nil), adjusted profit before tax was £25.7 million, an increase of 6% over that reported in 2014.

Taxation

The tax charge for the year was £5.5 million (2014: £4.8 million), which represents an effective tax rate of 21.7% (2014: 19.8%). The effective rate is primarily determined by how our profits are distributed geographically. We expect a very slight increase in the effective tax rate again in 2016, when it is likely to be in the range of 24% to 25%.

Earnings per share

Basic earnings per share increased by 2% to 103.7 pence compared to 102.1 pence in 2014. Diluted earnings per share increased by 2% to 102.8 pence compared with 101.1 pence in 2014. After adding back one-off costs associated with acquisitions of £0.3 million, adjusted diluted earnings per share was 104.3 pence, an increase of 3% over 101.1 pence achieved in 2014.

Cash flow, funding and net cash

Our high margin business model and modest capital requirements continue to produce excellent free cash flows.

Net debt at the end of 2015 was £3.7 million compared with a net cash position of £1.3 million at the end of 2014. This net debt position was after returning £12.0 million to shareholders in the form of dividends and paying £9.3 million to finance our 2015 acquisitions.

In order to finance the acquisition of EMCO, the Group took out a US\$12.0 million term debt facility with Bank of Scotland PLC. The facility is repayable in equal quarterly instalments of US\$1.7 million commencing in June 2016 and ending in December 2017. The facility is priced at LIBOR plus a margin of 0.95%.

In September 2015 the Group renewed its annual working capital facility at a level of US\$12.5 million (2014: US\$15.0 million). This facility stepped down to US\$10.0 million from 1 January 2016, then reduces to US\$7.5 million from 1 April 2016 and to US\$5.0 million from 1 July 2016. Interest chargeable under this facility is priced at the Bank of England base rate plus a margin of 1.5%.

At 31 December 2015, £0.6 million of the working capital facility, representing 7%, was drawn down. Bank of Scotland PLC provides the facility.

Dividends

The attractive cash generative quality of our business model has enabled us to pursue a very progressive dividend policy over a sustained period of time.

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 us to recommend a final dividend of 24 pence per share which together with the quarterly dividends already paid gives a total dividend for the year of 66 pence per share (2014: 61 pence per share), an increase of 8%. Dividend cover for the year was 1.6 times.

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 Euro long positions to cover the US Dollar short positions in its parent company. The Group also uses forward currency contracts to hedge GBP liability on its parent company books. The Group had £11.3 million of forward currency contracts outstanding at 31 December 2015 (2014: £12.4 million).

Substantial interests

Other than the Directors' interests, at 31 December 2015 the Company was aware of the following interests in 3% or more of the issued ordinary share capital of the Company:

	Number of shares	%
Hargreave Hale	2,145,457	11.2%
Aberdeen Asset Management Limited	2,124,617	11.0%
Mawer Investment Management	1,798,842	9.4%
Standard Life Investments	1,474,291	7.7%
Henderson Global Investors	926,631	4.8%
Capital Group	880,000	4.6%

Outlook for 2016

While we recognise a number of economic headwinds with the potential to impact our business in 2016 – notably slowing growth rates in China and North America – we consider that we remain well positioned in our marketplace. We have good momentum as our design pipeline continues to grow, order intake in the fourth quarter of 2015 was strong at £30.0 million and we entered 2016 with a healthy order book.

In addition, following the acquisition of EMCO, we are excited by the prospects of our new high voltage DC-DC module product line, which will provide additional revenues this year. The combination of these factors gives us confidence that we should see further revenue growth in 2016.

We remain confident in the long term prospects for our Company.

Duncan Penny
Chief Executive

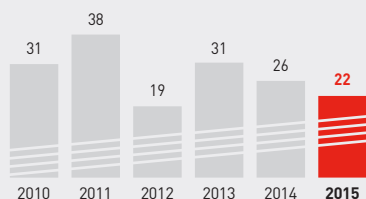
Jonathan Rhodes
Finance Director

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.

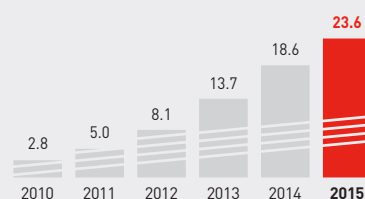


New product families released



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 (£ millions)



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

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.

YES

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

Progress in 2015

→ 22 new product families were released in 2015 (2014: 26) with continued emphasis on high efficiency.

→ Revenue from "green" products increased by 27% versus a total revenue increase of 9%.
→ "Green" products now represent 22% of total revenues (2014: 18.0%).

Plans for 2016

→ 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.

→ We expect further growth in "green" product revenues in 2016 with successful design wins with products released in 2014 and 2015 entering production to drive revenues in 2016, and plans for further "green" product releases in 2016 as well as contribution from the new EMCO high voltage DC-DC modules.

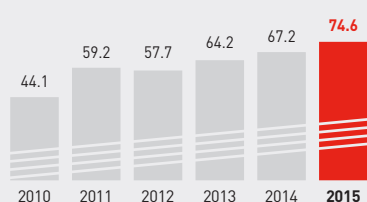
Linkage to strategy

→ Develop a strong pipeline of leading edge products

→ Expansion of high efficiency "Green" products

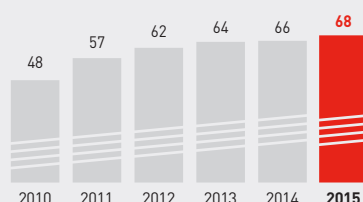
Non financial KPIs: → No environmental issues → No serious health and safety events → No breaches of the Company's ethics policy

Own design revenue (£ millions)



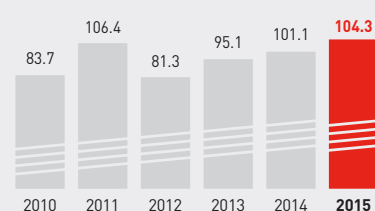
Revenue derived from products designed by XP Power or where XP Power owns the design and outsources manufacture

Proportion of own design revenue (%)



Revenue from own design products as a percentage of total revenue

Earnings per share (pence) (after adjusting for one-off costs)



Diluted earnings per share adjusted for one-off charges associated with acquisitions

YES

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

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

NO

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.
- A consequential record gross margin at 49.8% was achieved as a result of both this improved mix and the factory absorption benefit from manufacturing these own design products ourselves despite start-up costs from producing power converters in Vietnam.

- Our proportion of own design revenue climbed to 68% of total revenue (2014: 66%), making further progress against our overall long-term target.
- With all own design products being manufactured in house, capacity has been further expanded in 2015 with power converters now being produced in our Vietnam facility.

- Diluted earnings per share (EPS) adjusted for one-off charges associated with acquisitions increased by 3% over the previous year.

- The increased engineering resource added in 2015 should ensure new product development continues apace unhindered by sustaining engineering.

- We have a number of product releases planned for 2016 which should allow us to continue the trend of growing the proportion of own design revenue. The addition of the EMCO high voltage products will also contribute to this metric in 2016.
- Ramping up production of power supplies in Vietnam should help mitigate labour cost increases to help maintain gross margin levels.

- With a strong order backlog, continued design wins and the acquisition of EMCO, we expect to be able to grow earnings per share in 2016.

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

- Manufacture our own products

- Target and increase penetration of key accounts

MANAGING OUR RISKS

Our risk framework

Like many other international businesses, the Group is exposed to a number of risks which may have a material effect on its financial performance. The Board has overall responsibility for the management of risk and sets aside time at its meetings to identify and address risks. Although it is not possible to entirely eliminate risk from our business, we undertake steps to reduce and mitigate the identified risks.

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How we have reviewed our risks

Identified risks are recorded and classified according to:

- The assessment of their level of impact to the viability of the business if they occurred – Risks are assessed as to whether their impact would be either severe, moderate or low;
- The likelihood of a risk occurring – Risks are assessed as either high, medium or low in terms of their likelihood; and
- The direction in which they are trending – Risks are classified according to whether they are assessed as becoming more likely to occur, less likely to occur or whether the risk of occurrence remains unchanged.

Although the attributes assigned to the identified risks are judgemental and qualitative in nature, the Board regards the methodology as useful in determining the focus that should be given on each risk.

Each risk is regularly discussed at Board level and where possible actions set to mitigate and/or reduce the identified risk. The key risks that have been identified and the mitigating actions are summarised below classified according to their assessed impact to the long term viability of the business.

This is not an exhaustive list of the risks that the Board has identified and considered but does include all risks which are assessed as having a severe or moderate impact to the business if they occurred.


Risks which could have a severe impact on the Company's business and possibly on the viability of the Company's business

Risk	Mitigation	Assessed likelihood
Disruption of one of our manufacturing facilities An event that results in the temporary or permanent loss of a manufacturing facility would be a serious issue. As the Group manufactures 68% of revenues, this would undoubtedly cause at least a short term loss of revenues and profits and disruption to our customers and therefore damage to reputation.	<ul style="list-style-type: none"> → We now have two facilities (China and Vietnam) where we are able to produce power supplies. However, currently only certain series can be produced in both facilities. → We have disaster recovery plans in place for both facilities. → We have also undertaken a risk review of the manufacturing management to identify and assess risks which could cause a serious disruption to manufacturing, and then identified and implemented actions to reduce or mitigate these risks where possible. 	Medium
Product recall A product recall due to a quality or safety issue would have serious repercussions to the business in terms of potential cost and reputational damage as a supplier to critical systems.	<ul style="list-style-type: none"> → We perform 100% functional testing on all own manufactured products and 100% hipot testing, which determines the adequacy of electrical insulation, on own manufactured products. This ensures the integrity of the isolation barrier between the mains supply and the end user of the equipment. We also test all the medical products we manufacture to ensure the leakage current is within the medical specifications. → Where we have contracts with customers, we always limit our contractual liability regarding recall costs. 	Medium

MANAGING OUR RISKS

Risks that could have a moderate impact on the Company's business		
Risk	Mitigation	Assessed likelihood
<p>Competition from new market entrants and new technologies</p> <p>The power supply market is diverse and competitive. The Directors believe that the development of new technologies could give rise to significant new competition to the Group, which may have a material effect on its business. At the lower end of the Group's target market, in terms of both power range and programme size, the barriers to entry are lower and there is, therefore, a risk that competition could quickly increase particularly from emerging low cost manufacturers in Asia.</p>	<p>→ 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.</p>	High
<p>Dependence on key personnel</p> <p>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.</p>	<p>→ The Group undertakes performance evaluations and reviews to help it stay close to its key personnel as well as annual employee engagement surveys. Where considered appropriate the Group also makes use of financial retention tools such as equity awards.</p>	Medium
<p>Loss of key customers/suppliers</p> <p>The Group is dependent on retaining its key customers and suppliers. Should the Group lose a number of its key customers or key suppliers, this could have a material impact on the Group's businesses' financial condition and results of operations. However, for the year ended 31 December 2015, no one customer accounted for more than 7% of revenue.</p>	<p>→ 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.</p>	Medium
<p>Fluctuations of revenues, expenses and operating results due to an economic downturn or external shock</p> <p>The revenues, expenses and operating results of the Group could vary significantly from period to period as a result of a variety of factors, some of which are outside its control. These factors include general economic conditions, adverse movements in interest rates, conditions specific to the market, seasonal trends in revenues, capital expenditure and other costs, and the introduction of new products or services by the Group, or by their competitors. In response to a changing competitive environment, the Group may elect from time to time to make certain pricing, service, marketing decisions or acquisitions that could have a short term material adverse effect on the Group's revenues, results of operations and financial condition.</p>	<p>→ Although not immune from an economic downturn or the cyclical nature of the capital equipment markets, the Group's diverse customer base, geographic spread and revenue annuities reduce exposure to this risk.</p> <p>→ The Group's business model is not capital intensive and the strong profit margins lead to healthy cash generation which also helps mitigate risks from these external factors.</p>	High

Risks that could have a moderate impact on the Company's business		
Risk	Mitigation	Assessed likelihood
<p>Exposure to exchange rate fluctuations</p> <p>The Group deals in many currencies for both its purchases and sales including US Dollars, Euros and its reporting currency Pounds Sterling. In particular, North America represents an important geographic market for the Group where 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.</p>	<p>→ 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.</p> <p>→ The Group does not hedge any translation of its subsidiaries' results to Sterling for reporting purposes.</p>	High
<p>Information technology systems</p> <p>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.</p> <p>The Group is also potentially exposed to cyber-attacks of its internal systems or website or software viruses in general which could have an adverse impact on the business.</p>	<p>→ 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 or is held in the cloud.</p> <p>→ The Group has firewall and other data security infrastructure to protect from outside threats. It also operates policies to prevent employees using unauthorised software inside the Company's premises which could introduce a virus or malware into the Group's internal systems.</p>	High
<p>Risks relating to regulation and taxation</p> <p>The Group operates in multiple jurisdictions with applicable trade and tax regulations that vary. Failing to comply with local regulations or a change in legislation could impact the profits of the Group. In addition, the effective tax rate of the Group is affected by where its profits fall geographically. The Group effective tax rate could therefore fluctuate over time and have an impact on earnings and potentially its share price.</p>	<p>→ The Group hires employees with relevant skills and uses external advisers to keep up to date with changes in regulations and to remain compliant.</p> <p>→ The Group also employs a treasurer, who keeps our taxation position under continual review.</p>	Medium

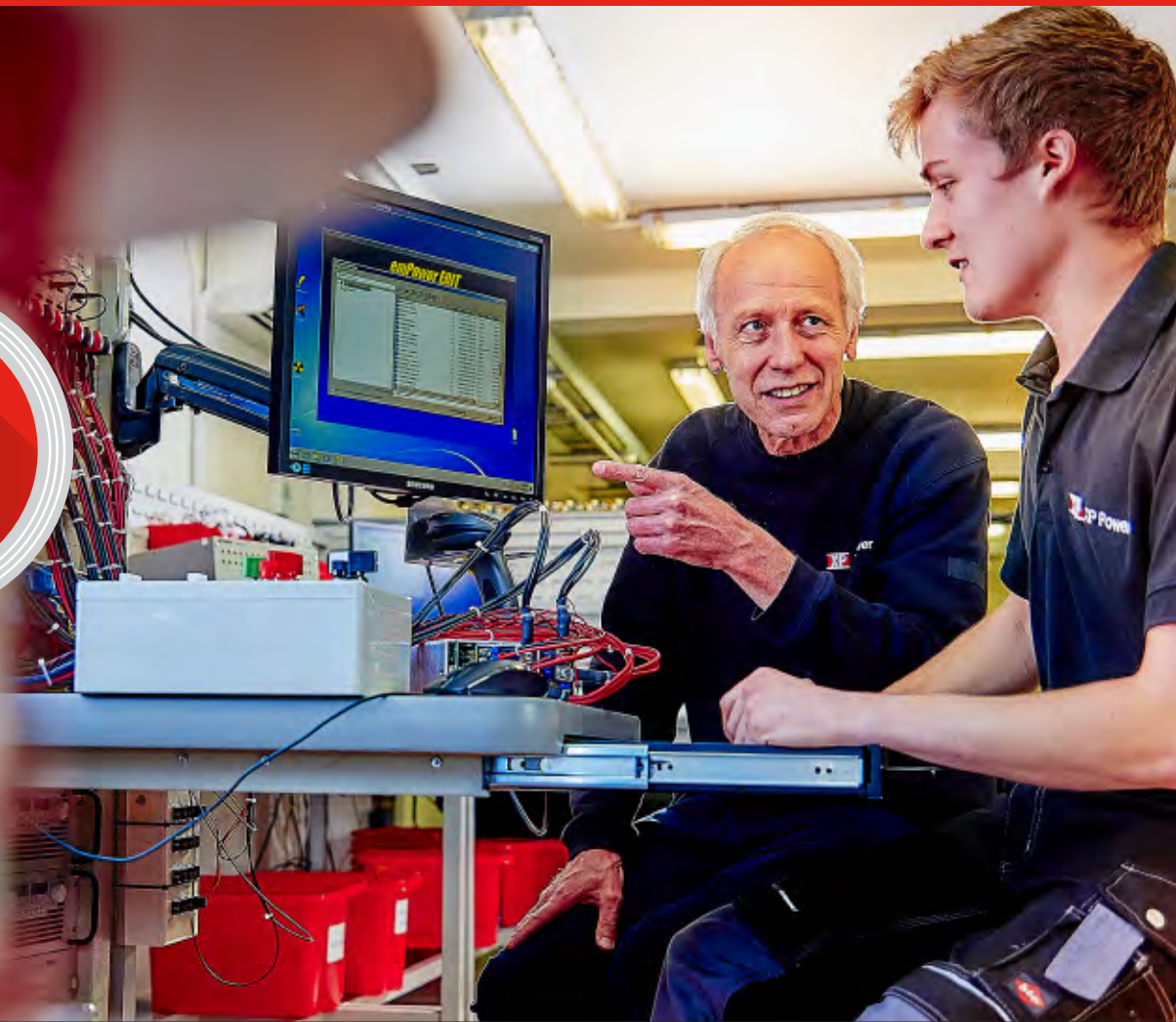
Viability statement

In accordance with provision C.2.2 of the revision of the Code, the Directors are required to assess the prospects of the Company over a period longer than the 12 months required by the "Going Concern" provision.

The Company has a business model where the Company's product is designed into numerous applications, with numerous customers, in numerous geographies. The Company's products are all designed into capital equipment which is generally in production for a number of consecutive years resulting in a revenue annuity. The Company has a term debt facility of £8.0 million, used to finance the acquisition of EMCO High Voltage Corporation, which is scheduled to be fully repaid by the end of December 2017. In addition, the Company has undertaken a process to produce a profit and cash flow forecast projecting to the end of 2018 built up by programme, by customer. For these reasons, and after considering the identified risks to the business set out on pages 34 to 37, the Directors are of the opinion that the Company is viable for at least a period of three years.

OUR VALUES

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INTEGRITY WHAT THIS MEANS TO US...

- ⊕ Honest in all our interactions with our colleagues, customers and suppliers
- ⊕ Always doing the right things
- ⊕ Taking care of our people, ensuring XP Power is a great place to work where we trust the people we work with, have pride in what we do and gain enjoyment from our work

Our Core Values in Action

Our customer won a contract in a major city to replace the traditional payphones with high speed Wi-Fi access points. These public access points also include USB device charging ports, touchscreen web browsing and very large digital advertising displays.

This type of equipment requires a reasonably high amount of power but the main power challenge is the harsh environment. As this is outdoor equipment it is exposed to extremes of temperature, as well as moisture and dust. Due to the nature of the application the customer required extremely high levels of reliability.

The initial power converter selected by the customer was fan cooled and it could not meet the outdoor, rugged temperature specification. XP Power identified a suitable power solution from its standard product range that could deliver the level of power the application demanded but critically did not need fan cooling. This allowed the customer to meet their stringent rugged temperature specification and also gave a quantum leap in underlying reliability as the customer could dispense with the fans for cooling purposes.



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XP Power's technical sales and Power Systems Engineering team worked with the customer at their facility during the testing and evaluation process. In addition, XP Power engineering ran thermal testing in our facilities using the customer's custom heat sink to confirm the power converters could meet the specification.

The customer then faced challenges meeting the requirements for passing radiated and conducted electrical noise emissions along with leakage current. XP Power provided solutions to this by making simple modifications to the standard power converter. We were also able to provide special protective coating to the electrical components to protect them from moisture and dust along with customer unique identification labels for tracking.

XP Power supported this design in and evaluation testing and provided production units all within three months.

This case study clearly demonstrates our core values of KNOWLEDGE, FLEXIBILITY, SPEED and CUSTOMER FOCUS in order to get the customer's program back on track to allow them to meet their market window.



CHAIRMAN'S INTRODUCTION TO GOVERNANCE



"The Board of Directors' primary responsibility is to provide direction to help shape the strategy of the Group and ensure it is being executed effectively within a structure that mitigates risk and is well controlled. Good corporate governance provides the basis for this structure which is why the Board have placed a greater emphasis on this during the year."

James Peters Non-Executive Chairman

22 February 2016

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I am pleased to report that Polly Williams joined the Board as an Independent Non-Executive with effect from 1 January 2016. As a chartered accountant and former Partner at KPMG, Polly's financial background will add further strength to the Board and to the Audit Committee. In addition, Polly's experience in governance and compliance acquired through her various Non-Executive roles will be invaluable to our continuing efforts to strive for excellence in this area.

Polly has also been appointed Chair of the Remuneration Committee. Combined with Terry Twigger's appointment during the year and the continuing involvement of Peter Bucher, the Committee has revamped the Group's remuneration policy to align the variable pay elements to the longer term interests of shareholders. The inclusion of clawback and malus provisions together with the introduction of minimum shareholdings for Executive Directors are further enhancements to the policy.

Other changes made to the Group's committees include Terry Twigger's appointment to the Nomination Committee and Peter Bucher joining the Audit Committee. As well as offering new opinion to these Committees they also promote greater independence. John Dyson will not be offering himself for re-election at the forthcoming Annual General Meeting. His contribution to the Group during his tenure on the Board has been invaluable to both management and shareholders.

With fresh perspectives from three Non-Executive Directors that have joined over the past two years, each of whom bring a wealth of skills and experience, the Board now comprises eight members, four of whom are qualified accountants and five that have technical and commercial experience in the power converter industry. Terry Twigger and Polly Williams both have considerable public company experience at board level.

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 lay out 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 2015 the Company has made every effort to be in full compliance with the provisions of the Code.





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DIRECTORS AND OFFICERS

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James Peters
**Non-Executive
Chairman**
(age 57)

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 Nomination Committee.



Duncan Penny
Chief Executive
(age 53)

Between October 1998 and March 2000, Duncan was the Controller for the European, Middle Eastern and African regions for Dell Computer Corporation, prior to which he spent eight years working for LSI Logic Corporation where he held senior financial positions in both Europe and Silicon Valley. From 1985 to 1990, Duncan spent five years at Coopers & Lybrand in general practice and corporate finance. He joined XP Power in April 2000 as Group Finance Director. On 3 February 2003, he was appointed as Chief Executive.



Mike Laver
**President, Worldwide
Sales and Marketing**
(age 53)

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 Rhodes
Finance Director
(age 44)

Jonathan joined the finance team of XP Power in July 2008 as European Controller. Prior to joining the Group, Jonathan spent nine years with JCDcaux 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 45)

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 February 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 72)

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\$100 million.

Peter is a member of the Remuneration Committee and the Audit Committee.



Polly Williams
Non-Executive Director
(age 50)

Polly joined the Board on 1 January 2016. Polly is a chartered accountant and a former Partner at KPMG LLP. She resigned from her partnership in 2003 and since then has held a number of non-executive directorship roles, including at APS Financial Limited, Z Group plc, National Counties Building Society (as Chairman) and Scotiabank Ireland Limited. She is currently a Non-Executive Director at Jupiter Fund Management plc, TSB Group plc and Daiwa Capital Markets Europe Limited. She is also a Trustee of the Guide Dogs for the Blind Association.

Polly is Chair of the Remuneration Committee and a member of the Audit Committee.



Terry Twigger
Senior Non-Executive Director
(age 66)

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 also the Non-Executive Chairman of Auctus Scorpion Topco Limited, an aerospace company.

Terry is the Senior Non-Executive Director and Chairman of the Audit Committee. Terry is also a member of the Nomination Committee and the Remuneration Committee.

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. Despite not being considered independent by the Corporate Governance guidelines, 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:

- opinion of the Group's viability and going concern
- approval of strategic plans, financial plans and budgets and any material changes to them

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

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.



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 Peter Bucher, Terry Twigger and Polly Williams to be independent.

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 (Chair) and Terry Twigger (appointed 24 July 2015). John Dyson will not be offering himself for re-election at the forthcoming Annual General Meeting. 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 once during the year. The attendees were as follows:

Date	Attendees
24 July 2015	All and Peter Bucher (guest), Duncan Penny (guest).

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
20 February 2015	All
9 April 2015	All
20 May 2015	All
24 July 2015	All
8 October 2015	All
16 December 2015	All

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.

During the year the Non-Executive Directors reviewed the executive management team's three year organic growth projections; received a presentation on the environmental and sustainability policy to review achievements and objectives; received an update on the Company's ethics policy; and received metrics updates on health and safety and diversity.

Terry Twigger is the Senior Independent Non-Executive Director.

CORPORATE GOVERNANCE REPORT

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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. Presentations and training were carried out during the year on corporate social responsibility and environmental matters. 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. The Board has also requested and received specific presentations and information from management during the year covering areas such as organic growth projections over a three year period, a detailed tax and treasury review, the Company’s approach to environmental matters, results and actions arising from an employee survey, a cyber security review, whistle blowing procedures and health and safety metrics and actions.

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 2015. 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. This review considers the effectiveness and diversity of the Board as well as succession.

B.7 Re-election

Main principle:

All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

The Company’s Articles of Association require Directors to seek election at the first AGM following their appointment. Thereafter, Directors are required to retire and offer themselves for re-election at least every three years. Rather than retire by rotation to seek re-election, all Directors now voluntarily offer themselves for re-election annually.

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. It also details the significant risks that the Group faces and how these are mitigated and includes the Board’s assessment of the longer term viability of the Group.

The Company also makes available a number of videos on its investor relations website at the time of its interim and annual reporting as well as investor videos describing products, markets, strategy, business model, growth drivers and its investment proposition.

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. In addition, in accordance with C.2.2 of the revision of the Code, the Directors have considered the prospects of the Company over the longer term and provided a Viability Statement on page 37.

C.2 Risk management and internal control

Main principle:

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

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

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place during the entire financial year and has remained in place up to the approval date of the Annual Report and Financial Statements. The identified risks and the processes by which these are addressed are documented, reviewed and updated at Board meetings. The Directors confirm that an assessment of the principal risks facing the Group was reviewed, further details of which are included in the Managing Our Risks and Viability Statement sections within the Strategic Report on pages 34 to 37.

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. Examples of key controls with respect to ongoing processes include:

- 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.
- Monthly reporting of management accounts and key metrics to senior management with performance measured to budget and material variances reported to the Board.
- Quality control checks throughout our manufacturing process, burn in, 100% functional testing, and quality inspection.
- Disaster recovery and business continuity plans are in place at all facilities, documented and communicated to key personnel to help cope with unexpected events.

C.3 Audit Committee and Auditor

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.

The Report of the Audit Committee on pages 48 to 49 sets out in detail the Group's arrangements to ensure corporate reporting complies with legal and accounting standards together with effective risk management and internal control processes and appropriate supervision and performance of the external auditor.

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

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 50 to 61.

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 50 to 61. No Director participates in the deciding of their own remuneration. Polly Williams (appointed 1 January 2016) is Chair 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 available on the morning of the day that the interim and annual results are published. The Company also makes available a number of informational videos on its investor relations website which cover products, markets, strategy, business model, growth drivers and its investment proposition.

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 Annual General Meeting to communicate with investors and to encourage their participation.

The AGM is used as an opportunity to communicate with shareholders and certain Directors are available to answer any questions.

REPORT FROM THE CHAIR OF THE AUDIT COMMITTEE

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"Within this year's report, the Company has adopted the new and revised auditor reporting standards, one year earlier than legally required by Singapore law. This provides readers with greater transparency of the key audit matters that have been discussed and an improved understanding of the audit process."

Terry Twigger Audit Committee Chair

22 February 2016

As Chairman of the XP Power Limited Audit Committee, I am pleased to present the 2015 Audit Committee Report to shareholders and to be able to confirm on behalf of the Board, that the Annual Report is fair, balanced and understandable.

The Audit Committee has been strengthened during the year by the addition of Peter Bucher, who brings considerable commercial and industry expertise to the committee's deliberations. Polly Williams, a chartered accountant, joined the committee on 1 January 2016 and provides additional financial depth and public company experience.

The Audit Committee is satisfied that the Company has maintained appropriate risk management and internal controls throughout the year.

The report aims to provide you with the following information:

- How the Audit Committee operates and engages with the Company, including the Group Assurance function and the Executive Directors.
- The key activities which were reviewed by the Audit Committee, including those items of regular annual review and other current areas of focus.
- The discussion and actions undertaken, in conjunction with the external auditor, on any significant judgements and / or issues.
- Details of the ongoing review of the external auditor and the amount of non-audit work undertaken.

The Audit Committee continues to review the role and independence of the external auditor and has reported to the Board that the re-appointment of PricewaterhouseCoopers LLP should be proposed at the forthcoming Annual General Meeting, and I hope that you will support me in this resolution.

Members of the Audit Committee

Terry Twigger (Chair), Independent Non-Executive Director (appointed 1 January 2015)

Peter Bucher, Independent Non-Executive Director (appointed 24 July 2015)

John Dyson, Non-Executive Director

Polly Williams, Independent Non-Executive Director (appointed 1 January 2016)

Governance

All the Audit Committee members, except John Dyson are independent Non-Executive Directors, and have financial and / or related business experience gained in senior positions in others diverse organisation. Despite not being independent, the Board considers that John Dyson's financial background, public company experience and knowledge of the Company makes him well equipped to serve on the Audit Committee. John will not be offering himself for re-election at the forthcoming Annual General Meeting.

Terry Twigger has been the Chairman of the Audit Committee since 2015, and the Board is satisfied that Terry has recent and relevant financial experience.

Meetings of the Audit Committee

The Audit Committee met three times during 2015, the attendees were as follows:

Date	Attendees
17 February 2015	All
21 July 2015	All
8 October 2015	All

The external auditor, PricewaterhouseCoopers LLP, the Finance Director and Group Financial Controller were invited and present at each of the meetings. The Committee also met

with the external auditor without the Group's management being present. During the year, the Committee met with the Group Treasury and Tax Manager.

The Audit Committee supports the Board and report to it on a regular basis, certainly no less frequently than at every Board meeting following a meeting of the Audit Committee.

There is an annual cycle of items that are to be considered by the Audit Committee. The timetable of these items is scheduled in accordance with the requirement of the annual audit cycle and any other requirements of the Audit Committee.

Responsibilities of the Audit Committee

The Committee is responsible for, amongst other things;

- Ensuring that the financial performance of the Group is properly reported and monitored;
- Compliance with legal requirements;
- Adoption and correct implementation of accounting standards;
- Meeting the requirements of the UK Listing Authority;
- Assessing the Group's internal control processes and assurance framework;
- Supervising the relationship and performance of the external auditor; and
- Reviewing the nature and extent of audit and non-audit services provided to the Group by the external auditors.

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

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 current external auditor, PricewaterhouseCoopers LLP, was appointed in 2007. The current audit engagement partner's term began in 2014 with a maximum term of five years. In line with best practice as recommended by the Financial Reporting Guideline, the external audit is anticipated to be re-tendered between 2017 and 2019.

Activities of the Audit Committee

Financial statements and reports

- Examined the 31 December 2014 Annual Report and the 30 June 2015 Half Year Report. This involved reviewing, challenging and recommending for approval the going concern basis of preparation, the accounting policies and disclosures, the financial reporting issues and the assumptions and adjustments made.
- Reviewed in detail the key judgements of the Financial Statements and levels of disclosure.
- Reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Financial Statements.
- Reviewed the results of the finance functions' peer to peer balance sheet review.
- Reviewed the Group's tax and treasury functions.

- Reviewed the key responsibilities of the Directors particularly in relation to the issues which should be considered in order to conclude that the annual accounts are fair, balanced and understandable.
- Considered the accounting principles to be adopted and the preparation of the 2016 accounts.

Significant risks and judgements in the financial reporting

Goodwill

The carrying value of goodwill remains a significant item within the Group's balance sheet. Impairment assessments, performed annually, require judgements in relation to discount rates and future growth forecasts to generate discounted cash flows for the cash generating units. The Committee asked to review the external auditor's sensitivity analysis that had been carried out on the Company's impairment calculations. After consideration, the Committee were satisfied that there was no indication of impairment.

Capitalised product development

The Group's product development activity leads to direct costs relating to new standard products being capitalised and amortised over the useful life of the products. The carrying value of the product development costs is rising and the useful lives of these products requires significant judgement. The Committee asked to review the current revenue streams of the capitalised products against their carrying value. The Committee also asked to review a projection of the future carrying values based on the existing measurement methods and linear growth. The Committee was satisfied with the judgements used.

Deferred tax on unremitted earnings

The Group does not currently record deferred tax on the unremitted earnings held in Group subsidiaries. The Board recognises that where there is no intention to repatriate these earnings back to the parent company, deferred tax should not be provided. Following the in-depth presentation provided by management of the Group's tax and treasury arrangements, the Committee determined that there is no specific requirement to move earnings currently held in subsidiaries.

Inventory

The increasing level of the Group's inventory, for which the carrying value is substantial, was another area the Committee reviewed. The high product mix and relative low volume of sales is a recognised factor in the level of inventory as is the effect of certain service level agreements with customers. As a consequence finished

goods inventory may be exposed to risk of obsolescence and the Committee therefore asked to review internal results of tests to measure the adequacy of the provision as well as the results of the external auditor's focus on this area. The Committee were satisfied with the provision.

Business Combination

Following the acquisition of the assets and business of EMCO High Voltage Corporation (EMCO) on 24 November 2015, the Committee reviewed the values of the intangible assets and was satisfied with the provisional values attributed to them.

Internal Control

The Board is ultimately responsible for the Group's system of internal controls and the ongoing assessment of these further details of which are included in C.2 Risk Management and Internal Control of the Corporate Governance section on page 47.

Internal Control Assurance

The internal financial control function conduct regular peer to peer balance sheet reviews, the results of which are reported to the Audit Committee, Finance Director and Chief Executive. The Audit Committee reviews and approves the scope and schedule for these reviews. During the year the committee resolved to enhance the review process with more standardised testing, greater transparency and improved operational tests.

Whilst the Board acknowledges such reviews do not amount to a fully independent internal audit activity, for a Group the size and complexity of XP Power this review process provides an appropriate level of comfort over the financial controls.

No significant control failings have been identified as a result of the reviews during 2015.

Each year the committee re-considers the requirement for an independent internal audit function within the Group and as a result of increasing scale and complexity, the committee have recommended that the Board include a budget for some independent internal audit activity in 2016 to cover the operational assurance.

Performance Evaluation of the Audit Committee

During the year, the Audit Committee reviewed its performance. The Committee considered it had adequate qualifications and skills to perform its responsibilities, particularly through Terry Twigger's financial and management background and John Dyson's financial and audit experience.

REPORT FROM THE CHAIR OF THE REMUNERATION COMMITTEE



"Following shareholder feedback from last year's Annual Report, the Committee has sought to address all of the concerns raised. This has resulted in changes to the membership of the Committee, to foster greater independence on remuneration decisions, as well as a full review of the remuneration policy and disclosures."

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Polly Williams Remuneration Committee Chair

22 February 2016

On behalf of the Board I am pleased to present XP Power Limited's remuneration report.

Following shareholder feedback from last year's Annual Report, the Committee has sought to address all of the concerns raised. This has resulted in changes to the membership of the Committee, to foster greater independence on remuneration decisions, as well as a full review of the remuneration policy and disclosures. In conducting this policy review, the Committee set the following guiding principles:

- A simple and transparent policy for staff, shareholders and other interested parties;
- To encourage the appropriate long term behaviours and the avoidance of short term decision making;
- To retain the right of discretion to ensure fairness, but not be able to bypass the structure approved by the Board; and
- To be mindful of retention with a progressive build-up of rewards.

The changes made to the policy are listed in more detail below, but key features include a greater use of equity awards than has been offered in the recent past which now comprise 'gateway' vesting criteria and provisions for claw back and malus. In addition to incentivising Executive Directors and key management, such awards may also be granted to the most talented, strong performing sales and engineering personnel who are vital to the business. Other key features of the policy set minimum shareholdings for executives with timescales in which they need to be achieved, and for the annual bonus plan to be split between cash and equity.

We believe that the revised remuneration policy will further incentivise and help to retain the current management team. The equity awards, in particular, align with the Company's long design-in cycles and revenue annuities and the cyclical nature of the capital goods market.

We seek your support for the amended policy and annual report on remuneration and welcome any further comments from shareholders with respect to our approach to remuneration.

Introduction

This report is on the activities of the Remuneration Committee for the period to 31 December 2015. 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) (Amendment) Regulations 2013.

The report is split into two areas: the annual report on remuneration and the policy report. The policy report will be subject to a binding shareholder vote at the 2016 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 2016 Annual General Meeting.

The auditors have reviewed on certain parts of the Directors' Remuneration Report and are required to report if the information is materially inconsistent with the financial statements.

Polly Williams

Remuneration Committee Chair



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

The objectives of the remuneration policy are as follows:

- To reward employees and executives appropriately for the work they do (base salary);
- To provide market competitive remuneration packages to enable retention or recruitment (base salary plus benefits);
- To incentivise the employees and executives to consistently perform at their best (bonus/shares with vesting criteria);
- To align shareholder and senior management's interests (shares/share options); and
- To retain key staff (long term structures with delayed vesting).

Summary of proposed changes to the remuneration policy

- Introduce a long term incentive plan by granting stock option awards. Such awards may be layered in over a number of years to enhance commitment, retention and motivation. In addition, it is hoped these will incentivise key employees to take actions with a long term view and should complement the relatively long cycle from product design to revenue annuity. In light of this it is proposed to modify the rules of the plan to remove the lifetime limit on an individual's participation in the plan which is currently five times a participant's annual remuneration.
- Revise the annual bonus scheme from a cash only reward to a split reward comprising equal portions of cash and restricted shares. The 50% cash element would vest immediately after the year to which it relates, following the publication of the audited accounts. The 50% share element would be restricted, with half of it vesting after the second year to which it relates and the remainder vesting after the third year. Vesting is subject to continual employment with the Company.
- The annual bonus scheme includes a cap at 100% of base salary, the same level as the existing policy, but an increase from a 50% cap in the previous policy applied in 2014. The cap at 100% of base salary is considered appropriate when compared against the relatively low fixed component of remuneration, or when compared against equivalent companies within the peer group. In addition, a bonus award at the 100% cap would result only from a significant increase in the pre-tax profits of the Group.
- Malus and claw back provisions have been introduced that allow for the reduction (including to zero) of any bonus or equity awards granted but not vested; and the demand for repayment of awards already vested. These clauses would be used *in extremis* as the vesting criteria does allow for a reduction in already allocated awards in the event of a downturn in Company performance. Circumstances that would trigger malus or claw back include, but are not limited to, a material misstatement within the Group's financial results as well as non-financial 'gateway' criteria such as a major environmental event, a breach of the Company's code of ethics or a serious health and safety issue.
- Executive Directors must seek to hold a minimum of the equivalent of two years' salary in shares. The Directors will be given five years to build this position following the approval of the policy.
- Environmental or non-financial targets are not part of the annual bonus criteria but are 'gateway' criteria for the vesting of bonus awards and stock option grants.

The following table overleaf provides a summary of the key components of the remuneration package for Executive Directors.

REMUNERATION POLICY

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	Not applicable	There are no provisions for recovery of salary and fees
All taxable benefits	Provide basic benefits that would be expected for the position	Private healthcare and life assurance up to three times base salary set by the Remuneration Committee and reviewed annually	As set by the Remuneration Committee	Not applicable	There are no provisions for recovery of taxable benefits
Annual bonuses	Align interests of executives and shareholders in the short and medium term	50% of bonus is paid in cash; 50% of bonus paid in shares which vest evenly over two years subject to continued employment. (Andy Sng's bonus is based on gross margin for the Asia business)	Up to 100% of base salary. In line with expectation would pay 30% of base salary.	Exceeding the profit before tax achieved in the previous financial year, with provision for adjustments relating to significant acquisitions.	Malus and claw back provisions to reduce or recover awards for criteria such as a material financial misstatement, a major environmental event; a breach of the Company's code of ethics or a serious health and safety issue.
Long term share incentive plans	Align the interests of executives and shareholders in the medium to long term	Share option scheme with 50% options vesting after three years from grant and 50% options vesting after four years. Options are granted at market value.	Price at time of exercising less grant price. Annual award value of option limited to one times base salary.	Vesting is based on Total Shareholder Return relative to the FTSE 350 Electronic and Electrical Equipment Sector. Top 20th percentile: 100% vests. Between median and top 20th percentile: vests on a straight-line basis between 25% and 100%. Below median: zero vests	Malus and claw back provisions to reduce or recover awards for criteria such as a material financial misstatement, a major environmental event; a breach of the Company's code of ethics or a serious health and safety issue.
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	Not applicable	There are no provisions for recovery of pension payments contributions
Shareholding (minimum)	Align the interests of executives and shareholders in the long term	To build a minimum shareholding equivalent to one year's salary (two year's salary for CEO) over a period of five years following approval of the policy	Not applicable	Not applicable	Not applicable

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

Non-Executive Director fees

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 fee
Additional fees payable for		
– Senior Independent Director		Additional fee of £5,000
– Chairing committees, being a member of a Committee		Included in the fixed annual fee

Approach to Executive recruitment

In the event of the recruitment of a new 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.

Executive Directors' contracts

The Executive Directors' contracts run for an indefinite period, with the Company being able to terminate the contracts without cause giving 12 months' notice. When a Director's contract 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.

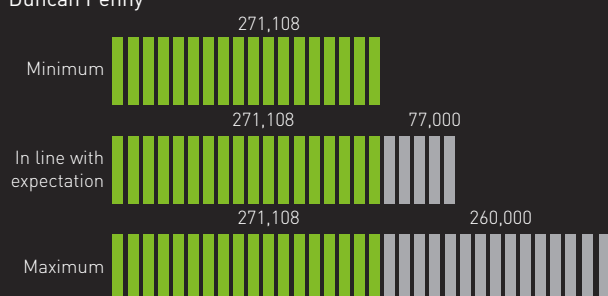
Non-Executive Directors' contracts

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

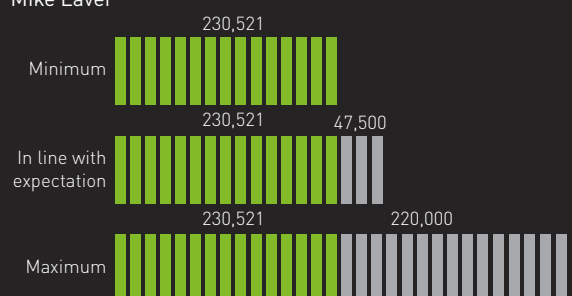
Illustration of the application of the remuneration policy

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):

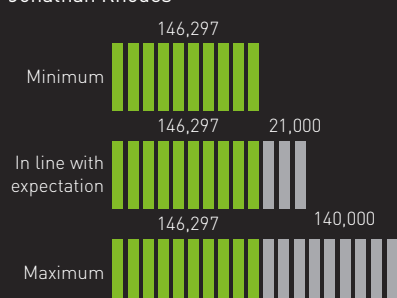
Chief Executive Officer Duncan Penny



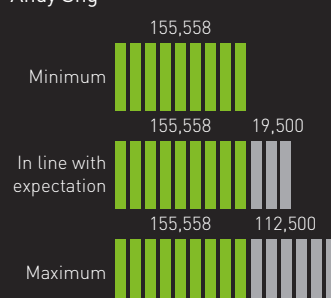
President – Worldwide Sales and Marketing Mike Laver



Finance Director Jonathan Rhodes



General Manager – Asia Andy Sng



REMUNERATION POLICY

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

The "In line with expectation" scenario has been calculated based on the 2016 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 £45.7 million in 2016.

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	£3,308	£7,800	£271,108
Finance Director	Jonathan Rhodes	£140,000	£2,097	£4,200	£146,297
President Worldwide Sales and Marketing	Mike Laver	US\$330,000	US\$18,714	US\$5,200	US\$353,914
General Manager Asia	Andy Sng	S\$225,000	S\$87,450	S\$14,450	S\$326,900

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 FTSE 350 Electronic and Electrical Equipment Sector. The table below shows the number of unvested share options and their potential value assuming the share price was £14.52 which was the closing price on 31 December 2015:

	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	£94,875	£379,500
Mike Laver	Zero	£94,875	£379,500
Jonathan Rhodes	Zero	£25,300	£101,200
Andy Sng	Zero	£25,300	£101,200

Responsibilities of the Remuneration Committee

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. It is the responsibility of the Committee to consider the experience and value the individual Directors contribute to the Group; measure the performance of the Executive Directors and key members of senior management and determine their annual remuneration package.

Members of the Remuneration Committee

Peter Bucher (Chair), Independent Non-Executive Director

John Dyson, Non-Executive Director

James Peters, Non-Executive Director (resigned 24 July 2015)

Terry Twigger, Independent Non-Executive Director (appointed 24 July 2015)

With effect from 1 January 2016, Polly Williams, Independent Non-Executive Director was appointed Chair of the Remuneration Committee. Peter Bucher remains on the Committee after stepping down as Chair. John Dyson will not be offering himself for re-election at the forthcoming Annual General Meeting.

Meetings of the Remuneration Committee

The Remuneration Committee met two times during 2015. The attendees were as follows:

Date	Attendees
24 July 2015	All, and Duncan Penny (guest), James Peters (guest).
16 December 2015	All, and Duncan Penny (guest), James Peters (guest).

Performance evaluation

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

Remuneration for the Executive Directors

There are five main elements of the remuneration package for Executive Directors and senior management:

- Basic annual salary;
- Benefits-in-kind;
- Annual bonuses;
- 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 bonuses together with the long term benefits of participation in share option schemes.

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

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	16 December 2015	1 January 2012
Duncan Penny	£260,000	16 December 2015	1 January 2012
Jonathan Rhodes	£140,000	16 December 2015	1 July 2014
Andy Sng	S\$225,000	16 December 2015	1 January 2008

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

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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 bonuses

The Committee establishes the profit thresholds that must be met for each financial year before a cash or share 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. £90,240 will be paid in bonuses to the Directors in respect of 2015. For Duncan Penny and Jonathan Rhodes the bonus relates to achieving growth of 6% after adjusting for exceptional items in the Group's profit before tax over 2014 while for Mike Laver, the bonus relates to achieving growth in the Group's gross margin of 8.4% after adjusting for EMCO gross margin over 2014. Andy Sng's bonus relates to the growth in the gross margin of the business in Asia only.

Malus and claw back provisions have been introduced to the Directors' bonus arrangements for 2016 with the incentive structure remaining similar to the previous year. Duncan Penny and Jonathan Rhodes are incentivised on growing the Group's profit before tax achieved in 2015 and Mike Laver is awarded on the growth in the Group's gross margin over 2015. Andy Sng's bonus remains unchanged relating to the gross margin of the Asia business. All bonuses remain capped at 100% of base salary.

Long term share incentives

Deferred payment share plan

The Group had 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. No options have been awarded under this scheme during the year.

At 31 December 2015, the total number of unvested share options in this scheme was 345,000. Their potential value, assuming 100% of the awards vest using the closing share price of £14.52 on 31 December 2015, was £1,745,700. The vesting term and performance criteria for these are outlined on page 60 of this report.

Future scheme terms will be in accordance with the criteria set out in this remuneration policy, if approved.

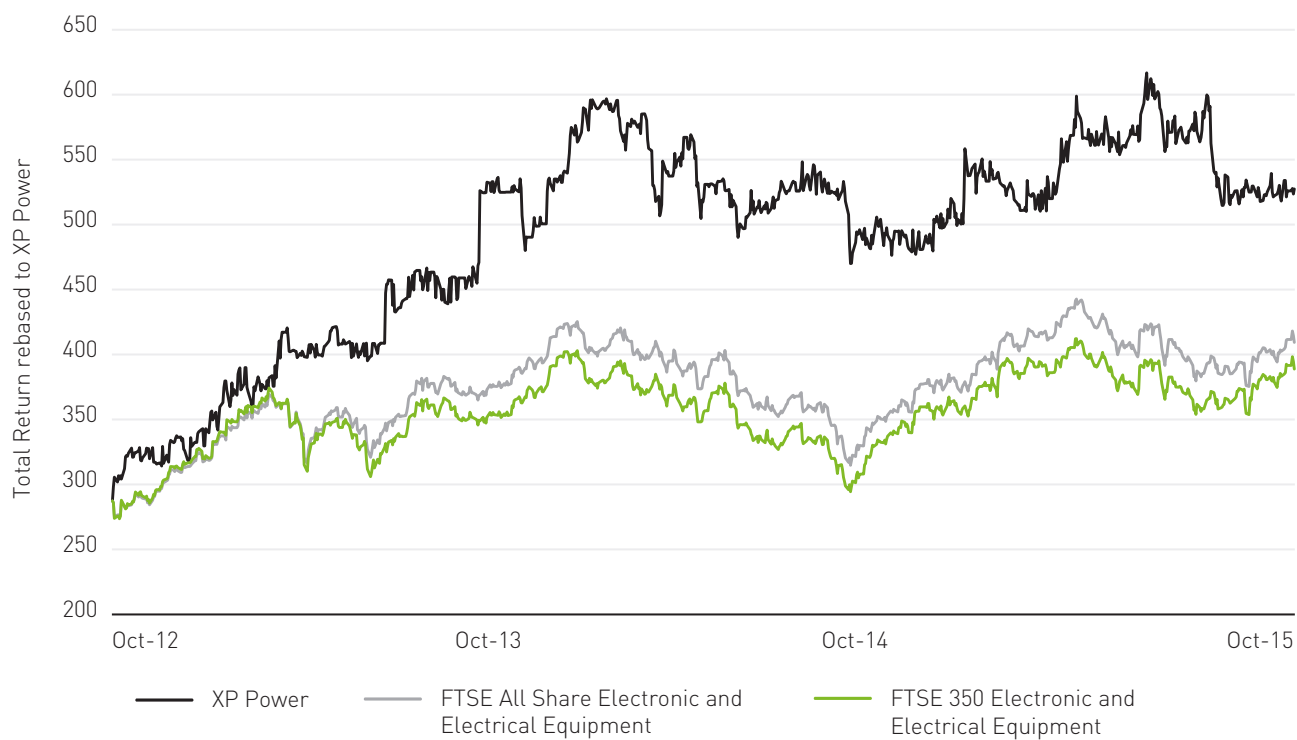
Pension arrangements

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 from 10 October 2012, the date of issue of the unvested share options, to 31 December 2015.



The compound average growth rate total shareholder return from 10 October 2012 until 31 December 2015 was 20%.

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	Total CEO remuneration
2011	235	7	77	8	–	328
2012	254	8	8	4	–	274
2013	260	8	–	3	–	271
2014	260	8	–	3	–	271
2015	260	8	–	3	39	310

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 2015 and 2014.

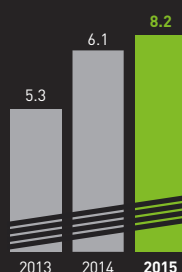
Percentage increase in remuneration in 2015 compared with 2014	CEO	Chosen employee group ¹
Base salary	0%	2%
All taxable benefits	0%	2%
Annual bonuses	100%	2%
Total	0%	2%

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

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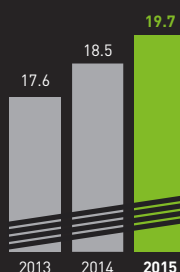
Total pay for manufacturing
(£ millions)

+34%



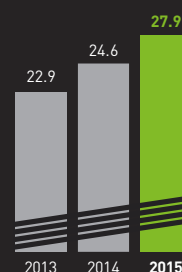
Total pay for sales, administration and R&D
(£ millions)

+6%



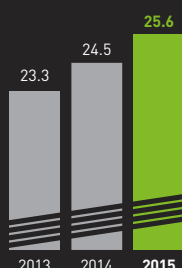
Total employee pay
(£ millions)

+13%



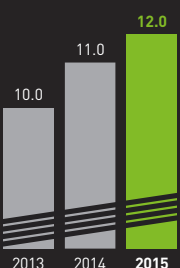
Operating income
(£ millions)

+5%



Dividends
(£ millions)

+9%



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	16 December 2015	25 July 2014
Peter Bucher	£40,000	16 December 2015	1 January 2015
John Dyson	£40,000	16 December 2015	1 January 2014
Terry Twigger	£40,000	16 December 2015	1 January 2015
Polly Williams	£40,000	Not applicable	Appointed 1 January 2016

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

£	2015	2014
Basic salaries	721,937	699,513
Benefits in kind	61,084	58,537
Annual bonus	90,240	8,310
Money purchase pension contributions	22,320	21,685
Non-Executive Director fees	170,000	170,000
Total remuneration	1,065,581	958,045

Directors' remuneration for 2015

Name of Director	Salary and fees	Annual bonus	Pension	Benefits	2015 Total
£					
Executive					
Duncan Penny	260,000	38,995	7,800	3,308	310,103
Mike Laver	214,945	26,976	3,387	12,189	257,497
Jonathan Rhodes	140,000	10,499	4,200	2,097	156,796
Andy Sng	106,992	13,770	6,933	41,633	169,328
Non-Executive					
James Peters	50,000	–	–	1,857	51,857
Terry Twigger	40,000	–	–	–	40,000
John Dyson	40,000	–	–	–	40,000
Peter Bucher	40,000	–	–	–	40,000

Directors' remuneration for 2014

Name of Director	Salary and fees	Annual bonus	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

In the year under review, there were no increases to the base salaries for the Executive Directors. For all other staff (excluding Chinese manufacturing staff) the average increase was approximately 2%.

2015 bonuses for Duncan Penny and Jonathan Rhodes were calculated based on the extent to which profit before tax exceeded that achieved in 2014. The 2015 bonus for Mike Laver was based on the extent gross margin exceeded that achieved in 2014. Andy Sng was paid a commission based on a proportion of the gross margin generated by the Asian business.

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Directors' interests in ordinary shares of XP Power Limited

In response to feedback from shareholders the remuneration policy has been amended to introduce the requirement for a minimum shareholding for Executive Directors equivalent to two years' salary. The Directors are to be given a period of five years to build the position following the policy's approval.

	At 31 December 2015	At 1 January 2015
Executive		
Mike Laver ^(a)	119,969	123,969
Duncan Penny	326,990	326,990
Andy Sng ^(b)	21,000	6,000
Non-executive		
James Peters	2,049,279	2,049,279

^(a) Mike Laver participated in the deferred payment share scheme. He sold 4,000 of these shares at a price of £16.00 on 16 June 2015. As at 31 December 2015, the outstanding balance of the deferred payment share scheme is £137,056.

^(b) Andy Sng acquired 15,000 shares on 27 April 2015 after exercising options.

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	As at 31 December 2015 Number of shares	As at 1 January 2015 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	26 April 2007	£5.07	30,000	30,000
	10 October 2012	£9.46	20,000	20,000
	21 April 2005	£4.11	–	15,000

Share options held by Andy Sng granted prior to 10 October 2012 are fully vested.

On 27 April 2015 Andy Sng exercised 15,000 options granted at a price of £4.11 on 21 April 2005.

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 FTSE 350 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	Zero

There is no re-measurement of performance criteria.

Provision for malus and claw back is being introduced on all unvested awards with effect from the shareholder approval of the 2015 remuneration policy.

The highest and lowest closing mid-market prices of the shares of XP Power Limited during 2015 were £17.50 and £13.75 per share respectively. The closing mid-market price on 31 December 2015 was £14.52 per share.

Statement of voting at the Annual General Meeting

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

The following table sets out actual voting in respect of the approval of the 2014 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	9,213,468	73.5%	3,324,911	26.5%	12,538,379	1,200
Approval of remuneration report	12,070,971	96.6%	431,214	3.5%	12,502,185	37,394

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 James Peters was not considered independent by virtue of him previously holding an executive position within the Company. James Peters is a major shareholder and the Board considers that his interests would therefore be strongly aligned with all shareholders. Nonetheless, on 24 July 2015 James Peters resigned from the Remuneration Committee and Terry Twigger was appointed. Polly Williams was appointed Chair of the Remuneration Committee with effect from 1 January 2016, taking over from Peter Bucher who remains on the Committee.

Approval

This report was approved by the Board of Directors on 22 February 2016 and signed on its behalf by:



Polly Williams

Remuneration Committee Chair

OTHER GOVERNANCE AND STATUTORY DISCLOSURES

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Directors

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

Peter Bucher	Mike Laver
Duncan Penny	James Peters
Jonathan Rhodes	Andy Sng
Terry Twigger (appointed 1 January 2015)	Polly Williams (appointed 1 January 2016)

Polly Williams offers herself for election and all other Directors retire and being eligible offer themselves for re-election.

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	2014 comparative
First Quarter	9 July 2015	13.0 pence	12.0 pence
Second Quarter	8 October 2015	14.0 pence	13.0 pence
Third Quarter	14 January 2016	15.0 pence	14.0 pence
Fourth Quarter (proposed)	4 April 2016	24.0 pence	22.0 pence
Total		66.0 pence	61.0 pence

We are proposing a final dividend of 24.0 pence per share which would be payable to members on the register on 11 March 2016 and will be paid on 4 April 2016. This would make the total dividend for the year 66.0 pence (2014: 61.0 pence) which is an increase of 8%.

Audit Committee

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

Terry Twigger (Chair), Independent Non-Executive Director (appointed 1 January 2015)

Peter Bucher, Independent Non-Executive Director (appointed 24 July 2015)

John Dyson, Non-Executive Director

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 2015 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 reappointment at the forthcoming Annual General Meeting of the Company.

Independent auditor

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

On behalf of the Directors



James Peters
Non-Executive Chairman
22 February 2016



Duncan Penny
Chief Executive

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 70 to 113 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 2015 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
22 February 2016



Duncan Penny
Chief Executive

Report on the Financial Statements

Our Opinion

In our opinion, the consolidated financial statements of XP Power Limited (the "Company") and its subsidiary corporations ("the Group") and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act (the "Act") and International Financial Reporting Standards ("IFRS") as adopted by the European Union, so as to give a true and fair view of the financial position and performance of the Group and of the Company as at 31 December 2015, and of the results, changes in equity and cash flows of the Group for the financial year ended on that date.

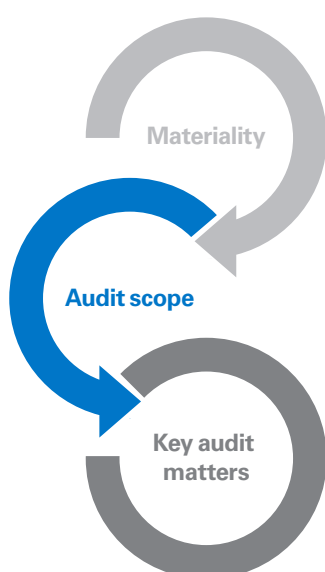
What we have audited

We have audited the accompanying consolidated financial statements of the Group set out on pages 70 to 113, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2015, 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.

The basis for our opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *What are we responsible for* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority's *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach – overview



Materiality

The overall materiality which we have used to plan our work amounted to £1.3 million, which represented 5% of profit before taxation.

Audit Scope

We performed an audit of the complete financial information of 23 reporting units which included significant operations based in North America, Europe and Asia. This accounted for approximately 99% of group revenues.

We performed analytical procedures over 7 reporting units that are not considered significant components of the Group.

Key Audit Matters

We identified the following key audit matters:

- Goodwill;
- Capitalised product development;
- Deferred tax on unremitted earnings; and
- Business combination.

How we determined materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined that the benchmark of profit before taxation is appropriate as it reflects the Group's growth and investment plans. We believe this is a key measure used by shareholders in assessing the performance of the Group.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £120,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored the audit scope

The Group operates across North America, Europe and Asia. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the local operations by us, as the Group engagement team, or component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those local operations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. In the current year, the Group engagement team visited the Group's office in North America as well as the manufacturing plant in Vietnam.

We designed our audit of the Group by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Having obtained sufficient appropriate audit evidence of the local operations, we performed audit procedures at the Group level over the consolidation process, goodwill, capitalised product development, taxation and the business combination.

What are the key audit matters

The matters that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "Key Audit Matters" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How did our audit address these
<p>Goodwill</p> <p><i>Refer to page 49 (Report from the Chair of the Audit Committee), page 81 (Critical accounting judgements and key sources of estimation uncertainty – Impairment of Goodwill) and page 87 (Note 11 – Goodwill).</i></p> <p>The Group has goodwill of £36.3 million at 31 December 2015 contained within 3 cash-generating units ("CGUs") defined by its geographical split – North America, Europe and Asia.</p> <p>We focused on this area due to the size of the carrying amount of the goodwill, which represented 31% of total assets, and because management's assessment of the 'value-in-use' of the Group's CGUs involves significant judgements about the future results of the business and the discount rates applied to future cash flow forecasts.</p> <p>Key judgements about the future results of the business include: revenue and profit growth rates, expected changes to overhead costs as well as risks specific to the 3 geographical areas.</p>	<p>We assessed the appropriateness of management's identification of the Group's CGUs and the process in which indicators of impairment were identified. There were no significant issues noted.</p> <p>We evaluated the suitability and appropriateness of the impairment model as prepared by management and noted no significant exceptions.</p> <p>We also focused on understanding and challenging management's plans for future growth for each of the 3 CGUs. Forecasted growth in revenue and profits are driven by constant innovation in the development of new product families as well as the broadening of the customer base in the 3 geographical areas. We benchmarked key market-related assumptions in management's forecasts such as revenue and profit growth rates and changes in the overhead costs with relevant economic and industry indicators and considered that such targets as set by management were achievable. We agreed with management that no indicators of impairment were noted.</p>

INDEPENDENT AUDITOR'S REPORT

to the members of XP Power Limited

Key audit matters

How did our audit address these

Capitalised product development

Refer to page 49 (Report from the Chair of the Audit Committee), page 81 (Critical accounting judgements and key sources of estimation uncertainty – Recoverability of Capitalised R&D) and page 88 (Note 12 – Intangible assets).

Part of the Group's strategy is to invest in research and development to create new products. As at 31 December 2015, the carrying value of product development costs capitalised as an intangible asset is £11.0 million of which £2.9 million was capitalised in the current financial year.

We focused on the appropriateness of capitalisation of product development costs due to the size of the carrying amount of this intangible asset, which represented 9% of total assets, and because significant judgement is involved in determining whether the criteria to capitalise such product development costs, as set out in IAS 38, have been fulfilled.

We also identified the useful lives of the capitalised product development costs as an area involving significant judgement. The carrying value of the capitalised product development costs each year is heavily dependent on the useful lives of the developed products. Management determined the useful lives of the developed products based on the expected life cycle of these products, taking into consideration expected customer demand and technological innovation.

We assessed the appropriateness of capitalisation of product development costs by ensuring compliance with the criteria to capitalise product development costs as set out in IAS 38, and challenged management through discussions and qualitative reviews of the projects' feasibility. We also tested the accuracy and allocation of capitalised material costs and labour costs. Management was able to support the capitalisation of product development costs.

In the assessment of the useful lives of the capitalised product development costs, we performed a benchmarking exercise to compare the useful lives of the capitalised product development costs against other companies within the same industry. For selected samples of developed products, we reviewed the actual sales during the year to ensure that the capitalised development costs are supported by demand. For products in development, we noted the existence of customer demand, for selected samples, by perusing sales quotations and/or correspondences between the customers and the Group. The useful lives as determined by management are in line with that of the industry and consistent with our understanding of the life cycle of the products.

Deferred tax on unremitted earnings

Refer to page 49 (Report from the Chair of the Audit Committee) and page 85 (Note 8 – Income taxes).

The Group has exposure to income taxes in a number of different jurisdictions. The Group's tax position includes judgement about past and future events and relies on estimates and assumptions. As at 31 December 2015, the Group has deferred tax assets of £0.4 million and deferred tax liabilities of £3.9 million.

We focused on the potential tax exposure of £9.7 million on the unremitted earnings held in the Group's overseas subsidiaries as the amount is significant.

Through inquiry, we ascertained that management has no intention to repatriate such earnings to Singapore. We also assessed that there is no requirement for management to repatriate the earnings held with the Group's overseas subsidiaries to the Company as the Company is able to meet its short-term liabilities and does not have significant external debt obligations.

Management has appropriately determined that a deferred tax liability does not have to be recorded in accordance with the provisions of IAS 12.

Key audit matters	How did our audit address these
<p>Business combination</p> <p><i>Refer to page 49 (Report from the Chair of the Audit Committee), page 88 (Note 12 – Intangible assets) and page 103 (Note 31 – Business combination).</i></p> <p>On 25 November 2015, the Group announced the acquisition of the assets and business of EMCO High Voltage Corporation ("EMCO"), a specialist in high voltage DC-DC modules. The final purchase consideration was US\$11.7 million (£7.7 million). Management assessed that the acquisition of EMCO qualifies as a business combination by applying the definition in IFRS 3.</p> <p>Management determined that the fair value of the net identifiable assets acquired is US\$3.7 million (£2.4 million) with US\$1.4 million (£0.9 million) relating to intangible assets that arose from the business combination. The valuation of the intangible assets was performed as part of the Purchase Price Allocation and the values of the intangible assets have been provisionally determined in accordance with IFRS 3 pending the final completion of the valuation exercise.</p> <p>We focused on the intangible assets arising from the business combination as a significant area of judgment. The valuation methodology, as well as the inputs and assumptions in the model, will affect the fair value of the intangible assets.</p> <p>The goodwill arising from the acquisition of EMCO is also highly dependent on the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date.</p>	<p>We reviewed management's assessment that the acquisition of EMCO should be accounted for as a business combination and determined that it was appropriately performed in accordance with the definition set out in IFRS 3.</p> <p>We assessed the appropriateness of the identifiable assets acquired and the liabilities assumed at the acquisition date by reviewing the clauses laid out in the Asset Purchase Agreement. We also reviewed management's procedure for determining the fair value of the net identifiable assets acquired and noted no significant exceptions.</p> <p>We tested the calculation of the goodwill arising from the acquisition of EMCO, being the difference between the total purchase consideration and the fair value of the net identifiable assets and noted that management's computation was in line with IFRS 3. The final goodwill arising from the acquisition is dependent on the completion of the valuation of the intangible assets, the values of which have been provisionally determined as at the balance sheet date.</p> <p>Also, the goodwill arising from the acquisition has been determined by management to be part of the North American CGU (please see key audit matter "Goodwill" on page 65). We have assessed management's determination of the CGU and noted no significant exceptions.</p> <p>We have not identified any significant issues with the provisional allocation of the intangible assets at the balance sheet date and no significant exceptions were noted in the accounting for the business combination.</p>

INDEPENDENT AUDITOR'S REPORT

to the members of XP Power Limited

Information other than the Financial Statements and Auditor's Report thereon

Going concern

Under the UK Listing Rules ("Listing Rules") we are required to review the Directors' statement, set out on page 46, in relation to going concern. We have nothing to report having performed our review.

The Directors' assessment of the prospects of the Group

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group, set out on page 37. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to eleven further provisions of the UK Corporate Governance Code, set out in the "Accountability" section on pages 46 to 47. We have nothing to report having performed our review.

Other information

Management is responsible for the other information. The other information comprises the "Strategic Report" set out on pages 2 to 27, "Our Performance" section on pages 28 to 39, "Our Governance" section on pages 40 to 63 and the "Financials" section on page 114 of the Annual Report. Other information, as defined in this section, does not include matters that we are required to review and report on under the Listing Rules, as described above.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities for the financial statements and the audit

What are Management and Directors responsible for

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRS 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Directors are responsible for overseeing the Group's financial reporting process.

What are we responsible for

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

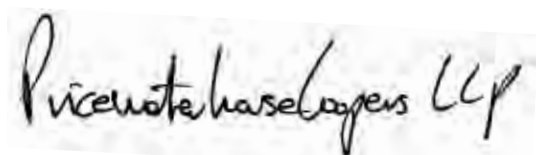
We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Hans Koopmans.



PricewaterhouseCoopers LLP

Public Accountants and Chartered Accountants
Singapore
22 February 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2015

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£ Millions	Note	2015	2014
Revenue	4	109.7	101.1
Cost of sales		(55.1)	(51.0)
Gross profit		54.6	50.1
Expenses			
Distribution and marketing		(22.0)	(20.6)
Administrative		(1.2)	(0.7)
Research and development	7	(5.8)	(4.3)
Operating profit		25.6	24.5
Finance cost	6	(0.2)	(0.2)
Profit before income tax		25.4	24.3
Income tax expense	8	(5.5)	(4.8)
Profit for the year		19.9	19.5
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss:			
Cash flow hedges	24	(0.5)	0.9
Exchange differences on translation of foreign operations		1.0	1.7
Other comprehensive income for the year, net of tax		0.5	2.6
Total comprehensive income for the year		20.4	22.1
Profit attributable to:			
Equity holders of the Company	24	19.7	19.4
Non-controlling interests	24	0.2	0.1
		19.9	19.5
Total comprehensive income attributable to:			
Equity holders of the Company		20.2	22.0
Non-controlling interests		0.2	0.1
		20.4	22.1
Earnings per share attributable to equity holders of the Company (pence per share)			
– Basic	10	103.7	102.1
– Diluted	10	102.8	101.1

CONSOLIDATED BALANCE SHEET

As at 31 December 2015

FINANCIALS

£ Millions	Note	2015	2014
ASSETS			
Current Assets			
Cash and cash equivalents	15	4.9	3.8
Inventories	16	28.7	25.2
Trade receivables	17	17.5	16.0
Other current assets	18	2.4	1.7
Derivative financial instruments	22	–	0.3
Total current assets		53.5	47.0
Non-current assets			
Goodwill	11	36.3	30.6
Intangible assets	12	11.9	9.9
Property, plant and equipment	13	16.1	14.4
Deferred income tax assets	23	0.4	0.3
ESOP loan to employees	26	0.7	0.9
Total non-current assets		65.4	56.1
Total assets		118.9	103.1
LIABILITIES			
Current liabilities			
Current income tax liabilities	8	1.2	1.7
Trade and other payables	19	14.6	14.4
Borrowings	21	4.0	2.5
Total current liabilities		19.8	18.6
Non-current liabilities			
Provision for deferred contingent consideration	20	1.5	1.7
Borrowings	21	4.6	–
Deferred income tax liabilities	23	3.9	2.5
Total non-current liabilities		10.0	4.2
Total liabilities		29.8	22.8
NET ASSETS		89.1	80.3
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	(1.0)	(1.1)
Hedging reserve	24	0.1	0.6
Translation reserve	24	(5.3)	(6.3)
Retained earnings	24	67.1	59.6
		88.3	80.2
Non-controlling interests		0.8	0.1
TOTAL EQUITY		89.1	80.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2015

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£ Millions	Note	Attributable to equity holders of the Company						Total	Non-controlling interests	Total equity
		Share capital	Treasury shares	Merger reserve	Hedging reserve	Translation reserve	Retained earnings			
Balance at 1 January 2014		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
Sale of treasury shares	24	–	0.3	–	–	–	(0.2)	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	–	–	–	–	–	(12.0)	(12.0)	(0.2)	(12.2)
Acquisition of subsidiary	15	–	–	–	–	–	–	–	0.7	0.7
Total comprehensive income for the year	24	–	–	–	(0.5)	1.0	19.7	20.2	0.2	20.4
Balance at 31 December 2015		27.2	(1.0)	0.2	0.1	(5.3)	67.1	88.3	0.8	89.1

CONSOLIDATED STATEMENT OF CASH FLOW

For the financial year ended 31 December 2015

FINANCIALS

£ Millions	Note	2015	2014
Cash flows from operating activities			
Profit for the year		19.9	19.5
Adjustments for:			
– Income tax expense		5.5	4.8
– Amortisation and depreciation	7	3.8	3.1
– Finance cost	6	0.2	0.2
– ESOP expenses		0.1	0.1
– (Gain)/Loss on fair valuation of derivative financial instruments		(0.2)	0.6
– Unrealised currency translation loss		1.0	1.2
Change in working capital, net of effects from acquisitions:			
– Inventories		(2.8)	(4.8)
– Trade and other receivables		(1.5)	(0.9)
– Trade and other payables		(0.2)	1.7
– Provision for liabilities and other charges		(0.1)	(0.1)
– Income tax paid	8	(4.7)	(3.6)
Net cash generated from operating activities		21.0	21.8
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired	15	(0.6)	–
Acquisition of a business, net of cash acquired	31	(7.7)	–
Purchases and construction of property, plant and equipment	13	(2.5)	(2.9)
Research and development expenditure capitalised	12	(2.9)	(2.9)
Proceeds from disposal of property, plant and equipment		–	0.1
ESOP loans repaid		0.2	0.1
Net cash used in investing activities		(13.5)	(5.6)
Cash flows from financing activities			
Proceeds from borrowings/(repayment of borrowings)		8.0	(7.3)
Sale of treasury shares		0.3	0.1
Purchase of treasury shares by ESOP		(0.3)	(0.3)
Interest paid		(0.1)	(0.1)
Dividend paid to equity holders of the Company	9	(12.0)	(10.8)
Dividend paid to non-controlling interests	24	(0.2)	(0.2)
Net cash used in financing activities		(4.3)	(18.6)
Net increase/(decrease) in cash and cash equivalents		3.2	(2.4)
Cash and cash equivalents at beginning of financial year		1.3	3.8
Effects of currency translation on cash and cash equivalents		(0.2)	(0.1)
Cash and cash equivalents at end of financial year	15	4.3	1.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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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 XP Power Limited and its subsidiaries' operations and its principal activities are set out in the Markets and Products sections of the Annual Report on pages 14 to 15.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of XP Power Limited and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (IFRS 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 forms the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(a) Going concern

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

(b) Changes in accounting policy and disclosures

i. New and amended standards adopted by the Group

There are no IFRS or International Financial Reporting Interpretations Committee ("IFRIC") interpretations that are effective for the first time for the financial year beginning on 1 January 2015 that would be expected to have a material impact on the Group.

ii. New standards and interpretations issued not yet adopted

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

2.2 Foreign currency translation

(a) Functional and presentation currency

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

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the 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 control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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*

2.4 *Group accounting* *continued*

(b) Transactions with non-controlling interest

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

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in 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 are 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 acquiree 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 whenever there is an indication that the goodwill may be impaired. Goodwill is 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*

Intangible assets

Investments in subsidiaries

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 *Fair value estimation of financial assets and liabilities*

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices used for financial liabilities are the current asking prices.

The fair values of currency forwards are determined using actively quoted forward exchange rates.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

2.9 *Financial assets*

(a) Classification

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

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

(b) Recognition/derecognition

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

(c) Impairment

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

2. Summary of significant accounting policies *continued*

2.9 *Financial assets* *continued*

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 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.

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

2.13 *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.

2.14 *Derivative financial instruments and hedging activities*

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

The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast 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.

2. Summary of significant accounting policies *continued*

2.14 *Derivative financial instruments and hedging activities* *continued*

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 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 of 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.

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.

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For the financial year ended 31 December 2015

2. Summary of significant accounting policies *continued*

2.17 Cash and cash equivalents

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

2.18 Share-based payments

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

2.23 Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, 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 (2014: £2.9 million) of development costs were capitalised, bringing the total amount of development costs capitalised as intangible assets as at 31 December 2015 to £11.0 million (2014: £9.9 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 2015 was £36.3 million (2014: £30.6 million) with no impairment adjustment required for 2015.

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

(c) Estimation of future deferred contingent consideration payments

As at the balance sheet date the Group has recorded estimated future payments related to the acquisition of the final 16.0% of Powersolve Electronics Limited in early 2017. When discounted to present value the total of these payments is estimated at £1.5 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 from January 2016 to January 2017, 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.

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: North America, Europe and Asia. All geographic locations market the same class of products to their respective customer base.

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

Segment assets consist primarily of property, plant and equipment, 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.

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4. Segmental reporting *continued*

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2015 and prior year comparatives is as follows:

£ Millions	2015	2014
Revenue		
Europe	45.1	42.2
North America	55.7	51.3
Asia	8.9	7.6
Total revenue	109.7	101.1

Reconciliation of segment results to profit for the year:

£ Millions	2015	2014
Europe	6.7	7.6
North America	14.6	13.6
Asia	1.4	1.7
Segment results	22.7	22.9
Research and development	(5.8)	(4.3)
Finance cost	(0.2)	(0.2)
Corporate recovery from operating segment	8.7	5.9
Profit before income tax	25.4	24.3
Income tax expense	(5.5)	(4.8)
Profit for the year	19.9	19.5

The Group operates in the following regions and countries:

£ Millions	2015	2014
North America	55.7	51.3
United Kingdom	23.8	22.4
Singapore	7.9	7.5
Germany	9.7	8.9
Switzerland	3.6	3.4
Other countries	9.0	7.6
Total revenue	109.7	101.1

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

4. Segmental reporting *continued*

£ Millions	Year to 31 December 2015				Year to 31 December 2014			
	Europe	North America	Asia	Total	Europe	North America	Asia	Total
Other Information								
Capital additions	0.5	0.7	1.3	2.5	0.5	0.5	1.9	2.9
Depreciation	0.4	0.3	1.3	2.0	0.3	0.2	1.1	1.6
Intangible assets additions	–	1.4	1.5	2.9	0.4	1.4	1.1	2.9
Amortisation	0.2	0.8	0.8	1.8	0.2	0.8	0.5	1.5
Balance sheet								
Goodwill	10.4	24.6	1.3	36.3	10.5	19.5	0.6	30.6
Other non-current assets	2.7	13.7	12.3	28.7	2.6	10.8	11.8	25.2
Inventories	1.4	10.8	16.5	28.7	1.4	7.9	15.9	25.2
Trade receivables	6.2	8.4	2.9	17.5	5.9	8.0	2.1	16.0
Other current assets	0.5	0.5	1.4	2.4	0.6	0.4	1.0	2.0
Cash	2.1	0.6	2.2	4.9	2.2	0.2	1.4	3.8
Segment assets	23.3	58.6	36.6	118.5	23.2	46.8	32.8	102.8
Unallocated deferred income tax	–	–	–	0.4	–	–	–	0.3
Consolidated total assets				118.9				103.1
Trade and other payables	(1.8)	(2.3)	(10.5)	(14.6)	(2.0)	(1.8)	(10.6)	(14.4)
Borrowings	–	(8.0)	–	(8.0)	–	–	–	–
Deferred contingent consideration	(1.5)	–	–	(1.5)	(1.6)	–	–	(1.6)
Segment liabilities	(3.3)	(10.3)	(10.5)	(24.1)	(3.6)	(1.8)	(10.6)	(16.0)
Unallocated corporate liabilities	–	–	–	(0.6)	–	–	–	(2.6)
Unallocated deferred and current income tax	–	–	–	(5.1)	–	–	–	(4.2)
Consolidated total liabilities				(29.8)				(22.8)

Analysis by class of customer

The revenue by class of customer is as follows:

£ Millions	Year to 31 December 2015				Year to 31 December 2014			
	Europe	North America	Asia	Total	Europe	North America	Asia	Total
Technology	6.7	16.8	3.3	26.8	6.5	11.9	2.6	21.0
Industrial	27.1	17.6	3.9	48.6	25.5	19.9	3.7	49.1
Healthcare	11.3	21.3	1.7	34.3	10.2	19.5	1.3	31.0
Total	45.1	55.7	8.9	109.7	42.2	51.3	7.6	101.1

There is no individual external customer that represents 7% or more of the Group's total revenue.

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4. Segmental reporting *continued*

Non-current assets, other than deferred income tax assets, by countries:

£ Millions	2015	2014
North America	38.7	30.3
United Kingdom	3.7	3.8
Singapore	3.7	2.9
Germany	0.3	0.3
Switzerland	3.5	3.6
Other countries	15.1	14.9
Total non-current assets	65.0	55.8

5. Employee compensation (including Directors)

£ Millions	2015	2014
Wages and salaries	23.8	21.1
Pensions	4.1	3.5
Total	27.9	24.6

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

6. Finance cost

£ Millions	2015	2014
Interest expense on bank loans and overdrafts	0.1	0.1
Unwinding of discount on deferred consideration (Note 20)	0.1	0.1
Total	0.2	0.2

7. Expenses by nature

£ Millions	2015	2014
Profit for the year is after charging:		
Amortisation of intangibles	1.8	1.5
Depreciation of property, plant and equipment	2.0	1.6
Employee compensation	27.9	24.6
Foreign exchange loss	–	0.4
Gain on foreign exchange forward	(0.2)	(0.5)
Purchases of inventories	50.2	49.1
Changes in inventories	(3.5)	(4.8)
Fees payable to the Group's auditor for the audit of the Group's accounts	0.3	0.3
Fees payable to other audit firms for audit related services	0.1	0.1
Tax fees payable to other firms for services provided to the Group	0.1	0.1
Rent/lease expense	1.3	1.2
Finance cost	0.2	0.2
Other charges	4.1	3.0
Total	84.3	76.8

Fees payable to the Group's auditor for non-audit services was 5% of their total fees.

7. Expenses by nature *continued*

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

£ Millions	2015	2014
Gross research and development expenditure	6.9	5.7
Research and development expenditure capitalised	(2.9)	(2.9)
Amortisation of development expenditure capitalised	1.8	1.5
Net research and development expenditure	5.8	4.3

8. Income taxes

£ Millions	2015	2014
Singapore corporation tax – current year	1.6	1.2
Overseas corporation tax – current year	2.8	3.3
– over-provision in prior financial years	(0.2)	(0.3)
Current income tax	4.2	4.2
Deferred income tax		
– current year	0.8	0.6
– under-provision in prior financial years	0.5	–
Income tax expense	5.5	4.8

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	2015	2014
Profit before income tax	25.4	24.3
Tax on profit at standard Singapore tax rate of 17%	4.3	4.1
Tax incentives	(0.7)	(0.8)
Higher rates of overseas corporation tax	1.7	1.7
Deduction for (gain)/loss on employee share options	(0.1)	0.1
Adjustment in respect of prior year	0.3	(0.3)
Income tax expense	5.5	4.8

Deferred tax liabilities of £9.7 million (2014: £8.3 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	2015	2014
At 1 January	(1.7)	(1.1)
Currency translation differences	–	(0.1)
Income tax paid	4.7	3.6
Income tax payable – current year	(4.4)	(4.4)
– prior year	0.2	0.3
At 31 December	(1.2)	(1.7)

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8. Income taxes *continued*

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

£ Millions	2015		
	Before tax	Tax (charge)	After tax
Cash flow hedges	(0.5)	–	(0.5)
Currency translation differences	1.0	–	1.0
Other comprehensive income	0.5	–	0.5
Current tax	–	–	–
Deferred tax	–	–	–
	–	–	–

£ 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	–	–	–
	–	–	–

9. Dividends

Amounts recognised as distributions to equity holders in the period:

	2015		2014	
	Pence per share	£ Millions	Pence per share	£ Millions
Prior year third quarter dividend paid	14.0*	2.7	13.0	2.5
Prior year final dividend paid	22.0*	4.2	19.0	3.6
First quarter dividend paid	13.0^	2.4	12.0*	2.2
Second quarter dividend paid	14.0^	2.7	13.0*	2.5
Total	63.0	12.0	57.0	10.8

* Dividends in respect of 2014 (61.0p)

^ Dividends in respect of 2015 (66.0p)

The third quarter dividend of 15.0 pence per share was paid on 14 January 2016. The proposed final dividend of 24.0 pence per share for the year ended 31 December 2015 is subject to approval by shareholders at the Annual General Meeting scheduled for 1 April 2016 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 4 April 2016 to members on the register as at 11 March 2016.

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	2015	2014
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company)	19.7	19.4
Earnings for earnings per share	19.7	19.4
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	18,997	18,998
Effect of potentially dilutive share options (thousands)	175	196
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	19,172	19,194
Earnings per share from operations		
Basic	103.7p	102.1p
Diluted	102.8p	101.1p
Diluted adjusted*	104.3p	101.1p

* Refer to key performance indicators for additional disclosure on page 33

11. Goodwill

£ Millions	2015	2014
Cost		
At 1 January	30.6	30.6
Provision for deferred contingent consideration (Note 20)	(0.2)	(0.1)
Recognised on acquisition of subsidiaries	6.0	–
Foreign currency translation	(0.1)	0.1
At 31 December	36.3	30.6
Accumulated impairment loss		
At 31 December	–	–
Carrying amount		
At 31 December	36.3	30.6

Goodwill arises on the consolidation of subsidiary undertakings.

A change in deferred contingent consideration of £0.3 million in 2015 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 2015 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 8.0% was used for 2015 and for 2014, the rate was 7.1%).

The Group prepares cash flow forecasts derived from the most recent financial results and takes into account industry growth forecasts for five years and estimates cash flows based on these forecasts assuming no growth after five years. 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 2015 was £36.3 million (2014: £30.6 million) with no impairment adjustment required for 2015.

For the purpose of the impairment test, the Group has adopted what it believes to be reasonable Earnings Before Interest, Tax, Amortisation assumptions for the period from 1 January 2016 to 31 December 2020. 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.

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12. Intangible assets

£ Millions	Development costs	Trade marks	Brand and Technology	Customer relationships	Customer contracts	Total
Cost						
At 1 January 2014	13.5	1.0	–	–	–	14.5
Additions	2.9	–	–	–	–	2.9
At 1 January 2015	16.4	1.0	–	–	–	17.4
Additions	2.9	–	–	–	–	2.9
Acquisition of business	–	–	0.6	0.2	0.1	0.9
At 31 December 2015	19.3	1.0	0.6	0.2	0.1	21.2
Amortisation						
At 1 January 2014	5.0	1.0	–	–	–	6.0
Charge for the year	1.5	–	–	–	–	1.5
At 1 January 2015	6.5	1.0	–	–	–	7.5
Charge for the year	1.8	–	–	–	–	1.8
At 31 December 2015	8.3	1.0	–	–	–	9.3
Carrying amount						
At 31 December 2015	11.0	–	0.6	0.2	0.1	11.9
At 31 December 2014	9.9	–	–	–	–	9.9

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 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 1 January 2015	0.2	8.6	1.5	12.9	0.6	2.0	–	25.8
Acquisition of subsidiary	0.1	–	0.2	–	0.1	–	–	0.4
Acquisition of business	0.2	–	0.1	0.3	–	–	–	0.6
Additions	–	–	–	1.4	0.2	0.2	0.7	2.5
Disposals	–	–	–	–	(0.1)	–	–	(0.1)
Transfer	–	–	–	0.6	–	–	(0.6)	–
Foreign currency translation	–	0.2	–	0.2	–	–	–	0.4
At 31 December 2015	0.5	8.8	1.8	15.4	0.8	2.2	0.1	29.6
Depreciation								
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 1 January 2015	–	0.9	0.2	8.5	0.3	1.5	–	11.4
Charge for the year	–	0.3	–	1.4	0.1	0.2	–	2.0
Foreign currency translation	–	–	–	0.1	–	–	–	0.1
At 31 December 2015	–	1.2	0.2	10.0	0.4	1.7	–	13.5
Carrying amount								
At 31 December 2015	0.5	7.6	1.6	5.4	0.4	0.5	0.1	16.1
At 31 December 2014	0.2	7.7	1.3	4.4	0.3	0.5	–	14.4

The Group has entered into agreements to lease land and buildings ranging from 36 years to 999 years.

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

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14. Subsidiaries

Details of principal subsidiaries as at 31 December 2015, all of which are consolidated are as follows:

Name of Subsidiary	Place of incorporation/ ownership (or registration) and operation	Proportion of Ownership 2015 (%)	Proportion of Ownership 2014 (%)	Statutory 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
XP Power (Israel) Ltd	Israel	100	–	Ernst and Young Solutions LLP

* The legal shareholding and the proportion of voting power held is 84% (2014: 84%). Refer to Note 20.

15. Cash and cash equivalents

£ Millions	2015	2014
Cash at bank and on hand	4.3	3.8
Short-term bank deposits	0.6	–
Total	4.9	3.8

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

£ Millions	2015	2014
Cash at bank and on hand (as above)	4.9	3.8
Less: Bank overdrafts (Note 21)	(0.6)	(2.5)
Cash and cash equivalents per consolidated cash flow statement	4.3	1.3

15. Cash and cash equivalents *continued*

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

£ Millions	2015	2014
Net increase/(decrease) in cash and cash equivalents	3.2	(2.4)
(Proceeds from borrowings)/repayment of borrowings	(8.0)	7.3
Effects of currency translation	(0.2)	(0.1)
Movement in net debt	(5.0)	4.8
Net cash/(debt) at start of year	1.3	(3.5)
Net (debt)/cash at end of year	(3.7)	1.3

Reconciliation to free cash flow

£ Millions	2015	2014
Net cash inflow from operating activities	21.0	21.8
Research and development expenditure capitalised	(2.9)	(2.9)
Net interest paid	(0.1)	(0.1)
Free cash flow	18.0	18.8

Acquisition of subsidiary

On 20 May 2015, the Group acquired a 51% equity interest in Hanpower Co., Ltd. The principal activity of Hanpower Co., Ltd is that of providing power supply solutions to the healthcare, industrial and technology industries in Korea.

Details of the consideration paid, the assets acquired and liabilities assumed and the effects on the cash flows of the Group, at the acquisition date, are as follows:

(a) Purchase consideration	
Cash paid	1.3
Consideration payable	0.1
Total purchase consideration	1.4
Consideration transferred for the subsidiary	1.4
(b) Effect on cash flows of the Group	
Cash paid (as above)	1.3
Less: cash and cash equivalents in subsidiary acquired	(0.7)
Cash outflow on acquisition	0.6
(c) Assets acquired and liabilities assumed	
Cash and cash equivalents	0.7
Property, plant and equipment	0.4
Inventories	0.2
Trade and other receivables	0.3
Total assets	1.6
Trade and other payables	(0.2)
Total liabilities	(0.2)
Total net assets	1.4
Less: Non-controlling interest	(0.7)
Add: Goodwill	0.7
Consideration transferred for the subsidiary	1.4

Please refer to Note 31 for the effects of business combination on the cash flows of the Group.

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16. Inventories

£ Millions	2015	2014
Goods for resale	18.9	16.1
Raw materials	9.5	8.7
Work-in-progress	0.3	0.4
Total	28.7	25.2

The cost of inventories recognised as an expense and included in "cost of sales" amounts to £55.1 million (2014: £51.0 million).

17. Trade receivables

£ Millions	2015	2014
Trade receivables	17.5	16.0
Total	17.5	16.0

The average credit period taken on sales of goods is 58 days (2014: 58 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	2015	2014
Other receivables and prepayments	2.4	1.7
Total	2.4	1.7

19. Total current liabilities

£ Millions	2015	2014
Trade and other payables	14.6	14.4
Current income tax liabilities	1.2	1.7
Bank loans and overdrafts (see Note 21)	4.0	2.5
Total	19.8	18.6

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	2015	2014
At 1 January	1.7	1.7
Movement in provision during the year	(0.3)	(0.1)
Adjustment for unwinding of discount rate	0.1	0.1
At 31 December	1.5	1.7
Non-current portion of provision for deferred contingent consideration	1.5	1.7
Total	1.5	1.7

The Group owns 84.0% (2014: 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 interest 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	2015	2014
On demand or within one year	4.0	2.5
In the second year	4.6	–
Total	8.6	2.5

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

December 2015				
£ Millions	GBP	USD	EUR	Total
Bank overdrafts	0.6	–	–	0.6
Bank loans	–	8.0	–	8.0
Total	0.6	8.0	–	8.6
December 2014				
£ Millions	GBP	USD	EUR	Total
Bank overdrafts	0.6	1.8	0.1	2.5
Total	0.6	1.8	0.1	2.5

The average interest rates paid were as follows:	2015	2014
Bank overdrafts	2.1%	2.3%
Bank loans	1.5%	1.9%

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 2015, the Group had an overdraft of £0.6 million (2014: £2.5 million). In September 2015, the Group renewed its annual working capital facility to US\$12.5 million (2014: US\$15.0 million). This facility steps down to US\$10.0 million from 1 January 2016, then reduces to US\$7.5 million from 1 April 2016 and to US\$5.0 million from 1 July 2016. The facility is priced at the Bank of Scotland (BOS) base rate plus a margin of 1.5%.
- (2) The Group has entered into a new term loan facility of US\$12.0 million (£8.0 million) with BOS on 20 November 2015. The facility is repayable in equal quarterly instalments of US\$1.7 million commencing in June 2016 and ending in December 2017. The term loan is priced at LIBOR plus a margin of 0.95%. (2014: priced at LIBOR plus a margin of 1.75%).
- (3) The Group has pledged all assets as collateral to secure banking facilities granted to the Group by BOS.
- (4) Management assessed financial loan covenants have been complied with as at 31 December 2015.

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 2015, the total notional amount of outstanding currency forward contracts that the Group has committed is £4.8 million (2014: £6.8 million). These contracts are to hedge against exchange rate movements on future sales and qualify for hedge accounting.

December 2015	Contract notional amount	Fair value asset
£ Millions		
Forward foreign exchange contracts	4.8	0.2
Current portion	4.8	0.2
Total	4.8	0.2

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22. Derivative financial instruments *continued*

Forward foreign exchange contracts *continued*

(a) Qualify for hedge accounting *continued*

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

(b) Do not qualify for hedge accounting

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

The total notional amount and fair value (liability) of these forward contracts are as follows:

December 2015 £ Millions	Contract notional amount	Fair value (liability)
Forward foreign exchange contracts	6.5	(0.2)
Current portion	6.5	(0.2)
Total	6.5	(0.2)

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)

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 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 1 January 2015	(0.4)	(0.9)	0.3	(2.1)	0.9	(2.2)
Charge to income statement	(0.3)	(0.4)	0.1	(0.8)	0.1	(1.3)
At 31 December 2015	(0.7)	(1.3)	0.4	(2.9)	1.0	(3.5)

£ Millions	2015	2014
Deferred tax assets		
– To be recovered after more than 12 months	0.4	0.3
	0.4	0.3
Deferred tax liabilities		
– To be recovered after more than 12 months	(3.9)	(2.5)
	(3.9)	(2.5)
Deferred tax liabilities (net)	(3.5)	(2.2)

24. Share capital and reserves

Called up share capital

£ Millions	2015	2014
Allotted and fully paid 19,242,296 ordinary shares (2014: 19,242,296)	27.2	27.2

As at 31 December 2015, the Group's Employee Share Ownership Plan (ESOP) held 235,870 (2014: 237,684) shares carrying a value of £1,399,433 (2014: £1,392,044) owned by the Trust.

Merger reserve

£ Millions	2015	2014
Balance at 31 December	0.2	0.2

Treasury shares

£ Millions	2015	2014
Balance at 1 January	(1.1)	(1.0)
Sale of treasury shares	0.3	0.1
Purchase of treasury shares	(0.3)	(0.3)
Employee share option plan expenses	0.1	0.1
Balance at 31 December	(1.0)	(1.1)

Hedging reserve

£ Millions	2015	2014
Balance at 1 January	0.6	(0.3)
Fair value (loss) / gain	(0.5)	0.9
Balance at 31 December	0.1	0.6

Translation reserve

£ Millions	2015	2014
Balance at 1 January	(6.3)	(8.0)
Exchange differences on translation of foreign operations	1.0	1.7
Balance at 31 December	(5.3)	(6.3)

Retained earnings

£ Millions	2015	2014
Balance at 1 January	59.6	51.1
Dividend paid	(12.0)	(10.8)
Profit for the year	19.7	19.4
Loss on treasury shares	(0.2)	(0.1)
Balance at 31 December	67.1	59.6

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 2015. The balance payable for 2015 was £0.1 million (2014: £0.1 million).

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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	2015	2014
Within one year	1.3	1.3
In the second to fifth years inclusive	2.5	3.0
After five years	0.7	0.9
Total	4.5	5.2

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

26. ESOP loan to employees

£ Millions	2015	2014
ESOP loan to employees	0.7	0.9
Total	0.7	0.9

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 £4.1million (2014: £3.5 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 £1.8 million (2014: £1.6 million) represents the Group's "matching" contribution.

In the United Kingdom and Europe, the Group operates defined contribution pension schemes for its employees with contributions amounting to £1.2 million (2014: £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. The total cost charged to the income statement was £1.1 million (2014: £0.8 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.

As at 31 December 2015, the Company's Employee Share Ownership Plan has provided interest-free loans totalling £137,056 (2014: £157,346) to 1 Director (2014: 1 Director) for the deferred payment share scheme. The detailed information is provided for in the Directors' Remuneration Report on pages 55 to 61.

The remuneration of the Directors of the Group is set out below for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of the individual Directors is provided in the Directors' Remuneration Report on pages 55 to 61.

	2015 £	2014 £
Short-term employee benefits	1,043,261	936,360
Post-employment benefits	22,320	21,685
Total Directors' remuneration	1,065,581	958,045

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
3,100	£3.90	28 September 2006*	28 September 2016
60,750	£5.073	26 April 2007*	26 April 2017
345,000	£9.46	10 October 2012	10 October 2022
408,850			

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

	2015		2014	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of the year	431,750	852	442,250	844
Exercised during the year	(22,900)	419	(10,500)	485
Outstanding at the end of the year	408,850	877	431,750	852
Exercisable at the end of the year	63,850	502	86,750	480

The weighted average share price at the date of exercise for the share options exercised during the period was £16.17 (2014: £16.27). The options outstanding at 31 December 2015 had a weighted average exercise price of £8.77 (2014: £8.52), and a weighted average remaining contractual life of 5.9 years.

In 2015, the Group has taken a charge of £0.1million (2014: £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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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30. Financial risk management *continued*

(b) Currency risk

The Group operates in North America, Europe and Asia 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 2015					
Financial assets					
Cash and cash equivalents	0.8	0.7	1.9	1.5	4.9
Trade receivables	1.8	1.6	13.8	0.3	17.5
Other current assets	0.8	–	1.3	0.3	2.4
ESOP loan to employees	0.7	–	–	–	0.7
Sub-total	4.1	2.3	17.0	2.1	25.5
Financial liabilities					
Borrowings	(0.6)	–	(8.0)	–	(8.6)
Trade and other payables	(1.0)	(0.5)	(12.7)	(0.4)	(14.6)
Other financial liabilities	(1.5)	–	–	–	(1.5)
Sub-total	(3.1)	(0.5)	(20.7)	(0.4)	(24.7)
Net financial assets/(liabilities)	1.0	1.8	(3.7)	1.7	0.8
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	7.5	–	–	7.5
Less: Currency forwards	5.6	(5.7)	–	–	(0.1)
Currency profile excluding non-financial assets and liabilities	6.6	3.6	(3.7)	1.7	8.2
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	0.4	1.3	(7.4)	1.1	(4.6)
Currency exposure of financial assets/(liabilities)	7.0	4.9	(11.1)	2.8	3.6

30. Financial risk management continued

(b) Currency risk continued

£ 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	1.2	1.4	0.7	0.5	3.8
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	6.4	–	–	6.4
Less: Currency forwards	4.9	(7.5)	–	–	(2.6)
Currency profile excluding non-financial assets and liabilities	6.1	0.3	0.7	0.5	7.6
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	0.6	1.3	(2.0)	0.3	0.2
Currency exposure of financial assets/(liabilities)	6.7	1.6	(1.3)	0.8	7.8

If the US Dollar and Euro change against Sterling by 4% and 7% respectively (2014: US Dollar 6%, Euro 5%) with all other variables, including tax rates, being held constant, the effects arising from the net financial asset/(liability) position will be as follows:

£ Millions	2015 Profit after tax	2014 Profit after tax
Group		
EUR against GBP		
– strengthened	0.3	0.1
– weakened	(0.3)	(0.1)
USD against GBP		
– strengthened	(0.4)	(0.1)
– weakened	0.4	0.1

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% (2014: 0.5%) with all other variables, including tax rates, being held constant, the profit after tax will be lower/higher by £28,000 (2014: £33,000) as a result of higher/lower interest expense on these borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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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 individual trade receivable represented more than 7% (2014: 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	2015	2014
By geographical areas		
Europe	6.2	5.9
North America	8.4	8.0
Asia	2.9	2.1
	17.5	16.0

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

£ Millions	2015	2014
Past due 0 – 2 months	4.4	3.5
Past due 3 – 4 months	0.3	0.3
Past due over 4 months	0.5	0.5
	5.2	4.3

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

£ Millions	2015	2014
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	–	–
End of the financial year	(0.3)	(0.3)

(e) Liquidity risk

The table below analyses the maturity profile of the Group's 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 2015					
Trade and other payables	14.6	–	–	–	14.6
Provision for deferred contingent consideration	–	1.5	–	–	1.5
Borrowings	4.0	4.6	–	–	8.6
Total	18.6	6.1	–	–	24.7

30. Financial risk management *continued*

(e) Liquidity risk *continued*

£ 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

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:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- 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
- 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 2015.

2015 £ Millions	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	*	–	–
Liabilities				
Derivatives used for hedging	–	–	–	–
* These balances are less than £100,000				
2014 £ Millions	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	0.3	–	0.3
Liabilities				
Derivatives used for hedging	–	–	–	–

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

30. Financial risk management continued

(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		
	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
£ Millions						
At 31 December 2015						
Derivative financial assets	0.2	(0.2)	–	–	–	–
	0.2	(0.2)	–	–	–	–
At 31 December 2014						
Derivative financial assets	0.6	(0.3)	0.3	–	–	0.3
	0.6	(0.3)	0.3	–	–	0.3

(ii) Financial liabilities

	Related amounts set off in the balance sheet			Related amounts not set off in the balance sheet		
	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
£ Millions						
At 31 December 2015						
Derivative financial liabilities	–	–	–	–	–	–
	–	–	–	–	–	–
At 31 December 2014						
Derivative financial liabilities	–	–	–	–	–	–
	–	–	–	–	–	–

31. Business combination

On 24 November 2015, the Group acquired the assets and business of EMCO High Voltage Corporation (now known as XP-EMCO ("EMCO")). The principal activity of XP-EMCO is that of a high voltage power supply designer and manufacturer in North America.

Details of the consideration paid, the assets acquired and liabilities assumed, the non-controlling interest recognised and the effects on the cash flows of the Group, at the acquisition date, are as follows:

	£ Millions
(a) Purchase consideration	
Cash paid	7.7
Total purchase consideration	7.7
Consideration transferred for the business	7.7
(b) Effect on cash flows of the Group	
Cash paid (as above)	7.7
Less: cash and cash equivalents in subsidiary acquired	–
Cash outflow on acquisition	7.7
	At fair value £ Millions
(c) Identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 13)	0.6
Brand, Technology, Customers' Relationships and Contracts (included in intangibles – Note 12)	0.9
Inventories	0.5
Trade receivables	0.5
Total assets	2.5
Trade and other payables	(0.1)
Total liabilities	(0.1)
Total identifiable net assets	2.4
Add: Goodwill (Note 11)	5.3
Consideration transferred for the business	7.7
(d) Acquisition-related costs	
Acquisition-related costs of £268,000 are included in "administrative expenses" in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows.	
(e) Acquired receivables	
The fair value of trade receivables is £0.5 million. The gross contractual amount for trade receivables due is £0.5 million, of which none is expected to be uncollectible.	
(f) Provisional fair values	
The fair value of the acquired identifiable intangible assets of £0.9 million (brand, technology, customers' relationships and contracts) has been provisionally determined pending the final completion of the valuation exercise.	
(g) Goodwill	
The goodwill of £5.3 million arising from the acquisition is attributable to the distribution network in America and the synergies expected to arise from the economies of scale in combining the operations of the Group with those of EMCO.	
(h) Revenue and profit contribution	
The acquired business contributed revenue of £0.5 million and net profit of £0.1 million to the Group from the period from 24 November 2015 to 31 December 2015. Had EMCO been consolidated from 1 January 2015, consolidated revenue and consolidated profit before tax for the year ended 31 December 2015 would have been £115.2 million and £26.1 million respectively.	

32. Other information

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of XP Power Limited on 22 February 2016.

COMPANY BALANCE SHEET

As at 31 December 2015

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£'000	Note	2015	2014
ASSETS			
Current assets			
Cash and cash equivalents	4	1,026	1,021
Trade and other receivables	5	20,192	12,696
Other current assets	6	707	417
Derivative financial instruments	7	20	263
Inventories	8	7,743	6,291
Total current assets		29,688	20,688
Non-current assets			
Investments in subsidiaries	3	29,786	29,786
Property, plant and equipment	9	1,778	1,859
Intangible assets	10	3,294	2,596
Derivative financial instruments	7	–	23
Long term receivable	13	5,999	5,783
Total non-current assets		40,857	40,047
Total assets		70,545	60,735
LIABILITIES			
Current liabilities			
Trade and other payables	12	17,336	10,294
Current income tax liabilities	14	1,857	1,416
Bank overdraft	15	576	507
Total current liabilities		19,769	12,217
Non-current liabilities			
Deferred income tax liabilities	11	666	332
Total non-current liabilities		666	332
Total liabilities		20,435	12,549
NET ASSETS		50,110	48,186
EQUITY			
Share capital	16	29,786	29,786
Hedging reserve	16	157	617
Translation reserve	16	1,513	648
Retained earnings	16	18,654	17,135
TOTAL EQUITY		50,110	48,186

NOTES TO THE COMPANY BALANCE SHEET

For the financial year ended 31 December 2015

FINANCIALS

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	2015	2014
Cost at carrying value		
At 1 January	29,786	29,786
At 31 December	29,786	29,786

Name of Subsidiary	Place of incorporation/ Ownership (or registration) and operation	Proportion of Ownership % 2015	Proportion of Ownership % 2014	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	2015	2014
Cash at bank	1,026	1,021
Total	1,026	1,021

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

	GBP £'000	USD £'000	EUR £'000	SGD £'000	JPY £'000	SEK £'000	DKK £'000	NOK £'000	Total £'000
At 31 December 2015									
Cash at bank	35	501	227	172	3	7	31	50	1,026
	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

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 2015

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5. Trade and other receivables

£'000	2015	2014
Trade receivables	2,736	1,840
Trade receivables from Group companies	17,456	10,856
Total	20,192	12,696

The average credit period taken on sales of goods is 64 days (2014: 44 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	2015	2014
Deposit	59	61
Other receivables and prepayments	648	356
Total	707	417

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 £4.8 million (2014: £6.8 million). These contracts are to hedge against exchange movements on future sales and qualify for hedge accounting.

As at 31 December 2015, the fair value asset of the currency forward contracts recognised under a hedging reserve is £157,000 (2014: £617,000) (Note 16).

December 2015 £'000	Contract notional amount	Fair value asset
Current portion	4,814	157
Total	4,814	157

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

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

December 2015 £'000	Contract notional amount	Fair value (liability)
Current portion	6,548	(137)
Total	6,548	(137)

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

8. Inventories

£'000	2015	2014
Goods for resale	7,743	6,291

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 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 1 January 2015	188	1,502	1,316	10	352	3,368
Additions	–	37	26	–	–	63
Foreign currency translation	7	19	62	–	12	100
At 31 December 2015	195	1,558	1,404	10	364	3,531
Depreciation						
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 1 January 2015	–	277	884	10	338	1,509
Charge for the year	–	46	125	–	13	184
Disposals	–	–	–	–	–	–
Foreign currency translation	–	11	36	–	13	60
At 31 December 2015	–	334	1,045	10	364	1,753
Carrying amount						
At 31 December 2015	195	1,224	359	–	–	1,778
At 31 December 2014	188	1,225	432	–	14	1,859

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 2015

10. Intangible assets

£'000	2015	2014
Cost		
Balance at 1 January	3,605	2,538
Additions	1,454	1,067
Balance at 31 December	5,059	3,605
Amortisation		
Balance at 1 January	1,009	469
Additions	756	540
Balance at 31 December	1,765	1,009
Carrying amount		
Balance at 31 December	3,294	2,596

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 2014	(39)	(212)	(22)	(273)
Charge to income statement	(9)	(44)	8	(45)
Exchange difference	(2)	(11)	(1)	(14)
At 1 January 2015	(50)	(267)	(15)	(332)
Charge to income statement	(23)	(270)	(26)	(319)
Exchange difference	(1)	(13)	(1)	(15)
At 31 December 2015	(74)	(550)	(42)	(666)

£'000	2015	2014
Deferred tax liabilities – to be recovered after more than 12 months	(666)	(332)
Total	(666)	(332)

12. Trade and other payables

£'000	2015	2014
Trade payables and other creditors	4,940	5,061
Amount payable to Group companies	12,396	5,233
Total	17,336	10,294

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

The Company borrows from subsidiaries at an interest rate of 1.5% – 2.0% above LIBOR. The borrowing is repayable upon demand.

13. Long term receivable

£'000	2015	2014
Loan to related parties	5,999	5,783
Total	5,999	5,783

Loan to XP Power Vietnam is recoverable on demand and bears interest at LIBOR plus 1.5% – 2.0% per annum.

14. Current income tax liabilities

£'000	2015	2014
At 1 January	1,416	1,212
Currency translation differences	(11)	41
Income tax paid	(1,183)	(1,071)
Current year tax expense	1,635	1,234
At 31 December	1,857	1,416

15. Bank overdraft

£'000	2015	2014
Bank overdraft	576	507
Total	576	507

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

	GBP £'000	USD £'000	Total £'000
At 31 December 2015			
Bank overdraft	576	–	576
At 31 December 2014			
Bank overdraft	507	–	507

NOTES TO THE COMPANY BALANCE SHEET

For the financial year ended 31 December 2015

16. Share capital and reserves

Share capital

£'000	2015	2014
Allotted and fully paid 19,242,296 ordinary shares	29,786	29,786

Retained earnings

£'000	2015	2014
Balance at 1 January	17,135	15,565
Dividends paid	(11,974)	(10,832)
Profit for the year	13,493	12,402
Balance at 31 December	18,654	17,135

Translation reserve

£'000	2015	2014
Balance at 1 January	648	(272)
Exchange differences on translation	865	920
Balance at 31 December	1,513	648

Hedging reserve

£'000	2015	2014
Balance at 1 January	617	(325)
Fair value gain/(loss)	(460)	942
Balance at 31 December	157	617

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

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

17. Financial risk management continued

(b) Currency risk continued

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

At 31 December 2015
£'000

	GBP	EUR	USD	Others	Total
Financial assets					
Cash and cash equivalents	35	227	501	263	1,026
Trade and other receivables	1,806	1,032	23,134	219	26,191
Other current assets	421	(45)	177	154	707
Subtotal	2,262	1,214	23,812	636	27,924
Financial liabilities					
Borrowings	(576)	–	–	–	(576)
Trade and other payables	(6,724)	42	(10,553)	(101)	(17,336)
Subtotal	(7,300)	42	(10,553)	(101)	(17,912)
Net financial (liabilities)/assets	(5,038)	1,256	13,259	535	10,012
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	7,500	–	–	7,500
Less: Currency forwards	5,600	(5,762)	–	–	(162)
Currency profile excluding non-financial assets and liabilities	562	2,994	13,259	535	17,350
Less: Financial assets denominated in the entity's functional currencies	–	–	13,259	–	13,259
Currency exposure of financial assets	562	2,994	–	535	4,091

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
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	6,366	–	–	6,366
Less: Currency forwards	4,900	(7,508)	–	–	(2,608)
Currency profile excluding non-financial assets and liabilities	(706)	125	13,277	177	12,873
Less: Financial assets denominated in the entity's functional currencies	–	–	13,277	–	13,277
Currency exposure of financial (liabilities)/assets	(706)	125	–	177	(404)

NOTES TO THE COMPANY BALANCE SHEET

For the financial year ended 31 December 2015

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17. Financial risk management *continued*

(c) Interest rate risk

The Company borrows from subsidiaries at an interest rate of 1.5% – 2.0% 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 2015					
Trade and other payables	17,336	–	–	–	17,336
Bank overdraft	576	–	–	–	576
Total	17,912	–	–	–	17,912

£'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

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:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- 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
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets measured at fair value at 31 December 2015:

£'000 2015	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	20	–	20
£'000 2014				
	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	286	–	286

17. Financial risk management *continued*

(g) Offsetting financial assets and financial liabilities

(i) Financial assets

The Group has the following financial instruments subject to enforceable master netting arrangements or similar agreements 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 2015						
Derivative financial assets	167	(147)	20	–	–	20
Trade receivables	1,083	(130)	953	16,503	–	17,456
Total	1,250	(277)	973	16,503	–	17,476
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

(ii) Financial liabilities

The Company has the following financial instruments subject to enforceable master netting arrangements or similar agreements 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 2015						
Derivative financial liabilities	–	–	–	–	–	–
Trade payables	–	–	–	12,396	–	12,396
Total	–	–	–	12,396	–	12,396
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

	2015 £ Millions	2014 £ Millions	2013 £ Millions	2012 £ Millions	2011 £ Millions
Results					
Revenue	109.7	101.1	101.1	93.9	103.6
Profit from operations	25.6	24.5	23.3	21.0	25.3
Profit before tax	25.4	24.3	22.9	20.2	24.3
Assets employed					
Non-current assets	65.4	56.1	53.3	52.8	52.7
Current assets	53.5	47.0	42.2	39.3	46.9
Current liabilities	(19.8)	(18.6)	(22.4)	(20.2)	(28.2)
Non-current liabilities	(10.0)	(4.2)	(3.7)	(10.6)	(15.6)
Net assets	89.1	80.3	69.4	61.3	55.8
Financed by					
Equity	88.3	80.2	69.2	61.1	55.6
Non-controlling interests	0.8	0.1	0.2	0.2	0.2
	89.1	80.3	69.4	61.3	55.8
Key statistics (pence)					
Earnings per share	103.7	102.1	95.8	81.7	107.1
Diluted earnings per share	102.8	101.1	95.1	81.3	106.4
Diluted adjusted earnings per share	104.3	101.1	95.1	81.3	106.4
Share price in the year (pence)					
High	1,750.0	1,798.0	1,630.0	1,283.0	1,950.0
Low	1,375.0	1,340.0	972.0	805.0	870.0
Dividends per share (pence)	66.0	61.0	55.0	50.0	45.0

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KNOWLEDGE



FLEXIBILITY



**CUSTOMER
FOCUS**



SPEED



INTEGRITY



OUR CORE VALUES

KNOWLEDGE

- + Delivering genuine value to our customers through our knowledge and experience
- + Continually developing our skills and capabilities as individuals and as an organisation

FLEXIBILITY

- + Receptive to the needs of our customers to provide outstanding customer service
- + Willing to challenge the way we do things and adapt to constantly improve and innovate
- + Collaborating with our colleagues and customers for better results

CUSTOMER FOCUS

- + Always considering our customer's experience in everything we do
- + Never forgetting that without our customer we do not have a business

SPEED

- + Responding to our customers and colleagues with impressive speed
- + Constantly looking at faster and more efficient ways of delivering value in everything we do

INTEGRITY

- + Honest in all our interactions with our colleagues, customers and suppliers
- + Always doing the right thing
- + Taking care of our people ensuring XP Power is a great place to work where we trust the people we work with, have pride in what we do and gain enjoyment from our work



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