



POWERING THE WORLD'S CRITICAL SYSTEMS



XP POWER
ANNUAL REPORT & ACCOUNTS
for the year ended 31 December 2016
stock code: XPP

OUR VISION



THE FIRST CHOICE POWER SOLUTIONS
PROVIDER DELIVERING THE ULTIMATE EXPERIENCE
FOR OUR CUSTOMERS AND OUR PEOPLE



2016 has been another excellent year for XP Power as we have achieved record order intake, revenues and earnings against a backdrop of economic and political uncertainty. 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, allow 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 rolled out some high quality employee training designed around our Core Values of **INTEGRITY, KNOWLEDGE, FLEXIBILITY, SPEED** and **CUSTOMER FOCUS**. These values are our **DNA** and fundamental to our continued success.

We look forward to further success in 2017.

Duncan Penny
Chief Executive

STRATEGIC REPORT

- 2 Financial and Operational Highlights in 2016
- 3 Our Investment Proposition
- 4 Chairman's Statement
- 6 XP Power at a Glance
- 8 Our Marketplace
- 9 Our Growth Drivers
- 10 Our Strategy
- 12 Our Key Performance Indicators
- 14 Our Business Model
- 16 Case Study - Internet of Things Smart Metering
- 17 Our Manufacturing Progress
- 18 Operating and Financial Review
- 22 Employee Engagement
- 24 Our Commitments to Sustainability
- 26 Our Customers
- 27 Our People and Their Health and Safety
- 28 Our Suppliers
- 29 Our Communities
- 30 Our Environment
- 32 Managing Our Risks

GOVERNANCE REPORT

- 36 Chairman's Introduction to Governance
- 38 Directors and Officers
- 40 Corporate Governance Report
- 44 Audit Committee Report
- 48 Remuneration Committee Report
- 49 Remuneration Policy
- 54 Remuneration Report – Annual Report
- 61 Other Governance and Statutory Disclosures
- 62 Statement by Directors

FINANCIALS

- 63 Independent Auditor's Report
- 69 Consolidated Statement of Comprehensive Income
- 70 Consolidated Balance Sheet
- 71 Consolidated Statement of Changes in Equity
- 72 Consolidated Statement of Cash Flows
- 73 Notes to the Consolidated Financial Statements
- 107 Company Balance Sheet
- 108 Notes to the Company Balance Sheet
- 118 Five Year Review
- 119 Advisers
- 120 Shareholder Notes

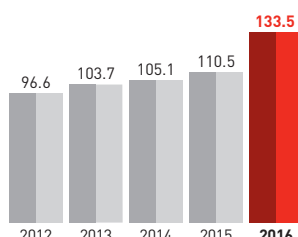
FINANCIAL AND OPERATIONAL HIGHLIGHTS IN 2016

Order Intake

(£ millions)

+21%

(+9% in constant currency)

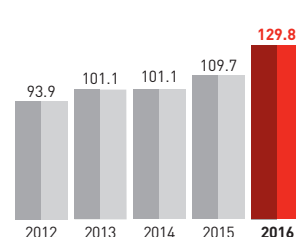


Revenue

(£ millions)

+18%

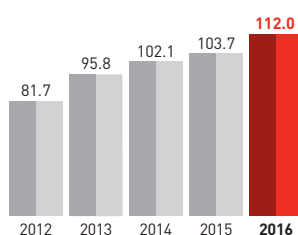
(+7% in constant currency)



Earnings per Share

(pence)

+8%

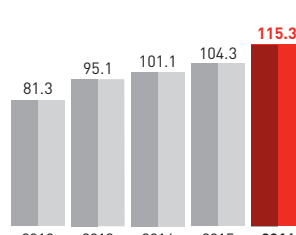


Earnings per Share

(pence)

+11%

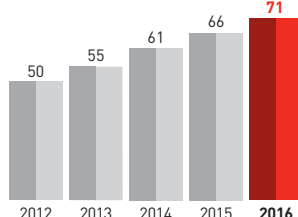
(after adjusting for one-off costs and intangibles amortisation)



Dividend per Share

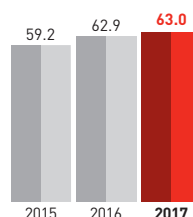
(pence)

+8%



Employee Cultural Survey

(score)



In order to provide readers with a more comprehensive view of our business and performance, we have presented a number of alternative performance measures. We use constant currency to provide comparison using the current year information translated at prior year exchange rates.

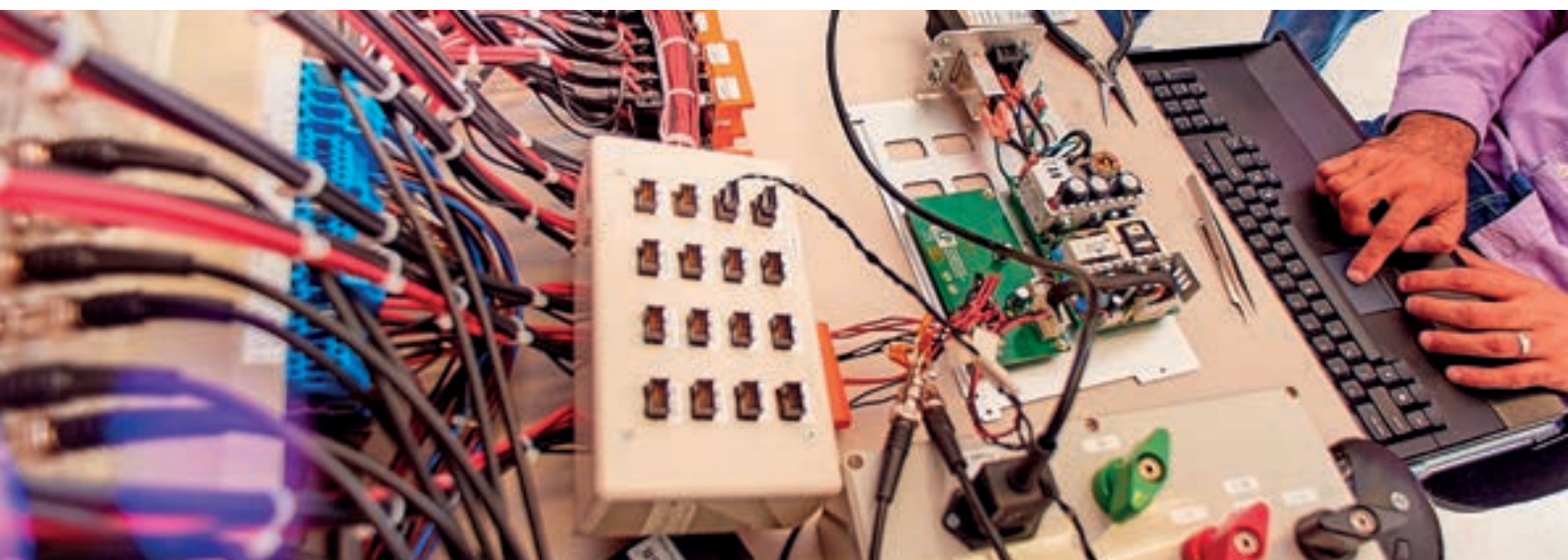
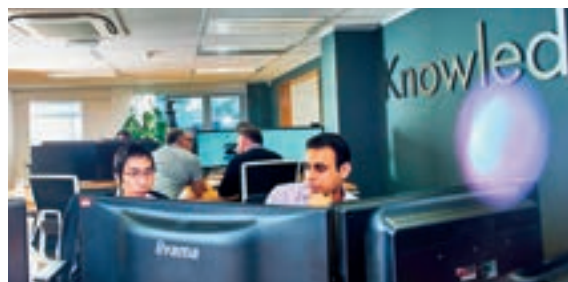


OPERATIONAL HIGHLIGHTS

- Record revenues and earnings achieved in 2016 despite challenging economic conditions and political uncertainties
- Improvement in trading conditions during the second half of 2016, with positive momentum in order intake and revenues
- Full year revenues increased by 18% (7% in constant currency) to £129.8 million (2015: £109.7 million)
- Revenues from XP Power's own-designed products increased by 28% (15% in constant currency) to £95.3 million (2015: £74.6 million) to reach a record 73% of total revenue (2015: 68%)
- Sales of high efficiency XP "Green" Power products grew by 28% in 2016 to £30.2 million (2015: £23.6 million)
- Order intake of £133.5 million (2015: £110.5 million) – an increase of 21% (9% in constant currency)
- Balance sheet remains robust, with net cash of £3.7 million at year end (2015: net debt of £3.7 million)
- Accelerated transfer of lower power/lower complexity product from China manufacturing plant to Vietnam factory to enhance competitiveness and free up capacity in China
- Power converter production at the Vietnam facility increased by 119% to 377,700 units, strengthening the Group's cost advantage over many of its competitors
- Expect to break ground on construction of second manufacturing facility at Vietnam site in the fourth quarter of 2017

OUR INVESTMENT PROPOSITION

- +** 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 8
- +** 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 8
- +** A **growing** penetration of a global, blue-chip customer base. Read more on page 9
- +** **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 20
- +** An established pipeline of new class leading **“Green”** products which operate at high efficiency. Read more on pages 15 and 24
- +** **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 15
- +** **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 page 20
- +** **Progressive Dividend** – the business model allows for a progressive dividend which is paid quarterly.
Read more on page 15



CHAIRMAN'S STATEMENT



"2016 WAS ANOTHER YEAR OF SIGNIFICANT PROGRESS; DESPITE CHALLENGING ECONOMIC CONDITIONS AND POLITICAL UNCERTAINTIES, WE ACHIEVED RECORD REVENUES AND EARNINGS".

JAMES PETERS CHAIRMAN

Our Progress in 2016

2016 was another year of significant progress; despite challenging economic conditions and political uncertainties, we achieved record revenues and earnings. In addition, we have enhanced our manufacturing capability by reducing our lead times and introducing lean manufacturing principles. We have also continued to ramp-up power converter production in our Vietnam facility, giving us a cost advantage over many of our competitors. Finally, we strengthened our Board, and set the stage for the next phase of our development.

Results

Our financial performance for the year was again strong. Revenues were a record £129.8 million (2015: £109.7 million), an increase of 7% in constant currency. Order intake was £133.5 million (2015: £110.5 million) representing an increase of 9% in constant currency.

Gross margin showed a slight decline to 47.8% (2015: 49.8%) due to product mix and the weakening of Sterling against the US Dollar following the United Kingdom's vote to leave the European Union, reflecting the fact that the majority of our underlying product costs are denominated in US Dollars.

Profit before tax was £27.8 million (2015: £25.4 million). After adding back costs associated with aborted acquisitions of £0.4 million (2015: £0.3 million) and amortisation of intangible assets of £0.4 million (2015: nil), adjusted profit before tax was £28.6 million (2015: £25.7 million), an increase of 11% over that reported in 2015. Basic earnings per share increased 8% to 112.0 pence (2015: 103.7 pence). Diluted adjusted earnings per share increased 11% to 115.3 pence (2015: 104.3 pence).



Strategy Review

The Company's strategy, which it has executed successfully over many years, has generated good results. The Executive Management team conducted a review of the strategy during 2016 with input and review by the Board, to ensure it remained appropriate and up-to-date. This review concluded that the essence of the strategy – to continue to move up the value chain and win a growing proportion of our customers' available business – should be unchanged but that a number of refinements be adopted to further improve upon our success to date. In particular, we now identify expansion of our product range by targeted acquisitions and achieving operational excellence as additional specific strategic goals. Further detail on our updated strategy is provided in the Operating and Financial Review.



For more information on strategy please see pages 10 and 11

Strengthening Our Board

We were pleased to welcome Polly Williams, who joined our Board from 1 January 2016 as a Non-Executive Director, bringing with her a wealth of public company experience. Polly chairs XP Power's Remuneration Committee and is a member of the Audit Committee.

With this latest appointment, 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 26 pence per share for the fourth quarter of 2016. This dividend will be payable to members on the register on 17 March 2017 and will be paid on 21 April 2017.

When combined with the interim dividends for the previous quarters, the total dividend for the year will be 71 pence per share (2015: 66 pence); an increase of 8%.

The compound average growth rate of our dividend has been 10% 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 boasting long tenures with XP Power. We have conducted annual employee engagement surveys since 2015 and I am pleased that we have shown consecutive strong and improving scores each time we repeat the survey having taken actions to address any issues arising from the results of the prior survey. One of the main findings from these employee surveys was that our employees are proud to be part of our Company, highlighting the significant engagement we have between the business and our people. Our cultural survey score is one of our non-financial key performance indicators.



For more information on key performance indicators and our cultural survey please see pages 13 and 22

During 2016 we rolled out a number of training programs built around our core values of integrity, knowledge, flexibility, speed and customer focus. These core values are part of our DNA and have been responsible for driving our performance and customer service commitment over the long term. Training programs were delivered across the world and were extremely well-received.



For more information our training programs and employee engagement please see pages 22 to 23

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 28% in 2016.

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



For more information on sustainability please see pages 24 to 25

Outlook

We are encouraged by the strong finish we had to 2016. The Group entered 2017 with a strong order backlog and, despite the mixed global economic picture, we have established positive momentum in the new financial year.

In addition, the Group has a strong balance sheet and a robust business that provides excellent cash generation to help fund targeted acquisitions that will broaden our product offering and engineering capabilities.

James Peters
Chairman

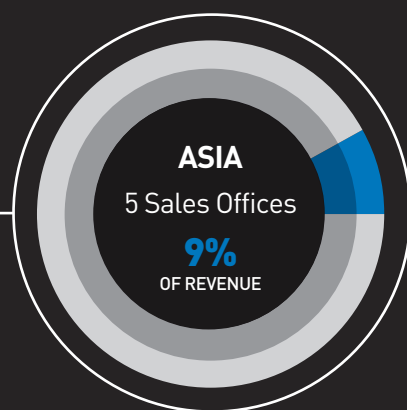
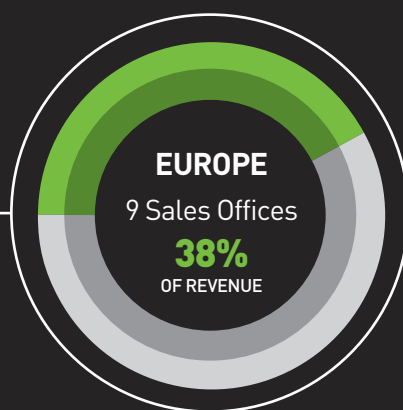
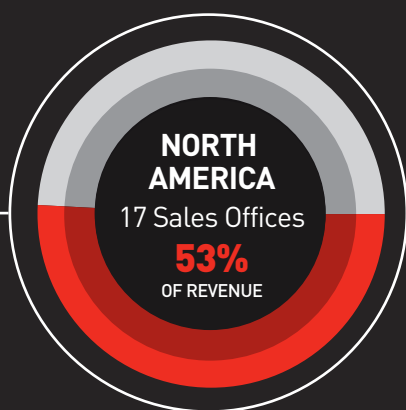


XP POWER AT A GLANCE

XP Power's portfolio of leading edge, ultra-high efficient products are helping the world's leading manufacturers to create new 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.



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 9 sales offices and a further 9 distributor offices. In addition, XP Power has engineering services centres in Germany and the UK. A direct sales office was added in Israel early in 2015.



ASIA

We have 5 direct sales offices in Asia run from Singapore, where we also manage a network of 7 distributors serving the region. We are in the process of setting up engineering services in Asia to complement our offering to customers in the region.





Power of our Global Reach

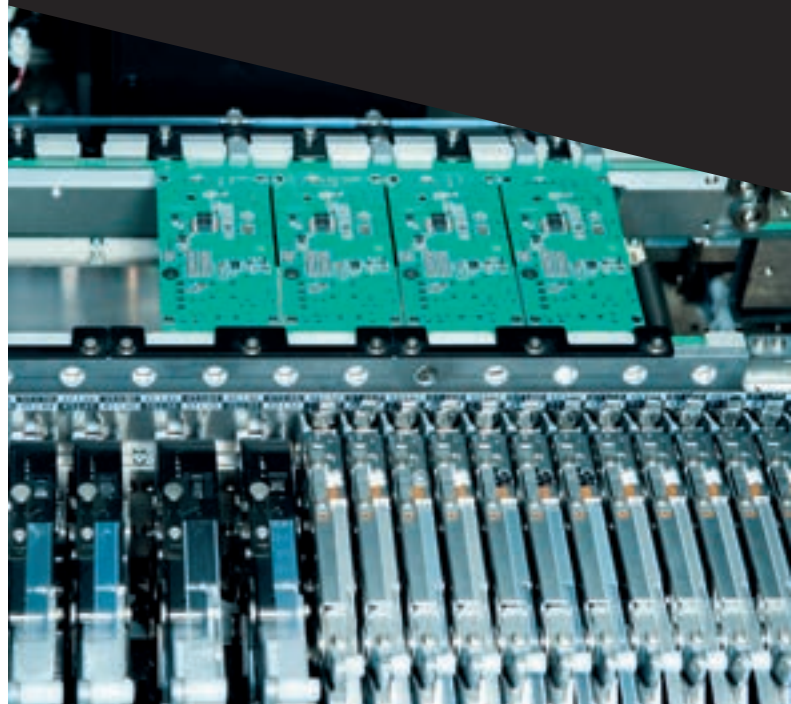
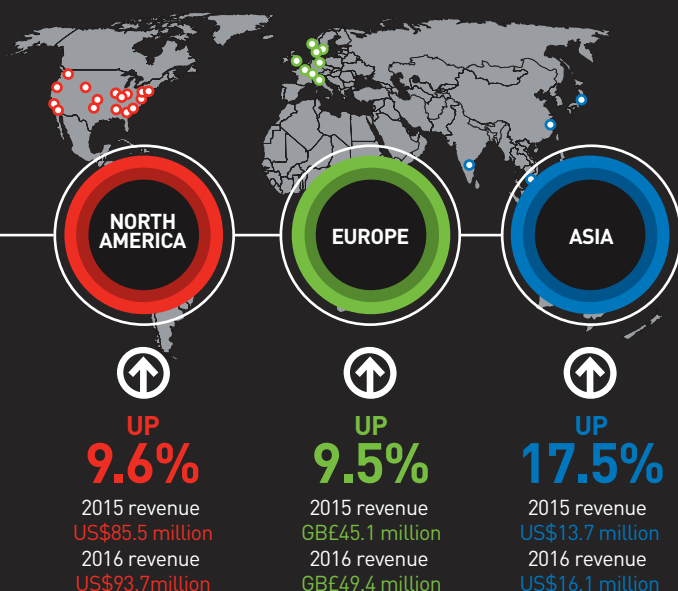
Our customers manufacture capital equipment and we target the healthcare, industrial and technology markets. We do not have any direct exposure to consumer electronics or high volume low margin business seen in the computing and data centre industries. The equipment our products power is often mission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



Meeting our customers' requirements with our powerful offering

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



OUR MARKETPLACE

We continue to expand our product portfolio to further penetrate our key customers where we are already approved or preferred.

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%

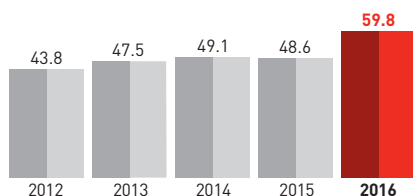
The diversity of our business is a significant strength with no one customer exceeding more than 7% of revenue. Further, there is no one dominant player in the markets we address due to the diversity of customer requirements.

REVENUE TRENDS

Revenue trends by sector are set out below.

Industrial

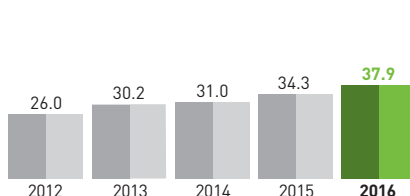
Industrial Revenue (£ millions)



Industrial remains our most diverse end market. North America showed a cyclical weakness in this sector from the third quarter of 2015 but we have seen recovery in 2016.

Healthcare

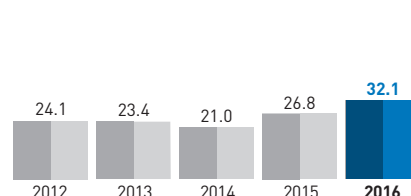
Healthcare Revenue (£ millions)



Gains from corporate approvals at the major blue-chip customers.

Technology

Technology Revenue (£ millions)

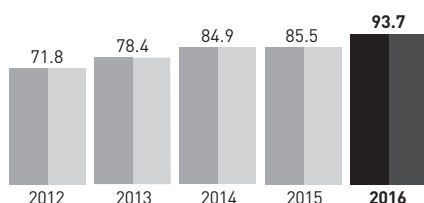


Technology continues to be the most cyclical sector but has swung back in 2015 and 2016 with the semiconductor manufacturers contributing strongly.

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

North America

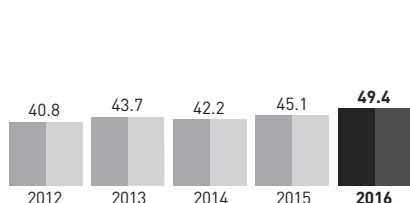
North America Revenue (US\$ millions)



The North American market shows steady momentum driven by larger opportunities in blue-chip accounts then aided in 2016 by the acquisition of EMCO.

Europe

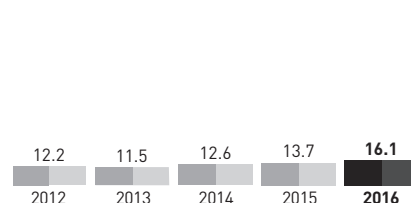
Europe Revenue (£ millions)



The market in Europe has been mixed. It has been more difficult to grow in the markets such as the UK where the Group already has a strong share and the programmes are more project based. However, the strategy of targeting the larger customers is now paying off and resulting in the third successive year of growth in challenging markets.

Asia

Asia Revenue (US\$ millions)

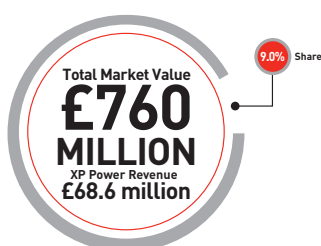


In prior years, the Asia business had benefitted from one usually large account which peaked in 2011 and reduced to zero in 2013 when the programme went end of life. The Asian business is now showing steady growth from customers that place value on XP Power's value proposition.

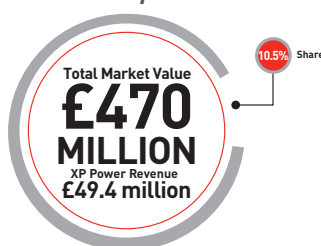
MARKET SIZE AND OPPORTUNITY

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

North America



Europe



Asia



Source: MicroTech Consultants 2016 Report

OUR GROWTH DRIVERS

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 environment 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 in November 2015 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 in November 2015 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 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 emerges. 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 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.

EXECUTING OUR STRATEGY – REFINEMENTS AND ENHANCEMENTS

XP Power has followed a clear and consistent strategy of moving up the value chain using its internally developed products to target key accounts where we can add genuine value.

During 2016 we have invested time to critically review the detail of our strategy with both the Executive Management team and Board of Directors. This has resulted in refinements and enhancements to our strategy rather than radical change.

The key elements of our strategy are as follows and are derived from our vision:



DEVELOP A BROAD RANGE OF COMPETITIVE PRODUCTS



TARGET ACCOUNTS WHERE WE CAN ADD VALUE



VERTICAL PENETRATION OF FOCUS ACCOUNTS



Rationale



We need a broad product range due to the fragmented nature of the markets we serve which have a multitude of product requirements. The broader and more up-to-date our product range the more chance we will have something that will work effectively in our target customers' applications.

XP Power prides itself in the level of service and support it offers its customers; particularly during the design in stage. We have a compelling proposition where customers demand excellent quality and reliability to power their mission critical equipment, but in particular where they face a power problem due to either heat dissipation or electrical noise. These are the type of customers that we target.

We have spent the last few years gaining approved or preferred supplier status at the key customers in the industrial, healthcare and technology sectors. We still have a relatively small share of the available business in these accounts. We are continuing to expand our product portfolio so we can address more of the opportunities that are available in these accounts to grow our revenues.

Refinements



Over the past few years we have produced a number of leading edge products. Emphasis has now shifted towards products which still have leading efficiencies but which are more mainstream and attractive from a cost perspective.

We are prioritising our resource on the customers that fit our value proposition. We are de-emphasising customers that may have significant revenue potential but where cost is a more critical factor than quality and reliability or engineering support during the design phase.

We are focused on our existing customer base in order to grow our revenues.



*THE FIRST CHOICE POWER SOLUTIONS
PROVIDER DELIVERING THE ULTIMATE
EXPERIENCE FOR OUR CUSTOMERS
AND OUR PEOPLE*

ENHANCE BRAND AWARENESS



We are still a relatively new player in the industry. We have the advantage of a broad and up-to-date product portfolio and excellent service and support. Awareness of our brand in the market is important if we are to achieve our vision of being the first choice power solutions provider in the market.

We are able to further enhance our brand awareness through expansion of distribution channels and use of our digital marketing tools.

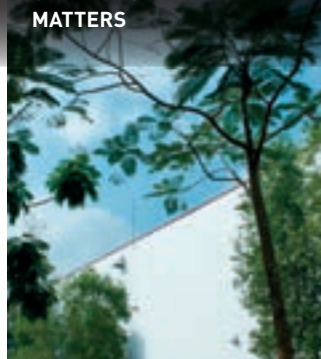
ACHIEVE OPERATIONAL EXCELLENCE



It is challenging to grow in industrial markets which have intrinsically low growth rates. To do this we need an excellent product range and we need to deliver the customer the ultimate experience in service and support. We need operational excellence in order to deliver this and to transform incremental revenues into strong profit and cash flow streams.

The achievement of operational excellence has been added as a strategy point in 2016.

LEAD OUR INDUSTRY ON ENVIRONMENTAL MATTERS



Strong corporate social responsibility is not only important to our key customers but also to our employees and the communities in which we operate. This incorporates not only environmental performance but also health and safety, treatment of our people and business ethics. All these areas are addressed in the Electronic Industry Citizenship Coalition's (EICC) Code of Conduct which, as a full member of this organisation, we strongly endorse.

We continue to lead our industry on environmental matters.

ACQUIRE BUSINESSES TO EXPAND OUR OFFERING



Our strong balance sheet and cash generative business model allow us the capacity to pursue business acquisitions. This is another avenue to expand our product offering and therefore addressable market.

We continue to look for acquisitions to expand our product offering and other capabilities.

OUR KEY PERFORMANCE INDICATORS

The Group has defined a number of Key Performance Indicators (KPIs) which are closely aligned with its strategy, which demonstrates significant and consistent progress over the years.

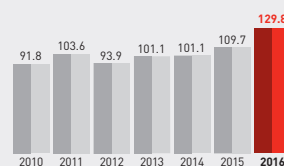
In order to provide readers with a more comprehensive view of our business performance we have presented a number of alternative performance measures.



New product families released



Revenue (£ millions)



Revenue from top 30 customers (%)



Target Achieved

N/A

Not all products are equal in terms of their complexity to develop or their revenue potential. In assessing new product opportunities, we consider the potential revenue from a new product family as well as the absolute number of new product introductions.

YES

We target revenue growth of 10% per annum. Whether we achieve this or not can depend on market cyclicality and exchange rates.

YES

We expect the revenue from our top 30 customers to increase as we pursue our strategy.

Our Progress in 2016

- We released 47 new product families in 2016 (2015: 22 new product families).
- New releases included Nanoflex which is a digitally controlled 1U configurable range and the ALM65 range of low power medical desk top power converters.
- New product releases were also boosted by the addition of a new labelled product supplier to enhance our DC-DC offering.

- We continue to concentrate our resources on the accounts where we can add value by having a direct sales engagement.
- In 2016 we expanded our distribution channels with the addition of Electrocomponents (RS components and Allied) to make our products more readily available to the smaller accounts.

- Revenue from the top 30 customers represented 43.9% of revenue (2015: 43.6%).

Our Plans for 2017

- Further product releases to expand our addressable market
- New product releases will be more mainstream rather than niche in 2017 with 46 targeted
- Search for further suitable bolt-on acquisitions to expand our product portfolio

- Continued expansion and support for our distribution channels to allow further focus on our key direct accounts

- Continue to grow our share of customers' business where we are preferred or approved suppliers
- Expansion of our product portfolio to increase our addressable market in our existing customer base

Linkage to Strategy & Core Values



Develop a broad range of competitive products



Target accounts where we can add value

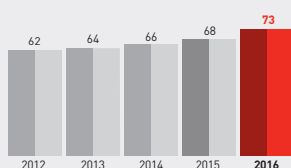


Vertical penetration of focus accounts

Other than the above quantitative KPIs we have a number of important governance KPIs as follows:

- No significant environmental issues
- No serious health and safety events
- No breaches of the Company's ethics policy

Proportion of own designed revenue (%)



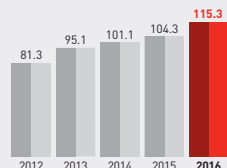
NO

We have now achieved 73% which is close to the 75% target we set ourselves. Given the acquisition of EMCO in November 2015 and the continued progression of the business we are raising this target to 80%.

- In 2016 revenue from our own designed/own manufactured products grew 28% from £74.6 million in 2015 to £95.3 million in 2016 presenting 73% of revenue.

- Increased engineering resource added in 2015 and the acquisition of EMCO in November 2015 continues the expansion of our product portfolio which will drive this metric.

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



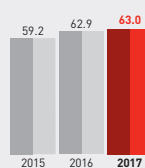
YES

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

- We have numerous initiatives in place to continuously improve our systems and processes.
- In particular we have enhanced our manufacturing by reducing lead times and introducing lean principles (see page 17 to learn more).
- In addition, we have targeted our internal communication tools and processes to increase efficiency and provide an enhanced customer experience.

- Continue the qualification of power converters in Vietnam.
- Roll out lean principles to reduce manufacturing costs.
- Deploy world class capital equipment.

Cultural survey score



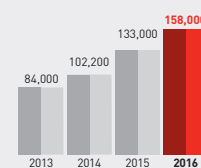
YES

The Group targets to improve its score each year with the long term aim to achieve a score of 67 which will put us in the "clearly the best" category as defined by the external consultant assisting us with the survey.

- Our people are the life blood of our business and we are reliant on them to come up with ideas to drive operational excellence.
- Since 2015 we have undertaken an annual employee cultural survey to identify areas where we can improve. Using the results of this survey we have introduced some tailored training centred around our core values of INTEGRITY, KNOWLEDGE, SPEED, FLEXIBILITY and CUSTOMER FOCUS and set up a communication focus group (see pages 23 and 23 to learn more).

- Expand our internal training programs to target high operational efficiency.

Lifetime CO₂ Emission savings from "Green" products (tonnes)



YES

The Group has set a target to increase the lifetime CO₂ emissions savings from XP "Green" Power products by at least 5% per annum.

- We also continued to launch a number of high efficiency products which bring high efficiency at lower cost points. Of the 47 product families released in 2016, 33 were high efficiency products.
- We saw our revenues from XP "Green" Power products increase 21.5% to 23.3% of revenue.

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



Develop a broad range of competitive products



Achieve operational excellence



Achieve operational excellence

See page 22 and 23 for more information on our cultural survey for more information.



Leading our industry on environmental matters

See pages 24 and 25 for more information.

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 where we can add value, offering excellent service and support combined with class leading products.

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

Having come from a sales and marketing background in our former incarnation as a distributor, then moved into design and then later into 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 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

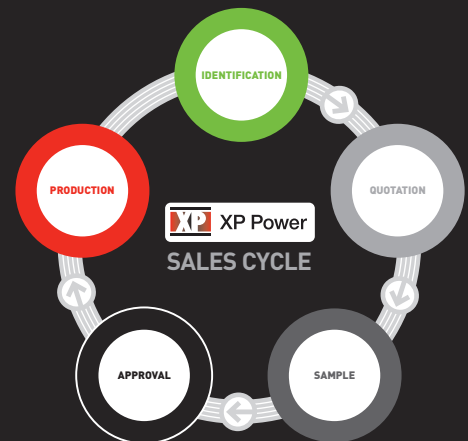
Add Value through the Sales Cycle



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 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 that can solve their power conversion problems. We do not put our key customers through distribution channels. We also provide global support.

Our Executive Management team, located on three different continents, is not only talented but given a relatively young average age has an impressive average length of service. The 12 person Executive Management team have an average age of less than 48 and average length of service of over 17 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 in November 2015.

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.



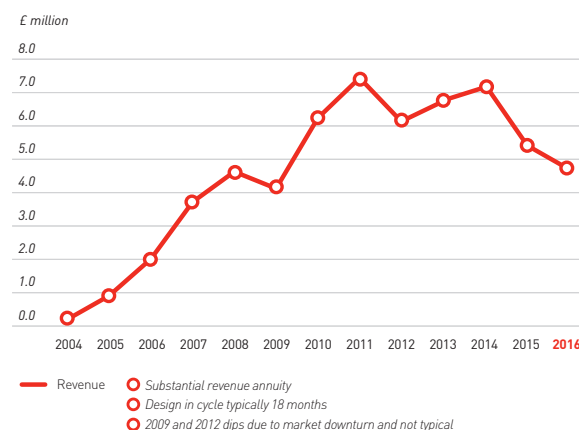
Generating Long-Term Revenue Annuities and Shareholder Value



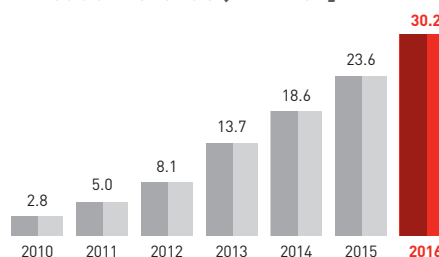
Generating Revenue Streams Through Strong Annuities

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 on-going revenue annuity for a large number of years. Typically this is around 7 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



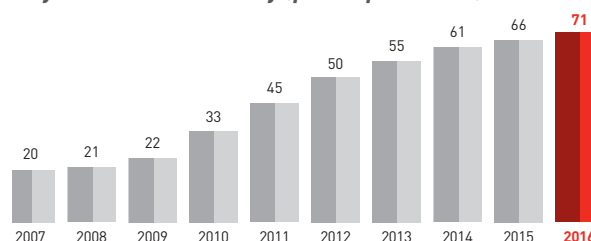
"Green" Product Revenue (£ million)



Progressive dividend policy

Our business model and clear strategy, consistently applied, has resulted in long term growth and profitability and also strong free cash flow. This has enabled us to adopt a progressive approach to the dividend which is paid quarterly.

10 year dividend history (pence per share)



The compound average growth rate of the dividend per share has been 10% over the last 5 years and 15% over the last 10 years.

CASE STUDY - INTERNET OF THINGS SMART METERING

OPPORTUNITY

A global leader in smart grid technology and preferred customer approached XP Power to provide technical design/logistical expertise to solve a challenge. The customer needed to release a new firmware update to their latest residential smart meter. Their product was deployed in the field to provide wireless communication capability for real time data management to utility companies and end users. The firmware update required increased power in the existing product for field retrofits and new orders.

XP Power was asked to rapidly develop and deliver an environmentally ruggedized 40W AC/DC power supply. The specification called for a unique mechanical form factor, communication feedback to report remote power supply health status and capability to withstand extreme temperatures as well as lightning surge protection features.

Technical Challenges

There were a number of technical challenges to solve the customer's power problem. These included:

- A unique form factor with severe space restrictions to place components due to replacing an existing "in house design" in a released product.
- A requirement for an extremely low profile.
- Full power at extreme temperatures of -40°C to $+85^{\circ}\text{C}$;
- Designed to withstand AC surges from a potential of a lightning strike.

XP Power Technical Approach

XP Power's engineering services development team used in house 3D printing, mechanical 3D model simulation software and thermal simulation software to rapidly predetermine design feasibility and approach. This quickly gave the customer confidence that we could meet their requirements.

We could demonstrate XP Power's expertise to design and manufacture a uniquely low profile custom transformer from previous designs. In addition, we leveraged off existing XP Power proprietary surge protection circuits designed specific for previous Smart Grid applications.



Result

We designed and delivered first article units in just seven weeks. The pilot product units are already in the field and we expect the program to go into product in the first quarter of 2018.

The customer recognised the genuine value we were able to provide and we received a significant engineering fee for our design work. The design resulted in a five year contract to support field upgrades and fulfil new orders.

OUR MANUFACTURING PROGRESS



ADRIAN IRWIN EXECUTIVE VP
GLOBAL MANUFACTURING

In 2006, XP Power responded to customer feedback and realised the benefits of vertically integrating and became a manufacturer. This demonstrated complete control of the manufacturing process to ensure the safety and reliability of our products which power our customers' critical systems. Since 2006 our own designed and manufactured product has grown to represent more than 70% of our total revenue in 2016.

The product requirements for the markets we serve result in a low volume/high mix product portfolio, this produces significant challenges to manufacturing. In July 2015, we embarked on an improvement strategy that challenged our working methodologies to radically improve our responsiveness and agility to these challenges. This journey is focussed on developing a strong lean culture across all manufacturing locations. The Lean strategy is divided into two key phases:

- Phase I - Lead Time Reduction
- Phase II - Operational Excellence

Phase I – Lead Time Reduction

This phase of the journey is focussed on implementing good lean principles within our new product introduction (NPI) and manufacturing operations. In July 2015, a process re-engineering exercise was initiated specifically to assess, review and improve the key 'external' elements of manufacturing operations such as demand forecasting, capacity planning and supply chain management. This six-month project has resulted in a reduction of lead times by up to 50% within our core standard product range.

In June 2016, we started to work on our core 'internal' manufacturing processes in Vietnam and China. This was initiated by creating a lean team from each site. Each team was represented by members from within quality assurance, manufacturing engineering, production and planning. Both teams undertook a joint 5 day intense training course by our specialist lean training partner in Vietnam. The teams were then set free to focus on the identification and elimination of waste within our assembly processes and within the material logistics processes. The results from this initial stage are very encouraging.

The logistics team have already re-engineered the internal material handling processes and implemented internal Kanbans between the warehouse and surface mount and assembly line. This resulted in a reduction of lead times of up to 20%. These new lean systems allow production to commence almost immediately upon order receipt. Material now arrives at point of use locations throughout strategic locations within each plant.

The process teams have identified significant opportunities for improvement. The traditional straight assembly lines are now in the process of being redesigned into flexible manufacturing cells. These cells will significantly reduce process changeover, movement waste, cycle time reduction, floor space utilisation, while at the same time improve line balancing, responsiveness and flexibility to volume and product mix variations. The first wave of the new flexible cells came on line in November 2016. These lean improvements will allow production to increase capacity by up to 40% without any increase in direct costs. Change over between product variants will minimise, allowing batch sizes to reduce significantly and therefore improving our ability to rapidly change to customer demands. New dynamic profile wave solder equipment will allow different products to be manufactured simultaneously without any need to stop and change product machine settings.

A core part of the lean journey will be to develop the visual factory. This exercise will focus on the principles of 5S and the development of smart electronic displays throughout the plant. Production teams will be able to visualise, in real time, data that represents key quality and productivity performance indicators.

Phase II – Operational Excellence

The past 10 years has seen significant investment into our manufacturing capability. This has included the construction of a new 11,000m² manufacturing facility in Vietnam. This facility is now producing all magnetic components for power converter demand in Asia, at a volume of approximately 500,000 parts per month. Power converter manufacture in Vietnam increased to over 50,000 units per month in the fourth quarter of 2016 and this is anticipated to ramp to over 70,000 units per month by end of the first quarter of 2017.



This phase of the improvement cycle will focus on defining and implementing further capital investment required to achieve world class status within core areas of the manufacturing process. To achieve this, approximately \$1.5 million of capital spend has been allocated within the 2017 capital budget.

This investment will include further development of the surface mount lines in China and Vietnam with the inclusion of in-line Automated Optical Inspection (AOI) systems for the verification of solder paste and glue dot displacement, automated in-line glue dot displacement systems and additional state of the art wave solder machines.

Our ability to constantly reduce and maintain lead times will be a key factor for future success delivering genuine value to our customers. To help achieve this we must ensure a leading capacity strategy and flexibility within our material supply chain. A further \$4.0 million expansion plan for our Vietnam facility is planned to commence in the fourth quarter of 2017. We anticipate approximately \$1.5 million of this capital will be spent in 2017 with the remainder in 2018. This investment will add a further 9,000m² to our manufacturing capacity which will come on stream in early 2019.

OPERATING AND FINANCIAL REVIEW



Review of our year

While, overall, the market for industrial electronics remained challenging in 2016, trading conditions improved during the second half and we had some positive momentum in order intake and revenues. We continued to make progress with the execution of our strategy and reported record revenues, as well as delivering our highest ever level of own designed/own manufactured product revenues which now represent 73% of the total.

We also undertook a review of our well-established strategy during the year, to ensure it remains appropriate and up-to-date. The results of this review are discussed in more detail below.

We have been actively transferring more of the lower power/lower complexity product from our China facility to our Vietnam facility to maintain cost competitiveness and to free up capacity in China. We have also implemented a number of lean manufacturing principles which have allowed us to reduce lead times. We would also expect to see cost benefits from these initiatives as we trade through 2017.

We remain excited about the future prospects for our business.

Strategic progress

During 2016, the Executive Management team critically reviewed the strategy we have been successfully executing and which has produced good results over a sustained period. The review concluded that the fundamental essence of the strategy – targeting key accounts where we can add value and gaining more of the available business in those accounts – remains appropriate and effective. However, a number of refinements were made to the strategy, including a greater emphasis on acquisitions to further expand our product offering and making the pursuit of operational excellence a specific strategic goal.

Our refined strategy can be summarised as follows:

- Develop a broad range of competitive products;
- Target accounts where we can add value;
- Increase vertical penetration of target accounts;
- Enhance brand awareness;
- Achieve operational excellence;
- Lead our industry on environmental matters; and
- Selective acquisitions of complementary businesses to expand our product offering.

We continue to make significant progress against each of these objectives. We believe we have the broadest, most up-to-date portfolio of products, many of which are class leading in terms of efficiency and low stand-by power. Our portfolio of XP “Green” Power products grew by 28% in 2016 to £30.2 million (2015: £23.6 million) demonstrating how well these products have been adopted by our customers. We also continue to see revenues from our own designed/own manufactured products grow at a faster rate than those from 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 now clearly recognised as both 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 £95.3 million in the year, representing 73% of revenue (2015: 68%). We expect further growth in this area in 2017.

As we gain preferred or approved supplier status with our blue-chip customers we are gaining exposure to new opportunities in additional product areas. Our broad range of products, excellent customer service, low cost Asian manufacturing capability and engineering support on three continents makes us an ideal strategic partner to these larger blue-chip customers. We have established this position with our standard product offering but now we see attractive opportunities in these larger customers to engage on 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 in November 2015 was an excellent example of this initiative and we have been actively seeking further opportunities to expand our product capability into complementary areas in which we do not currently operate or where we are under-represented.

Productivity will be a key area of future focus. We deliver 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 will ensure that we retain and build on the core values of knowledge, flexibility and speed that have served us well to date. In particular, we have continued to upgrade our systems and have brought new talent with experience in complex operations and lean process techniques into the organisation. We will be placing greater emphasis on operational excellence in 2017 to further enhance our productivity.



Marketplace

All industry sectors and all geographies experienced revenue growth in 2016 over 2015 and, significantly, sequential growth in the second half of 2016 over the first half. We therefore entered 2017 with good momentum and a healthy order book.

North America revenues in 2016 were \$93.7 million but they did benefit from incremental revenues from the acquisition of EMCO in November 2015. Without the benefit of the EMCO revenues, North America revenues would have been flat year-on-year. However, order intake in North America was strong in the second half of 2016 – with \$51.6 million booked compared with \$47.0 million in the first half. North America now has the benefit of good momentum going into 2017, with some promising new programs where we expect volumes to ramp-up significantly during the year.

Technology represented 31% of revenues in North America in 2016 compared to 30% in 2015. The industrial sector rebounded and represented 35% of revenues in 2016 compared to 31% in 2015. Healthcare also performed well in North America in absolute terms, with revenues ahead by 10% as a number of new programs ramped-up, but its share of revenues declined to 34% (2015: 39%) as it did not match the pace of the recovery we saw in the industrial sector.

Our Asia business continued to grow despite the widely reported slow-down in China. Asia revenues grew 18% in 2016 to \$16.1 million (2015: \$13.7 million). The customers driving this increase generally sell their end products outside of the emerging markets. Industrial and technology sectors showed good growth in Asia whilst healthcare remained flat year-on-year.



Our European business grew by 10% to £49.4 million (2015: £45.1 million) which is the third successive year of growth in challenging market conditions. The industrial, healthcare and technology sectors all saw growth in Europe and we gained increased traction with some of the bigger blue-chip clients, which we expect to drive further European growth in 2017.

The geographic split of reported revenue was broadly maintained year-on-year. Overall North America represented 53% of revenue (2015: 51%), Asia represented 9% of revenue (2015: 8%) and Europe represented 38% of revenue (2015: 41%). The average exchange rate for the US Dollar compared to Sterling was 1.38 in 2016 versus 1.54 in 2015 representing a 10% weakening of Sterling following the Brexit vote. This caused North America and Asia revenues to be inflated, due to translation, and all of our costs reported in Sterling to be inflated as our product costs are predominately denominated in US Dollars. We discuss the potential impact of the Brexit vote and foreign exchange volatility in more detail below.

The overall picture by sector reflects the narrative above. Industrial represented 46% of revenue (2015: 44%), healthcare represented 29% of revenue (2015: 31%) and technology represented 25% of revenue (2015: 25%). 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 cyclicity in any particular sector, producing an underlying resilience in our diversified business model.

We continue to perform well against our traditional established competition. Our broad range of standard products and excellent customer service delivered by the largest direct sales force in our industry is a compelling proposition. We expect future competitors to emerge from Asia as companies with low cost manufacturing and engineering attempt to enter parts of the industrial and healthcare markets in Europe and North America. 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.

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 2016 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 47 new product families in 2016 (2015: 22) and 33 of these can be classified as ultra-high efficiency.

The high level of new product introductions was driven by the addition of a new third party supplier to enhance our DC-DC product offering.

OPERATING AND FINANCIAL REVIEW

Manufacturing

The addition of a manufacturing site in Vietnam in 2012 added much needed capacity and also enhanced our cost competitiveness as production costs in Vietnam are significantly lower than those of our existing Chinese facility.

Production volumes of magnetics windings at our Vietnam facility have continued to ramp-up and in 2016 we produced 4.9 million windings compared to 4.3 million in 2015. We have been actively transferring the lower power/lower complexity products from China to Vietnam in 2016 to improve our cost position and free up capacity in China. In 2016 we manufactured 377,700 power supplies in our Vietnam facility compared to 172,500 in 2015.

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 improved customer service and reduced freight costs. We expect to derive cost benefits from our lean manufacturing initiatives as we trade through 2017.

Our longer term planning indicates we will need additional manufacturing capacity in the first half of 2019. We have therefore allocated US\$1.5 million of our capital budget in Q4 of 2017 to break ground on a second factory at the Vietnam site, as envisaged at the time of our original investment.

Enhancing our digital presence

In December 2015 we launched our completely revamped website at xppower.com. The new mobile-optimised site was specifically designed to improve interaction and the overall user experience and has been well-received by customers.

Distribution

In the first quarter of 2014 we signed a distribution agreement with global electronic components distributor Digi-key, to complement our existing distribution partnership with Premier Farnell, incorporating Farnell in Europe, element14 in Asia and Newark in America. In the summer of 2016 we engaged with another global electronic components distributor, Electrocomponents plc, incorporating trading brands RS Components in Europe & Asia, and Allied Electronics in America. With this appointment, we now have a presence with three leading global high service level/online distribution channels, making our product more readily available to a larger number of small and medium-sized customers and enhancing our brand recognition. We are experiencing excellent growth through these channels, allowing our direct sales teams to concentrate on our larger blue-chip accounts.

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.

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

Revenue and order intake

Revenues set a new record and grew 18% over the prior year (7% in constant currency) to £129.8 million (2015: £109.7 million). Order intake grew by 21% (9% in constant currency) to £133.5 million (2015: £110.5 million). Revenues from our own designed product – a key indicator of our strategic progress – grew by 28% (or approximately 15% in constant currency) to £95.3 million (2015: £74.6 million) representing 73% of revenue (2015: 68%) and setting another new record.

Margins

Gross margin declined slightly to 47.8% (2015: 49.8%), largely due to product mix and the effect of the depreciation of Sterling versus the US Dollar. The majority of our product costs are denominated in US Dollars so while the weakening of Sterling helps our revenue line, product costs increase more than the revenues as a result of the weakness of Sterling. Operating margins declined from 23.3% in 2015 to 21.6%. This was partly due to the weakness of Sterling but also due to the operating margins of EMCO being lower than those of XP Power as a whole.

Profit before tax was £27.8 million (2015: £25.4 million). After adding back costs associated with aborted acquisitions of £0.4 million (2015: £0.3 million) adjusted profit before tax was £28.2 million, an increase of 10% over that reported in 2015.

Taxation

The tax charge for the year was £6.3 million (2015: £5.5 million) which represents an effective tax rate of 22.7% (2015: 21.7%). The effective rate is primarily determined by how our profits are distributed geographically. We expect a slight increase in the effective tax rate again in 2017.

Earnings per share

Basic earnings per share increased 8% to 112.0 pence compared to 103.7 pence in 2015. Diluted earnings per share increased by 8% to 111.2 pence compared with 102.8 pence in 2015.

After adding back costs associated with aborted acquisitions of £0.4 million (acquisition costs in 2015: £0.3 million) and intangible assets amortisation of £0.4 million (2015: nil) adjusted diluted earnings per share was 115.3 pence (2015: 104.3 pence) an increase of 11%.



Cash flow, funding and net cash

Our high margin business model, with modest capital requirements, continues to produce excellent free cash flows.

We finished 2016 in a net cash position of £3.7 million compared with a net debt position of £3.7 million at the end of 2015. This position was achieved after returning £12.9 million to Shareholders in the form of dividends.

In order to finance the acquisition of EMCO in November 2015 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 from June 2016 and ending in December 2017. The facility is priced at LIBOR plus a margin of 0.95%.

In September 2016 the Group renewed its annual working capital facility at a level of US\$7.5 million (2015: US\$12.5 million). The facility is priced at the Bank of England base rate plus a margin of 1.5%. Bank of Scotland PLC provides the facility.

At 31 December 2016, no working capital facility was drawn down.

Dividends

The attractive cash flow aspect of our business model has enabled us to pursue a 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 26 pence per share which together with the quarterly dividends already paid gives a total dividend for the year of 71 pence per share (2015: 66 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 hedge highly probable forecast transactions. The instruments purchased are denominated in the currencies of the Group's principal markets. The Group had £11.5 million of forward currency contracts outstanding at 31 December 2016 (2015: £11.3 million).

Substantial interests

Other than the Directors' interests, at 31 December 2016 the Company was aware of the following interests in three per cent or more of the issued ordinary share capital of the Company:

	Number of shares	Percentage of shares in issue
Hargreave Hale	2,105,890	10.9%
Aberdeen Asset Management Limited	1,842,747	9.6%
Standard Life Investments	1,769,691	9.2%
Mawer Investment Management	1,717,046	8.9%
Capital Group	1,140,000	5.9%
Henderson Global Investors	678,265	3.5%

As at 27 February 2017, the following information had been received in accordance with the Disclosure and Transparency Rules:

	Number of shares	Percentage of shares in issue
Hargreave Hale	2,109,725	11.0%
Standard Life Investments	1,769,691	9.2%
Aberdeen Asset Management Limited	1,746,521	9.1%
Mawer Investment Management	1,711,206	8.9%
Capital Group	1,140,000	5.9%
Henderson Global Investors	653,265	3.4%

Brexit

The weakening of Sterling versus the US Dollar in the period following the United Kingdom Referendum on EU membership on 23 June 2016 has obviously had a material effect on the presentation of our financial results in 2016.

Approximately 75% of our revenues are denominated in US Dollars and the translation of these revenues into Sterling for reporting purposes has had a beneficial effect. However, the majority of our cost

of sales and a large proportion of our operating expenses are also denominated in US Dollars. While a stronger US Dollar helps our overall gross margin in absolute terms (albeit to a limited degree) it also has the effect of reducing the gross margin percentage as costs rise disproportionately to the revenues. We estimate that our reported gross margin percentage could be approximately 130 basis points lower as a result.

For our United Kingdom business invoiced in Sterling, which represents approximately 13% of our worldwide revenues, margins were reduced in the second half of 2016 as the associated product cost is denominated in US Dollars. We have therefore been raising prices as customers place new orders to compensate for this effect. Although no customer is ever happy with a price increase, our reasons for doing so are well understood. We therefore expect to recover a significant portion of our margin losses in the United Kingdom in 2017.

In terms of the broader economic impacts of Brexit on our business, we do not consider that they will be material. The evidence to date is that some of our United Kingdom customers are benefiting from the weakening of Sterling as they are frequently net exporters.

Our products are made in Asia and are already imported into Europe where we have warehouses in both Germany and the United Kingdom. In the event that the United Kingdom leaves the single market, we would simply ship more of our product destined for the EU directly into Germany or another appropriate location.

Outlook for 2017

Although there continue to be a number of economic and political uncertainties which could potentially affect our business in 2017, we consider that we are well positioned in our marketplace. We have good momentum as our design pipeline continues to grow. Our order intake in the fourth quarter of 2016 was strong at £37.1 million and we entered 2017 with a healthy order book.

We also continue to work to identify acquisition opportunities that would be complementary to our product portfolio.

We remain excited and confident regarding the long term prospects for our Group.

Duncan Penny
Chief Executive

Jonathan Rhodes
Finance Director

EMPLOYEE ENGAGEMENT – OUR CORE VALUES IN ACTION

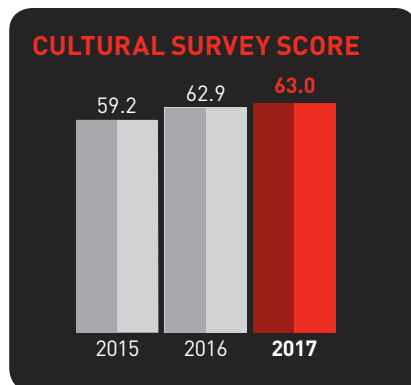


"I AM PLEASED TO REPORT THAT WE HAVE SHOWN STEADY PROGRESS TOWARDS OUR TARGET SCORE OF 67 WHICH REPRESENTS CULTURES DEEMED TO BE IN THE "CLEARLY THE BEST" CATEGORY."

HEATHER MURDOCK HEAD OF GLOBAL HUMAN RESOURCES

In 2015 we undertook an Employee Engagement Survey which we repeat every year to monitor our progress. The anonymous online survey allows us to evaluate our organisation's culture and benchmark it against other companies so we can make continuous improvements. It also provides narrative feedback regarding what our people enjoy about working at XP Power and where we need to improve.

I am pleased to report that we have shown steady progress towards our target score of 67 which represents cultures deemed to be in the "clearly the best" category, as defined by the external consultant.



The top five scoring questions from the survey in 2016 were:

- I am proud to be part of XP Power;
- XP Power shows a passion to deliver high quality products to all our chosen customers;
- I would recommend XP Power as a great place to work;
- XP Power takes health and safety seriously; and
- I feel capable of delivering to high standards of customer expectation.



We are reassured by very high scores against these questions as they support our vision and our Core Values of:

- Integrity;
- Knowledge;
- Flexibility;
- Speed; and
- Customer Focus.

The survey also revealed to us that our employees want more opportunity for professional development and we need to improve our internal communication and collaboration.

We are committed to not only listening to our employees, but also to implementing their ideas when they are in alignment with our culture and Core Values. In 2016 we launched training courses based on our assessment of key competencies that will help us continue to grow our global culture and drive operational excellence. We customised the training to focus on how we as individuals and teams impact our Core Values, and how they impact us. Our goal was to bring the Core Values to life with relevancy and intentionality. We believe the Core Values are key to our long term success.

The course offering included a number of two hour interactive sessions as follows:

- Effective Communication;
- Effective Conflict Resolution;
- Effective Cooperation and Collaboration;
- Effective Critical Thinking for Strategic Results; and
- Effective Time Management.

These courses were taught globally, up and down the organisation, to sessions filled with people cross functionally. Every participant was asked to assess each of the sessions at its completion, and the results were extremely positive. These courses created a larger pool of shared knowledge and understanding of our Core Values, increased employee engagement and gave our employees practical tools to use in their day-to-day jobs.

We will continue to develop and offer courses that will support the immediate and long term goals of XP Power and our employees.

In addition we set up a cross functional, global, focus group of 26 employees to share best communication practices and come up with new ideas and focus awareness on rapid and effective communication and sharing of knowledge. The ideas and increased awareness created by this group has had a pleasing affect on the organisation's ability to live its Core Values and attain our vision of being the first choice power solutions provider deliver the ultimate experience for our customers and our people.

XP OUR CORE VALUES



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



- + 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



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



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



- + 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



XP Power

OUR COMMITMENTS TO SUSTAINABILITY



"WE CONTINUE TO HAVE AN ORGANISATION THAT IS COMMITTED TO BEING THE LEADER IN THE INDUSTRY ON ENVIRONMENTAL PRACTICES. THIS HAS BEEN DEMONSTRATED BY ANOTHER STRONG YEAR IN WHICH WE HAD A 28% INCREASE IN "XP GREEN PRODUCT" REVENUES."

SEAN ROSS ENVIRONMENTAL COMMITTEE CHAIRMAN
AND VICE PRESIDENT OF QUALITY ASSURANCE

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.

A global Environmental Committee has been established which helps us achieve our vision of leading our industry on environmental matters. This group meets periodically to help share best practices, ideas for future engagement within the community and ensuring that we as an organisation are encouraging responsible environmental behaviour. There is representation at all of our core locations throughout Asia, Europe and North America. We are able to promote and communicate our program to the organisation through periodic electronic newsletters with the latest updates and activities planned within the community and how to get involved.



Managing our Impacts

We performed our own internal risk assessment of the most significant impact that we as an organisation have on the environment. The review is consistent with our past conclusions that the greatest environmental contributor is the efficiency of the power converter products we provide to our customers. As part of our design and development process we have further expanded on our ultra-high efficiency products within our product portfolio. These "Green XP Power" products require less

energy, consume less material and are void of hazardous substances. We continue to promote the adoption of this product offering and the benefits these "Green XP Power" products can provide to the end users of the equipment. These products help with maximising energy savings during the entire lifetime of the customer's end equipment. In addition, we also continue to ensure we are adopting the best practices in all of our facilities and continually promoting awareness of environmental issues amongst our employees.

Our Sustainability Strategy

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 converters we have designed are upwards of 95% efficient which is a significant improvement over other modern power supply converters which can average around 80% efficiency. To further expand on the significance and the impact of a 15% delta 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 waste of 25 Watts.

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

The waste heat as highlighted below is calculated in Watts. There is a significant difference considering there is a five-fold improvement in energy wastage and the overall potential for savings will be throughout the entire lifetime of electronic equipment. To achieve these efficiency 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 the use of these high efficiency products.

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

	Efficiency	Power Wastage	Power Requirement
Power Supply "A"	80%	25%	100 Watts
XP Power Supply	95%	5%	100 Watts



Our Key Achievements in 2016

We continue to have an increase in revenues for those products that met our “Green XP Power” criteria. In 2016 we shipped a record £30.2 million of these high efficiency products. This represents an increase of 28% over the prior year and now represents 23.3% of our overall revenue. Of the 47 new product families we launched during the year, 33 meet our “Green XP Power” criteria.

The annual savings in CO₂ emissions from these products compared to a standard 80% efficient converter are quite significant. Based on our calculations we estimate that the annual emission savings from the “Green XP Power” converters we sold in 2016 is 22,500 tonnes.

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 158,000 tonnes of CO₂. This helps demonstrate the environmental impact that we can make by providing these types of products. Considering this is only one year of shipments the potential cumulative effect of year after year shipments is extremely compelling.

Earth Day 2016

On April 22nd we celebrated Earth day at many of our key sites. We wanted to promote sound environmental practices, not just on the day, but throughout the entire year. Therefore, many activities were planned for the entire week. Some of the events planned by our local environmental representatives included:



- Planting of vegetation near the local offices. This included our facilities in Sunnyvale and Sutter Creek in California and in Singapore.
- Providing reusable XP Power burlap bags that can be used for shopping and promoting the elimination of plastic one use bags.
- Encouraging using other means of commuting, such as cycling, public transport or ride sharing.

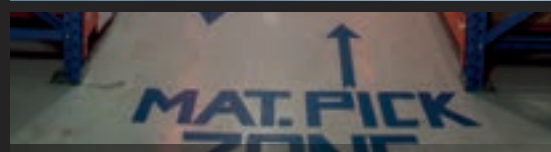
Our Plans for the Year Ahead

The group will continue with the strategy of adding high efficiency products to our portfolio in the coming year. There currently are products in development that we anticipate will be launched in 2017 that will be industry leading “Green XP Power” products.



Customer Focus

OUR CUSTOMERS
See page 26



OUR PEOPLE AND THEIR HEALTH AND SAFETY
See page 27



OUR SUPPLIERS
See page 28



OUR COMMUNITIES
See page 29

OUR CUSTOMERS



Customer Focus

Customers have helped drive our growth with our “Green XP Power” offering. This is demonstrated by the increase in revenues year over year since 2010 of these product offerings. This aligns with one of our organisations core values, customer focus. Customers clearly see the benefit of ultra-high efficiency power converters and this has allowed us to be more focused on delivering these products to meet the customer expectations. The feedback we have also received is that customers are willing to pay a premium for these “Green” products due to the higher performance. One of the underlying benefits of a high efficiency product is that the product is

inherently more reliable. Once the power converter gets to a level of efficiency that we are achieving, there is very little waste energy as heat, and there is no longer a need for a mechanical fan for cooling (which also consumes power). If the system engineer can design in a power converter without a mechanical fan they have now removed the most unreliable part of the power system. Furthermore, 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. It is with this understanding of the customer's expectation for an ultra-high efficiency, extremely reliable power supply that we have been able to focus on providing the best solution for the customers' requirements.

Key Achievements

We have added 33 additional product series to our portfolio of “Green XP Power” during 2016. One example is a 65 Watt desktop product that has the IP32 Environmental rating in addition to Energy Efficiency Level VI. This is the first product family that was introduced to be manufactured directly out of our environmentally friendly manufacturing facility located in Vietnam.

Our Plans Ahead

Our plan is to continue to invest in products we can bring to market that provide the most benefit to customers in terms of the high efficiency, and low stand-by power that meet our customers' cost expectations.



OUR PEOPLE AND THEIR HEALTH AND SAFETY

Our People

Our People are our most important asset and we make great efforts to ensure we have policies in place to provide a safe working environment to protect our employees. As an organisation it is important that XP Power promotes work force diversity, integrity and a safe and healthy work environment.

Integrity

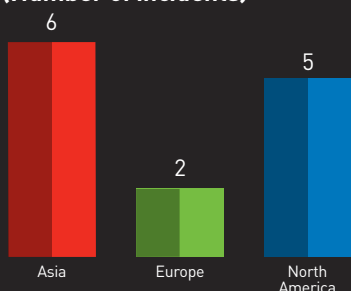
It is imperative that all of our employees are ethical. This is one of our corporate core values and is communicated throughout the organisation. We have also posted the core values throughout our facilities and embedded them into our performance appraisal process as a reminder of the importance of these values throughout our day to day activities. The expectation for integrity is as follows:

- 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

Health and Safety

As an organisation, XP Power seriously considers the suitability of our Health and Safety program. The program 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 Industry Coalition Code of Conduct, 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 that ensure any accidents are reported, acted upon and analysed for management review. The accidents and the severity are periodically reported to the Board of Directors to ensure visibility throughout all levels of the organisation.

HEALTH AND SAFETY (Number of incidents)



Male	Non-Executive Board	Executive	Management	All Other	Total
Asia	–	2	23	437	462
Europe	3	5	11	93	112
North America	–	3	26	95	124
Total Male	3	10	60	625	698

Female	Non-Executive Board	Executive	Management	All Other	Total
Asia	–	–	6	704	710
Europe	1	1	4	31	37
North America	–	1	9	51	61
Total Female	1	2	19	786	808

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 differences.

We believe our diversity benefits all our stakeholders and our Company as a whole. 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.

Modern Slavery Act 2015

The United Kingdom has enacted legislation to address abhorrent abuse of human rights. XP Power does not engage in any slavery or human trafficking activities and is strongly against any offenses of slavery, servitude forced labour and/or human trafficking. XP Power has also adopted a corporate policy which has been communicated to all employees. The policy is as follows:

Modern Slavery Policy

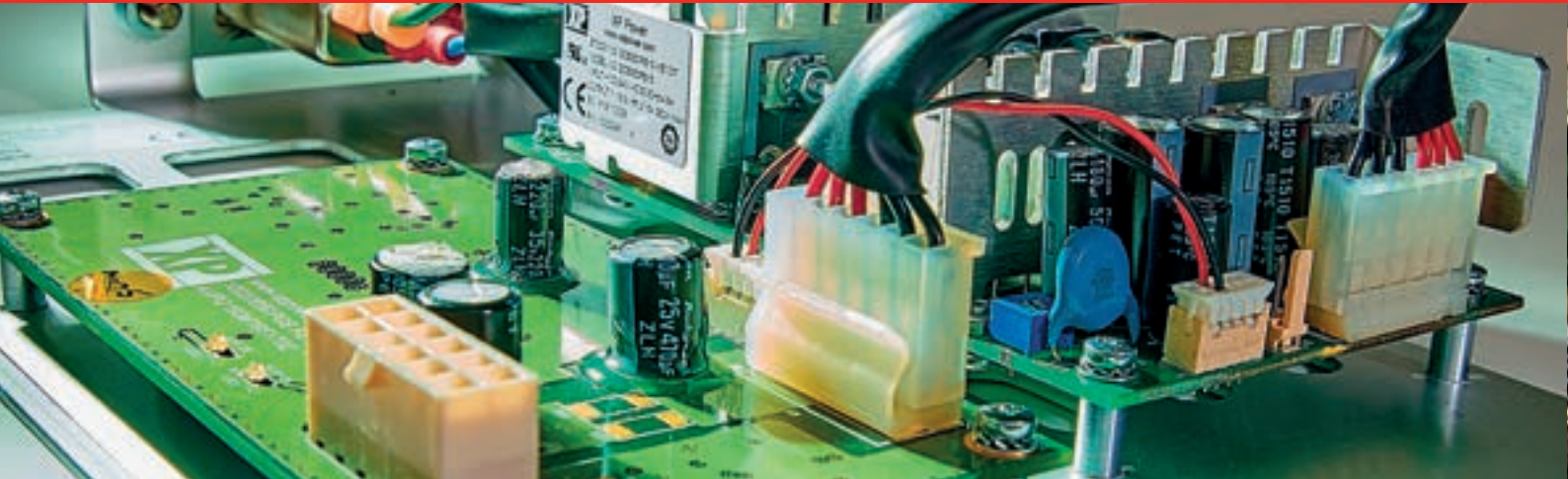
XP Power is committed to a work environment that is free from modern slavery. This is achieved by:

- Communicating that as an organisation we do not engage and are strongly against any offenses of slavery, servitude forced labour and/or human trafficking.
- Performing due diligence on our supply chain. We would immediately disengage with any supplier that does not have the same vision on forced labour as XP Power.
- Complying with all relevant legislation including the Modern Slavery Act 2015.
- Adopting this policy within our Corporate Sustainability and Code of Ethics program.

This policy is supported by all levels of the XP Power organisation. Any abuse of human rights would be acted upon immediately and appropriate action taken.

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. XP Power has a “whistle blowing” policy that has been communicated to the entire organisation and encourages individuals to come forward with any suspicious activity, without fear of repercussion.

OUR SUPPLIERS



Electronic Industry Citizenship Coalition (EICC)

Since 2010, XP Power has been a member of the EICC. We continue to promote the benefits of being a member to all of our stakeholders and encourage active participation from our supplier base. We visit and audit our suppliers to ensure they share the same vision consistent with the EICC Code of Conduct. We would disengage our business relationship with those suppliers that are not committed to continuously work towards compliance to the Code of Conduct.

Supply Chain Ethics

One of the key elements of XP Power's core values is integrity. We work towards ensuring our supply chain partners have the same approach towards ethical business practices as XP Power. This is done by a stringent on-site qualification process of potential new suppliers. It includes an assessment regarding environmental performance, treatment of labour, health and safety and business ethics standards. As the suppliers we engage with are considered long term partners it is imperative that these suppliers have our vision.

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 anytime take or give, bribes or other means of inducement to obtain improper advantage.

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

Supply Chain Due Diligence

As part of our due diligence process within our supply chain, we have updated our qualification process to include an evaluation to ensure our suppliers do not engage or support any slavery, human trafficking, servitude or forced labour. XP Power would immediately disengage with any suppliers that it was determined did not share our same vision.

In 2010 the US Dodd-Frank Wall Street Reform and Consumer Protection Act 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

The supply chain program we have in place has been extremely effective in promoting industry leading sustainable programs with our suppliers. We will continue to expand this program as we determine additional ethical requirements that are in alignment with our core values. The new legislation such as the Modern Slavery Act of 2015 will also be a focus for the coming year to ensure proper due diligence.



OUR COMMUNITIES



Community Policy

This year we implemented a new policy for community service. The organisation allows for paid time off to support local community activities. This shows a level of commitment by the organisation to allow our employees to give back to the local communities in which we operate. This has been a successful program and we have seen lots of enthusiasm for this new policy. Some of the activities that took place in 2016 included:

- In collaboration with the Canal and River Trust Foundation, supporting the upkeep and maintenance of water passageways in the United Kingdom.
- Collection of used clothing and shoes from our employees to provide to local charities or for repurposing. This event took place at our Singapore, United Kingdom and Southern California locations.
- Supporting a Rescue Mission Center by donating time to stock shelves and serve food for those in unfortunate situations. This is the second year in a row supporting this organisation.
- Clean up of local beaches in the United Kingdom area in preparation of Queen Elizabeth II's 90th birthday celebration.

Second Harvest Food Bank

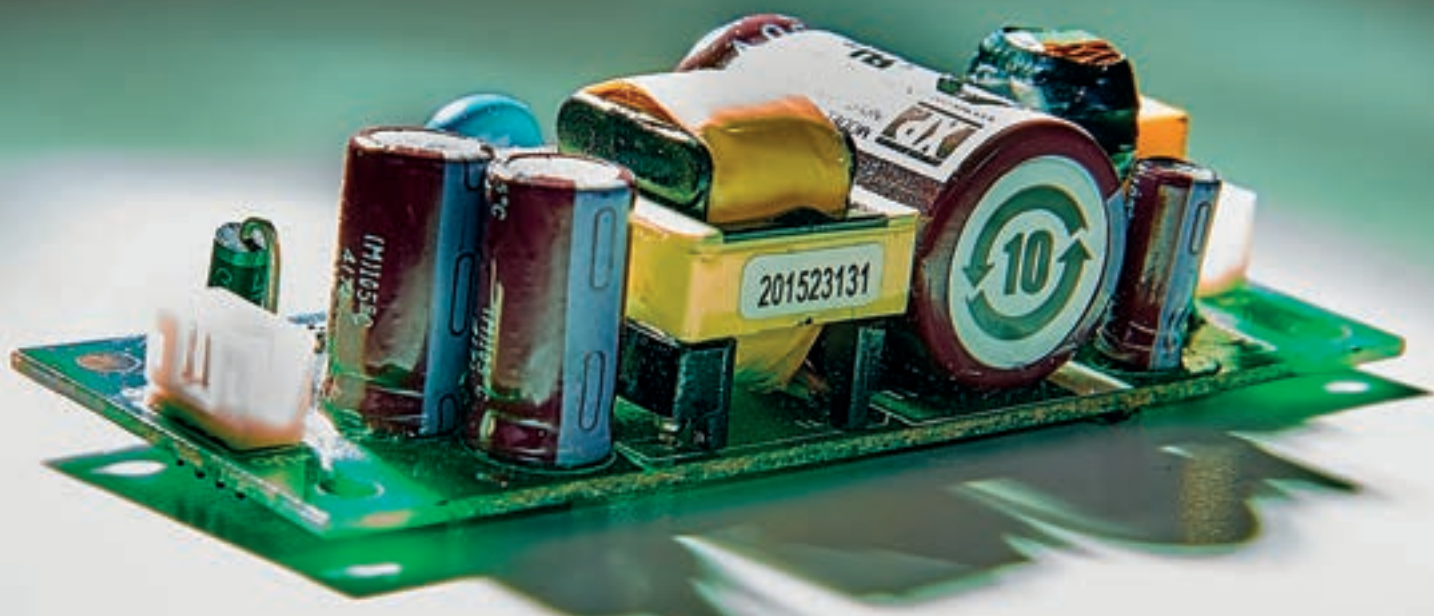
Volunteers from the XP Power Orange County, California office helped pick cabbage from a local farm. There were 3,600 pounds of cabbage collected that will go to help feed 6,000 people.



Our Plans for the Year Ahead

The local representatives that coordinate activities continue to be fully engaged within the community. These include opportunities for volunteering, raising funds to support local charities or providing resources for educational purposes. This is an ongoing agenda item as part of our local environmental teams periodic meetings to see how we can make a difference within the communities in which we operate.

OUR ENVIRONMENT



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 emission per unit of revenue at our Kunshan facility.

Our total Green House Gas emissions for 2016 were 3,581 tonnes of CO₂ compared to 3,361 tonnes in 2015. This increase is lower than our revenue increase, demonstrating some efficiency gains. CO₂ emissions per unit of revenue increased in China and declined in Vietnam as we transferred production from China to Vietnam.

Water

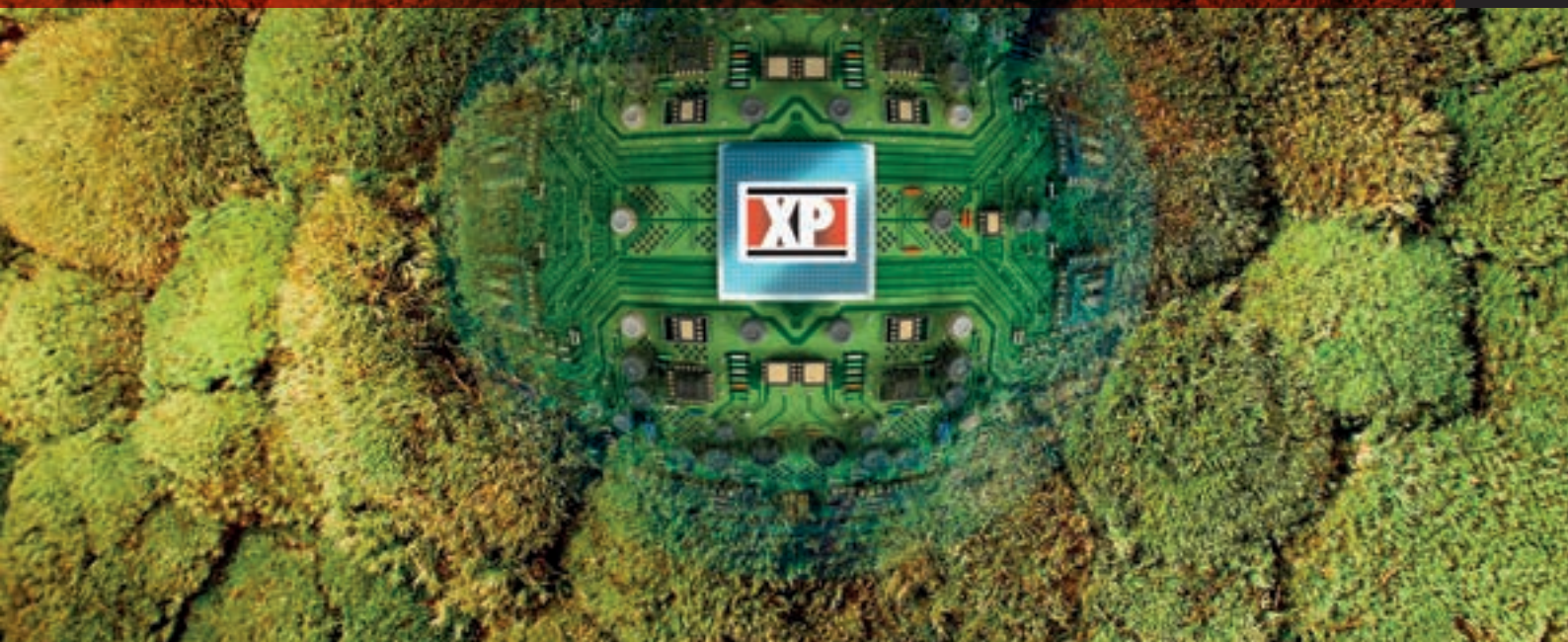
Through our risk assessment process, we have determined that our operations are considered a low-level water user. We do not use water within the manufacturing processes. With that said, we are conscious to ensure we do have consideration of our water usage and look to maximise use of alternative sources of water such as rainwater. 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 practices to maximise the efficient use of water and minimise pollution and waste.
- Regularly review and report on the water use of our facilities and activities.

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

CO ₂ Emissions Data	2016	2015	2014	2013	2012
CO ₂ Emissions (tonnes) – China and Vietnam facility	3,581	3,361	3,068	2,598	2,188
CO ₂ Emissions per unit of factory revenue (kg/\$1,000) – China facility	56	47	46	46	43
CO ₂ Emissions per unit of factory revenue (kg/\$1,000) – Vietnam facility	82	141	110	–	–
Water Data	2016	2015	2014	2013	2012
Average number of employees	1,506	1,448	1,160	1,081	895
Water consumed (thousand litres)	32,582	32,220	25,300	21,200	17,500
Water consumed per employee (thousand litres)	21.6	22.3	21.8	19.6	19.5



Carbon Disclosure Project

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

Harmful Substances

European legislation on the Reduction of Hazardous Substances (RoHS) came into effect in 2005. 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 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 do to make a positive impact on the environment. This will include:

- New products that are classified as "Green XP Power" products
- Enhancements to our facilities
- Various conservation methodologies
- Recycling programs



MANAGING OUR RISKS

Our Risk Assessment

The Group has well-established annual and ongoing risk management processes to identify and assess risks. Nonetheless, renewed emphasis, encouraged by the more recently appointed Non-Executive Directors, coupled with the introduction of internal audit reviews has strengthened these processes. The Group's principal risks have been mapped onto a detailed risk universe from which key areas for business focus can be identified. This helps facilitate further discussions on risk appetite and draws out the risks that require a greater level of attention in terms of audit or assessment. A robust risk assessment has been carried out at Board level and where possible actions set to mitigate and/or reduce the identified risk.



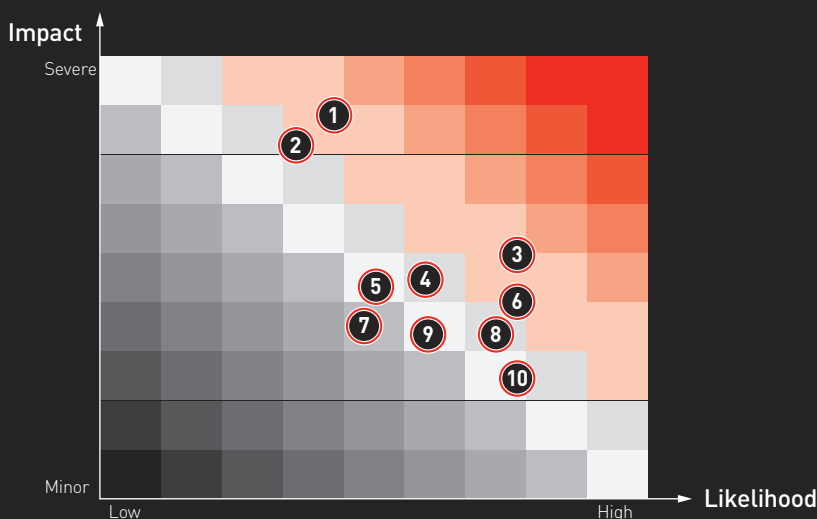
The key risks that have been identified and the mitigating actions are summarised on the following pages classified according to:

- The assessment of their level of impact to the viability of the business if they occurred – ranging from severe to minor;
- The likelihood of a risk occurring – ranging from high to low; 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 to each risk.

This is not an exhaustive list of 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.

Heat map of the identified risks indicating the likelihood and level of impact.



- 1 An event causes a disruption to our manufacturing facilities.
- 2 Product recall.
- 3 Competition from new market entrants and new technologies.
- 4 Fluctuations of revenues, expenses and operating results due to an economic shock.
- 5 Dependence on key suppliers/customers.
- 6 Cyber security/information systems failure.
- 7 Risks relating to regulation, compliance and taxation.
- 8 Strategic risk associated with valuing or integrating new acquisitions.
- 9 Loss of key personnel or failure to attract new personnel.
- 10 Exposure to exchange rate fluctuations.



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

Risk	Mitigation	Assessed Trend
<p>1 An event that causes a disruption to one of our manufacturing facilities</p> <p>An event that results in the temporary or permanent loss of a manufacturing facility would be a serious issue. As the Group manufactures 73% 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.</p>	<ul style="list-style-type: none"> → We now have two facilities (China and Vietnam) where we are able to produce power supplies. However, not all power converter series can be produced in both facilities. → We have disaster recovery plans in place for both facilities. → We have undertaken a risk review with 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. 	Unchanged
<p>2 Product recall</p> <p>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.</p>	<ul style="list-style-type: none"> → We perform 100% functional testing on all own manufactured products and 100% hi-pot testing, which determines the adequacy of electrical insulation, on own manufactured products. This ensures the integrity of the isolation barrier between the mains supply and the end user of the equipment. We also test all the medical products we manufacture to ensure the leakage current is within the medical specifications. → Where we have contracts with customers, we limit our contractual liability regarding recall costs. 	Unchanged

Risks that could have a moderate impact on the Company's business

Risk	Mitigation	Assessed Trend
<p>3 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>	<ul style="list-style-type: none"> → The Group reviews activities of its competition, in particular product releases, and stays up-to-date with new technological advances in our industry, especially those relating to new components and materials. The Group also tries to keep its cost base competitive by operating in low cost geographies where appropriate. → The general direction of our product roadmap is to move away from lower complexity products and to increase our engineering services capabilities. 	More likely

MANAGING OUR RISKS

Risks that could have a moderate impact on the Company's business

Risk	Mitigation	Assessed Trend
<p>4 Fluctuations of revenues, expenses and operating results due to an economic 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>	<ul style="list-style-type: none"> → Although not immune from an economic shock 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. → 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. 	Unchanged
<p>5 Dependence on 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 financial condition and results of operations. However, for the year ended 31 December 2016, no one customer accounted for more than 7% of revenue.</p>	<ul style="list-style-type: none"> → The Group mitigates this risk by providing excellent service. Customer complaints and non-conformances are reviewed monthly by members of the Executive Management team. → As the proportion of our own manufactured products has increased, the reliance on suppliers for third party product has been mitigated proportionally. There has been a shift from a finished goods risk to a raw materials risk. → We conduct regular audits of our key suppliers and in addition keep large amounts of safety inventory of key components. 	Unchanged
<p>6 Cyber security/Information systems failure</p> <p>The Group is reliant on information technology in multiple aspects of the business from communications to data storage. Assets accessible online are potentially vulnerable to theft and customer channels are vulnerable to disruption. Any failure or downtime of these systems or any data theft could have a significant adverse impact on the Group's reputation or on the results of operations.</p>	<ul style="list-style-type: none"> → The Group has a defined Business Impact Assessment which identifies the key information assets; replication of data on different systems or in the Cloud; an established backup process in place as well as a robust anti-malware solution on our networks. → Internally produced training materials are used to educate users regarding good IT security practice and to promote the Group's IT policy. → A cyber assessment carried out by the outsourced internal auditor resulted in recommendations that are being implemented to further mitigate cyber risk and safeguard the Group's assets. 	Unchanged
<p>7 Risks relating to regulation, compliance 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's effective tax rate could therefore fluctuate over time and have an impact on earnings and potentially its share price.</p>	<ul style="list-style-type: none"> → An outsourced internal audit function has been introduced to provide risk assurance in targeted areas of the business and recommendations for improvement. The scope of these reviews includes behavior, culture and ethics. → The Group hires employees with relevant skills and uses external advisers to keep up-to-date with changes in regulations and to remain compliant. → The Group also employs a treasurer, who keeps our taxation position under continual review. 	More likely

Risks that could have a moderate impact on the Company's business

Risk	Mitigation	Assessed Trend
<p>8 Strategic risk associated with valuing or integrating new acquisitions</p> <p>The Group may elect from time to time to make strategic acquisitions. A degree of uncertainty exists in valuation and in particular in evaluating potential synergies. Post-acquisition risks arise in the form of change of control and integration challenges. Any of these could have an effect on the Group's revenues, results of operations and financial condition.</p>	<p>→ Preparation of robust business plans and cash projections with sensitivity analysis and the help of professional advisers if appropriate.</p> <p>→ Post-acquisition reviews are performed to extract 'lessons learned'.</p>	Unchanged
<p>9 Loss of key personnel or failure to attract new 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 key employees could have a material adverse effect on own business.</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>	Unchanged
<p>10 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>	More likely

Viability Statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance 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.

Various options were considered taking into account the Group's identified risks set out on pages 32 to 35, and after consideration the Directors are of the opinion that the Company is viable for at least a period of three years to 31 December 2019. This timeframe is within the Group's strategic financial planning period used to evaluate performance and liquidity and aligns with the design in cycle for which the Group has visibility.

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. Nonetheless, the Directors' obligation is to assess the Company's viability in conjunction with the principal risks that could cause a severe but plausible threat, both in isolation and if more than one risk occurred at the same time. Each risk was modelled in a 'worst case' scenario to help determine the potential effect, primarily to cash flow. Certain subjective assumptions were made to achieve this. It was determined that a temporary or permanent disruption at one of our manufacturing facilities presents the most significant risk which could, in isolation, if mitigating actions are unsuccessful, compromise the viability of the Company.

In determining the viability term, the Board also considered the current net cash position of the Group and its capacity to extend borrowing in relation to the hypothetical and deliberately austere scenarios presented. Furthermore, the scenarios were assessed against the controls in place to prevent or mitigate these risks occurring.

CHAIRMAN'S INTRODUCTION TO GOVERNANCE



THE BOARD REMAINS MINDFUL OF ITS ROLE IN DEALING WITH CHALLENGES AND ISSUES RELATING TO CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY AND ETHICS. THE GROUP'S CULTURE EMANATES FROM THE TOP WHICH IS WHY THE BOARD GIVES CONTINUED PROMINENCE TO THIS AREA.

JAMES PETERS NON-EXECUTIVE CHAIRMAN

In addition to directing the Group's strategy and effectiveness, the Board remains mindful of its role in dealing with challenges and issues relating to corporate governance, corporate social responsibility and ethics. The Group's culture emanates from the top which is why the Board gives continued prominence to this area. The experience and injection of fresh ideas from the newer members of the Board has been instrumental in driving further progress in corporate governance.

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 2016 the Company has made every effort to be in full compliance with the provisions of the Code.

James Peters
Non-Executive Chairman



IN THIS SECTION...

- 38 Directors and Officers
- 40 Corporate Governance Report
- 44 Audit Committee Report
- 48 Remuneration Committee Report
- 49 Remuneration Policy
- 54 Remuneration Report – Annual Report
- 61 Other Governance and Statutory Disclosures
- 62 Statement by Directors

DIRECTORS AND OFFICERS



James Peters
*Non-Executive
Chairman*

58

James has over 35 years' experience in the power converter industry, originally training as an electronics engineer with Marconi Space and Defence Systems, prior to joining TDK-Lambda, a global power converter company. He joined Powerline Electronics shortly after its formation in 1980 and was involved in all aspects of their power business. In November 1988, he founded XP Power. In April 2000, he was appointed European Managing Director and was responsible for the development of the Group's European business. In February 2003, James was appointed as Deputy Chairman and having moved to a non-executive role in May 2012 became Non-Executive Chairman on 30 June 2014.

James is Chairman of the Nomination Committee.



Duncan Penny
Chief Executive

54

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 8 years working for LSI Logic Corporation where he held senior financial positions in both Europe and Silicon Valley. From 1985 to 1990, Duncan spent 5 years at Coopers & Lybrand in general practice and corporate finance.

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



Mike Laver
*President,
World Wide Sales
and Marketing*

54

Mike has 28 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

45

Jonathan joined the finance team of XP Power in July 2008 as European Controller. Prior to joining the Group, Jonathan spent 9 years with JCDecaux in various senior financial positions including Head of Financial Reporting and worked in both its UK and North American operations. Prior to that, he spent 3 years with Mills & Allen.

Jonathan was appointed Finance Director in December 2011.



Andy Sng
Executive Vice
President, Asia

46

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

Prior to joining XP Power, Andy has worked in the power supply industry for 8 years in various technical and commercial roles with companies such as Silicon Systems (Singapore) and Advanced Micro Devices (Singapore).



Terry Twigger
Senior Non-
Executive Director

67

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

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

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



Peter Bucher
Non-Executive
Director

73

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

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



Polly Williams
Non-Executive
Director

51

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 Ltd. 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 and Nomination 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 benefits 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 processes defined below which evaluate effectiveness of the Board and of the individual Directors.



A.4 Non-Executive Directors

Main Principle:

As part of their role as members of a unitary board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.

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

During the year the Non-Executive Directors convened to assess:

- The refinements to the long term strategy of the Group that the Executive Management team had proposed; and
- Succession planning for the Executive Directors and senior management team.

Going forward there will be more frequent interaction and presentations from the senior management team to the Non-Executive Directors in order to further challenge and develop the next layer and generation of management.

Terry Twigger is the Senior Independent Non-Executive Director.

Effectiveness

B.1 The Composition of the Board

Main Principle:

The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

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

The Board considers 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

Polly Williams was appointed to the Nomination Committee during the year following John Dyson's decision not to stand for re-election at the last Annual General Meeting. The majority of the Nomination Committee is now independent comprising James Peters (Chair), Terry Twigger and Polly Williams (appointed 21 July 2016). 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 on 21 July 2016. All Committee members were present.

The Terms of Reference of the Nomination Committee are available in the Corporate Governance section of the Company's website 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 five Board Meetings during the year attended by all Board members. These meetings took place on:

19 February 2016
8 April 2016
21 July 2016
6 October 2016
13 December 2016

B.4 Development

Main Principle:

All Directors should receive induction on joining the Board and should regularly update and refresh their knowledge and skills.

Directors receive an induction on joining the Board. Non-Executive Directors are exposed to senior managers below Board level.

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.

During the year, the Directors received presentations from the three regional Vice-Presidents of Sales; North America, Europe and Asia and from the Head of Product Development. As well as providing the latest business overview, these presentations focussed on the challenges and opportunities over the next three years in these key areas.



CORPORATE GOVERNANCE REPORT

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 prepared 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 also received specific presentations and information from management during the year covering areas such as cyber security, internal audit and risk assurance reviews, the results of an external audit by the Electronics Industry Citizenship Coalition, the Executive Management’s three-year strategic review, and actions arising from an employee survey.

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’s evaluation of its own performance and that of its Committees is conducted annually using a Board effectiveness questionnaire.

The questionnaire was revamped and updated during the year with the help of an independent external consultant.

The Board approved the questionnaire to ensure that it covered all aspects of effectiveness; capabilities and communication, culture and practice, process and organisation and meeting rigour and relationships. With respect to continually improving Board effectiveness; the questionnaire also asked Directors to comment on what it should stop doing, start doing and continue doing.

The independent consultant circulated the questionnaire to each Board Director collating each response into an anonymous report for the Board to consider and discuss at a Board meeting.

There were no significant issues of concern raised in the report.

B.7 Re-election

Main Principle:

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

All Directors voluntarily offer themselves for re-election annually. This is in spite of the Company’s Articles of Association which require Directors to retire and offer themselves for re-election on a rotation basis and at least every three years.

Accountability

C.1 Financial and Business Reporting

Main Principle:

The Board should present a balanced and understandable assessment of the Company’s position and prospects.

The Board considers that both the Interim Report and Annual Report and Accounts, supported by quarterly trading updates which are timetabled at the beginning of each year, comprehensively fulfil this requirement. The Annual Report includes a detailed description of the Group’s strategy and business model which has enabled it to generate significant value over a prolonged period of time. 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 35.

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 on-going process for identifying, evaluating and managing the significant risks faced by the Group was in place during the entire financial year and has remained in place up to the approval date of the Annual Report and Financial Statements. The identified risks and the processes by which these are addressed are documented, reviewed and updated at Board meetings. The 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 32 to 35.

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, electrical testing to detect early failures, 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.



- The Audit Committee reviews the effectiveness of internal controls.
- Internal audit function has been set up.

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 Audit Committee report on pages 44 to 47 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.

The Remuneration Committee report on pages 48 to 60 sets out in detail the Group's approach to remuneration.

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.

The Remuneration Committee Report on pages 48 to 60 sets out in detail the Group's policy on remuneration and the remuneration packages for the Board. No Director participates in the deciding of their own remuneration. Polly Williams 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 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 xppower.com to give private investors access to the same information that institutional investors receive in terms of investor presentations. This includes video interviews with the Chief Executive and Finance Director available on the morning of the day 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 Chairman and Senior Independent Director are available to meet Shareholders if required.

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 Shareholders' opinion.



E.2 Constructive Use of the Annual General Meeting

Main Principle:

The Board should use the Annual General Meeting to communicate with investors and to encourage their participation.

The Annual General Meeting is an opportunity to communicate with Shareholders and certain Directors are available to answer any questions.

AUDIT COMMITTEE REPORT



THE AUDIT COMMITTEE IS SATISFIED THAT THE COMPANY HAS MAINTAINED SOUND RISK MANAGEMENT AND INTERNAL CONTROLS THROUGHOUT THE YEAR.

TERRY TWIGGER AUDIT COMMITTEE CHAIR

As Chairman of the XP Power Audit Committee, I am pleased to present the 2016 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 is satisfied that the Company has maintained sound risk management and internal controls throughout the year, and that the internal audit programme is appropriately formulated and sufficiently resourced to confirm that these controls are effective.

The Audit Committee has made good progress during the year to increase the Group's emphasis on risk management and to enhance the control environment. An independent internal audit function has been introduced to provide greater operational assurance. Areas reviewed included procurement, business continuity, cyber risk and contractual obligations. Risk assurance and ensuring robust controls are in place will be an on-going theme for the Committee to support the Board in the stewardship of good governance.

The report aims to provide the following information:

- The Audit Committee's principal responsibilities and its governance.
- The key activities which were reviewed by the Audit Committee, including those items of regular annual review and other current areas of focus.
- The discussions 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 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.

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;
- Advising the Board on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable;
- 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 xppower.com.





Members of the Audit Committee

Terry Twigger (Chair), Independent Non-Executive Director

Peter Bucher, Independent Non-Executive Director

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

John Dyson is no longer a member of the Committee following his decision not to stand for re-election at the last Annual General Meeting.

Governance

The current Audit Committee members are all independent Non-Executive Directors and have financial and/or related business experience gained in senior positions in other diverse organisations. Terry Twigger has been the Audit Committee Chair since 2015 and the Board is satisfied that Terry has recent and relevant financial experience.

Performance Evaluation of the Audit Committee

During the year, the Audit Committee reviewed its performance as part of the Board's updated evaluation process. The Committee considered it had adequate qualifications and skills to perform its responsibilities, particularly through Terry Twigger's financial and management background and Polly Williams' financial and audit experience.

Meetings of the Audit Committee

The Audit Committee met three times during 2016 on 18 February 2016, 21 July 2016 and 20 October 2016. Peter Bucher was the only Committee member not to attend the July and October meetings due to prior commitments.

The external auditor, PricewaterhouseCoopers LLP, the Finance Director and Group Financial Controller were involved at each of the meetings. The Committee also discussed matters with the external auditor without the Group's management being present.

During the year the members of the Committee also met with the newly appointed internal auditor, Deloitte LLP, and received a presentation from the Group's Tax and Treasury Manager.

The Audit Committee supports the Board and reports 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.

Activities of the Audit Committee

- Examined the 31 December 2015 Annual Report and the 30 June 2016 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. Particular consideration was given to assessing whether the reports, taken as a whole, were fair, balanced and understandable prior to recommending these to the Board for approval.
- Reviewed the responsibilities of the Directors particularly in relation to the new market abuse regulations and the EU regulations on non-audit fees.
- Reviewed in detail the key judgements of the Financial Statements and levels of disclosure. Some of these are described in the 'Significant risks and judgements in the financial reporting' below.
- Provided guidance to the newly appointed outsourced internal audit function in developing a risk framework to target areas for reviews.

AUDIT COMMITTEE REPORT



- Reviewed the work scopes of the risk assurance reviews carried out by the internal audit function.
- Reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Financial Statements.
- Reviewed the findings of the internal audit work conducted during the year.
- Reviewed analysis and evaluation reports produced by management in relation to the Group's viability statement.
- Reviewed the results of the finance functions' peer to peer balance sheet reviews.
- Reviewed the Group's tax and treasury functions.
- Considered the accounting principles to be adopted and the preparation of the 2016 accounts.

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

Significant Risks and Judgements in the Financial Reporting

In relation to the 31 December 2016 Annual Financial Statements included in this report on pages 69 to 106, the Audit Committee considered the following topics:

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 ascertains that appropriate sensitivity analysis is conducted by the external auditor on the Company's impairment calculations. For the most recent business combination a post-acquisition review document was examined to help assess the accuracy of previous growth forecasts. 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 assesses the revenue streams of the capitalised products against their carrying value. The Committee also reviews a projection of the estimated future carrying values. The Committee were 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. The Committee received a presentation of the Group's tax and treasury arrangements during the year in which the unremitted earnings were assessed in detail. The Committee determined that there is no specific requirement to move earnings currently held in subsidiaries.

Inventory

The carrying value level of the Group's inventory is substantial and remains an area of focus for the Committee. The high product mix is a recognised factor in the level of inventory as is the effect of certain service level agreements with customers. Exposure to the risk of obsolescence of finished goods inventory is an area of ongoing review. The Company's peer to peer balance sheet reviews, which are reviewed by the Committee, includes testing of the provision. The Committee were satisfied with the provision.

Business Combination

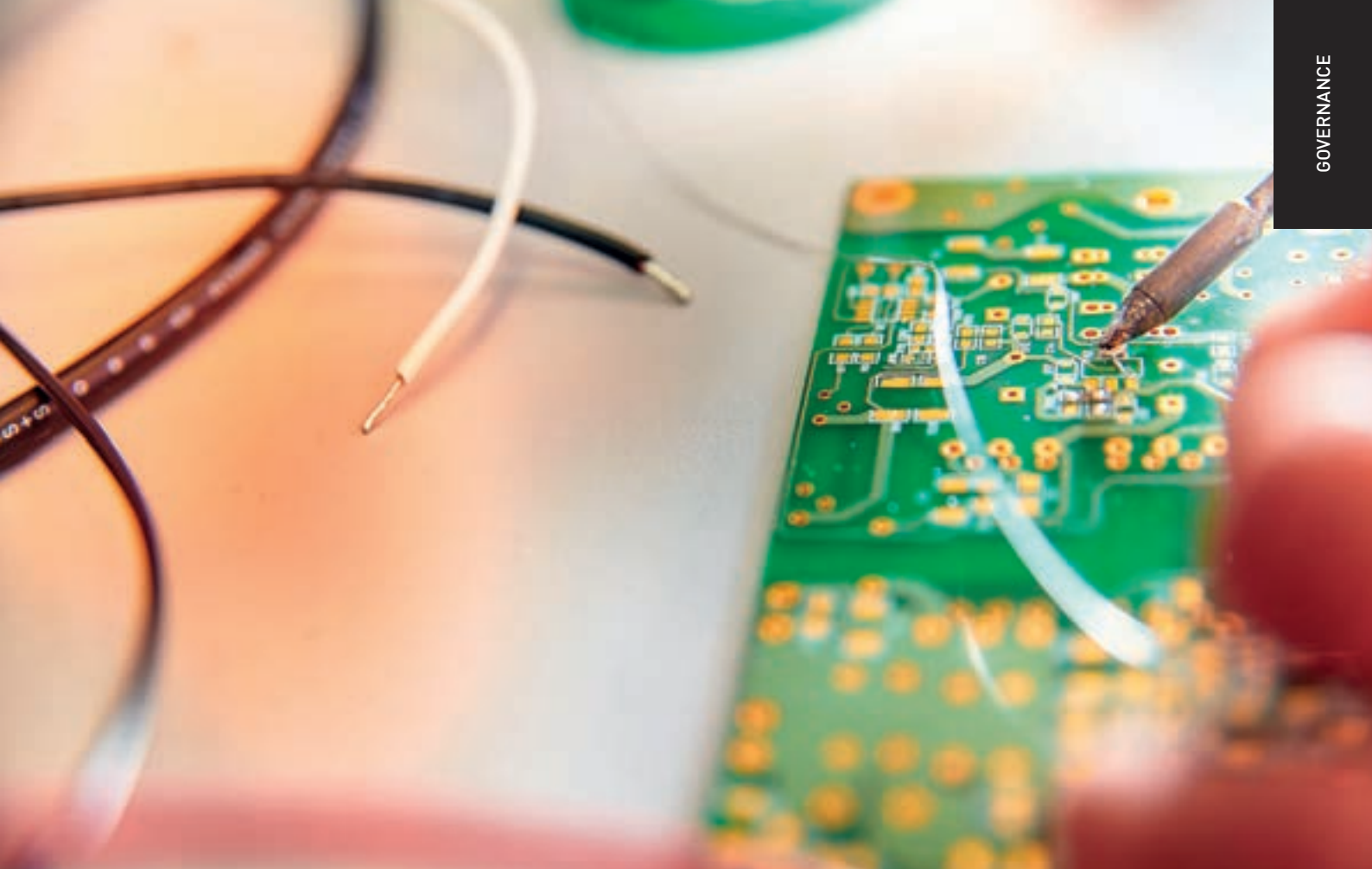
Following the acquisition of the assets and business of EMCO High Voltage Corporation (EMCO) on 24 November 2015, the Company has completed its assessment of identifying and valuing the intangible assets; a process that includes significant judgment. The final valuation was greater than the provisional values applied in the 2015 financial statements. The Committee verified that the external auditor had independently assessed the Company's calculations and were satisfied with the values attributed to the intangible assets.

Internal Control

The Board is ultimately responsible for the Group's system of internal controls and the on-going assessment of these, further details of which are included in C.2 Risk Management and Internal Control of the Corporate Governance section on page 42.

Internal Audit

As a result of the Group's increasing scale and complexity, the Board approved the introduction of an independent internal audit during the year. After reviewing management's selection process feedback, the Committee agreed with the appointment of Deloitte LLP. A risk framework has been established, in conjunction with the Board's on-going processes for monitoring risks, from which key areas for business focus can be identified. From this, an audit plan has been developed to carry out risk assurance work. Areas covered during 2016 included a cyber security review, assurance over procurement and business continuity and a review of contractual obligations. Themes such as behaviour, ethics and culture were incorporated into the reviews. Findings and control observations from these reviews are rated and presented to the Committee for comment or further action.



A number of recommendations were made by the internal auditors relating to cyber security and supply chain management which are in the process of being addressed.

The Group's Financial Controllers continue to 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 and maintains that this review process provides a secondary level of comfort over the financial controls.

External Audit

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 at the latest. The Committee has reported to the Board that the re-appointment of PricewaterhouseCoopers LLP should be proposed at the forthcoming Annual General Meeting.

The Audit Committee keeps under review the role and independence of the external auditor. A formal statement of independence is received each year together with a report on the safeguards that are in place to maintain their independence and the internal measures to ensure their objectivity. The Committee is satisfied that this independence has been maintained.

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 £50,000, subject to compliance with the EU member state restrictions, 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.

During the year, £25,000 (2015: nil) was paid to the auditor in non-audit fees for UK GAAP conversion.

REMUNERATION COMMITTEE REPORT



THE COMMITTEE HAS MADE FURTHER PROGRESS ON ENHANCING THE ARRANGEMENTS FOR THE LONG TERM INCENTIVE PLAN IN ORDER TO CONTINUE TO INCENTIVISE AND RETAIN KEY MANAGEMENT PERSONNEL.

POLLY WILLIAMS REMUNERATION COMMITTEE CHAIR

As Chair of the XP Power Remuneration Committee, I am pleased to present the 2016 Remuneration Committee Report on behalf of the Board.

It was pleasing to observe that the changes proposed in the 2016 remuneration policy secured strong Shareholder support at the 2016 AGM.

During the year, the Committee has made further progress on enhancing the arrangements for the Director's long term incentive plan in order to continue to incentivise and retain key management personnel and Executive Directors whilst aligning rewards with the long term nature of the Group's design in cycles and revenue annuities. An independent benchmarking study was carried out by remuneration consultants to assist the Committee with this.

As a result, and following further consideration by the Committee, the remuneration policy has been updated not only to add clarity and provide greater detail in all areas within the policy but, more notably, to include a proposal at the 2017 Annual General Meeting for a Long Term Incentive Plan (LTIP) to replace the existing Share Option Plan which are now less commonly used by public companies. The Committee believes that the new plan will enable the Company to put in place more effective and efficient long term incentives to support the objectives of the Company. If approved, these LTIP awards would be in the form of conditional share awards, nil or nominal cost options or deferred cash and would be structured to be suitable in overseas jurisdictions. Further details are in the Remuneration Policy on pages 49 to 53.

In conjunction with the work on the LTIP proposal, the Committee also sanctioned the revision of certain legal aspects within the existing Share Option Plan to comply with latest legislation and the Singapore domicile of the Company.

We seek your support for the amended policy and annual report on remuneration and the Committee welcomes 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 2016. 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 2017 Annual General Meeting and the policy will take effect from the date on which the resolution is passed. The policy report is not subject to audit.

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 2017 Annual General Meeting. The auditors have reviewed certain parts of the Directors' Remuneration Report and are required to report if the information is materially inconsistent with the financial statements.



REMUNERATION POLICY

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 perform at their best consistently (bonus/long term incentive plan);
- To align Shareholder and senior management's interests (bonus in shares, long term incentive plan and shareholding guidelines); and
- To retain key staff (long-term structures with delayed vesting)

The Remuneration Committee will be requesting Shareholders' approval of the following Remuneration Policy at the AGM on 19 April 2017 to cover a period of three years. The policy shall apply from the date approval is obtained.



The following table provides a summary of the key components of the remuneration package for:

Executive Directors

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Base salary	To help recruit, retain and motivate high performing Executives. Reflects the individual experience, role and importance of the Executive Director to the business.	Base salaries are set by the Remuneration Committee and reviewed annually and increases are effective from 1 January, although increases may be awarded at other times if the Remuneration Committee considers it appropriate. A market benchmarking exercise will be undertaken periodically as determined by the Remuneration Committee to ensure that base salary remains around the median of the market level for roles of a similar nature and to reflect the individual's skills, experience, and performance.	Base salaries are reviewed annually. Increases will not normally exceed the range of increases awarded to other employees within the group. The Remuneration Committee may also increase a Director's salary should there be a change in the scope of their role, the scale or complexity of the business or significant changes to market practice arise, which the Remuneration Committee believes justifies a further increase in base salary.	n/a	n/a
Benefits	To help recruit, retain and motivate high performing Executives. To provide market competitive benefits.	Benefits are set by the Remuneration Committee and reviewed annually. Benefits currently received by the Directors include: <ul style="list-style-type: none"> ● Paid holidays ● Life insurance ● Private medical cover ● Housing allowance 	The Company provides a range of market benchmarked benefits. The costs of these benefits may change year-on-year due to external costs. The Remuneration Committee has flexibility to provide benefits which would typically have been available to an Executive Director in an overseas jurisdiction when recruiting from outside of the UK.	n/a	n/a

REMUNERATION POLICY

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Annual bonuses	Align interests of Executive Directors and Shareholders in the short and medium term.	The annual bonus scheme participation levels (including maximum opportunities) are determined by the Remuneration Committee following the end of the year end, based on performance achieved against the performance metrics set. Awards are split equally between (i) cash and (ii) shares vesting over two years, subject to continued employment.	Up to 100% of base salary.	Specific targets and weightings may vary according to strategic priorities and may include: <ul style="list-style-type: none"> Financial performance Attainment of personal objectives Weighting will focus on Group financial performance.	The Remuneration Committee has the power to reduce unpaid annual bonuses and claw back bonuses already paid on a net basis in circumstances of 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 plan (LTIP)	Align the interests of Executive Directors and Shareholders in the long-term. Incentivises long-term value creation.	The XP Power Long Term Incentive Plan will be proposed to Shareholders at the 2017 Annual General Meeting will replace the Company's current share option scheme for future awards to Executive Directors. LTIP awards may be made in the form of conditional share awards, nil or nominal cost options or deferred cash. The LTIP will also provide for awards to be structured as stock appreciation or phantom rights, which may be suitable for awards granted in overseas jurisdictions. Performance will typically be measured over three financial years starting with the year or date of grant, or any longer period as the Remuneration Committee may decide. 50% of a vested award will be distributed at that time, with the remaining 50% distributed after a period of one year. Amounts equivalent to any dividends or Shareholder distributions made in respect of awards at vesting, in the discretion of the Remuneration Committee.	The maximum award level under the LTIP is 100% of base salary or such higher amount at the Committee in its absolute discretion may determine, up to a maximum of 200% of base salary.	It is the Committee's intention to set relative TSR targets for 50% of the award and absolute EPS growth targets for the other 50% although the Committee will set appropriate performance conditions and weightings each year prior to awards being made.	The Remuneration Committee has the discretion to claw back some or all of awards granted under the LTIP by reducing unvested awards or requiring the return of the net value of vested awards to the Company in circumstances of material financial misstatement, a major environmental event, a breach of the Company's code of ethics or a serious health and safety issue.

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Share option plan	Align the interests of Executive Directors and Shareholders in the long-term. Incentivises long-term value creation.	Prior to the proposed adoption of the XP Power Long Term Incentive Plan, market value share options were granted with 50% options vesting after three years from date of grant and 50% options vesting after four years.	No further options are intended to be granted to Executive Directors following approval of the LTIP.	Vesting of outstanding options is based on total Shareholder return relative to the FTSE350 Electronic and Electrical Equipment Sector. Top 20th percentile: 100% vest. Between median and top 20th percentile: vest on a straight line basis between 25% and 100%. Below median: zero vests.	The Remuneration Committee has discretion to claw back unvested options or require the return of the net value of vested options in circumstances of material financial misstatement, a major environmental event or 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.	n/a	There are no provisions for recovery of pension payments contributions.
Shareholding (minimum)	Align the interests of Executive Directors and Shareholders in the long-term.	To build a minimum shareholding equivalent to two years' salary. Directors have a period of five years from 1 April 2016 (the date of approval) to achieve this. Restricted shares awarded under the annual bonus plan can be included in this measure.	n/a	n/a	n/a

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

Use of Discretion

The Company's incentive plans including the annual bonus scheme, share option scheme and LTIP will be operated within the rules of the relevant scheme, together with all applicable laws and regulations. The Remuneration Committee may operate the discretion contained in the relevant plan in order to facilitate its administration and operation. Discretion includes (but is not limited to) who is invited to participate or receive awards, the size and timing of awards or payments, the setting of appropriate performance measures and targets for annual bonuses and incentive schemes from year-to-year and any adjustment of those to take account of market conditions, the annual review of performance against targets for the determination of bonuses and awards, the determination of vesting and performance periods and the treatment of leavers, and discretion when dealing with adjustments in respect of corporate events (such as changes in control, rights issues, de-mergers etc.).

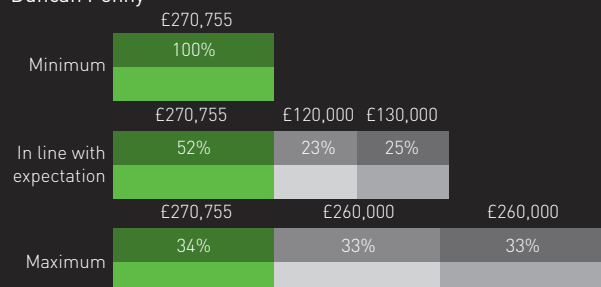
Non-Executive Directors

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Fees	Fees are set at a level which is sufficient to attract, motivate and retain quality Non-Executive Directors.	Fees are reviewed periodically. The Board (excluding the Non-Executive Directors) are responsible for setting Non-Executive Directors' fees. Non-Executive Directors are not entitled to participate in the Group's incentive plans.	Currently up to £300,000 for all Non-Executive Directors.	n/a	n/a

REMUNERATION POLICY

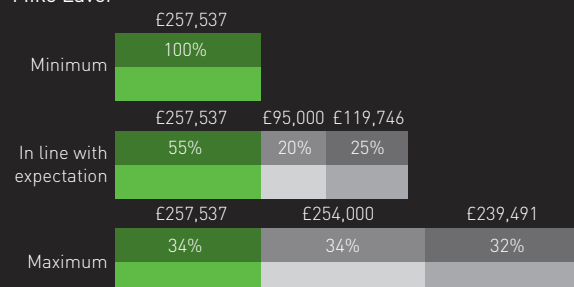
Chief Executive Officer

Duncan Penny



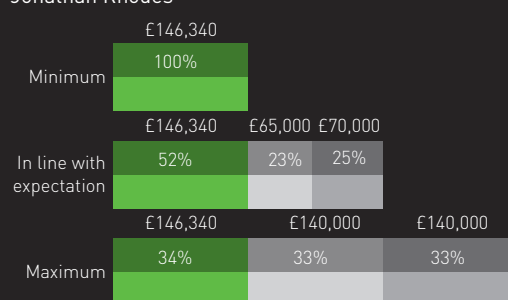
President – Worldwide Sales and Marketing

Mike Laver



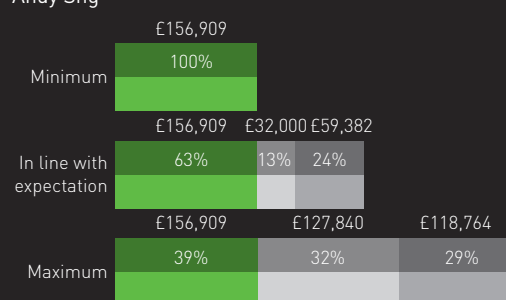
Finance Director

Jonathan Rhodes



Executive Vice President – Asia

Andy Sng



■ Fixed (£) ■ Annual variable (£) ■ LTIP

Approach to Executive Recruitment

In the event of the recruitment of a new Executive Director the Committee will 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 for annual bonus and LTIP would also be capped as it is for existing Executive Directors.

In addition, the Committee will have discretion to make payments or awards to buy out incentive arrangements forfeited on leaving a previous employer, i.e. over and above the approach outlined in the table above and may exercise the discretion available under Listing Rule 9.4.2R if necessary to do so. In doing so, the Committee will seek, to the best possible extent, to do no more than match the fair value of the awards forfeited, taking account of the applicable performance conditions, the likelihood of those conditions being met and the proportion of the applicable vesting period remaining.

Where an Executive Director appointment is an internal candidate, the Committee will honour any pre-existing remuneration obligations or outstanding variable pay arrangements that relate to the individual's previous role.

The Committee retains the discretion to offer appropriate remuneration outside the standard policy where an interim appointment is made to fill an Executive role on a short term basis or where exceptional circumstances require that the Chairman or a Non-Executive Director takes on an Executive function.

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 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 option awards, long term incentive plans or pensions.

Shareholder Consultation

The Committee's policy is to consult with major Shareholders in respect of significant decisions on Executive remuneration. The Company has consulted with Shareholders representing 57% of its register in respect of the new LTIP.

Statement of Consideration of Employment Conditions Elsewhere in the Company

Pay and conditions throughout the Group are taken into consideration when setting remuneration policy. The Committee does not consult other employees when setting Executive Directors' remuneration.

Illustration of the Application of the Remuneration Policy

The charts above give an indication of the level of remuneration that would be received by each Executive Director in accordance with the Directors' remuneration policy (excluding share price appreciation).

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

The "In line with expectation" scenario has been calculated based on the 2017 approved budget and threshold vesting of normal LTIP awards under the new plan.

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 and maximum vesting of normal LTIP awards under the new plan. In order for all Directors to achieve the maximum bonus, profit before tax would have to reach £36 million in 2017.

The fixed element of remuneration includes base salary, benefits-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	£2,955	£7,800	£270,755
Finance Director	Jonathan Rhodes	£140,000	£2,178	£4,200	£146,378
President Worldwide Sales and Marketing	Mike Laver	US\$330,000	US\$16,916	US\$7,950	US\$354,866
Executive Vice President, Asia	Andy Sng	S\$225,000	S\$55,710	S\$17,167	S\$297,877

The Company provides share options as a long term incentive to Executive Directors, some of which have not vested 100%. The share options granted in February 2016 vest 50% after three years and 50% after four years. It is not possible to predict the value of these awards as it is dependent on the share price at the time the options vest and is also contingent on meeting the performance criteria of total Shareholder return versus the FTSE350 Electronic and Electrical Equipment Sector. The table below shows the number of unvested share options and their maximum potential value after fully vesting assuming the share price was £17.36 which was the closing price on 31 December 2016:

	No. of unvested share options	Total Shareholder return above the 20th percentile
Duncan Penny	50,000	£96,750
Mike Laver	25,000	£48,375
Jonathan Rhodes	20,000	£38,700
Andy Sng	10,000	£19,350

REMUNERATION REPORT – ANNUAL REPORT

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

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

Peter Bucher, Independent Non-Executive Director

Terry Twigger, Independent Non-Executive Director

John Dyson is no longer a member of the Committee following his decision not to stand for re-election at the last Annual General Meeting.

Meetings of the Remuneration Committee

The Remuneration Committee met three times during 2016. All Committee members attended the meetings which took place on 18 February 2016, 31 October 2016 and 25 November 2016.

Performance Evaluation of the Remuneration Committee

During the year, the Remuneration Committee reviewed its performance as part of the Board's updated evaluation process. The Committee considered it had adequate 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;
- Pension arrangements;
- Annual bonus; and
- Long term share incentives.

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 an annual bonus 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 or her 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 and were not changed, and do not reflect the outcome of the benchmarking exercise that was conducted during the year.

Executive	Base salary	Date of last review	Effective date of last increase
Mike Laver	US\$330,000	25 November 2016	1 January 2012
Duncan Penny	£260,000	25 November 2016	1 January 2012
Jonathan Rhodes	£140,000	25 November 2016	1 July 2014
Andy Sng	S\$225,000	25 November 2016	1 January 2008

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

Benefits-in-kind

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

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 participants' contribution to this plan, including Executive Directors, up to 3% of salary and bonus.

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. Malus and clawback provisions are in place with respect to the Directors' bonus arrangements since approval at the AGM on 1 April 2016.

An amount of £192,149 (19% of Executive Directors' total remuneration) will be awarded in bonuses to the Directors in respect of 2016. In line with the remuneration policy, 50% will be paid out and the remaining 50% will be awarded in shares vesting over two years from 31 December 2016. For Duncan Penny and Jonathan Rhodes the bonus relates to achieving growth of 11% in the Group's adjusted profit before tax over 2015 while for Mike Laver, the bonus relates to achieving growth in the Group's gross margin of 13% over 2015. Andy Sng's bonus relates to the growth in the gross margin of the business in Asia only.

For the Chief Executive, Finance Director and President North America bonuses for 2016 are based on adjusted profit before tax. For the General Manager, Asia, bonus is based on growth in the gross margin of the business in Asia.

Long Term Share Incentives

Long Term Incentive Plan

The Group is proposing a Long Term Incentive Plan (LTIP) to Shareholders at the 2017 Annual General Meeting which will replace the Company's current Share Option Plan for future awards to Executive Directors.

LTIP awards may be made in the form of conditional share awards, nil or nominal cost options or deferred cash. The LTIP will also provide for awards to be structured as stock appreciation or phantom rights, which may be suitable for awards granted in overseas jurisdictions.

Subject to receiving approval for the new LTIP at the 2017 AGM, the Company intends to make LTIP awards up to 100% base salary to the Executive Directors shortly following the Annual General Meeting with 50% subject to relative TSR targets and 50% subject to EPS growth targets.

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.

On 23 February 2016, 418,000 share options were awarded under this Plan. Vesting of these share options are subject to the term and performance criteria shown in the remuneration policy on page 51.

Following approval of the LTIP, no further options are intended to be granted to Executive Directors under this Plan.

On 10 October 2016, the four year vesting term was reached for 345,000 market value options awarded under the 2012 Plan. The performance conditions associated with the vesting of these options were to measure the Total Shareholder Return (TSR) of XP Power versus that of the FTSE350 Electronic and Electrical Equipment Manufacturer's index.

The vesting criteria for TSR performance versus the FTSE350 Electronic and Electrical Equipment Manufacturer's index were as follows:

TSR Performance	Vesting
Top 20th percentile	100% vesting
Median	25% vesting
Below the median	No vesting

XP Power achieved 113.6% TSR over the performance period. The median Total Shareholder Return (TSR) of the companies in the FTSE 350 Electronic and Electrical Equipment Manufacturer's index from 12 October 2012 to 12 October 2016 were as follows: 71.2% with 20 percentile at 127.9%. The Committee applied a straight line from the 20 percentile to the median and on that basis determined that 81% of the award should vest.

At 31 December 2016, the total number of unvested share options in this scheme was 395,000. Their potential value assuming 100% of the awards vest using the closing share price of £17.36 on 31 December 2016 was £764,325.

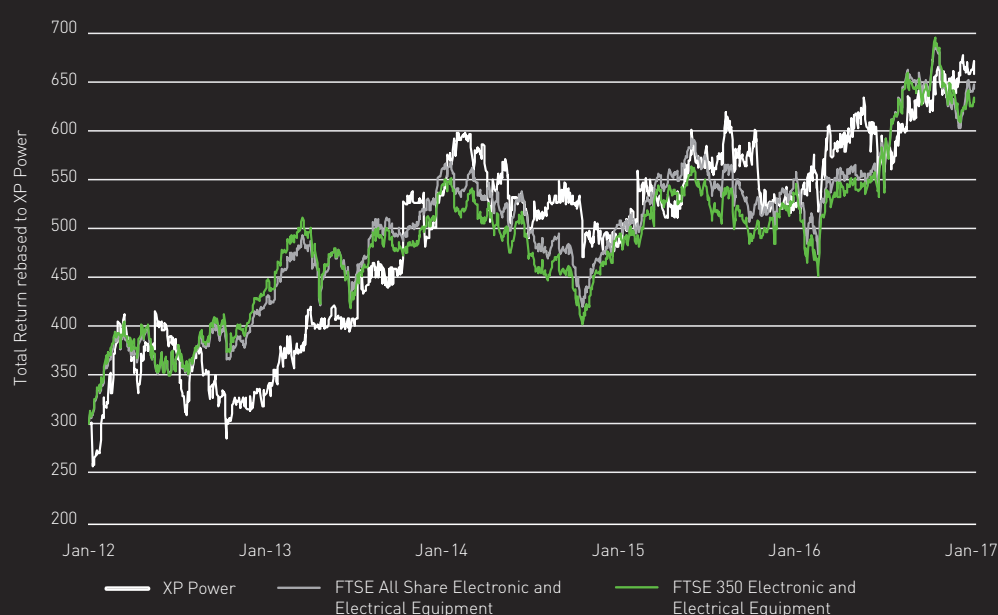
REMUNERATION REPORT – ANNUAL REPORT

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.

Performance Graph

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



The compound average growth rate total shareholder return from 1 January 2012 until 31 December 2016 was 17%.

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
2012	254	8	8	4	–	274
2013	260	8	–	3	–	271
2014	260	8	–	3	–	271
2015	260	8	–	3	39	310
2016	260	8	–	3	71	342

Relocation expenses relate to Duncan Penny's relocation from the UK to Singapore in 2012.

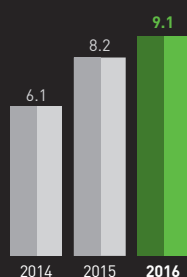
The table below shows the percentage change in remuneration of the Director undertaking the role of Chief Executive Officer and the Company's employees as a whole in 2016.

Percentage increase in remuneration in 2016 compared with 2015	CEO	Chosen employee group <small>Note 1</small>
Base salary	0%	3%
All taxable benefits	0%	3%
Annual bonus	82%	2%
Total	10%	3%

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

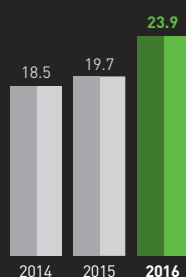
Total pay for manufacturing
(£ millions)

11%



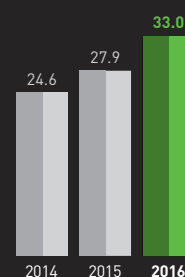
Total pay for sales, administration and R&D
(£ millions)

21%



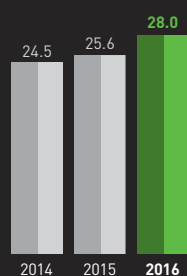
Total employee pay
(£ millions)

18%



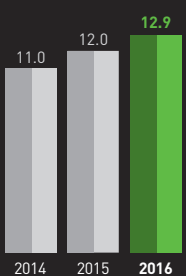
Operating income
(£ millions)

9%



Dividends
(£ millions)

8%



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	25 November 2016	25 July 2014
Peter Bucher	£40,000	25 November 2016	1 January 2015
Terry Twigger	£45,000	25 November 2016	1 March 2016
Polly Williams	£40,000	25 November 2016	1 January 2016

James Peters is the Chairman of the board. Terry Twigger is the Senior Independent Non-Executive Director.

REMUNERATION REPORT – ANNUAL REPORT

Aggregate Directors' Remuneration

The total amounts for Directors' remuneration were as follows:

£	2016	2015
Basic salaries	758,255	721,937
Benefits-in-kind	46,285	61,084
Annual bonus	192,149	90,240
Money purchase pension contributions	26,678	22,320
Non-Executive Director fees	186,155	170,000
Total remuneration	1,209,522	1,065,581

Directors' Remuneration for 2016

Name of Director	Salary and fees	Annual bonus	Pension	Benefits	2016 Subtotal	Share options*	2016 Total
£							
Executive							
Duncan Penny	260,000	71,601	7,800	2,594	341,995	597,078	939,073
Mike Laver	239,491	48,122	5,770	12,276	305,659	546,703	852,362
Jonathan Rhodes	140,000	51,677	4,200	2,178	198,055	172,654	370,709
Andy Sng	118,764	20,749	8,908	29,237	177,658	152,504	330,162
Non-Executive							
James Peters	50,000	–	–	1,988	51,988	–	51,988
Peter Bucher	40,000	–	–	–	40,000	–	40,000
John Dyson (chose not to stand for re-election at last AGM)	10,000	–	–	–	10,000	–	10,000
Terry Twigger	44,167	–	–	–	44,167	–	44,167
Polly Williams (appointed 1 January 2016)	40,000	–	–	–	40,000	–	40,000

*The value of options vesting in 2016 has been estimated based on the three-month average share price from October 2016 to December 2016, less the amount required to be paid to acquire the shares, multiplied by the number of shares expected to be vested.

Directors' Remuneration for 2015

Name of Director	Salary and fees	Annual bonus	Pension	Benefits	2015 Subtotal	Share options*	2015 Total
£							
Executive							
Duncan Penny	260,000	38,995	7,800	3,308	310,103	391,500	701,603
Mike Laver	214,945	26,976	3,387	12,189	257,497	391,500	648,997
Jonathan Rhodes	140,000	10,499	4,200	2,097	156,796	104,400	261,196
Andy Sng	106,992	13,770	6,933	41,633	169,328	392,640	561,968
Non-Executive							
James Peters	50,000	–	–	1,857	51,857	–	51,857
Peter Bucher	40,000	–	–	–	40,000	–	40,000
John Dyson (chose not to stand for re-election at last AGM)	40,000	–	–	–	40,000	–	40,000
Terry Twigger	40,000	–	–	–	40,000	–	40,000

* The value of options vesting in 2015 has been restated to reflect the actual value of the share price at the time of vesting, less the amount required to be paid to acquire the shares, multiplied by the number of shares vested.

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 3%.

Directors' Interests in Ordinary Shares of XP Power Limited

	At 31 December 2016	At 1 January 2016
Executive		
Duncan Penny	326,990	326,990
Mike Laver (a)	119,969	119,969
Andy Sng (b)	41,000	21,000
Non-Executive		
James Peters (c)	1,929,279	2,049,279

Executive Directors have a period of five years from 1 April 2016 (the date of approval) to build a minimum shareholding equivalent to two years' salary. Restricted shares awarded under the annual bonus plan can be included in this measure.

(a) Mike Laver participated in the deferred payment share scheme. As at 31 December 2016, the outstanding balance owed on the deferred payment share scheme remains at £137,056.

(b) Andy Sng acquired 20,000 shares at a price of £17.00 on 20 September 2016 after exercising options.

(c) James Peters sold 120,000 shares at a price of £17.00 on 26 September 2016.

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

			At 31 December 2016	At 1 January 2016
Executive	Date of grant	Exercise price	Number of shares	Number of shares
Duncan Penny	10 October 2012	£9.46	60,750	75,000*
	23 February 2016	£15.425	50,000	–
Mike Laver	10 October 2012	£9.46	60,750	75,000*
	23 February 2016	£15.425	25,000	–
Jonathan Rhodes	10 October 2012	£9.46	16,200	20,000*
	23 February 2016	£15.425	20,000	–
Andy Sng	26 April 2007	£5.07	–	30,000
	10 October 2012	£9.46	16,200	20,000*
	23 February 2016	£15.425	10,000	–

* The options granted on 10 October 2012 vested on the fourth anniversary from the date of grant. These options were subject to performance conditions which resulted in 81% vesting as described in detail on page 55 of the annual report.

On 20 September 2016 Andy Sng exercised 30,000 options granted on 26 April 2007 at a price of £5.07.

The share options granted on 23 February 2016 vest 50% after three years and 50% after four years and are subject to the performance criteria outlined in the remuneration policy on page 55.

The highest and lowest closing mid-market prices of the shares of XP Power Limited during 2016 were £17.80 and £14.22 per share respectively. The closing mid-market price on 31 December 2016 was £17.36 per share.

Relative Importance of Spend on Pay

£ Millions	2016	2015	Change %
Distribution to Shareholders			
Dividends ¹	12.9	12.0	8%
Share buyback ²	0.1	0.3	(67%)
Group employment costs ³	33.0	27.9	18%

¹ Refer to Financial Statements – Note 9 for more details.

² Refer to Financial Statements – Note 24 for more details.

³ Group employment costs include Directors' remuneration. Refer to Financial Statements – Note 5 for more details.

REMUNERATION REPORT – ANNUAL REPORT

Advice on Remuneration

During the year, h2glenfern Remuneration Advisory provided a benchmarking report to the Company. Its charges for this report were £6,250. h2glenfern Remuneration Advisory has no other connection with the Company.

Statement of Voting at the Annual General Meeting

The Group is committed to on-going Shareholders 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 2016 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	14,083,584	99.7%	48,774	0.3%	14,132,358	64,377
Approval of remuneration report	14,092,693	99.3%	101,004	0.7%	14,193,697	2,966

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 employed remuneration consultants during 2016 to advise on the proposed new Long Term Incentive Scheme and to conduct a Directors' remuneration benchmarking exercise.

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.

Approval

This report was approved by the Board of Directors on 8 March 2017 and signed on its behalf by:



Polly Williams
Remuneration Committee Chair

OTHER GOVERNANCE AND STATUTORY DISCLOSURES

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	Polly Williams (appointed 1 January 2016)

All Directors will retire and being eligible offer themselves for re-election at the forthcoming Annual General Meeting on 19 April 2017.

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	2015 Comparative
First Quarter	8 July 2016	14.0 pence	13.0 pence
Second Quarter	13 October 2016	15.0 pence	14.0 pence
Third Quarter	12 January 2017	16.0 pence	15.0 pence
Fourth Quarter (proposed)	21 April 2017	26.0 pence	24.0 pence
Total		71.0 pence	66.0 pence

We are proposing a final dividend of 26.0 pence per share which would be payable to members on the register on 17 March 2017 and will be paid on 21 April 2017. This would make the total dividend for the year 71.0 pence (2015: 66.0 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)

Peter Bucher

Polly Williams (appointed 1 January 2016)

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 2016 before their submission to the Board of Directors, as well as the independent auditor's report on the balance sheet of the Company and the consolidated financial statements of the Group.

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

Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the Directors



James Peters
Non-Executive Chairman
8 March 2017



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 69 to 117 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 2016 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
8 March 2017



Duncan Penny
Chief Executive

INDEPENDENT AUDITOR'S REPORT

To the members of XP Power Limited

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 2016, 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 69 to 117, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2016, 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.

INDEPENDENT AUDITOR'S REPORT

To the members of XP Power Limited

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 £125,000 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.

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 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 completion of the valuation of intangible assets arising from last year's 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

Goodwill

Refer to page 46 (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).

The Group has goodwill of £37.7 million at 31 December 2016 contained within 3 cash-generating units ("CGUs") defined by its geographical split – North America, Europe and Asia.

We focused on this area due to the relative size of the carrying amount of goodwill, which represented 27% 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.

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.

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.

We evaluated the suitability and appropriateness of the impairment model as prepared by management and noted no significant exceptions.

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.

Key audit matters

Capitalised product development

Refer to page 46 (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 2016, the carrying value of product development costs capitalised as an intangible asset is £14.2 million of which £4.2 million was capitalised in the current financial year.

We focused on the appropriateness of capitalisation of product development costs due to the relative size of the carrying amount of this intangible asset, which represented 10% 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.

Deferred tax on unremitted earnings

Refer to page 46 (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 2016, the Group has deferred tax assets of £0.4 million and deferred tax liabilities of £4.7 million.

We focused on the potential tax exposure of £11.6 million on the unremitted earnings held in the Group's overseas subsidiaries as the amount is significant.

How did our audit address these

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.

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.

INDEPENDENT AUDITOR'S REPORT

To the members of XP Power Limited

Key audit matters

Business combination

Refer to page 46 (Report from the Chair of the Audit Committee), page 88 (Note 12 – Intangible assets) and page 105 (Note 31 – Business combination)

On 25 November 2015, the Group announced the acquisition of the assets and business of EMCO High Voltage Corporation ("EMCO"). 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.

For the year ended 31 December 2015, the carrying values of the intangible assets – technology, customer relationships and customer contracts, were provisionally determined in accordance with IFRS 3.

For the year ended 31 December 2016, management completed the valuation of the intangible assets within the measurement period, as defined by IFRS 3. The fair value of the intangible assets that arose from the business combination was determined to be US\$2.0 million (£1.3 million) up from the provisional fair value of US\$1.4 million (£0.9 million). This resulted in a corresponding decrease in goodwill arising from the acquisition by US\$0.6 million (£0.4 million) to US\$7.4 million (£4.9 million). This was taken up as a retrospective adjustment to the year ended 31 December 2015 in accordance with IFRS 3.

We focused on the intangible assets arising from the business combination as a significant area of judgement. The valuation methodology, as well as the inputs and assumptions in the model, will affect the fair value of the intangible assets.

How did our audit address these

We reviewed the appropriateness of recognition of the identified intangible assets in accordance with IAS 38. We agreed with management's assessment that the intangible assets are separately identifiable and the Group has control over the future economic benefits flowing from the intangible assets.

The valuation methodologies used for determining the fair values of the identified intangible assets were also assessed to be appropriate.

We focused on understanding and challenging management's inputs into the valuation models, which will have an impact on the fair value of the intangible assets. We have assessed the projected future revenue growth and margins based not only on the historical performance of EMCO, but also relevant economic and industry indicators and considered such projections, as set by management, to be reasonable.

We agreed with management that the adjustment to the provisional value of the identified intangible assets within 1 year after the acquisition is in accordance with IFRS 3.

Information other than the Financial Statements and Auditors' Report thereon

Going concern

Under the UK Listing Rules ("Listing Rules") we are required to review the Directors' Statement, set out on page 62, 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 35. 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 42 to 43. 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 17, “Our Performance” section on pages 18 to 35, “Our Governance” section on pages 36 to 61 and the “Financials” section on page 118 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 judgement 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.

INDEPENDENT AUDITOR'S REPORT

To the members of XP Power Limited

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
8 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2016

£ Millions	Note	2016	2015
Revenue	4	129.8	109.7
Cost of sales		(67.8)	(55.1)
Gross profit		62.0	54.6
Expenses			
Distribution and marketing		(26.6)	(22.0)
Administrative		(1.5)	(1.2)
Research and development	7	(5.9)	(5.8)
Operating profit		28.0	25.6
Finance charge	6	(0.2)	(0.2)
Profit before income tax		27.8	25.4
Income tax expense	8	(6.3)	(5.5)
Profit for the year		21.5	19.9
Other comprehensive income:			
Item that may be subsequently reclassified to profit and loss:			
Cash flow hedges	24	0.2	(0.5)
Exchange differences on translation of foreign operations	24	8.8	1.0
Other comprehensive income for the year, net of tax		9.0	0.5
Total comprehensive income for the year		30.5	20.4
Profit attributable to:			
Equity holders of the Company	24	21.3	19.7
Non-controlling interests	24	0.2	0.2
		21.5	19.9
Total comprehensive income attributable to:			
Equity holders of the Company		30.3	20.2
Non-controlling interests		0.2	0.2
		30.5	20.4
Earnings per share attributable to equity holders of the Company (pence per share)			
– Basic	10	112.0	103.7
– Diluted	10	111.2	102.8

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

£ Millions	Note	2016	2015 (restated)
ASSETS			
Current Assets			
Cash and cash equivalents	15	9.2	4.9
Inventories	16	32.2	28.7
Trade receivables	17	21.5	17.5
Other current assets	18	2.4	2.4
Derivative financial instruments	22	0.4	–
Total current assets		65.7	53.5
Non-current assets			
Goodwill	11	37.7	35.9
Intangible assets	12	15.3	12.3
Property, plant and equipment	13	19.1	16.1
Deferred income tax assets	23	0.4	0.4
ESOP loan to employees	26	0.7	0.7
Total non-current assets		73.2	65.4
Total assets		138.9	118.9
LIABILITIES			
Current liabilities			
Current income tax liabilities	8	3.3	1.2
Trade and other payables	19	16.1	14.6
Provision for deferred contingent consideration	20	0.5	–
Borrowings	21	5.5	4.0
Derivative financial instruments	22	0.4	–
Total current liabilities		25.8	19.8
Non-current liabilities			
Provision for deferred contingent consideration	20	1.5	1.5
Borrowings	21	–	4.6
Deferred income tax liabilities	23	4.7	3.9
Total non-current liabilities		6.2	10.0
Total liabilities		32.0	29.8
NET ASSETS		106.9	89.1
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	(0.5)	(1.0)
Hedging reserve	24	0.3	0.1
Translation reserve	24	3.5	(5.3)
Retained earnings	24	75.4	67.1
		106.1	88.3
Non-controlling interests		0.8	0.8
TOTAL EQUITY		106.9	89.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2016

£ 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 2015		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
Sale of treasury shares	24	–	0.3	–	–	–	(0.1)	0.2	–	0.2
Purchase of treasury shares	24	–	(0.1)	–	–	–	–	(0.1)	–	(0.1)
Employee share option plan expenses		–	0.3	–	–	–	–	0.3	–	0.3
Dividends paid	9	–	–	–	–	–	(12.9)	(12.9)	(0.2)	(13.1)
Total comprehensive income for the year	24	–	–	–	0.2	8.8	21.3	30.3	0.2	30.5
Balance at 31 December 2016		27.2	(0.5)	0.2	0.3	3.5	75.4	106.1	0.8	106.9

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2016

£ Millions	Note	2016	2015
Cash flows from operating activities			
Profit for the year		21.5	19.9
Adjustments for:			
– Income tax expense	8	6.3	5.5
– Amortisation and depreciation	7	4.6	3.8
– Finance charge	6	0.2	0.2
– ESOP expenses		0.3	0.1
– Loss/(gain) on fair valuation of derivative financial instruments		0.2	(0.2)
– Unrealised currency translation loss		5.0	1.0
Change in working capital, net of effects from acquisitions:			
– Inventories		(3.5)	(2.8)
– Trade and other receivables		(4.0)	(1.5)
– Trade and other payables		1.5	(0.2)
– Provision for liabilities and other charges		(0.1)	(0.1)
Cash generated from operations		32.0	25.7
Income tax paid	8	(4.1)	(4.7)
Net cash generated from operating activities		27.9	21.0
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	(2.6)	(2.5)
Research and development expenditure capitalised	12	(4.2)	(2.9)
Proceeds from disposal of property, plant and equipment		0.1	–
ESOP loans repaid		–	0.2
Net cash used in investing activities		(6.7)	(13.5)
Cash flows from financing activities			
(Repayment of borrowings)/proceeds from borrowings		(3.7)	8.0
Sale of treasury shares		0.3	0.3
Purchase of treasury shares by ESOP		(0.1)	(0.3)
Interest paid		(0.2)	(0.1)
Dividend paid to equity holders of the Company	9	(12.9)	(12.0)
Dividend paid to non-controlling interests	24	(0.2)	(0.2)
Net cash used in financing activities		(16.8)	(4.3)
Net increase in cash and cash equivalents		4.4	3.2
Cash and cash equivalents at beginning of financial year		4.3	1.3
Effects of currency translation on cash and cash equivalents		0.5	(0.2)
Cash and cash equivalents at end of financial year	15	9.2	4.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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 8 to 9.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of XP Power Limited 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 2016 that have a material impact on the Group.

ii. New standards and interpretations issued not yet adopted

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 replaces most of the guidance in IFRS 39. IFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income (OCI) and fair value through Profit or Loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

While the Group has yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedge relationships.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

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

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 is the converged standard on revenue recognition. It replaces IFRS 11 Construction contracts, IFRS 18 Revenue, and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

A review of the impact of adopting this standard has been carried out and the standard is not expected to have a material impact on the Group's reported position or performance.

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.

(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

2. Summary of significant accounting policies (continued)

2.2 Foreign currency translation (continued)

(c) Translation of Group entities' financial statements (continued)

- 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.

(b) Transactions with non-controlling interests

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (continued)

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. 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 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.

(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. Summary of significant accounting policies (continued)

2.6 Intangible assets (continued)

(c) Other intangible assets

Other intangible assets that are acquired by the Group are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives, which vary between 2 and 5 years, of the intangible assets.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2. Summary of significant accounting policies (continued)

2.9 *Financial assets* (continued)

(c) *Impairment*

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.

2. Summary of significant accounting policies (continued)

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

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.

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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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. 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.

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 or, in the case of interim dividends, when paid.

2.23 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 £4.2 million (2015: £2.9 million) of development costs were capitalised, bringing the total amount of development cost capitalised as intangible assets as at 31 December 2016 to £14.2 million (2015: £11.0 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 will be 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 2016 was £37.7 million (2015: £35.9 million) with no impairment adjustment required for 2016.

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. The Group will acquire 5.9% of Powersolve Electronics Limited in early 2017 and the remaining 10.1% in early 2022. When discounted to present value, the total of these payments is estimated at £1.21 million and that amount is reflected on the balance sheet. Since the final payment will be dependent on the actual financial performance of the business, an estimate is required to approximate future business conditions. Refer to Note 20 for more details.

As at the balance sheet date, the Group has recorded estimated future payment related to the acquisition of additional 30.0% of Hanpower Co., Ltd. The Group will acquire 15.0% of Hanpower Co., Ltd in early 2020 and the remaining 15.0% in early 2025. When discounted to present value, the total of these payments is estimated at £0.79 million and that amount is reflected on the balance sheet. Since the final payment will be dependent on the actual financial performance of the business, an estimate is required to approximate future business conditions. Refer to Note 20 for more details.

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, derivative financial instruments 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

4. Segmental reporting (continued)

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2016 and prior year comparatives is as follows:

£ Millions	2016	2015
Revenue		
Europe	49.4	45.1
North America	68.6	55.7
Asia	11.8	8.9
Total revenue	129.8	109.7

The Group operates in the following regions and countries:

£ Millions	2016	2015
North America	68.6	55.7
United Kingdom	25.4	23.8
Singapore	10.1	7.9
Germany	11.1	9.7
Switzerland	3.7	3.6
Other countries	10.9	9.0
Total revenue	129.8	109.7

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

Reconciliation of segment results to profit for the year:

£ Millions	2016	2015
Europe	11.6	6.7
North America	21.6	14.6
Asia	3.5	1.4
Segment results	36.7	22.7
Research and development	(5.9)	(5.8)
Finance charge	(0.2)	(0.2)
Corporate (cost)/recovery from operating segment	(2.8)	8.7
Profit before income tax	27.8	25.4
Income tax expense	(6.3)	(5.5)
Profit for the year	21.5	19.9

4. Segmental reporting (continued)

£ Millions	Year to 31 December 2016				Year to 31 December 2015 (restated)*			
	Europe	North America	Asia	Total	Europe	North America	Asia	Total
Other Information								
Capital additions	1.0	0.4	1.2	2.6	0.5	0.7	1.3	2.5
Depreciation	0.4	0.5	1.3	2.2	0.4	0.3	1.3	2.0
Intangible assets additions	0.4	1.5	2.3	4.2	–	1.8	1.5	3.3
Amortisation	–	1.5	0.9	2.4	0.2	0.8	0.8	1.8
Balance sheet								
Goodwill	9.9	25.6	2.2	37.7	10.4	24.2	1.3	35.9
Other non-current assets	3.5	11.6	20.0	35.1	2.7	14.1	12.3	29.1
Inventories	1.6	9.9	20.7	32.2	1.4	10.8	16.5	28.7
Trade receivables	7.9	9.2	4.4	21.5	6.2	8.4	2.9	17.5
Cash	3.3	1.2	4.7	9.2	2.1	0.6	2.2	4.9
Other current assets	0.8	0.6	1.0	2.4	0.5	0.5	1.4	2.4
Derivative financial instruments	–	–	0.4	0.4	–	–	–	–
Segment assets	27.0	58.1	53.4	138.5	23.3	58.6	36.6	118.5
Unallocated deferred income tax	–	–	–	0.4	–	–	–	0.4
Consolidated total assets				138.9				118.9
Trade and other payables	(2.1)	(3.1)	(10.9)	(16.1)	(1.8)	(2.3)	(10.5)	(14.6)
Borrowings	–	(5.5)	–	(5.5)	–	(8.0)	–	(8.0)
Derivative financial instruments	–	–	(0.4)	(0.4)	–	–	–	–
Deferred contingent consideration	(1.2)	–	(0.8)	(2.0)	(1.5)	–	–	(1.5)
Segment liabilities	(3.3)	(8.6)	(12.1)	(24.0)	(3.3)	(10.3)	(10.5)	(24.1)
Unallocated corporate liabilities	–	–	–	–	–	–	–	(0.6)
Unallocated deferred and current income tax	–	–	–	(8.0)	–	–	–	(5.1)
Consolidated total liabilities				(32.0)				(29.8)

* Following the completion of the final purchase price allocation for the EMCO acquisition in 2016, the Group made adjustments to the provisional fair value of the intangibles assets originally recorded in the prior year.

Intangible assets additions, goodwill and other non-current assets have been restated to reflect the adjustments. Refer to Note 31 and Note 32 for more details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

4. Segmental reporting (continued)

Analysis by class of customer

The revenue by class of customer is as follows:

£ Millions	Year to 31 December 2016				Year to 31 December 2015			
	Europe	North America	Asia	Total	Europe	North America	Asia	Total
Technology	7.1	21.4	3.6	32.1	6.7	16.8	3.3	26.8
Industrial	29.6	23.7	6.5	59.8	27.1	17.6	3.9	48.6
Healthcare	12.7	23.5	1.7	37.9	11.3	21.3	1.7	34.3
Total	49.4	68.6	11.8	129.8	45.1	55.7	8.9	109.7

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

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

£ Millions	2016	2015
North America	37.2	38.7
United Kingdom	4.6	3.7
Singapore	10.5	3.7
Germany	0.3	0.3
Switzerland	3.6	3.5
Other countries	16.6	15.1
Total non-current assets	72.8	65.0

5. Employee compensation (including Directors)

£ Millions	2016	2015
Wages and salaries	28.2	23.8
Pensions	4.8	4.1
Total	33.0	27.9

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

6. Finance charge

£ Millions	2016	2015
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	2016	2015
Profit for the year is after charging:		
Amortisation of intangibles	2.4	1.8
Depreciation of property, plant and equipment	2.2	2.0
Employee compensation (Note 5)	33.0	27.9
Foreign exchange gain	(0.1)	–
Gain on foreign exchange forward	(0.5)	(0.2)
Purchases of inventories	62.2	50.2
Changes in inventories	(3.5)	(3.5)
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
Tax fees payable to other firms for services provided to the Group	0.1	0.1
Rent/lease expense	1.5	1.3
Finance charge	0.2	0.2
Other charges	4.2	4.1
Total	102.0	84.3

Fees payable to the Group's auditor for non-audit services is 8.1% (2015: nil) of their total audit fees.

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

£ Millions	2016	2015
Gross research and development expenditure	8.1	6.9
Development expenditure capitalised	(4.2)	(2.9)
Amortisation of development expenditure capitalised	2.0	1.8
Net research and development expenditure	5.9	5.8

8. Income taxes

£ Millions	2016	2015
Singapore corporation tax		
– current year	2.6	1.6
– over-provision in prior financial year	(0.1)	–
Overseas corporation tax		
– current year	3.5	2.8
– over-provision in prior financial year	(0.2)	(0.2)
Current income tax	5.8	4.2
Deferred income tax		
– current year	0.6	0.8
– (over)/under-provision in prior financial years	(0.1)	0.5
Income tax expense	6.3	5.5

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

8. Income taxes (continued)

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	2016	2015
Profit before income tax	27.8	25.4
Tax on profit at standard Singapore tax rate of 17%	4.7	4.3
Tax incentives	(0.4)	(0.7)
Higher rates of overseas corporation tax	2.4	1.7
Deduction for gain on employee share options	–	(0.1)
Adjustment in respect of prior year	(0.4)	0.3
Income tax expense	6.3	5.5

Deferred tax liabilities of £11.6 million (2015: £9.7 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	2016	2015
At 1 January	(1.2)	(1.7)
Currency translation differences	(0.4)	–
Income tax paid	4.1	4.7
Income tax payable		
– current year	(6.1)	(4.4)
– prior year	0.3	0.2
At 31 December	(3.3)	(1.2)

There is no (2015: nil) tax (charge)/credit relating to components of other comprehensive income.

9. Dividends

Amounts recognised as distributions to equity holders in the period:

	2016		2015	
£ Millions	Pence per share	£ Millions	Pence per share	£ Millions
Prior year third quarter dividend paid	15.0*	2.8	14.0	2.7
Prior year final dividend paid	24.0*	4.6	22.0	4.2
First quarter dividend paid	14.0^	2.6	13.0*	2.4
Second quarter dividend paid	15.0^	2.9	14.0*	2.7
Total	68.0	12.9	63.0	12.0

* Dividends in respect of 2015 (66.0p)

^ Dividends in respect of 2016 (71.0p)

The third quarter dividend of 16.0 pence per share was paid on 12 January 2017. The proposed final dividend of 26.0 pence per share for the year ended 31 December 2016 is subject to approval by Shareholders at the Annual General Meeting scheduled for 19 April 2017 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 21 April 2017 to members on the register as at 17 March 2017.

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	2016	2015
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company)	21.3	19.7
Earnings for earnings per share	21.3	19.7
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	19,015	18,997
Effect of potentially dilutive share options (thousands)	147	175
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	19,162	19,172
Earnings per share from operations		
Basic	112.0p	103.7p
Diluted	111.2p	102.8p
Diluted adjusted*	115.3p	104.3p

* Adjusted for one-off costs associated with acquisitions of £0.4 million (2015: £0.3 million) and intangibles amortisation of £0.4 million (2015: nil).

11. Goodwill

£ Millions	2016	2015 (restated)
Cost		
At 1 January	35.9	30.6
Provision for deferred contingent consideration (Note 20)	0.5	(0.2)
Recognised on acquisition of subsidiaries	–	5.6
Foreign currency translation	1.3	(0.1)
At 31 December	37.7	35.9
Accumulated impairment loss		
At 31 December	–	–
Carrying amount		
At 31 December	37.7	35.9

Goodwill arises on the consolidation of subsidiary undertakings.

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. The Group will acquire 5.9% of Powersolve Electronics Limited in early 2017 and the remaining 10.1% in early 2022. When discounted to present value, the total of these payments is estimated at £1.21 million and that amount is reflected on the balance sheet. Since the final payment will be dependent on the actual financial performance of the business, an estimate is required to approximate future business conditions. A change in deferred consideration of £0.3 million in 2016 was due to a decrease in the forecasted earnings.

As at the balance sheet date, the Group has recorded estimated future payment related to the acquisition of additional 30.0% of Hanpower Co., Ltd. The Group will acquire 15.0% of Hanpower Co., Ltd in early 2020 and the remaining 15.0% in early 2025. When discounted to present value, the total of these payments is estimated at £0.79 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

11. Goodwill (continued)

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 5.7% was used for 2016 and for 2015, the rate was 8.0%).

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 2016 was £37.7 million (2015: £35.9 million) with no impairment adjustment required for 2016.

For the purpose of the impairment test, the Group has adopted what it believes to be reasonable Earnings Before Interest, Tax, Depreciation, Amortisation assumptions for the period from 1 January 2017 to 31 December 2021. 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.

In accordance with IFRS 3 Business Combinations, the management has assessed the fair value of the identified intangible assets. Accordingly, goodwill recognised last year has now been adjusted to reflect the revised fair value of the intangible assets. The previously reported goodwill as at 31 December 2015 is £36.3 million. The restated goodwill as at 31 December 2015 is £35.9 million, reflecting an adjustment of (£0.4) million. Refer to Note 31 and Note 32 for more details.

12. Intangible assets

£ Millions	Development costs	Trade marks	Technology	Customer relationships (restated)	Customer contracts	Total (restated)
Cost						
At 1 January 2015	16.4	1.0	–	–	–	17.4
Additions	2.9	–	–	–	–	2.9
Acquisition of business	–	–	0.6	0.6	0.1	1.3
At 1 January 2016	19.3	1.0	0.6	0.6	0.1	21.6
Additions	4.2	–	–	–	–	4.2
Foreign currency translation	1.5	–	0.1	0.1	–	1.7
At 31 December 2016	25.0	1.0	0.7	0.7	0.1	27.5
Amortisation						
At 1 January 2015	6.5	1.0	–	–	–	7.5
Charge for the year	1.8	–	–	–	–	1.8
At 1 January 2016	8.3	1.0	–	–	–	9.3
Charge for the year	2.0	–	0.1	0.2	0.1	2.4
Foreign currency translation	0.5	–	–	–	–	0.5
At 31 December 2016	10.8	1.0	0.1	0.2	0.1	12.2
Carrying amount						
At 31 December 2016	14.2	–	0.6	0.5	–	15.3
At 31 December 2015	11.0	–	0.6	0.6	0.1	12.3

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.

12. Intangible assets (continued)

In accordance with IFRS 3 Business Combinations, the management has assessed the fair value of the identified intangible assets. Accordingly, provisional intangible assets recognised last year have now been adjusted to reflect their fair values. The previously reported intangible assets as at 31 December 2015 is £11.9 million. The restated intangible assets as at 31 December 2015 is £12.3 million, reflecting an adjustment of £0.4 million in customer relationships. Refer to Note 31 and Note 32 for more details.

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 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 1 January 2016	0.5	8.8	1.8	15.4	0.8	2.2	0.1	29.6
Additions	–	0.2	–	1.4	0.2	0.2	0.6	2.6
Disposals	–	–	–	(0.3)	(0.4)	–	–	(0.7)
Transfer	–	–	–	0.6	–	–	(0.6)	–
Foreign currency translation	0.1	1.5	0.4	2.6	–	0.3	–	4.9
At 31 December 2016	0.6	10.5	2.2	19.7	0.6	2.7	0.1	36.4
Depreciation								
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 1 January 2016	–	1.2	0.2	10.0	0.4	1.7	–	13.5
Charge for the year	–	0.2	0.1	1.6	0.1	0.2	–	2.2
Disposals	–	–	–	(0.3)	(0.3)	–	–	(0.6)
Foreign currency translation	–	0.3	0.1	1.6	–	0.2	–	2.2
At 31 December 2016	–	1.7	0.4	12.9	0.2	2.1	–	17.3
Carrying amount								
At 31 December 2016	0.6	8.8	1.8	6.8	0.4	0.6	0.1	19.1
At 31 December 2015	0.5	7.6	1.6	5.4	0.4	0.5	0.1	16.1

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

14. Subsidiaries

Details of principal subsidiaries as at 31 December 2016, all of which are consolidated, are as follows:

Name of Subsidiary	Place of incorporation/ ownership (or registration) and operation	Proportion of Ownership 2016 (%)	Proportion of Ownership 2015 (%)	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	100	Ernst and Young Solutions LLP

* The legal shareholding and the proportion of voting power held is 84% (2015: 84%). Refer to Note 20.

15. Cash and cash equivalents

£ Millions	2016	2015
Cash at bank and on hand	8.4	4.3
Short-term bank deposits	0.8	0.6
Total	9.2	4.9

15. Cash and cash equivalents (continued)

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

£ Millions	2016	2015
Cash at bank and on hand (as above)	9.2	4.9
Less: Bank overdrafts (Note 21)	–	(0.6)
Cash and cash equivalents per consolidated cash flow statement	9.2	4.3

Reconciliation of changes in cash and cash equivalents to movements in net cash/(debt)

£ Millions	2016	2015
Net increase in cash and cash equivalents	4.4	3.2
Repayment of borrowings/(proceeds from borrowings)	3.7	(8.0)
Effects of currency translation	(0.7)	(0.2)
Movement in net debt	7.4	(5.0)
Net (debt)/cash at start of year	(3.7)	1.3
Net cash/(debt) at end of year	3.7	(3.7)

Reconciliation to free cash flow

£ Millions	2016	2015
Net cash inflow from operating activities	27.9	21.0
Research and development expenditure capitalised	(4.2)	(2.9)
Net interest paid	(0.2)	(0.1)
Free cash flow	23.5	18.0

Reconciliation of cash and cash equivalents to balance sheet

£ Millions	2016	2015
Cash and bank balances in the balance sheet	9.2	4.9
Less: Bank overdraft (Note 21)	–	(0.6)
Cash and cash equivalents per consolidated cash flow statement	9.2	4.3
Less: Bank loan		
– current (Note 21)	(5.5)	(3.4)
– non-current (Note 21)	–	(4.6)
Net cash/(debt) at end of year	3.7	(3.7)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

15. Cash and cash equivalents (continued)

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:

	£ Millions
(a) Purchase consideration	
Cash paid	1.3
Consideration payable	0.1
Contingent consideration payable	0.8
Total purchase consideration	2.2
Consideration transferred for the subsidiary	2.2
(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	1.5
Consideration transferred for the subsidiary	2.2

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

16. Inventories

£ Millions	2016	2015
Goods for resale	19.0	18.9
Raw materials	12.1	9.5
Work-in-progress	1.1	0.3
Total	32.2	28.7

The cost of inventories recognised as an expense and included in "cost of sales" amounts to £67.8 million (2015: £55.1 million).

17. Trade receivables

£ Millions	2016	2015
Trade receivables	21.5	17.5
Total	21.5	17.5

The average credit period taken on sales of goods is 60 days (2015: 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	2016	2015
Other receivables and prepayments	2.4	2.4
Total	2.4	2.4

19. Total current liabilities

£ Millions	2016	2015
Trade and other payables	16.1	14.6
Current income tax liabilities	3.3	1.2
Bank loans and overdrafts (Note 21)	5.5	4.0
Current portion of deferred consideration (Note 20)	0.5	–
Derivative financial instruments	0.4	–
Total	25.8	19.8

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

20. Provision for deferred contingent consideration

£ Millions	2016	2015
At 1 January	1.5	1.7
Movement in provision during the year	0.4	(0.3)
Adjustment for unwinding of discount rate	0.1	0.1
At 31 December	2.0	1.5
Current portion of provision for deferred contingent consideration	0.5	-
Non-current portion of provision for deferred contingent consideration	1.5	1.5
Total	2.0	1.5

The Group owns 84.0% (2015: 84.0%) of the shares of Powersolve Electronics Limited ("Powersolve") and entered into an amended agreement on 29 October 2016 to purchase the remaining 16.0% of the shares in 2017 and 2022. The Group will acquire 5.9% of Powersolve's shares in early 2017 and the remaining 10.1% in early 2022. The Group owns 51% (2015: 51%) of the shares of Hanpower Co. Ltd ("Hanpower") and entered into an agreement on 20 May 2015 to purchase an additional 15.0% of the shares in 2020 and another 15.0% of the shares in 2025.

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

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 both subsidiaries, their results are fully consolidated in the Group. Dividends are attributed to the non-controlling interests based on their respective interests in the subsidiaries.

21. Borrowings

The borrowings are repayable as follows:

£ Millions	2016	2015
On demand or within one year	5.5	4.0
In the second year	-	4.6
Total	5.5	8.6

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

December 2016				
£ Millions	GBP	USD	EUR	TOTAL
Bank loans	-	5.5	-	5.5
Total	-	5.5	-	5.5
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

The average interest rates paid were as follows:

	2016	2015
Bank overdrafts	1.9%	2.1%
Bank loans	1.6%	1.5%

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

21. Borrowings (continued)

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 2016, the Group had an overdraft of £Nil million (2015: £0.6 million). In December 2016, the Group renewed its annual working capital facility to US\$7.5 million (2015: US\$12.5 million). The facility is priced at the Bank of Scotland (BOS) base rate plus a margin of 1.5%.
- (2) The Group has a 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 commenced in June 2016 and ending in December 2017. The term loan is priced at LIBOR plus a margin of 0.95% (2015: priced at LIBOR plus a margin of 0.95%).
- (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 2016.

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 2016, the total notional amount of outstanding currency forward contracts that the Group has committed is £5.8 million (2015: £4.8 million). These contracts are to hedge against exchange rate movements on future sales and qualify for hedge accounting.

December 2016 £ Millions	Contract notional amount	Fair value asset
Forward foreign exchange contracts	5.8	0.4
Current portion	5.8	0.4
Total	5.8	0.4

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

(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 asset/(liability) of these forward contracts are as follows:

December 2016 £ Millions	Assets		Liabilities	
	Contract notional amount	Fair value asset	Contract notional amount	Fair value (liability)
Forward foreign exchange contracts	0.4	–	5.3	(0.4)
Current portion	0.4	–	5.3	(0.4)
Total	0.4	–	5.3	(0.4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

22. Derivative financial instruments (continued)

December 2015 £ Millions	Assets		Liabilities	
	Contract notional amount	Fair value asset	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)

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 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 1 January 2016	(0.7)	(1.3)	0.4	(2.9)	1.0	(3.5)
Charge to income statement	0.1	–	–	(0.6)	–	(0.5)
Foreign currency translation	(0.1)	(0.2)	–	(0.2)	0.2	(0.3)
At 31 December 2016	(0.7)	(1.5)	0.4	(3.7)	1.2	(4.3)

£ Millions	2016	2015
Deferred tax assets		
– To be recovered after more than 12 months	0.4	0.4
	0.4	0.4
Deferred tax liabilities		
– To be settled after more than 12 months	(4.7)	(3.9)
	(4.7)	(3.9)
Deferred tax liabilities (net)	(4.3)	(3.5)

24. Share capital and reserves

Called up share capital

£ Millions	2016	2015
Allotted and fully paid 19,242,296 ordinary shares (2015: 19,242,296)	27.2	27.2

As at 31 December 2016, the Group's Employee Share Ownership Plan (ESOP) held 193,720 (2015: 235,870) shares carrying a value of £1,211,696 (2015: £1,399,433) owned by the Trust.

Merger reserve

£ Millions	2016	2015
Balance at 31 December	0.2	0.2

Treasury shares

£ Millions	2016	2015
Balance at 1 January	(1.0)	(1.1)
Sale of treasury shares	0.3	0.3
Purchase of treasury shares	(0.1)	(0.3)
Employee share option plan expenses	0.3	0.1
Balance at 31 December	(0.5)	(1.0)

Hedging reserve

£ Millions	2016	2015
Balance at 1 January	0.1	0.6
Fair value gain/(loss)	0.2	(0.5)
Balance at 31 December	0.3	0.1

Translation reserve

£ Millions	2016	2015
Balance at 1 January	(5.3)	(6.3)
Exchange differences on translation of foreign operations	8.8	1.0
Balance at 31 December	3.5	(5.3)

Retained earnings

£ Millions	2016	2015
Balance at 1 January	67.1	59.6
Dividend paid	(12.9)	(12.0)
Profit for the year	21.3	19.7
Loss on treasury shares	(0.1)	(0.2)
Balance at 31 December	75.4	67.1

Non-controlling interests

The non-controlling Shareholders are entitled to their share of any dividend declared. £0.2 million was paid to Powersolve and Hanpower non-controlling Shareholders in 2016. The balance payable for 2016 was £0.1 million (2015: £0.1 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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	2016	2015
Within one year	1.6	1.3
In the second to fifth years inclusive	3.7	2.5
After five years	0.5	0.7
Total	5.8	4.5

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

26. ESOP loan to employees

£ Millions	2016	2015
ESOP loan to employees	0.7	0.7
Total	0.7	0.7

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 £4.8 million (2015: £4.1 million) for the Group.

In the USA, the Group operates a defined contribution "401K Plan". The Group must contribute an amount matching the employees' contribution of up to 3% of the employees' total earnings. The total cost charged to the income statement of £2.5 million (2015: £1.8 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 £1.3 million (2015: £1.2 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 £1.0 million (2015: £1.1 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 2016, the Company's Employee Share Ownership Plan has provided interest-free loans totalling £137,056 (2015: £137,056) to 1 Director (2015: 1 Director) for the deferred payment share scheme. The detailed information is provided for in the Directors' Remuneration Report on pages 54 to 60.

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 54 to 60.

	2016 £	2015 £
Short-term employee benefits	1,182,844	1,043,261
Post-employment benefits	26,678	22,320
Total Directors' remuneration	1,209,522	1,065,581

29. Share-based payments

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

Number of shares	Exercise Price	Grant Date	Expiry Date
17,250	£5.073	26 April 2007*	26 April 2017
275,400	£9.46	10 October 2012*	10 October 2022
395,000	£15.425	23 February 2016*	23 February 2026
687,650			

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

	2016		2015	
£ Millions	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of the year	408,850	877	431,750	852
Granted during the year	418,000	1,543	–	–
Forfeited during the year	(88,550)	1,101	–	–
Exercised during the year	(50,650)	535	(22,900)	419
Outstanding at the end of the year	687,650	1,278	408,850	877
Exercisable at the end of the year	292,650	920	63,850	502

The weighted average share price at the date of exercise for the share options exercised during the period was £16.83 (2015: £16.17). The options outstanding at 31 December 2016 had a weighted average exercise price of £12.78 (2015: £8.77), and a weighted average remaining contractual life of 7.6 years.

For options granted in 2016, the Group has taken a charge of £0.2 million (2015: £nil million). The fair value of options was determined using the Black Scholes Model with a share price of £15.425 and a weighted average exercise price of £15.425, standard deviation of expected share returns of 0.0292, and an annual risk free interest rate of 0.28%.

For options granted in 2012, which vested in the current financial year, the Group has taken a charge of £0.1 million (2015: £0.1 million). 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 the Company's share price 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 buyback 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 2016

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 2016					
Financial assets					
Cash and cash equivalents	1.1	0.5	5.6	2.0	9.2
Trade receivables	1.8	2.0	17.2	0.5	21.5
Other current assets	0.9	–	1.3	0.2	2.4
ESOP loan to employees	0.7	–	–	–	0.7
Sub-total	4.5	2.5	24.1	2.7	33.8
Financial liabilities					
Borrowings	–	–	(5.5)	–	(5.5)
Trade and other payables	(1.3)	(0.6)	(13.7)	(0.5)	(16.1)
Other financial liabilities	(1.2)	–	–	(0.8)	(2.0)
Sub-total	(2.5)	(0.6)	(19.2)	(1.3)	(23.6)
Net financial assets	2.0	1.9	4.9	1.4	10.2
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	8.7	–	–	8.7
Currency forwards	5.3	(6.2)	–	–	(0.9)
Currency profile excluding non-financial assets and liabilities	7.3	4.4	4.9	1.4	18.0
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	1.8	1.7	(0.5)	1.9	4.9
Currency exposure of financial assets/(liabilities)	5.5	2.7	5.4	(0.5)	13.1

30. Financial risk management (continued)

b) Currency risk (continued)

£ 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	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
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	6.2	2.3	3.7	0.6	12.8

If the US Dollar and Euro change against Sterling by 10% and 10% respectively (2015: US Dollar 7%, Euro 11%) 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	2016 Profit after tax	2015 Profit after tax
Group		
EUR against GBP		
– strengthened	0.2	0.2
– weakened	(0.2)	(0.2)
USD against GBP		
– strengthened	0.4	0.2
– weakened	(0.4)	(0.2)

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% (2015: 0.5%) with all other variables, including tax rates, being held constant, the profit after tax will be lower/higher by £30,000 (2015: £28,000) as a result of higher/lower interest expense on these borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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% (2015: 7%) 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	2016	2015
By geographical areas		
Europe	7.9	6.2
North America	9.2	8.4
Asia	4.4	2.9
	21.5	17.5

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

£ Millions	2016	2015
Past due 0–2 months	5.7	4.4
Past due 3–4 months	0.5	0.3
Past due over 4 months	0.3	0.5
	6.5	5.2

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

£ Millions	2016	2015
Gross amount	0.7	0.4
Less: Allowance for impairment	(0.4)	(0.3)
	0.3	0.1
Beginning of financial year	(0.3)	(0.3)
Allowance made	(0.1)	–
Allowance utilised	0.1	–
Foreign currency translation	(0.1)	–
End of the financial year	(0.4)	(0.3)

30. Financial risk management (continued)

(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 2016					
Trade and other payables	16.0	0.1	–	–	16.1
Provision for deferred contingent consideration	–	0.5	1.2	0.3	2.0
Derivative financial instruments	0.4	–	–	–	0.4
Borrowings	5.5	–	–	–	5.5
Total	21.9	0.6	1.2	0.3	24.0

£ 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

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

(f) Fair value measurements

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

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at 31 December 2016.

2016 £ Millions	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments	–	0.4	–	0.4
Liabilities				
Derivative financial instruments	–	(0.4)	–	(0.4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

30. Financial risk management (continued)

(f) Fair value measurements (continued)

2015

£ Millions

	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments	–	*	–	–
Liabilities				
Derivative financial instruments	–	–	–	–

* Balances are less than £100,000.

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

(g) Offsetting financial assets and financial liabilities

(i) Financial assets

£ Millions	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
At 31 December 2016						
Derivative financial assets	–	–	–	–	–	–
	–	–	–	–	–	–
At 31 December 2015						
Derivative financial assets	0.2	(0.2)	–	–	–	–
	0.2	(0.2)	–		–	–

(ii) Financial liabilities

£ Millions	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 assets presented in the balance sheet	Financial assets/liabilities	Financial collateral received	Net amount
At 31 December 2016						
Derivative financial liabilities	–	–	–	–	–	–
	–	–	–	–	–	–
At 31 December 2015						
Derivative financial liabilities	(0.2)	0.2	–	–	–	–
	(0.2)	0.2	–	–	–	–

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.

Following the completion of the final purchase price allocation in 2016, the Group made adjustments to the provisional fair value originally recorded in the prior year. Refer to Note 32 for more details.

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

(c) Identifiable assets acquired and liabilities assumed

£ Millions	Fair values recognised on acquisition (provisional) 2015	Adjustments during window period 2016	Fair value recognised on acquisition (final) 2016
Property, plant and equipment (Note 13)	0.6	–	0.6
Technology, Customers' Relationships and Contracts (included in intangibles – Note 12)	0.9	0.4	1.3
Inventories	0.5	–	0.5
Trade receivables	0.5	–	0.5
Total assets	2.5	0.4	2.9
Trade and other payables	(0.1)	–	(0.1)
Total liabilities	(0.1)	–	(0.1)
Total identifiable net assets	2.4	0.4	2.8
Add: Goodwill (Note 11)	5.3	(0.4)	4.9
Consideration transferred for the business	7.7	–	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 for the year ended 31 December 2015.

(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 uncollectible.

(f) Provisional fair values

The fair value of the acquired identifiable intangible assets of £0.9 million (brand, technology, customers' relationships and contracts) was adjusted to £1.3 million upon the final completion of the valuation exercise.

These have been recorded with effect from the date of acquisition by revising the reported balance sheet as at 31 December 2015. There is no impact on the income statement for the year ended 31 December 2015 due to the above fair value adjustment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

31. Business combination (continued)

(g) Goodwill

The goodwill of £4.9 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. Prior year comparatives

As disclosed in Note 31, following the completion of the final purchase price allocation in 2016, the Group made adjustments to the provisional fair value of the intangible assets originally recorded in the prior year.

The effects of the adjustment on the prior year's consolidated balance sheet are as follows:

£ Millions	As previously reported	Adjustments	As restated
Consolidated Balance Sheet			
Goodwill	36.3	(0.4)	35.9
Intangible assets	11.9	0.4	12.3

Related notes for the consolidated balance sheet which have been restated are presented in Note 4, Note 11 and Note 12.

The restatement has no impact on the net assets, profit after tax and total comprehensive income of the Group for the current and previous financial years.

33. Other information

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of XP Power Limited on 8 March 2017.

COMPANY BALANCE SHEET

As at 31 December 2016

£'000	Note	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	4	3,211	1,026
Trade and other receivables	5	20,885	20,192
Other current assets	6	549	707
Derivative financial instruments	7	362	20
Inventories	8	10,564	7,743
Total current assets		35,571	29,688
Non-current assets			
Investments in subsidiaries	3	29,786	29,786
Property, plant and equipment	9	2,072	1,778
Intangible assets	10	5,946	3,294
Long term receivable	13	7,273	5,999
Total non-current assets		45,077	40,857
Total assets		80,648	70,545
LIABILITIES			
Current liabilities			
Trade and other payables	12	19,357	17,336
Current income tax liabilities	14	3,060	1,857
Derivative financial instruments	7	414	–
Bank overdraft	15	–	576
Total current liabilities		22,831	19,769
Non-current liabilities			
Deferred income tax liabilities	11	1,136	666
Total non-current liabilities		1,136	666
Total liabilities		23,967	20,435
NET ASSETS		56,681	50,110
EQUITY			
Share capital	16	29,786	29,786
Hedging reserve	16	332	157
Translation reserve	16	5,442	1,513
Retained earnings	16	21,121	18,654
TOTAL EQUITY		56,681	50,110

NOTES TO THE COMPANY BALANCE SHEET

For the financial year ended 31 December 2016

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	2016	2015
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 2016 (%)	Proportion of Ownership 2015 (%)	Statutory 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	2016	2015
Cash at bank	3,211	1,026
Total	3,211	1,026

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

£'000	GBP	USD	EUR	SGD	JPY	SEK	DKK	NOK	TOTAL
At 31 December 2016									
Cash at bank	138	2,753	122	115	3	–	–	80	3,211

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

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

5. Trade and other receivables

£'000	2016	2015
Trade receivables	3,996	2,736
Trade receivables from Group companies	16,889	17,456
Total	20,885	20,192

The average credit period taken on sales of goods is 67 days (2015: 64 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	2016	2015
Deposit	68	59
Other receivables and prepayments	481	648
Total	549	707

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 £5.8 million (2015: £4.8 million). These contracts are to hedge against exchange movements on future sales and qualify for hedge accounting.

As at 31 December 2016, the fair value asset of the currency forward contracts recognised under a hedging reserve is £332,000 (2015: £157,000) (Note 16).

December 2016 £'000	Contract notional amount	Fair value asset
Current portion	5,818	332
Total	5,818	332

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

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

December 2016 £'000	Assets		Liabilities	
	Contract notional amount	Fair Value asset	Contract notional amount	Fair Value (liability)
Current portion	422	30	5,300	(414)
Total	422	30	5,300	(414)

NOTES TO THE COMPANY BALANCE SHEET

For the financial year ended 31 December 2016

7. Derivative financial instruments (continued)

December 2015 £'000	Assets		Liabilities	
	Contract notional amount	Fair Value asset	Contract notional amount	Fair Value (liability)
Current portion	–	–	6,548	(137)
Total	–	–	6,548	(137)

8. Inventories

£'000	2016	2015
Goods for resale	10,564	7,743

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 2015	188	1,502	1,316	10	352	3,368
Additions	–	37	26	–	–	63
Foreign currency translation	7	19	62	–	12	100
At 1 January 2016	195	1,558	1,404	10	364	3,531
Additions	–	–	52	40	12	104
Disposals	–	–	(215)	–	–	(215)
Foreign currency translation	41	331	281	7	78	738
At 31 December 2016	236	1,889	1,522	57	454	4,158
Depreciation						
At 1 January 2015	–	277	884	10	338	1,509
Additions	–	46	125	–	13	184
Foreign currency translation	–	11	36	–	13	60
At 1 January 2016	–	334	1,045	10	364	1,753
Additions	–	51	127	1	1	180
Disposals	–	–	(215)	–	–	(215)
Foreign currency translation	–	77	212	2	77	368
At 31 December 2016	–	462	1,169	13	442	2,086
Carrying amount						
At 31 December 2016	236	1,427	353	44	12	2,072
At 31 December 2015	195	1,224	359	–	–	1,778

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

10. Intangible assets

£'000	2016	2015
Cost		
Balance at 1 January	5,059	3,605
Additions	2,697	1,454
Foreign currency translation	1,383	–
Balance at 31 December	9,139	5,059
Amortisation		
Balance at 1 January	1,765	1,009
Additions	930	756
Foreign currency translation	498	–
Balance at 31 December	3,193	1,765
Carrying amount		
Balance at 31 December	5,946	3,294

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 2015	(50)	(267)	(15)	(332)
Charge to income statement	(23)	(270)	(26)	(319)
Exchange difference	(1)	(13)	(1)	(15)
At 1 January 2016	(74)	(550)	(42)	(666)
Charge to income statement	14	(296)	(13)	(295)
Exchange difference	(15)	(150)	(10)	(175)
At 31 December 2016	(75)	(996)	(65)	(1,136)

£'000	2016	2015
Deferred tax liabilities – to be settled after more than 12 months	(1,136)	(666)
Total	(1,136)	(666)

NOTES TO THE COMPANY BALANCE SHEET

For the financial year ended 31 December 2016

12. Trade and other payables

£'000	2016	2015
Trade payables and other creditors	4,843	4,940
Amount payable to Group companies	14,514	12,396
Total	19,357	17,336

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	2016	2015
Loans to related parties	7,273	5,999
Total	7,273	5,999

Loan to XP Power Vietnam bears interest at LIBOR plus 1.5% - 2.0% per annum.

Loan to XP Power (Israel) Ltd bears interest at LIBOR plus 1.5% per annum.

14. Current income tax liabilities

£'000	2016	2015
At 1 January	1,857	1,416
Currency translation differences	483	(11)
Income tax paid	(1,796)	(1,183)
Current year tax expense	2,592	1,635
Over-provision in prior financial year	(76)	–
At 31 December	3,060	1,857

15. Bank overdraft

£'000	2016	2015
Bank overdraft	–	576
Total	–	576

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

£'000	GBP	USD	TOTAL
At 31 December 2016			
Bank overdraft	–	–	–
At 31 December 2015			
Bank overdraft	576	–	576

16. Share capital and reserves

Share capital

£'000	2016	2015
Allotted and fully paid 19,242,296 ordinary shares	29,786	29,786

Retained earnings

£'000	2016	2015
Balance at 1 January	18,654	17,135
Dividends paid	(12,919)	(11,974)
Profit for the year	15,386	13,493
Balance at 31 December	21,121	18,654

Translation reserve

£'000	2016	2015
Balance at 1 January	1,513	648
Exchange differences on translation	3,929	865
Balance at 31 December	5,442	1,513

Hedging reserve

£'000	2016	2015
Balance at 1 January	157	617
Fair value gain/(loss)	175	(460)
Balance at 31 December	332	157

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.

NOTES TO THE COMPANY BALANCE SHEET

For the financial year ended 31 December 2016

17. Financial risk management (continued)

(b) Currency risk (continued)

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

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

£'000	GBP	EUR	USD	Others	Total
At 31 December 2016					
Financial assets					
Cash and cash equivalents	138	122	2,753	198	3,211
Trade and other receivables	1,812	1,234	17,556	283	20,885
Other current assets	314	(87)	206	116	549
Long term receivables	–	–	7,273	–	7,273
Subtotal	2,264	1,269	27,788	597	31,918
Financial liabilities					
Trade and other payables	(4,716)	93	(14,593)	(141)	(19,357)
Subtotal	(4,716)	93	(14,593)	(141)	(19,357)
Net financial (liabilities)/assets	(2,452)	1,362	13,195	456	12,561
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	8,687	–	–	8,687
Currency forwards	5,300	(6,240)	–	–	(940)
Currency profile excluding non-financial assets and liabilities	2,848	3,809	13,195	456	20,308
Less: Financial assets denominated in the entity's functional currencies	–	–	13,195	–	13,195
Currency exposure of financial assets	2,848	3,809	–	456	7,113

17. Financial risk management (continued)

£'000	GBP	EUR	USD	Others	Total
At 31 December 2015					
Financial assets					
Cash and cash equivalents	35	227	501	263	1,026
Trade and other receivables	1,806	1,032	17,135	219	20,192
Other current assets	421	(45)	177	154	707
Long term receivables	–	–	5,999	–	5,999
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
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

(c) Interest rate risk

The Company borrows from subsidiaries at an interest rate of 1.5% - 2.0% above LIBOR.

If the average interest rates on these borrowings increased/decreased by 0.5% (2015: 0.5%) with all other variables, including tax rates, being held constant, the profit before tax will be lower/higher by £21,372 (2015: £24,815) as a result of higher/lower interest expense on these borrowings.

(d) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the 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.

NOTES TO THE COMPANY BALANCE SHEET

For the financial year ended 31 December 2016

17. Financial risk management (continued)

(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 2016					
Trade and other payables	19,357	–	–	–	19,357
Total	19,357	–	–	–	19,357

£'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

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

(f) Fair value measurements

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

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets measured at fair value at 31 December 2016:

2016 £'000	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments	–	362	–	362
Liabilities				
Derivative financial instruments	–	(414)	–	(414)
2015				
£'000	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments	–	20	–	20

17. Financial risk management (continued)

(g) Offsetting financial assets and financial liabilities

(i) Financial assets

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 assets	Gross amounts-financial liabilities	Net amounts-financial assets presented in the balance sheet	Financial assets/liabilities	Financial collateral received	Net amount
€'000						
At 31 December 2016						
Trade receivables	152	(9)	143	16,746	–	16,889
Total	152	(9)	143	16,746	–	16,889
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

(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 assets presented in the balance sheet	Financial assets/liabilities	Financial collateral received	Net amount
€'000						
At 31 December 2016						
Trade payables	(9)	9	–	(14,514)	–	(14,514)
Total	(9)	9	–	(14,514)	–	(14,514)
At 31 December 2015						
Derivative financial liabilities	(147)	147	–	–	–	–
Trade payables	(130)	130	–	12,396	–	12,396
Total	(277)	277	–	12,396	–	12,396

FIVE YEAR REVIEW

Consolidated Information

£ Millions	2016	2015	2014	2013	2012
Results					
Revenue	129.8	109.7	101.1	101.1	93.9
Profit from operations	28.0	25.6	24.5	23.3	21.0
Profit before tax	27.8	25.4	24.3	22.9	20.2
Assets employed					
Non-current assets	73.2	65.4	56.1	53.3	52.8
Current assets	65.7	53.5	47.0	42.2	39.3
Current liabilities	(25.8)	(19.8)	(18.6)	(22.4)	(20.2)
Non-current liabilities	(6.2)	(10.0)	(4.2)	(3.7)	(10.6)
Net assets	106.9	89.1	80.3	69.4	61.3
Financed by					
Equity	106.1	88.3	80.2	69.2	61.1
Non-controlling interests	0.8	0.8	0.1	0.2	0.2
	106.9	89.1	80.3	69.4	61.3
Key statistics (pence)					
Earnings per share	112.0	103.7	102.1	95.8	81.7
Diluted earnings per share	111.2	102.8	101.1	95.1	81.3
Diluted adjusted earnings per share	115.3	104.3	101.1	95.1	81.3
Share price in the year (pence)					
High	1,845.0	1,750.0	1,798.0	1,630.0	1,283.0
Low	1,410.0	1,375.0	1,340.0	972.0	805.0
Dividends per share (pence)	71.0	66.0	61.0	55.0	50.0

XP POWER LIMITED ADVISERS

Company Brokers

Investec
2 Gresham Street
London
EC2V 7QP
United Kingdom

Principal Bankers

Bank of Scotland Plc
The Mound
Edinburgh
EH1 1YZ
United Kingdom

Solicitors

Osborne Clarke
2 Temple Back East
Temple Quay
Bristol
BS1 6EG
United Kingdom

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
United Kingdom

Company Secretary

M & C Services Private Limited
112 Robinson Road #05-01
The Corporate Office
Singapore 068902

Auditors

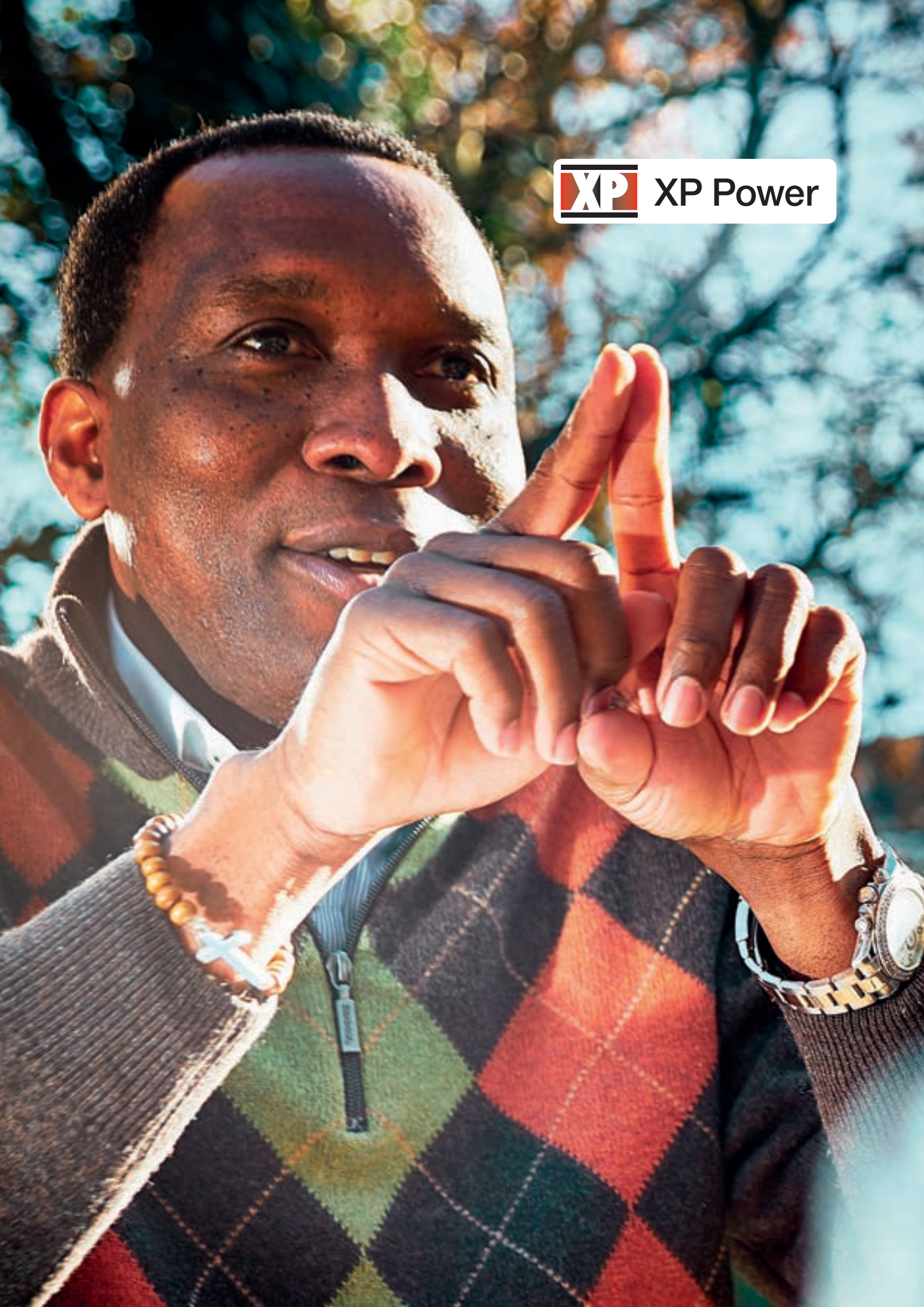
PricewaterhouseCoopers LLP
8 Cross Street,
PWC Building, #17-00
Singapore 048424



Printed on Cocoon Silk 50.

A recycled paper containing 50% recycled waste and 50% virgin fibre and manufactured at a mill certified with ISO 14001 environmental management standard.

The pulp used in this product is bleached using an Elemental Chlorine Free process. (ECF)



XP POWER LIMITED
401 COMMONWEALTH DRIVE
HAW PAR TECHNOCENTRE
LOBBY B #02-02
SINGAPORE 149598
T: +65 6411 6900
F: +65 6479 6305



XP Power