XP Power

INTERIM RESULTS
for the six months ended
30 June 2019

Powering The World's Critical Systems

XP POWER - POWERING THE WORLD'S CRITICAL SYSTEMS

JAMES PETERS, CHAIRMAN, COMMENTED:

"Our results for the first half reflect tougher trading conditions in the second quarter. While growth in our Healthcare, Industrial and Technology markets remained robust, this was offset by a cyclical slowdown in the Semiconductor Equipment Manufacturing market and pressure on gross margins, resulting from the increase in USA trade tariffs on Chinese manufactured goods, historic component price inflation and product mix.

Notwithstanding these current headwinds, we continue to win new design slots at our key customers and to take market share. We benefit from a broad customer base as demonstrated by the resilience of our Industrial, Healthcare and Technology sector performance. We are well positioned to take further share and will benefit from the recovery in the Semiconductor Equipment Manufacturing sector. While we remain mindful of potential short-term risks and macroeconomic challenges, we continue to expect an improved revenue performance in the second half of the year as a result of in the increase in our book order since the year end. With a proven strategy, strong design win momentum and an expanded product portfolio, the Board remains positive regarding the future of the Group."

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

ORDER INTAKE (£ MILLIONS)

-1%

2019	100.6
2018	101.4

REVENUE (£ MILLIONS)

+6%

2019	98.9
2018	93.2

ADJUSTED PROFIT BEFORE INCOME TAX[1] (£ MILLIONS)

-18%

2019	16.6
2018	20.3

ADJUSTED DILUTED EARNINGS PER SHARE[2] (PENCE)

-17%

2019	69.2
2018	83.7

CASH GENERATED FROM OPERATIONS (£ MILLIONS)

+59%

2019	25.2
2018	15.8

INTERIM DIVIDEND PER SHARE (PENCE)

+6%

2019	35.0
2018	33.0

[1] Adjusted for completed acquisition costs of £0.4 million (1H 2018: £0.4 million), intangibles amortisation of £1.6 million (excluding amortisation for development costs) (1H 2018: £1.0 million), changes in accounting policy of £Nil (1H 2018: £0.4 million), legal costs of £1.2 million (1H 2018: £Nil) and ERP implementation costs £0.5 million (1H 2018: £Nil)

[2] Adjusted for completed acquisition costs of £0.4 million (1H 2018: £0.4 million), intangibles amortisation of £1.6 million (excluding amortisation for development costs) (1H 2018: £1.0 million), changes in accounting policy of £Nil (1H 2018: £0.4 million), legal costs of £1.2 million (1H 2018: £Nil), ERP implementation costs £0.5 million (1H 2018: £Nil) and non-recurring tax benefits of £0.5 million (1H 2018: £0.1 million)

- Robust revenue growth in the Healthcare sector up 8%, Industrial sector up 13%, and Technology sector up 12%, offset by weakness in the Semiconductor Manufacturing Equipment sector down 34%.
- Order intake decreased by 1% to £100.6 million (7% decrease in constant currency).
- Revenue increased by 6% to £98.9 million (flat at constant currency).
- Own-design XP product revenues increased 6% on a reported basis to a record £77.3 million (1H 2018: £72.6 million), and represent 78% of total revenues (1H 2018: 78%).
- Gross margin reduced to 44.6% (1H 2018: 46.7%) due to the impact of Section 301 trade tariffs imposed by the USA on goods imported from China, adverse product and geographic mix, and the impact of component price inflation incurred in 2018 when supplies of critical electronic components tightened.
- Expansion of the Vietnamese manufacturing facility, which was completed in Q1 2019, enables the Group to provide its USA customers with products that are not subject to the 25% Section 301 tariffs. The Group has transferred manufacturing of over 1,500 different products from China to Vietnam in the past year.
- Restructuring of low power, high voltage DC-DC manufacturing through transfer of operations from Nevada to Vietnam, resulting in annual savings of circa £4.0 million from June 2020.
- A portion of the savings from the restructuring will be reinvested in expanding our new product introduction team to facilitate the transfer of further production volumes from the USA to Vietnam, resulting in further savings over the medium term.
- Cash generated from operations up 59% to £25.2 million (1H 2018: £15.8 million) as a result of improved working capital management.
- Dividend for the first half of 2019 increased by 6% to 35.0 pence per share (1H 2018: 33.0 pence per share), reflecting the confidence the Board has in the Group's longer term prospects.

INTERIM STATEMENT

OVERVIEW

The Group made a good start to 2019 with encouraging order intake in the first quarter but the second quarter of the year has proved to be more challenging. While we have continued to see robust growth in our Healthcare, Industrial and Technology revenues, there has been a further slowdown in the Semiconductor Equipment Manufacturing sector due to the weaker market for memory. This has affected a number of our larger customers who are working through inventory as they await a recovery in market conditions, which is not expected before 2020. Furthermore, the imposition of Section 301 tariffs by the USA on products we supply from China into the USA, which were increased from 10% to 25% in May 2019, and the retaliatory tariffs China has placed on USA manufactured products has caused downward pressure on our gross margins in the first half. The strong performance we have delivered in the Healthcare, Industrial and Technology sectors has not been enough to compensate for the detrimental effect of these two factors.

Our decision to establish manufacturing capability in Vietnam in 2012 and the subsequent capacity expansion which was completed in the first quarter of 2019 have proved to be extremely timely. Our Vietnam manufacturing plant allows us to offer our USA customers products which are not subject to the 25% Section 301 tariff imposed by the Trump administration on power converters manufactured in China. The majority of our competition have a predominantly Chinese manufacturing footprint. We have transferred the production of over 1,500 different products from China to Vietnam in the last 12 months.

We are also announcing plans to transfer the manufacture of all our low power, high voltage DC-DC converters to Vietnam by mid-2020, which we expect will lead to significant cost savings.

Notwithstanding these headwinds, we are continuing to win new design slots with our key customers and take market share. The acquisitions of Comdel in Radio Frequency (“RF”) power and Glassman High Voltage in high power, high voltage have significantly expanded our addressable market. They are providing a springboard for future growth in our existing customer base as our sales teams find interesting new applications for these products.

OUR STRATEGY AND VALUE PROPOSITION

We remain committed to our strategy and continue to invest for the medium and longer term. We continued to execute well against our strategy in the period, gaining further design wins from our newer product introductions and our increased focus on engineering solutions which provide more value to our customers. The successful implementation of our strategy continues to drive market share gains and the strength of our new programme wins is encouraging.

The Group has applied a consistent strategy of moving up the value chain and our growth derives in part from the targeting of key customers. Once we are approved to supply these larger customers, we have a strong track record of successfully gaining a larger share of their available business. We also continue to expand the breadth of our product portfolio, both organically and by acquisition, in what remains a highly fragmented sector, therefore enabling us to increase our addressable market.

Since the end of 2015, we have completed three acquisitions which have allowed us to expand into the high voltage and RF power market sectors increasing our addressable market by circa US$2.0 billion (75%).

Our acquisition of the Glassman High Voltage business in May 2018 opened up the circa US$500 million high power, high voltage market to the Group. The combination of the XP Power sales force with the engineering and manufacturing capability at Glassman is compelling, and we are finding good opportunities for this product line. We now have an enviable product portfolio of over 300 product families from low voltage to 500 kilo Volts at power levels up to 200 kilo Watts. This breadth of range combined with our excellent customer support and Engineering Services capabilities makes us the ideal choice of power solutions provider to our target customers.

Our value proposition to customers is to reduce their overall costs of design, manufacture and operation and get their product to market as quickly as possible. We achieve this by providing excellent sales engineering support and producing new highly reliable products that are easy to design into the customer's system, consume less power, take up less space and reduce installation times.

Our vision is to be the first-choice power solutions provider, delivering the ultimate experience for our customers and as a place of work for our people.

XP Power supplies power control solutions to Original Equipment Manufacturers ("OEMs") who supply the Healthcare, Industrial, Semiconductor Equipment Manufacturing and Technology markets with high value, high reliability products. The increasing importance of energy efficiency for environmental, reliability and economic reasons; increasing demand for digital connectivity of power conversion products; the necessity for ever smaller products; the accelerating rate of technological change; and the increasing proliferation of electronic equipment and semiconductor devices, have established a strong foundation for growth in demand for XP Power's products.

TRADING AND FINANCIAL REVIEW

On a statutory basis, revenue was £98.9 million (1H 2018: £93.2 million), representing growth of 6%. Operating profit was £14.5 million (1H 2018: £18.9 million), a decrease of 23% against the prior year, with operating margin at 14.7% (1H 2018: 20.3%). Net finance costs were £1.6 million (1H 2018: £0.4 million), resulting in profit before tax of £12.9 million (1H 2018: £18.5 million). Income tax expense was £2.5 million (1H 2018: £3.8 million), equivalent to an effective tax rate of 19.4% (1H 2018: 20.5%). Basic earnings per share were 53.8 pence (1H 2018: 76.4 pence), a decrease of 30%.

INTERIM STATEMENT

ADJUSTED RESULTS

Throughout this Interim Results statement, adjusted and other alternative performance measures are used to describe the Group's performance. These are not recognised under International Financial Reporting Standards ("IFRS") or other Generally Accepted Accounting Principles ("GAAP").

When reviewing XP Power's performance, the Board and management team focus in particular on adjusted results rather than statutory results. There are a number of items included in our statutory results which are considered by the Board to be one-off in nature or not representative of the Group's performance and are thus excluded from adjusted results. The tables in note 5 show the full list of adjustments between statutory operating profit and adjusted operating profit by business, as well as between statutory profit before tax and adjusted profit before tax at Group level for both 2019 and 2018.

ORDER INTAKE

Order intake of £100.6 million (1H 2018: £101.4 million) was down 1% on a reported basis. Given that the majority of orders are placed in US Dollars, the reported results reflect the impact of the weaker Sterling:US Dollar exchange rate of 1.29 in 2019, compared to 1.39 in the prior year. When adjusted to constant currency, 2019 orders were down 7% compared with the prior year. In constant currency, compared to the same period a year ago, Asia orders increased by 11%, Europe orders increased by 1%, while North America orders decreased by 12% (19% organic). The majority of our Semiconductor Equipment Manufacturing customers are in North America, and the downturn in this sector is the key driver of the decline in orders in North America.

Order intake in the first half of 2019 exceeded revenues with a resultant book-to-bill ratio of 1.02 (1H 2018: 1.09). We enter the second half of the current year with an order book of £86.1 million (December 2018: £81.5 million).

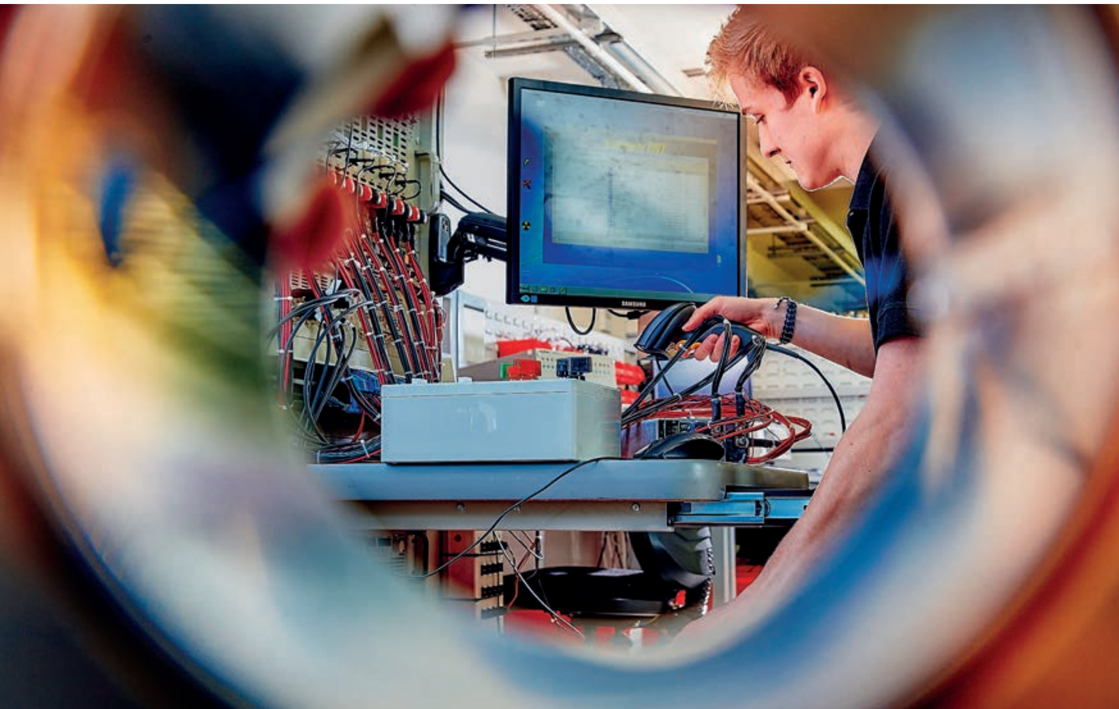
REVENUE PERFORMANCE

Reported revenues grew by 6% to £98.9 million in the six months to 30 June 2019 compared to £93.2 million in the same period a year ago. When adjusting to constant currency, 2019 revenues were flat compared to 2018.

Revenues in North America were US$72.9 million (1H 2018: US$79.0 million), down 8% compared to the same period a year ago. Excluding revenues from Glassman High Voltage which was acquired in May 2018 of US$7.6 million (1H 2018: US$1.4 million), organic revenues declined by 16%, reflecting the weak performance of the Semiconductor Equipment Manufacturing sector. Revenues in Europe were £32.9 million (1H 2018: £29.7 million), up 11% on the same period a year ago (approximately half the European revenues are denominated in US Dollars). Our business in Europe is very diverse but heavily weighted towards the Industrial sector which has held up well. While difficult to quantify, there is anecdotal evidence of some customers reporting inventory build up to buffer potential adverse effects arising from a disorderly Brexit. Revenues in Asia were US$12.3 million (1H 2018: US$9.0 million), up a healthy 36% compared with the same period a year ago driven by a Technology sector programme coming back to life and strong performance from RF programmes.

On a sector basis, revenues from Healthcare customers grew by 8% to US$30.2 million (1H 2018: US$28.0 million). Revenues from Industrial customers increased by 13% to US$60.9 million (1H 2018: US$54.1 million). Revenues from Technology customers grew 12% to US$13.9 million (1H 2018: US$12.4 million). In contrast to the robust growth in the Healthcare, Industrial and Technology sectors, revenues from Semiconductor Equipment Manufacturing customers declined significantly by 34% to US$22.7 million (1H 2018: US$34.6 million) as a result of weakness in the market for memory. We are not expecting any recovery in the Semiconductor Equipment Manufacturing market before 2020. The acquired Glassman High Voltage business contributed US$5.3 million (1H 2018: US$1.0 million) to Semiconductor Equipment Manufacturing revenues in 1H 2019, giving an organic decline in revenue of 48% in this sector compared to organic growth of 68% in 2018. Notwithstanding the decline in the Semiconductor Equipment Manufacturing sector, we regard this sector as having highly attractive growth prospects which are being driven by the growth of Big Data, Augmented Intelligence and the Internet of Things.

XP Power's expansion of its capabilities into higher voltage, higher power and RF power has made us an attractive power solutions provider to the many Healthcare and Semiconductor Equipment Manufacturers who use these types of products and value our engineering solutions capability.



INTERIM STATEMENT

In terms of overall revenue for the first half of 2019, Industrial represented 48% (1H 2018: 42%), Technology represented 11% (1H 2018: 10%), Healthcare represented 24% (1H 2018: 22%) and Semiconductor Equipment Manufacturing represented 17% (1H 2018: 26%).

Our customer base remains highly diversified with the largest customer accounting for only 9% of revenue (1H 2018: 16%), spread over 180 different programmes/part numbers.

GROSS MARGIN

Gross margin in the first half of 2019 was 44.6% (1H 2018: 46.7%), a 210 bps decline on a reported basis and 150 bps in constant currency. The 150 bps decline in gross margin in constant currency resulted from a combination of the higher component costs incurred in 2018 now being reflected within our cost of sales, adverse geographic and product mix, and the impact of Section 301 tariffs which we have not been able to fully recover from customers. Whilst we expect the Section 301 tariffs to be resolved in the short to medium term, we are continuing to work with customers on tariff recovery and mitigation, and expect our gross margin to benefit from this in the second half of 2019 as a result.

ADJUSTED OPERATING EXPENSES AND MARGINS

Adjusted operating expenses in the first half were £25.9 million (1H 2018: £23.2 million reported and £23.9 million in constant currency) after adjusting for £1.6 million of intangibles amortisation (1H 2018: £1.0 million), £0.4 million of acquisition related costs (1H 2018: £0.4 million), £0.5 million of Enterprise Resource Planning ("ERP") system implementation costs (1H 2018: £Nil) and £1.2 million of legal costs (1H 2018: £Nil). The legal costs relate to an ongoing legal dispute in North America. The dispute is non-customer related and is currently in mediation.

The principal increase in operating expenses was in Product Development. We are engaging in ever more sophisticated and complex programmes with many of our key customers. These customers value XP Power's engineering solutions and power conversion expertise to solve their power-related challenges and get their products to market more quickly. Systems are becoming more complex and there is increasing demand for power conversion solutions that communicate with both the customers' applications and with the outside world as the concept of an Internet of Things promulgates. This area of the market allows us to add more value to our customers' engineering teams and is less crowded with low cost Asian competition. As such, we continue to reinvest part of the cash returns generated from our growth to fund further expansion of our engineering capabilities, particularly our Engineering Solutions groups in Asia, Europe and North America.

Gross product development spend was £8.9 million (1H 2018: £6.6 million), £4.4 million of which was capitalised (1H 2018: £2.8 million), and £1.8 million amortised (1H 2018: £1.4 million). We will continue to invest in engineering resources to drive future revenue growth.

We have also continued to invest in additional customer support and engineering resources as we are committed to the future growth of the business.

The reduction in gross margin combined with the increase in expenses resulted in a lower adjusted operating margin of 18.4% (1H 2018: 22.2%).

FINANCE COST

Net finance cost increased to £1.6 million (1H 2018: £0.4 million) due to increased average borrowings following the acquisition of Glassman High Voltage in May 2018 and the requirement to build additional inventory in the second half of 2018 as a result of significant increases in component lead times. Our raw material inventory in Asia has started to reduce toward more normal levels although the longer lead times remain for some of our components. The Group also recognised an interest expense of £0.1 million (1H 2018: £Nil) in relation to leases due to the adoption of IFRS 16 from 1 January 2019.

Interest cover (EBITDA as a multiple of net interest expense as defined by our Revolving Credit Facility) was 18.8 times (1H 2018: 74.6 times) which is well in excess of the minimum required in our banking covenants.

ADJUSTED PROFIT BEFORE TAX

The Group generated adjusted profit before tax of £16.6 million (1H 2018: £20.3 million), down 18% year-on-year despite the growth in revenue due to a gross margin dilution of 210bps and an increase of 170bps investment in operating costs and the increased finance charge.

SPECIFIC ITEMS

Specific items are excluded from management's assessment of profit because they distort the Group's underlying earnings either due to their size or nature. In the first half of 2019, the Group incurred £3.7 million (1H 2018: £1.8 million) of specific items, which consisted amortisation of intangible assets due to business combinations of £1.6 million (1H 2018: £1.0 million), £1.2 million of legal costs (1H 2018: £Nil), £0.5 million of ERP system implementation costs (1H 2018: £Nil) and £0.4 million of acquisition related costs (1H 2018: £0.4 million).

TAXATION

The tax charge for the period was £2.5 million (1H 2018: £3.8 million), representing an effective tax rate of 19.4% (1H 2018: 20.5%). After adjusting for specific items, the effective tax rate for the period was 18.1% (1H 2018: 18.7%).

We currently expect our future effective tax rate to be in the range of 17% to 19% depending on the geographic distribution of our future profits.

INTERIM STATEMENT

OPERATING CASH FLOWS AND NET DEBT

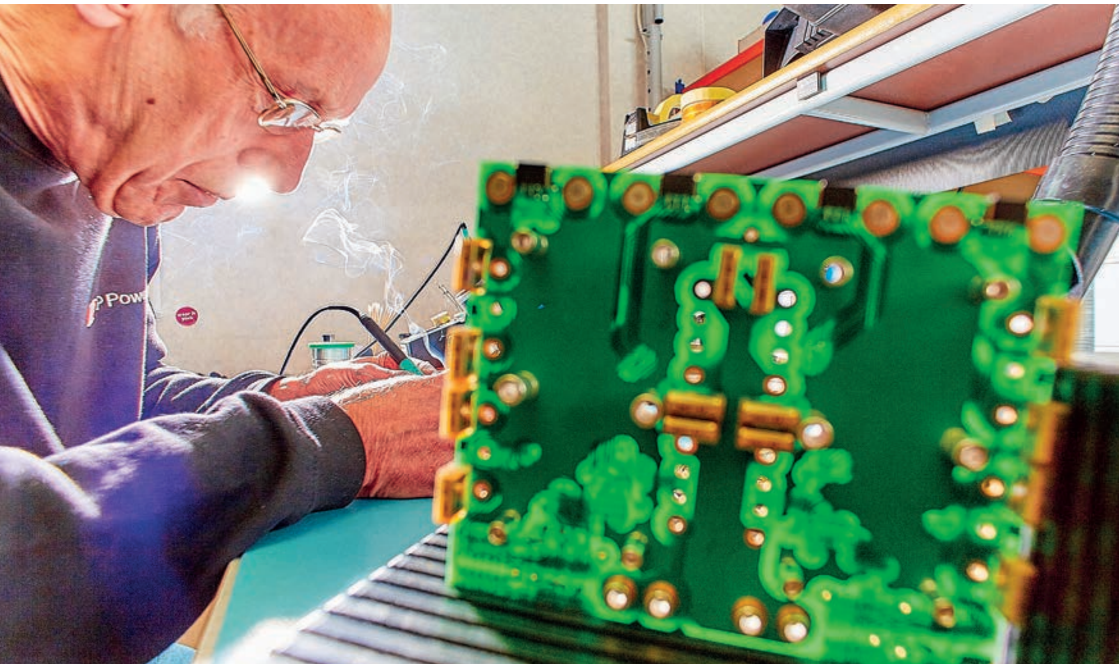
The Group generated net cash from operations of £25.2 million, up 59% from the £15.8 million generated in the previous year. The higher level of operating cash flows was largely due to better working capital management, with net working capital inflows of £4.6 million compared to outflows of £8.4 million in 2018, with inventory levels reducing from the higher levels seen in 2018. We expect a further unwinding of working capital in the second half of 2019.

Net debt was £50.4 million at 30 June 2019, compared with £52.0 million at 31 December 2018. The Group continued its progressive dividend policy which resulted in returning £10.2 million (1H 2018: £9.2 million) to shareholders in the form of dividends.

PRODUCT DEVELOPMENT

New products are fundamental to our revenue growth. The broader our product offering, the higher the probability that we will have a product which will work in the customer's application, with or without a modification by our engineering team. By expanding into high voltage and RF power, we have increased our addressable market from around US$3.0 billion to approximately US$4.7 billion.

The design-in cycles required by our customers to qualify the power converter in their equipment and to gain the necessary safety agency approvals are lengthy. Typically we see a period of around 18 months, or even longer in healthcare, from first identifying a customer opportunity to receiving the first production order.



Revenue will then start to build from this point, often peaking a number of years later. The positive aspect of this characteristic is that our business has a strong annuity base where programmes typically last seven to eight years. Another aspect of this model is that the many new products we have introduced over the last three years have yet to make a meaningful impact on our revenue, creating a significant benefit for future years.

XP Power launched 9 new product families in the first half of 2019 (1H 2018: 12). We continue to lead our industry in the introduction of high efficiency, "green" products, with all of the new product families released in the first half of 2019 having high efficiency and/or low stand-by power.

Following the acquisition of Glassman High Voltage in May 2018, we released our first high power, high voltage product family. The EY Series is a range of high voltage, rack mount, laboratory type power supplies that can also be used in Original Equipment Manufacturer ("OEM") applications. Delivering up to 1,200 Watts of power, there are models covering output voltages from 1 kilo Volts to 60 kilo Volts.

We have also demonstrated our continued move up the power level in low voltage with the release of a new family of 5 kilo Watt products. In addition, we brought our offering of medical external power supplies up to date with new product families at 150 and 200 Watts, together with the introduction of low-cost next generation 40 and 60 Watt open frame products.

With larger customers continuing to reduce the number of vendors they deal with, XP Power's broad product offering, excellent global engineering support, in-house manufacturing capability and industry-leading environmental credentials leave the Group well-placed to secure further preferred supplier agreements.

The addition of RF power and high voltage, high power products to our range via the acquisitions of Comdel and Glassman further enhances this proposition. Combining this with our Engineering Services offering makes us a compelling partner to our larger customers who come to us to provide leading edge power solutions to power their complex applications.

MANUFACTURING PROGRESS

XP Power's move into manufacturing in 2006 has been instrumental in enabling the Group to win approved and preferred supplier status with new Blue-Chip customers who value suppliers that have complete control over their manufacturing and supply chain to ensure the highest levels of quality and agility.

To supplement our original Chinese manufacturing facility in Kunshan near Shanghai, our Vietnamese manufacturing facility, located in Ho Chi Minh City, began production of its first magnetic components in 2012. Since the fourth quarter of 2014, our Vietnamese facility has been producing complete power converters of the same standard as our Chinese facility.

We completed the construction of a second factory on our existing site in Vietnam in the first quarter of 2019, and this is expected to add US$130 million of manufacturing capacity per year. This will increase our total manufacturing capacity in Asia from US$170 million to US$300 million per year.

The move into Vietnam and the recently completed capacity expansion have proved particularly timely given the deterioration in trade relations between China and the USA and the imposition of Section 301 tariffs at a rate of 10% from September 2018 and 25% since 10 May 2019.

INTERIM STATEMENT

The majority of our competitors have Chinese based manufacturing facilities which puts them at a significant commercial disadvantage if they are selling into the USA. The ability to manufacture in Vietnam has become a compelling value proposition to our USA customers. Realising this advantage in full will take time as some customers will need to approve the transfer of production from our Chinese facility to our Vietnamese facility. Kunshan will continue to focus on the higher power, higher complexity products and products destined for the Chinese market.

Since the summer of 2018, we have been working to ensure all products less than 1.5 kilo Watts can be manufactured in both China and Vietnam to provide supply flexibility and business continuity. This process is now complete. Vietnam is now qualified to produce a total of 1,819 different products (1H 2018: 282), demonstrating the effect and resources that have gone into the transfer of production. XP Power manufactured 779,800 (1H 2018: 716,900) power converters in total during the first half of 2019, and 619,600 (1H 2018: 504,800) of these were produced in Vietnam. We expect to be able to win more design slots with our key customers in the coming months due to this important strategic capability. Our Vietnamese facility would continue to enjoy a cost advantage over competitors with a predominantly Chinese manufacturing footprint, even in the event that the Trump administration decides to levy Section 301 tariffs on power converters produced in Vietnam.

Having the capability to produce the majority of our products in both China and Vietnam also significantly helps with business continuity planning.

RESTRUCTURING OF LOW POWER, HIGH VOLTAGE MANUFACTURING AND TRANSFER TO VIETNAM

In order to take advantage of our expanded Vietnam capacity, competitive labour rates and excellent quality, we will be transferring the manufacture of all our low power, high voltage DC-DC modules to our Vietnamese facility. Our manufacturing facility in Minden, Nevada will close by June 2020. We expect that this will result in annualised cost savings of approximately £4.0 million. Approximately £1 to 2 million of these cost savings will be reinvested back into the business to expand and strengthen our new product introduction team. The enlarged team will facilitate further transfers of existing engineering services production from our facility in Sunnyvale, California to Vietnam, as well as new standard products as they are introduced, resulting in additional future savings. We expect to incur approximately £1 to 2 million in costs associated with the full closure of the site over the next 12 months.

SUPPLY CHAIN

In 2018, we saw significant cost inflation and extension of lead times for many of the electrical components that we incorporate into our products, particularly Mosfet transistors and multilayer surface mount capacitors. As a result of this, we increased our safety inventories significantly and secured critical components at prices above our standard costs in order to ensure we could continue to support our customers production requirements. Since the summer of 2018, we have seen certain component lead times reduce but the supply of certain critical components such as Mosfets remains constrained.

We are continuing to manage our component inventory, building in a sufficient margin of safety stock on critical lines wherever possible. There has been significant focus on reducing inventory where possible, and we have seen factory-held component inventory reduce in the first half of 2019.

NEW ENTERPRISE RESOURCE PLANNING ("ERP") SYSTEM

Efficient and robust systems are essential in order for us to manage an international business and supply chain with a highly diverse customer base. We already operate a global Customer Relationship Management system across all our businesses, which allows us to collaborate, share information and provide efficient and effective customer service. In our 2017 Annual Report, we announced a project to implement the latest version of SAP across our entire global supply chain. The project will first focus on our sales companies in Asia, Europe and North America, which already run a version of SAP, followed by our China and Vietnam manufacturing facilities and our recent acquisitions.

We expect this implementation to have significant benefits in terms of factory planning and customer responsiveness and it will give us significant operational advantages with our factory systems running on the same platform as our sales companies. Further gains will be realised when we migrate the acquired Comdel and Glassman High Voltage businesses to the new platform.

We expect to go live with the sales companies in the second half of 2019, and with the Chinese and Vietnamese factories in 2020. The Group capitalised £1.8 million (1H 2018: £Nil) of development costs and incurred £0.5 million (1H 2018: £Nil) of other project related costs in the first half of 2019 in respect of this project.

DIVIDEND

The Company makes quarterly dividend payments. Our strong cash flows and confidence in the Group's prospects have enabled us to increase total dividends for the first half by 6% to 35.0 pence per share (1H 2018: 33.0 pence per share) despite the headwinds we are facing from the Semiconductor Equipment Manufacturing sector and Section 301 tariffs.

The first quarter dividend payment of 17.0 pence per share was made on 11 July 2019. The second quarter dividend of 18.0 pence per share will be paid on 10 October 2019 to shareholders on the register at 13 September 2019.

The compound average growth rate in dividends over the last 10 years has been 14%.

BREXIT

As previously reported, the Group analysed the implications of a no deal Brexit and concluded that it would have limited operational implications. In the first quarter of 2019, we implemented our contingency plan for a no deal Brexit which involved transferring certain inventories held in support of 15 key accounts from our UK warehouse to our German warehouse. While we will not be immune to any macroeconomic consequences of a no deal Brexit, we are confident that the actions we have taken will prevent any internal operational issues.

We have seen evidence of some customers bringing orders forward and increasing their inventories as part of their Brexit planning. The magnitude of this activity on the phasing of our orders and revenues is difficult to quantify but we do not believe it to be substantial.

INTERIM STATEMENT

ENVIRONMENTAL IMPACT AND "GREEN" PRODUCTS

XP Power has placed improved environmental performance at the heart of its operations both in terms of minimising the impact its activities have on the environment and, as importantly, in its product development strategy.

We have developed a class-leading portfolio of "green" products with efficiencies up to 95% and many of these products also have low stand-by power (a feature to reduce the power consumed while the end equipment is not operational but in stand-by mode). Revenues for these ultra-high efficiency "green" products continue to grow and are up by 43% on a reported basis to £28.1 million (1H 2018: £19.7 million) representing 28% of total revenue (1H 2018: 21%). The RF power products added to our portfolio as a result of the acquisition of Comdel and the majority of the high power, high voltage products added to our portfolio as a result of the acquisition of Glassman High Voltage are not classified as "green" products.

OUTLOOK

We continue to see a robust performance from our Healthcare, Industrial and Technology businesses, however, a combination of continued softness in the Semiconductor Equipment Manufacturing sector and the task of recovering Section 301 tariffs present us with a continuing challenge as we enter the second half.

Our Vietnamese manufacturing capability puts us in a strong position to mitigate the impact of Section 301 tariffs. The transfer of production from China to Vietnam, and the qualification of product by our key customers once transferred, is key to restoring our margins to historical levels. Once this is achieved, our production footprint should give us a compelling cost advantage over the majority of our competitors who produce predominantly in China. Our margins in 2020 will also start to benefit from the closure of our Minden facility and the transfer of the Minden-built products to Vietnam.

Although we do not anticipate any meaningful upturn in the Semiconductor Equipment Manufacturing sector before 2020, once the recovery takes hold we expect the combination of our recent design wins and the cyclical recovery to produce significant growth in this sector.

While we remain conscious of potential risks arising from the global macroeconomic challenges, the Board expects further revenue growth in the second half of the year notwithstanding the current softness in the Semiconductor Equipment Manufacturing market.

We believe we are well along the path to achieving our vision of becoming the first-choice power solutions provider to our existing and target customer base.

INDEPENDENT REVIEW REPORT TO XP POWER LIMITED

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

INTRODUCTION

We have reviewed the accompanying condensed consolidated financial information of XP Power Limited ("the Company") and its subsidiaries ("the Group") set out on pages 14 to 33, which comprise the condensed consolidated balance sheet of the Group as at 30 June 2019, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the 6-month period then ended and the related notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority. Our responsibility is to express a conclusion on this interim financial information based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly financial report, which comprise the "Interim Results" set out on page 1, "Interim Statement" set out on pages 2 to 12 and "Risks and uncertainties" set out on pages 34 to 35, and considered whether it contains any apparent misstatements or material inconsistencies with the information in the financial information.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore,
1 August 2019

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

£ Millions	Note	Six months ended 30 June 2019 (Unaudited)	Six months ended 30 June 2018 (Unaudited)
Revenue	5	**98.9**	93.2
Cost of sales		**(54.8)**	(49.7)
Gross profit		**44.1**	43.5
Expenses			
Distribution and marketing		**(20.3)**	(18.3)
Administrative		**(3.0)**	(1.1)
Research and development		**(6.3)**	(5.2)
Operating profit		**14.5**	18.9
Finance charge		**(1.6)**	(0.4)
Profit before income tax		**12.9**	18.5
Income tax expense	6	**(2.5)**	(3.8)
Profit after income tax		**10.4**	14.7
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		*	0.5
Exchange differences on translation of foreign operations		**(0.2)**	1.3
		(0.2)	1.8
Items that will not be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation		*	–
Other comprehensive (loss)/income, net of tax		**(0.2)**	1.8
Total comprehensive income		**10.2**	16.5
Profit attributable to:			
– Equity holders of the Company		**10.3**	14.6
– Non-controlling interests		**0.1**	0.1
		10.4	14.7
Total comprehensive income attributable to:			
– Equity holders of the Company		**10.1**	16.3
– Non-controlling interests		**0.1**	0.2
		10.2	16.5

£ Millions	Note	**Six months ended 30 June 2019 (Unaudited)** **Pence per Share**	Six months ended 30 June 2018 (Unaudited) Pence per Share
Earnings per share attributable to equity holders of the Company			
Basic	8	**53.8**	76.4
Diluted	8	**52.8**	74.9

* Balance is less than £100,000.

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2019

£ Millions	Note	At 30 June 2019 (Unaudited)	At 31 December 2018
ASSETS			
Current assets			
Corporate tax recoverable		**0.8**	0.8
Cash and cash equivalents		**10.8**	11.5
Inventories		**51.2**	56.5
Trade receivables		**33.2**	33.0
Other current assets		**3.5**	3.3
Derivative financial instruments		**0.1**	*
Total current assets		**99.6**	105.1
Non-current assets			
Goodwill		**54.0**	54.1
Intangible assets	9	**46.6**	43.6
Property, plant and equipment		**31.4**	30.7
Right-of-use assets	11	**5.5**	–
Deferred income tax assets		**1.0**	0.6
ESOP loans to employees		**0.1**	0.2
Total non-current assets		**138.6**	129.2
Total assets		**238.2**	234.3
LIABILITIES			
Current liabilities			
Current income tax liabilities		**3.6**	4.2
Trade and other payables		**22.4**	22.4
Derivative financial instruments		**0.1**	0.2
Lease liabilities	11	**1.9**	–
Total current liabilities		**28.0**	26.8

£ Millions	Note	At 30 June 2019 (Unaudited)	At 31 December 2018
Non-current liabilities			
Accrued consideration		**1.4**	1.4
Borrowings		**61.2**	63.5
Deferred income tax liabilities		**5.4**	4.7
Provisions		**0.1**	0.5
Lease liabilities	11	**3.8**	–
Total non-current liabilities		**71.9**	70.1
Total liabilities		**99.9**	96.9
NET ASSETS		**138.3**	137.4
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**27.2**	27.2
Treasury shares and share option reserve		**2.1**	1.1
Merger reserve		**0.2**	0.2
Hedging reserve		**0.1**	0.1
Translation reserve		**3.8**	4.0
Other reserve		**(0.8)**	(0.8)
Retained earnings		**104.8**	104.6
		137.4	136.4
Non-controlling interests		**0.9**	1.0
TOTAL EQUITY		**138.3**	137.4

* Balance is less than £100,000.

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Attributable		
£ Millions	Note	Share capital	Treasury shares and share option reserve	Merger reserve
Balance at 1 January 2018		27.2	0.4	0.2
Changes in accounting policy		–	–	–
Restated total equity as at 1 January 2018 (unaudited)		27.2	0.4	0.2
Sale of treasury shares		–	0.7	–
Employee share option plan expenses, net of tax		–	0.3	–
Dividends paid	7	–	–	–
Exchange difference arising from translation of financial statements of foreign operations		–	–	–
Net change in cash flow hedges		–	–	–
Profit for the year		–	–	–
Total comprehensive income for the period		–	–	–
Balance at 30 June 2018 (unaudited)		**27.2**	**1.4**	**0.2**
Balance at 1 January 2019		27.2	1.1	0.2
Sale of treasury shares		–	0.3	–
Employee share option plan expenses, net of tax		–	0.7	–
Dividends paid	7	–	–	–
Exchange difference arising from translation of financial statements of foreign operations		–	–	–
Net change in cash flow hedges		–	–	–
Profit for the year		–	–	–
Total comprehensive income for the period		–	–	–
Balance at 30 June 2019 (unaudited)		**27.2**	**2.1**	**0.2**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompany notes.

to equity holders of the Company

Hedging reserve	Translation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total Equity
(0.2)	(0.4)	(0.8)	89.6	116.0	0.9	116.9
–	–	–	0.4	0.4	–	0.4
(0.2)	(0.4)	(0.8)	90.0	116.4	0.9	117.3
–	–	–	(0.2)	0.5	–	0.5
–	–	–	–	0.3	–	0.3
–	–	–	(9.0)	(9.0)	(0.2)	(9.2)
–	1.2	–	–	1.2	0.1	1.3
0.5	–	–	–	0.5	–	0.5
–	–	–	14.6	14.6	0.1	14.7
0.5	1.2	–	14.6	16.3	0.2	16.5
0.3	**0.8**	**(0.8)**	**95.4**	**124.5**	**0.9**	**125.4**
0.1	4.0	(0.8)	104.6	136.4	1.0	137.4
–	–	–	(0.1)	0.2	–	0.2
–	–	–	–	0.7	–	0.7
–	–	–	(10.0)	(10.0)	(0.2)	(10.2)
–	(0.2)	–	–	(0.2)	–	(0.2)
–	–	–	–	–	–	–
–	–	–	10.3	10.3	0.1	10.4
–	(0.2)	–	10.3	10.1	0.1	10.2
0.1	**3.8**	**(0.8)**	**104.8**	**137.4**	**0.9**	**138.3**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

£ Millions	**Six months ended 30 June 2019 (Unaudited)**	Six months ended 30 June 2018 (Unaudited)
Cash flows from operating activities		
Profit after income tax	**10.4**	14.7
Adjustments for:		
– Income tax expense	**2.5**	3.8
– Amortisation and depreciation	**6.1**	3.9
– Finance charge	**1.6**	0.4
– Equity award charges	**0.5**	0.3
– Fair value (gain)/loss on derivative financial instruments	**(0.2)**	0.4
– Unrealised currency translation (gain)/loss	**(0.3)**	0.7
Change in the working capital, net of effects from acquisitions:		
– Inventories	**5.3**	(10.1)
– Trade and other receivables	**(0.6)**	(4.5)
– Trade and other payables	**0.4**	6.1
– Provision for liabilities and other charges	**(0.5)**	0.1
Cash generated from operations	**25.2**	15.8
Income tax paid	**(2.6)**	(2.4)
Net cash provided by operating activities	**22.6**	13.4
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	**–**	(35.6)
Purchases and construction of property, plant and equipment	**(2.6)**	(2.8)
Capitalisation of research and development expenditure	**(4.4)**	(2.8)
Capitalisation of intangible software and software under development	**(1.9)**	–
Proceeds from disposal of property, plant and equipment	**0.1**	–
Repayment of ESOP loans	**0.1**	0.1
Net cash used in investing activities	**(8.7)**	(41.1)

£ Millions	Six months ended 30 June 2019 (Unaudited)	Six months ended 30 June 2018 (Unaudited)
Cash flows from financing activities		
Proceeds from borrowings	**–**	37.3
Repayment of borrowings	**(2.4)**	(3.5)
Payment of lease liabilities	**(0.8)**	–
Sale of treasury shares	**0.3**	0.7
Interest paid	**(1.4)**	(0.4)
Dividends paid to equity holders of the Company	**(10.0)**	(9.0)
Dividends paid to non-controlling interests	**(0.2)**	(0.2)
Net cash (used in)/provided by financing activities	**(14.5)**	24.9
Net decrease in cash and cash equivalents	**(0.6)**	(2.8)
Cash and cash equivalents at beginning of financial period	**11.5**	15.0
Effects of currency translation on cash and cash equivalents	**(0.1)**	(0.1)
Cash and cash equivalents at end of financial period	**10.8**	12.1

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

XP Power Limited (the "Company") is listed on the London Stock Exchange and incorporated and domiciled in Singapore. The address of its registered office is 401 Commonwealth Drive, Lobby B #02-02, Haw Par Technocentre, Singapore 149598.

The nature of the Group's operations and its principal activities is to provide power supply solutions to the electronics industry.

These condensed consolidated interim financial statements are presented in Pounds Sterling (GBP).

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the period ended 30 June 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* as adopted by the European Union.

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

3. GOING CONCERN

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

4. ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical cost convention except for the fair value of derivatives in accordance with IFRS 9 *Financial Instruments*.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated interim financial statements as were applied in the presentation of the Group's financial statements for the year ended 31 December 2018 except for the adoption of new and amended standards as set out below.

4. ACCOUNTING POLICIES (continued)

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting IFRS 16 *Leases*.

The impact of the adoption of the new lease standard and accounting policy is disclosed in note 11. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

5. SEGMENTED AND REVENUE INFORMATION

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

REVENUE

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions.

ANALYSIS BY CLASS OF CUSTOMER

The revenue by class of customer is as follows:

Six months ended 30 June 2019

£ Millions	Europe	North America	Asia	Total
Primary geographical markets				
Semiconductor Equipment Manufacturing	**0.2**	**17.1**	**0.2**	**17.5**
Technology	**3.0**	**7.3**	**0.5**	**10.8**
Industrial	**24.1**	**15.4**	**7.7**	**47.2**
Healthcare	**5.6**	**16.5**	**1.3**	**23.4**
	32.9	**56.3**	**9.7**	**98.9**

5. SEGMENTED AND REVENUE INFORMATION (continued)

Six months ended 30 June 2018

£ Millions	Europe	North America	Asia	Total
Primary geographical markets				
Semiconductor Equipment Manufacturing	0.2	24.2	0.5	24.9
Technology	2.9	5.6	0.5	9.0
Industrial	21.0	14.0	4.1	39.1
Healthcare	5.6	13.2	1.4	20.2
	29.7	57.0	6.5	93.2

Reconciliation of segment results to profit after income tax:

£ Millions	Six months ended 30 June 2019 (Unaudited)	Six months ended 30 June 2018 (Unaudited)
Europe	**8.8**	8.3
North America	**15.6**	20.1
Asia	**3.3**	2.1
Segment results	**27.7**	30.5
Research and development	**(4.5)**	(4.0)
Manufacturing	**(2.2)**	(1.7)
Corporate cost from operating segment	**(2.8)**	(4.1)
Adjusted operating profit	**18.2**	20.7
Finance charge	**(1.6)**	(0.4)
Specific items	**(3.7)**	(1.8)
Profit before income tax	**12.9**	18.5
Income tax expense	**(2.5)**	(3.8)
Profit after income tax	**10.4**	14.7

5. SEGMENTED AND REVENUE INFORMATION (continued)

£ Millions	At 30 June 2019 (Unaudited)	At 31 December 2018
Total assets		
Europe	**30.8**	28.8
North America	**128.9**	128.7
Asia	**76.7**	75.4
Segment assets	**236.4**	232.9
Unallocated deferred and current income tax	**1.8**	1.4
Total assets	**238.2**	234.3

RECONCILIATION OF ADJUSTED MEASURES

The Group presents adjusted operating profit and adjusted profit before tax by making adjustments for costs and profits which management believes to be significant by virtue of their size, nature or incidence or which have a distortive effect on current year earnings. Such items may include, but are not limited to, costs associated with business combinations, amortisation of intangible assets arising from business combinations, reorganisation costs, and ERP implementation costs.

In addition, the Group presents an adjusted profit after tax measure by making adjustments for certain tax charges and credits which management believe to be significant by virtue of their size, nature or incidence or which have a distortive effect.

5. SEGMENTED AND REVENUE INFORMATION (continued)

The Group uses these adjusted measures to evaluate performance and as a method to provide shareholders with clear and consistent reporting. See below for a reconciliation of operating profit to adjusted operating profit and a reconciliation of profit before tax to adjusted profit before tax.

(i) Reconciliation of operating profit to adjusted operating profit:

£ Millions	Six months ended 30 June 2019 (Unaudited)	Six months ended 30 June 2018 (Unaudited)
Operating profit	**14.5**	18.9
Adjusted for:		
Acquisition costs	**0.4**	0.4
Costs related to ERP implementation	**0.5**	–
Amortisation of intangible assets due to business combination	**1.6**	1.0
Changes in accounting policy	**–**	0.4
Legal costs (refer to note 10)	**1.2**	–
	3.7	1.8
Adjusted operating profit	**18.2**	20.7
Adjusted operating margin	**18.4%**	22.2%
(ii) Reconciliation of profit before tax to adjusted profit before tax:		
Profit before tax ("PBT")	**12.9**	18.5
Adjusted for:		
Acquisition costs	**0.4**	0.4
Costs related to ERP implementation	**0.5**	–
Amortisation of intangible assets due to business combination	**1.6**	1.0
Changes in accounting policy	**–**	0.4
Legal costs (refer to note 10)	**1.2**	–
	3.7	1.8
Adjusted PBT	**16.6**	20.3

6. TAXATION

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax expected for the full financial year. The effective tax rate as at 30 June 2019 is 19.4% (2018: 20.5%).

7. DIVIDENDS

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

	Six months ended 30 June 2019 (Unaudited)		Six months ended 30 June 2018 (Unaudited)	
	Pence per share	**£ Millions**	Pence per share	£ Millions
Prior year third quarter dividend paid	**19.0**	**3.7**	18.0	3.4
Prior year final dividend paid	**33.0**	**6.3**	29.0	5.6
Total	**52.0**	**10.0**	47.0	9.0

The dividends paid recognised in the interim financial statements relate to the third quarter and final dividends for 2018.

The first quarterly dividend of 17.0 pence per share (2018: 16.0 pence per share) was paid on 11 July 2019. A second quarterly dividend of 18.0 pence per share (2018: 17.0 pence per share) will be paid on 10 October 2019 to shareholders on the register at 13 September 2019.

8. EARNINGS PER SHARE

Earnings per share attributable to equity holders of the company arise from continuing operations as follows:

£ Millions	Six months ended 30 June 2019 (Unaudited)	Six months ended 30 June 2018 (Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the company)	**10.3**	14.6
Amortisation of intangibles associated due to business combinations	**1.6**	1.0
Acquisition costs	**0.4**	0.4
Non-recurring tax benefits	**(0.5)**	(0.1)
Costs related to ERP implementation	**0.5**	–
Changes in accounting policy	**–**	0.4
Legal costs (refer to note 10)	**1.2**	–
Earnings for adjusted earnings per share	**13.5**	16.3
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**19,145**	19,114
Effect of potentially dilutive share options (thousands)	**359**	369
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,504**	19,483
Earnings per share from operations		
Basic	**53.8p**	76.4p
Basic adjusted	**70.5p**	85.3p
Diluted	**52.8p**	74.9p
Diluted adjusted	**69.2p**	83.7p

* Balance is less than £100,000.

9. INTANGIBLE ASSETS

£ Millions	Development costs	Brand	Trade-marks	Tech-nology	Customer relation-ships	Customer contracts	Intangible software	Intangible software under develop-ment	Total
Cost									
At 31 December 2018	36.4	1.0	1.0	5.2	18.6	0.6	0.2	1.7	64.7
Additions	4.4	–	–	–	–	–	*	1.9	6.3
Foreign currency translation	*	*	*	*	*	*	*	*	0.2
At 30 June 2019	**40.9**	**1.0**	**1.0**	**5.2**	**18.6**	**0.6**	**0.3**	**3.6**	**71.2**
Amortisation									
At 31 December 2018	16.3	0.1	0.9	0.8	2.4	0.6	*	–	21.1
Charge for the year	1.8	0.1	–	0.3	1.2	–	*	–	3.4
Foreign currency translation	*	*	–	*	*	*	*	–	0.1
At 30 June 2019	**18.1**	**0.2**	**0.9**	**1.1**	**3.6**	**0.6**	**0.1**	**–**	**24.6**
Carrying amount									
At 30 June 2019	**22.8**	**0.8**	**0.1**	**4.1**	**15.0**	**–**	**0.2**	**3.6**	**46.6**
At 31 December 2018	20.1	0.9	0.1	4.4	16.2	–	0.2	1.7	43.6

* Balance is less than £100,000.

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

Amortisation commences when the product is ready and available for use.

The remaining amortisation period for customer relationships ranges from three to nine years.

10. CONTINGENT LIABILITIES

The Group is involved in a non-customer related legal dispute in North America, which is currently in mediation. No provision in relation to the dispute has been recognised in these condensed interim financial statements as it is not probable that an outflow of economic benefits will occur, and the amount of outflow, if any, cannot be estimated reliably.

11.CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 below.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(A) ADJUSTMENTS RECOGNISED ON ADOPTION OF IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.3%.

£ Millions	
Operating lease commitments disclosed as at 31 December 2018	**7.8**
Discounted using the lessee's incremental borrowing rate of 5.3% at the date of initial application	**6.7**
(Less): short-term leases recognised on a straight-line basis as expense	**(0.2)**
(Less): low-value leases recognised on a straight-line basis as expense	**(0.2)**
Lease liability recognised as at 1 January 2019	**6.3**

	1 January 2019
Current	**1.5**
Non-current	**4.8**
Total lease liability	**6.3**

The associated right-of-use assets for property leases and other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

11.CHANGES IN ACCOUNTING POLICIES (continued)

(A) ADJUSTMENTS RECOGNISED ON ADOPTION OF IFRS 16 (continued)

The recognised right-of-use assets relate to the following types of assets:

£ Millions	30 June 2019	1 January 2019
Properties	**5.3**	6.1
Equipment	**0.2**	*
Total right-of-use assets	**5.5**	6.1

* Balance is less than £100,000.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

i) right-of-use assets – increase by £6.1 million

ii) lease liabilities – increase by £6.3 million

iii) accrued lease payments – decrease by £0.2 million

There was no impact on retained earnings on 1 January 2019.

PRACTICAL EXPEDIENTS APPLIED

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- for all leases, the Group has elected not to separate leases and non-lease components and instead accounts for these as a single lease component.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

11.CHANGES IN ACCOUNTING POLICIES (continued)

(B) THE GROUP'S LEASING ACTIVITIES AND HOW THESE ARE ACCOUNTED FOR

The Group leases various offices, warehouses and equipment. Rental contracts are typically made for fixed periods of 2 to 6 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowings purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessees exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

11.CHANGES IN ACCOUNTING POLICIES (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payment associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of IT equipment.

EXTENSION AND TERMINATION OPTIONS

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

MANAGING OUR RISKS

RISKS AND UNCERTAINTIES

Like many other international businesses, the Group is exposed to a number of risks and uncertainties which might have a material effect on its financial performance. These include:

AN EVENT THAT CAUSES A DISRUPTION TO ONE OF OUR MANUFACTURING FACILITIES

An event that results in the temporary or permanent loss of a manufacturing facility would be a serious issue. As the Group manufactures 78% 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.

PRODUCT RECALL

A product recall due to a quality or safety issue would have serious repercussions to the business in terms of potential cost and reputational damage as a supplier to critical systems.

SHORTAGE, NON-AVAILABILITY OR TECHNICAL FAULT WITH REGARD TO KEY ELECTRONIC COMPONENTS

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

COMPETITION FROM NEW MARKET ENTRANTS AND NEW TECHNOLOGIES

The power supply market is diverse and competitive. The Directors believe that the development of new technologies could give rise to significant new competition to the Group, which may have a material effect on its business. At the lower end of the Group's target market, in terms of both power range and programme size, the barriers to entry are lower and there is, therefore, a risk that competition could quickly increase particularly from emerging low-cost manufacturers in Asia.

FLUCTUATIONS OF REVENUES, EXPENSES AND OPERATING RESULTS DUE TO AN ECONOMIC SHOCK

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.

RISKS AND UNCERTAINTIES (CONTINUED)

DEPENDENCE ON KEY CUSTOMERS/SUPPLIERS

The Group is dependent on retaining its key customers and suppliers. Should the Group lose a number of its key customers or key suppliers, this could have a material impact on the Group's financial condition and results of operations. However, for the six months ended 30 June 2019, no one customer accounted for more than 9% of revenue.

CYBER SECURITY / INFORMATION SYSTEMS FAILURE

The Group is reliant on information technology in multiple aspects of the business from communications to data storage. Assets accessible online are potentially vulnerable to theft and customer channels are vulnerable to disruption. Any failure or downtime of these systems or any data theft could have a significant adverse impact on the Group's reputation or on the results of operations.

RISKS RELATING TO REGULATION, COMPLIANCE AND TAXATION

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

STRATEGIC RISK ASSOCIATED WITH VALUING OR INTEGRATING NEW ACQUISITIONS

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

LOSS OF KEY PERSONNEL OR FAILURE TO ATTRACT NEW PERSONNEL

The future success of the Group is substantially dependent on the continued services and continuing contributions of its Directors, senior management and other key personnel. The loss of the services of key employees could have a material adverse effect on own business.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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 Renminbi. The Group therefore has an exposure to foreign currency fluctuations. This could lead to material adverse movements in reported earnings.

DIRECTORS' RESPONSIBILITY STATEMENT

The interim results were approved by the Board of Directors on 1 August 2019.

The Directors confirm to the best of their knowledge that:

- the unaudited interim results have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union; and
- the interim results include a fair view of the information required by DTR 4.2.7 (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year) and DTR 4.2.8 (disclosure of related party transactions and changes therein).

The Directors of XP Power Limited are as follows:

James Peters	Non-Executive Chairman
Duncan Penny	Chief Executive Officer
Gavin Griggs	Chief Financial Officer
Andy Sng	Executive Vice President, Asia
Terry Twigger	Senior Non-Executive Director
Polly Williams	Non-Executive Director

Signed on behalf of the Board by

James Peters
Non-Executive Chairman
1 August 2019

Duncan Penny
Chief Executive Officer

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