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 on the financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £0.35 million – £1.6 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

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 £177,000 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 operations 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 business combination.

WHAT ARE THE KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and the directing of the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matters	How did our audit address these
Goodwill *Refer to page* 68 *(Report from the Chair of the Audit Committee), page* 111 *(Critical accounting judgements and key sources of estimation uncertainty – Impairment of Goodwill) and page* 121 *(Note 11 – Goodwill).* The Group has goodwill of £54.1 million at 31 December 2018 contained within three 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 23% of total assets, and because management's assessment of the "value-in-use" of the Group's CGUs involves significant judgements and assumptions about the future results of the business and the discount rates applied to future cash flow forecasts. Key judgements and assumptions 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 three CGUs.	We assessed the appropriateness of management's identification of the Group's CGUs and the process to test for goodwill impairment. 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 assessed the reasonableness of the inputs used in the derivation of the discount rates. We also focused on understanding and challenging management's plans for future growth for each of the three 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 three CGUs. 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. Sensitivity analyses were also performed on the discount rates and growth rates. We agreed with management that no impairment was required.
Capitalised product development *Refer to page* 68 *(Report from the Chair of the Audit Committee), page* 111 *(Critical accounting judgements and key sources of estimation uncertainty – Recoverability of Capitalised R&D) and page 122 (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 2018, the carrying value of product development costs capitalised as an intangible asset is £20.1 million, of which £6.2 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 9% of total assets, and because significant judgement is involved in determining whether the criteria to capitalise such product development costs, as set out in IAS 38, have been fulfilled and that the capitalised amounts are recoverable. 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 is heavily dependent on the useful lives of the developed products. Management determined the useful lives of the developed products based on the expected life cycle of these products, taking into consideration expected customer demand and technological innovation.	We assessed the appropriateness of capitalisation of product development costs by ensuring compliance with the criteria to capitalise product development costs as set out in IAS 38, and challenged management through discussions and qualitative reviews of the products' 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. For selected samples of developed products, we reviewed the actual sales during the year along with projected sales to ensure that the capitalised development costs are supported by demand and are recoverable. For selected samples of products in development, we reviewed the project business case, forecasted demand, and other supporting analysis to support the recoverability of these products. 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. 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.

Key audit matters	How did our audit address these
Business combination *Refer to page* 68 *(Report from the Chair of the Audit Committee), page* 122 *(Note 12 – Intangible assets) and page* 140 *(Note 31 – Business combination)* On 25 May 2018, the Group acquired the assets and business of Glassman High Voltage ("Glassman"), a US-based designer and manufacturer of High Voltage High Power conversion products. The final purchase consideration was US$47.5 million (£35.7 million). Management assessed that the acquisition of Glassman qualifies as a business combination by applying the definition in IFRS 3. Management determined that the fair value of the net identifiable assets acquired was US$30.8 million (£23.2 million) with US$20.8 million (£15.7 million) relating to intangible assets that arose from the business combination. The valuation of the intangible assets was performed as part of the Purchase Price Allocation. 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. The goodwill arising from the acquisition of Glassman of US$16.6 million (£12.5 million) is also highly dependent on the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date.	We reviewed management's assessment that the acquisition of Glassman should be accounted for as a business combination and determined that it was appropriately performed in accordance with the definition set out in IFRS 3. We assessed the appropriateness of the identifiable assets acquired and the liabilities assumed at the acquisition date by reviewing the clauses laid out in the purchase agreement. We also reviewed management's procedure for determining the fair value of the net identifiable assets acquired and noted no significant exceptions. 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. We reviewed the useful lives of the identified intangible assets as determined by management and consider these to be reasonable. The valuation methodologies used for determining the fair values of the identified intangible assets were also assessed to be appropriate. We involved valuation specialists to assist in the assessment of the models and key assumptions including discount rate, attrition rates, royalty rates and others. We focused on understanding and challenging management's inputs into the valuation model, which will have an impact on the fair value of the intangible assets. We assessed the projected future revenue growth and margins based not only on the historical performance of Glassman, but also relevant economic and industry indicators and considered such projections, as set by management, to be reasonable. We tested the calculation of the goodwill arising from the acquisition of Glassman, being the difference between the total purchase consideration and the fair value of the net identifiable assets and noted that management's computation was in line with IFRS 3. Also, the goodwill arising from the acquisition has been determined by management to be part of the North American CGU (please see key audit matter "Goodwill" on page 91). We have assessed management's determination of the CGU and noted no significant exceptions.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

GOING CONCERN

Under the UK Listing Rules ("Listing Rules") we are required to review the Directors' statement, set out on page 88, 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 40. Our review was substantially less in scope than an audit and only consisted of making enquiries 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 11 further provisions of the UK Corporate Governance Code, set out in the "Accountability" section on pages 63 to 64. We have nothing to report having performed our review.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the "Overview" section set out on pages 1 to 9, "Strategic Report" set out on pages 10 to 53, "Governance Report" set out on pages 54 to 88, and the "Financials" section on page 156 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 and will 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 IFRSs 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 financial statements and to maintain accountability of assets.

In preparing the 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 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

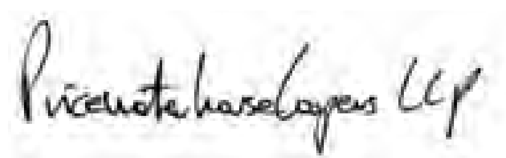
We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditor, 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

5 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

£ Millions	Note	2018	2017
Revenue	4	**195.1**	166.8
Cost of sales		**(102.8)**	(89.2)
Gross profit		**92.3**	77.6
Expenses			
Distribution and marketing		**(38.7)**	(31.7)
Administrative		**(2.9)**	(4.6)
Research and development	7	**(11.4)**	(8.8)
Operating profit		**39.3**	32.5
Finance charge	6	**(1.7)**	(0.3)
Profit before income tax		**37.6**	32.2
Income tax expense	8	**(7.2)**	(3.6)
Profit after tax		**30.4**	28.6
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges	24	**0.3**	(0.5)
Exchange differences on translation of foreign operations	24	**4.4**	(3.9)
		4.7	(4.4)
Items that will not be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation	24	**0.2**	*
Other comprehensive income/(loss) for the year, net of tax		**4.9**	(4.4)
Total comprehensive income for the year		**35.3**	24.2
Profit attributable to:			
Equity holders of the Company	24	**30.2**	28.3
Non-controlling interests		**0.2**	0.3
		30.4	28.6
Total comprehensive income attributable to:			
Equity holders of the Company		**34.9**	23.9
Non-controlling interests		**0.4**	0.3
		35.3	24.2
Earnings per share attributable to equity holders of the Company (pence per share)			
– Basic earnings per share	10	**157.8**	148.3
– Diluted earnings per share	10	**154.9**	146.0

* Balance is less than £100,000.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

£ Millions	Note	2018	2017
ASSETS			
Current assets			
Corporate tax recoverable	8	**0.8**	2.9
Cash and cash equivalents	15	**11.5**	15.0
Inventories	16	**56.5**	37.8
Trade receivables	17	**33.0**	23.8
Other current assets	18	**3.3**	3.8
Derivative financial instruments	22	*****	0.2
Total current assets		**105.1**	83.5
Non-current assets			
Goodwill	11	**54.1**	40.4
Intangible assets	12	**43.6**	23.5
Property, plant and equipment	13	**30.7**	22.5
Deferred income tax assets	23	**0.6**	1.4
ESOP loan to employees	26	**0.2**	0.3
Total non-current assets		**129.2**	88.1
Total assets		**234.3**	171.6
LIABILITIES			
Current liabilities			
Current income tax liabilities	8	**4.2**	3.5
Trade and other payables	19	**22.4**	21.4
Derivative financial instruments	22	**0.2**	0.2
Total current liabilities		**26.8**	25.1
Non-current liabilities			
Accrued consideration	20	**1.4**	1.4
Borrowings	21	**63.5**	24.0
Deferred income tax liabilities	23	**4.7**	4.2
Provisions		**0.5**	–
Total non-current liabilities		**70.1**	29.6
Total liabilities		**96.9**	54.7
NET ASSETS		**137.4**	116.9
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 and share option reserve	24	**1.1**	0.4
Hedging reserve	24	**0.1**	(0.2)
Translation reserve	24	**4.0**	(0.4)
Other reserve	24	**(0.8)**	(0.8)
Retained earnings	24	**104.6**	89.6
		136.4	116.0
Non-controlling interests		**1.0**	0.9
TOTAL EQUITY		**137.4**	116.9

* Balance is less than £100,000.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Attributable to equity holders of the Company									
£ Millions	Note	Share capital	Treasury shares and share option reserve	Merger reserve	Hedging reserve	Translation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017		27.2	(0.5)	0.2	0.3	3.5	–	75.4	106.1	0.8	106.9
Sale of treasury shares	24	–	1.0	–	–	–	–	(0.1)	0.9	–	0.9
Purchase of treasury shares	24	–	(1.6)	–	–	–	–	–	(1.6)	–	(1.6)
Employee share option plan expenses, net of tax	24	–	1.5	–	–	–	–	–	1.5	–	1.5
Dividends paid	9	–	–	–	–	–	–	(14.0)	(14.0)	(0.2)	(14.2)
Future acquisition of non-controlling interest	24	–	–	–	–	–	(0.8)	–	(0.8)	–	(0.8)
Exchange difference arising from translation of financial statements of foreign operations		–	–	–	–	(3.9)	–	–	(3.9)	*	(3.9)
Net change in cash flow hedges		–	–	–	(0.5)	–	–	–	(0.5)	–	(0.5)
Profit for the year		–	–	–	–	–	–	28.3	28.3	0.3	28.6
Total comprehensive income for the year	24	–	–	–	(0.5)	(3.9)	–	28.3	23.9	0.3	24.2
Balance at 31 December 2017		27.2	0.4	0.2	(0.2)	(0.4)	(0.8)	89.6	116.0	0.9	116.9
Changes in accounting policy	2.1 (b)	–	–	–	–	–	–	0.4	0.4	–	0.4
Restated total equity as at 1 January 2018		**27.2**	**0.4**	**0.2**	**(0.2)**	**(0.4)**	**(0.8)**	**90.0**	**116.4**	**0.9**	**117.3**
Sale of treasury shares	24	–	0.8	–	–	–	–	(0.3)	0.5	–	0.5
Employee share option plan expenses, net of tax	24	–	(0.1)	–	–	–	–	–	(0.1)	–	(0.1)
Dividends paid	9	–	–	–	–	–	–	(15.3)	(15.3)	(0.3)	(15.6)
Exchange difference arising from translation of financial statements of foreign operations		–	–	–	–	4.4	–	–	4.4	0.2	4.6
Net change in cash flow hedges		–	–	–	0.3	–	–	–	0.3	–	0.3
Profit for the year		–	–	–	–	–	–	30.2	30.2	0.2	30.4
Total comprehensive income for the year	24	–	–	–	0.3	4.4	–	30.2	34.9	0.4	35.3
Balance at 31 December 2018		**27.2**	**1.1**	**0.2**	**0.1**	**4.0**	**(0.8)**	**104.6**	**136.4**	**1.0**	**137.4**

* Balance is less than £100,000.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

£ Millions	Note	2018	2017
Cash flows from operating activities			
Profit after tax		**30.4**	28.6
Adjustments for:			
– Income tax expense	8	**7.2**	3.6
– Amortisation and depreciation	7	**9.1**	5.9
– Finance charge	6	**1.7**	0.3
– Equity award charges	5	**0.8**	0.4
– Fair value loss/(gain) on derivative financial instruments		**0.5**	(0.5)
– Unrealised currency translation loss/(gain)		**2.7**	(2.9)
Change in working capital, net of effects from acquisitions:			
– Inventories		**(16.4)**	(2.5)
– Trade and other receivables		**(5.6)**	(1.6)
– Trade and other payables		**(0.1)**	5.3
– Provision for liabilities and other charges		**0.5**	(0.8)
Cash generated from operations		**30.8**	35.8
Income tax paid, net of refund	8	**(4.1)**	(6.1)
Net cash provided by operating activities		**26.7**	29.7
Cash flows from investing activities			
Acquisition of a business, net of cash acquired	31	**(35.5)**	(18.2)
Purchases and construction of property, plant and equipment	13	**(7.9)**	(4.9)
Capitalisation of research and development expenditure	12	**(6.2)**	(5.2)
Capitalisation of intangible software and software under development		**(0.9)**	–
Proceeds from disposal of property, plant and equipment		**0.1**	0.4
Repayment of ESOP loans		**0.1**	0.4
Payment of accrued consideration		**–**	(0.5)
Net cash used in investing activities		**(50.3)**	(28.0)
Cash flows from financing activities			
Proceeds from borrowings		**39.4**	25.2
Repayment of borrowings		**(3.4)**	(5.4)
Sale of treasury shares		**0.5**	1.0
Purchase of treasury shares by ESOP		**–**	(1.6)
Interest paid		**(1.5)**	(0.2)
Dividend paid to equity holders of the Company	9	**(15.3)**	(14.0)
Dividend paid to non-controlling interests		**(0.3)**	(0.2)
Net cash provided by financing activities		**19.4**	4.8
Net (decrease)/increase in cash and cash equivalents		**(4.2)**	6.5
Cash and cash equivalents at beginning of financial year		**15.0**	9.2
Effects of currency translation on cash and cash equivalents		**0.7**	(0.7)
Cash and cash equivalents at end of financial year	15	**11.5**	15.0
Reconciliation of liabilities arising from financing activities:			
Bank borrowings			
At 1 January		**24.0**	5.5
Principal and interest payments		**(4.9)**	(5.6)
Proceeds from borrowings		**39.4**	25.2
Non-cash changes:			
– Accrued interest expenses		**1.5**	0.2
– Foreign exchange movement		**3.5**	(1.3)
At 31 December		**63.5**	24.0

The accompanying notes form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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 10 to 11.

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 (the "Group") 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 and IFRIC 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

On 1 January 2018, the Group adopted the new or amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and IFRIC.

The adoption of these new or amended IFRS did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current or previous financial years except for the following:

IMPACT ON THE FINANCIAL STATEMENTS

The Group has adopted IFRS 9 and IFRS 15 using the modified retrospective approach with the cumulative impact of the adoption recognised in the opening retained earnings as at 1 January 2018. The following table shows the adjustments recognised for each individual line item.

£ Millions	At 31 December 2017	Effects of IFRS 9	Effects of IFRS 15	**At 1 January 2018 Restated**
ASSETS				
Trade receivables	23.8	0.4	*	**24.2**
EQUITY				
Retained earnings	89.6	0.4	*	**90.0**

*Balances less than £100,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

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

i. New and amended standards adopted by the Group (CONTINUED)

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 replaces the provisions of IAS 39 that relate to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 *Financial Instruments* from 1 January 2018 resulted in changes to accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in notes 2.10 and 2.15. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

(i) Classification and measurement

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

£ Millions	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	15.0	15.0
Trade receivables	Loans and receivables	Amortised cost	23.8	24.2
Other current assets (excluding prepayments and VAT receivables)	Loans and receivables	Amortised cost	1.0	1.0
Derivative financial instruments	Held for trading	Mandatorily at Fair Value through Profit or Loss ("FVTPL")	0.2	0.2
ESOP Loan to employees	Loans and receivables	Amortised cost	0.3	0.3

a. Cash and cash equivalents, trade receivables, other current assets (excluding prepayments and VAT receivables) and ESOP Loan to employees were classified as loans and receivables under IAS 39 and are now classified at amortised cost. There was no impact on the amounts recognised in relation to these assets except for trade receivables from the adoption of IFRS 9.

b. Derivative financial instruments that were previously held for trading are required to be held as FVTPL under IFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of IFRS 9.

(ii) Derivatives and hedging activities

Foreign currency forward contracts in place as at 31 December 2017 were entered into hedge exchange rate movements of highly probable future sales and qualify as cash flow hedges under IFRS 9.

The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

There have been no changes to the recognition and measurement of derivatives and hedging activities under IFRS 9.

(iii) Impairment of financial assets

The Group's financial assets that are subject to IFRS 9's new expected credit loss model includes trade receivables, ESOP Loan to employees and other current assets (excluding prepayments and VAT receivables).

The Group revised its impairment methodology under IFRS 9 for trade receivables. The impact of the change resulted in an increase of £0.4 million to trade receivables.

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

£ Millions	Loss allowance
At 31 December 2017 – calculated under IAS 39	0.5
Amounts restated through opening retained earnings	(0.4)
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	0.1

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

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

i. New and amended standards adopted by the Group (CONTINUED)

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the modified retrospective approach with the cumulative impact of the adoption recognised in the opening retained earnings at 1 January 2018. Comparative information for 2017 are not restated.

The impact of adoption on the consolidated income statement and balance sheet was less than £0.1 million as at 1 January 2018.

The accounting policies for revenue from contracts with customers under IFRS 15 are disclosed in Note 2.3.

The effects on adoption of IFRS 15 are as follows:

(i) Accounting for early payment discounts

When there is a sale of goods, certain customers will be entitled to early repayment discounts which are based on the agreed discount rate and early repayment terms. The Group previously recognised the early payment discounts when the customers made the payment under IAS 18.

Under IFRS 15, if the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

The Group uses the most likely amount approach as there will be only two possible outcomes: either the customers make the payment and receive the discount or pay after the early payment date and don't receive the discount. The Group recognised the sales discounts assuming all customers eligible for the discount make payment by the early payment date. The impact is less than £0.1 million for the financial year ended 31 December 2017.

(ii) Accounting for sales volume rebates

When there is a sale of goods, certain customers will be entitled to sales volume rebates which are based on total spending multiplied by the agreed rebates percentage. The Group previously recognised the sales rebates based on billings to date based on IAS 18.

Under IFRS 15, the Group uses the expected value approach as there is a range of possible consideration amounts depending on the sales volume which in turn will affect the amount of rebates. The Group estimates the rebate percentage that the participating customers will be eligible for by the end of the rebate programme year and applies that rebate percentage to the billings to date. £0.1 million of accrual rebates has been accounted for in the financial year ended 31 December 2017.

Had the Group applied IAS18 and its interpretation during 2018, the revenue and retained earnings would not have increased/decreased by more than £100,000.

ii. New standards and interpretations issued but not yet adopted

IFRS 16 LEASES (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exception are short-term and low-value assets. The accounting for lessors will not change significantly.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to its first adoption. Right-of-use assets for property leases and other leases will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at 31 December 2018, the Group has non-cancellable operating lease commitments of £7.8 million. Of these commitments, approximately £0.2 million relate to short-term leases and £0.2 million to low-value assets which will both be recognised on a straight-line basis as an expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately £6.3 million on 1 January 2019 and lease liabilities of £6.3 million. Overall net current assets will be £1.5 million lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately £0.2 million for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately £1.5 million as repayment of the principal portion of the lease liabilities will be reclassified as cash flows from financing activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of comprehensive income, except when deferred in other currency translation reserve as qualifying cash flow hedges.

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

(c) Translation of Group entities' financial statements

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

i. assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date;
ii. income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly, and the average rate is not considered a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated using the exchange rates at the dates of the transactions;
iii. exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal of the entity giving rise to such reserve; and
iv. goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the date of the balance sheet. The Group has elected to treat goodwill and fair value adjustments arising on the acquisitions before the date of transition to IFRS as Pound Sterling denominated assets and liabilities converted using the exchange rates at the dates of acquisition.

2.3 REVENUE RECOGNITION

(a) Sales of goods

The Group manufactures and sells a range of power products. Sales are recognised when control of the products has transferred to its customer, being when the products are delivered to the buyer, the buyer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the buyer, and either the buyer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Power products are sometimes sold with volume discounts based on aggregate sales over a 12-month period or early payment discounts if the customers make early repayment. Revenue from these sales is recognised based on the price specified in the contract, net of the discounts. Accumulated experience is used to estimate and provide for the volume discounts, using the expected value method, and early payment discounts, using the most likely approach. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice. The Group will usually issue a credit note for refund for faulty products.

A receivable (financial asset) is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 REVENUE RECOGNITION (CONTINUED)

Volume rebates and early payment discounts are recognised when the goods are delivered and is presented as a reduction in trade and other receivables.

The Group has elected to apply the practical expedient not to adjust the transaction price for the existence of significant financing components when the period between the transfer of control of good or service to a customer and the payment date is one year or less.

Prior to 1 January 2018, 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. The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met.

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 receivables is reasonably assured.

(b) Interest income

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

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity, and balance sheet.

Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 GROUP ACCOUNTING (CONTINUED)

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 statement of comprehensive income. 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 statement of comprehensive income.

2.5 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.

2.6 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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 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

The cost of an item of internally generated intangible assets initially recognised includes materials used, direct labour and other directly attributable costs to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

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 three and seven years depending on the exact nature of the project undertaken. Amortisation commences when the product is ready and available for use.

(c) Acquired computer software licences

Acquired computer software licences are initially capitalised at cost which includes the purchase prices (net of any discounts and rebates) and other directly attributable costs of preparing the asset for its intended use. Direct expenditures including employee costs, which enhance or extend the performance of computer software beyond its specifications and which can be reliably measured, are added to the original cost of the software. Costs associated with maintaining the computer software are expensed off when incurred.

Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of 7 years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

(d) 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 statement of comprehensive income on a straight-line basis over the estimated useful lives as follows:

Brand	–	10% – 50%
Technology	–	10% – 20%
Customer relationships	–	10% – 20%
Customer contracts	–	90% – 100%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

(a) Goodwill

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised as an expense and is not reversed in a subsequent period.

(b) Intangible assets
Property, plant and equipment
Investments in subsidiaries

Intangible assets, property, plant and equipment and investments in subsidiaries 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.

2.9 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.

2.10 FINANCIAL ASSETS

Beginning 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost; and
- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss).

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets.

For assets measured at fair values, gains or losses will either be recorded in profit or loss or other comprehensive income.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 FINANCIAL ASSETS (CONTINUED)

AT SUBSEQUENT MEASUREMENT

Debt instruments

Debt instruments mainly comprise of "trade receivables", "other current assets (excluding prepayments and VAT receivables)", "cash and cash equivalents" and "ESOP loans to employees" in the balance sheet.

There are three subsequent measurement categories, depending on the Group's business model for managing the asset and the cash flow characteristics of the asset:

- Amortised cost: Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income ("FVOCI"): Debt instruments that are held for collection of contractual cash flows and for sale, and where the assets' cash flows represent solely payments of principal and interest, are classified as FVOCI. Movements in fair values are recognised in Other Comprehensive Income ("OCI") and accumulated in fair value reserve, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and presented in "other gains/(losses)". Interest income from these financial assets is recognised using the effective interest rate and presented in "interest income".
- FVTPL: Debt instruments that are held for trading as well as those that do not meet the criteria for classification as amortised cost or FVOCI are classified as FVTPL. Movement in fair values and interest income that is not part of a hedging relationship is recognised in profit or loss in the period in which it arises and presented in "other gains/(losses)".

The Group applies the IFRS 9 simplified approach and uses a provision matrix to measure expected credit loss which uses a lifetime expected loss allowance for all trade receivables.

Expected credit loss is assessed separately for each of the Group's key regions and is based on each region's two-year historical credit loss experience.

Prior to 1 January 2018, the Group classified its financial assets depending on the nature of the asset and the purpose for which the assets were acquired. Management determined the classification of its financial assets at initial recognition. The Group's financial assets comprise of loans and receivables.

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

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

The Group assessed at the end of each reporting period, whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

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

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could 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 was recognised in the statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 FINANCIAL ASSETS (CONTINUED)

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.

2.11 TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods and services 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.

2.12 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 statement of comprehensive income when the changes arise.

2.13 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 statement of comprehensive income 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 drawdown 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.

Borrowing costs are recognised in profit or loss using the effective interest method.

2.14 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 statement of comprehensive income on a straight-line basis over the period of the lease.

2.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

CASH FLOW HEDGES THAT QUALIFY FOR HEDGE ACCOUNTING

(i) Currency forwards

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

When currency forwards are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item (aligned forward element) is recognised within OCI in the hedging reserve within equity. In some cases, the Group may designate the full change in fair value of the forward contract (including forward points) as the hedging instruments. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Amounts accumulated in equity are reclassified to the statement of comprehensive income 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.

2.16 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 statement of comprehensive income 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 statement of comprehensive income, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 CURRENT AND DEFERRED INCOME TAX (CONTINUED)

As the timing of the tax deduction and the recognition of the employee share option expense differs, IAS 12 requires the recognition of the related deferred tax asset if the deferred tax asset recognition criteria are met. For an equity-settled share-based payment, if the cumulative amount of tax deduction exceeds the tax effect of the related cumulative remuneration expense at the reporting date, the excess of the associated deferred tax shall be recognised directly in equity. All taxes related to cash-settled share-based payments shall be recognised in profit or loss.

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 and deposits with financial institutions.

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 statement of comprehensive income, with a corresponding adjustment to the treasury share reserve over the remaining vesting period.

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

2.19 DEFINED CONTRIBUTION PLANS

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 statement of comprehensive income when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to the balance sheet date.

2.21 SHARE CAPITAL AND TREASURY SHARES

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

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

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

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

Other reserve comprises future transactions with the non-controlling interest. The amount that may become payable under the agreement is initially recognised at the present value of the redemption amount within liabilities with a corresponding charge directly to equity. The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the agreement first becomes exercisable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 £6.2 million (2017: £5.2 million) of development costs were capitalised, bringing the total amount of development costs capitalised as intangible assets as at 31 December 2018 to £20.1 million (2017: £16.0 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 statement of comprehensive income.

(b) Impairment of goodwill

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

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

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 2018 was £54.1 million (2017: £40.4 million) with no impairment adjustment required for 2018.

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.

4. SEGMENTED AND REVENUE INFORMATION

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, trade receivables, cash and cash equivalents, derivative financial instruments and exclude tax assets.

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

(i) 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:

	Year to 31 December 2018				Year to 31 December 2017			
£ Millions	Europe	North America	Asia	Total	Europe	North America	Asia	Total
Semiconductor Manufacturing	**0.5**	**46.2**	**0.7**	**47.4**	0.3	28.1	1.3	29.7
Technology	**6.2**	**13.0**	**1.2**	**20.4**	5.9	8.6	2.7	17.2
Industrial	**43.2**	**30.6**	**9.9**	**83.7**	42.1	29.8	6.2	78.1
Healthcare	**11.2**	**29.3**	**3.1**	**43.6**	9.2	27.9	4.7	41.8
Total	**61.1**	**119.1**	**14.9**	**195.1**	57.5	94.4	14.9	166.8

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

(i) Revenue (CONTINUED)

Revenues of £27.9 million (2017: £17.0 million) are derived from a single external customer. These revenues are attributable to the semiconductor manufacturing sector.

The Group operates in the following regions and countries:

£ Millions	2018	2017
North America	110.0	84.2
United Kingdom	28.3	28.8
Singapore	24.9	23.4
Germany	14.9	13.4
Switzerland	2.6	2.8
France	3.7	3.5
Other countries	10.7	10.7
Total revenue	**195.1**	166.8

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

Revenue is based on sales generated in each region or country.

(ii) Segment

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2018 and prior year comparatives is as follows.

Reconciliation of segment results to profit after tax:

£ Millions	2018	2017
Europe	15.9	14.6
North America	40.8	35.4
Asia	4.9	4.5
Segment results	**61.6**	54.5
Research and development	(8.7)	(7.1)
Manufacturing	(2.7)	(1.9
Corporate cost from operating segment	(7.3)	(9.1)
Adjusted Operating Profit	**42.9**	36.4
Finance charge	(1.7)	(0.3)
Specific items	(3.6)	(3.9)
Profit before income tax	**37.6**	32.2
Income tax expense	(7.2)	(3.6)
Profit after tax	**30.4**	28.6

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

(ii) Segment (CONTINUED)

Capital additions comprises additions to property, plant and equipment.

£ Millions	Year to 31 December 2018 Europe	North America	Asia	Total	Year to 31 December 2017 Europe	North America	Asia	Total
Other information								
Capital additions	0.5	4.7	5.7	10.9	0.7	4.0	3.0	7.7
Depreciation	0.6	1.1	1.7	3.4	0.6	0.7	1.5	2.8
Intangible assets additions	0.4	18.1	4.7	23.2	0.4	8.6	3.1	12.1
Amortisation	–	4.1	1.6	5.7	–	1.8	1.3	3.1
Balance sheet								
Goodwill	9.7	42.8	1.6	54.1	9.8	29.0	1.6	40.4
Other non-current assets	3.8	40.5	30.2	74.5	3.6	21.0	21.7	46.3
Inventories	1.6	23.9	31.0	56.5	1.5	12.9	23.4	37.8
Trade receivables	9.3	19.1	4.6	33.0	7.6	13.4	2.8	23.8
Cash and cash equivalents	3.3	1.6	6.6	11.5	3.3	5.2	6.5	15.0
Other current assets	1.1	0.8	1.4	3.3	0.8	0.5	2.5	3.8
Derivative financial instruments	–	–	*	*	–	–	0.2	0.2
Segment assets	28.8	128.7	75.4	232.9	26.6	82.0	58.7	167.3
Unallocated deferred income tax and current income tax	–	–	–	1.4	–	–	–	4.3
Consolidated total assets				234.3				171.6
Trade and other payables	(3.1)	(7.1)	(12.2)	(22.4)	(2.7)	(5.3)	(13.4)	(21.4)
Borrowings	–	(63.5)	–	(63.5)	–	(24.0)	–	(24.0)
Derivative financial instruments	–	–	(0.2)	(0.2)	–	–	(0.2)	(0.2)
Provisions	–	(0.4)	(0.1)	(0.5)	–	–	–	–
Accrued consideration	(0.6)	–	(0.8)	(1.4)	(0.6)	–	(0.8)	(1.4)
Segment liabilities	(3.7)	(71.0)	(13.3)	(88.0)	(3.3)	(29.3)	(14.4)	(47.0)
Unallocated deferred and current income tax	–	–	–	(8.9)	–	–	–	(7.7)
Consolidated total liabilities				(96.9)				(54.7)

* Balance is less than £100,000.

NON-CURRENT ASSETS, OTHER THAN DEFERRED INCOME TAX ASSETS, BY COUNTRIES:

£ Millions	2018	2017
North America	83.3	50.0
United Kingdom	4.8	4.7
Singapore	16.8	12.0
Germany	0.3	0.3
Switzerland	3.6	3.6
France	0.2	0.2
Other countries	19.6	15.9
Total non-current assets	128.6	86.7

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

RECONCILIATION OF ADJUSTED MEASURES

The Group presents adjusted operating profit, adjusted EBITDA 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, gains and losses on the disposal of businesses, fair value movements, exceptional operating costs, and amortisation of intangible assets arising on business combinations. Exceptional operating costs include reorganisation costs, acquisition-related charges and similar items of a significant and a non-recurring nature.

The Group discloses adjusted EBITDA, being adjusted operating profit before depreciation of property, plant and equipment and amortisation of intangible assets. Adjusted EBITDA is broadly used by analysts, rating agencies, investors and the Group's banks as part of their assessment of the Group's performance. A reconciliation of adjusted EBITDA from operating profit is shown below.

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

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 EBITDA and adjusted operating profit, a reconciliation of profit before tax to adjusted profit before tax and a reconciliation of profit after tax to adjusted profit after tax.

(i) A reconciliation of operating profit to adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") is as follows:

£ Millions	2018	2017
Operating profit	**39.3**	32.5
Amortisation of intangible assets	**5.7**	3.1
Depreciation	**3.4**	2.8
EBITDA	**48.4**	38.4
Adjusted for:		
Acquisition costs	**0.6**	3.3
Costs related to ERP implementation	**0.2**	–
Adjusted EBITDA	**49.2**	41.7

(ii) A reconciliation of operating profit to adjusted operating profit is as follows:

£ Millions	2018	2017
Operating profit	**39.3**	32.5
Adjusted for:		
Acquisition costs	**0.6**	3.3
Costs related to ERP implementation	**0.2**	–
Amortisation of intangible assets due to business combination	**2.8**	0.6
	3.6	3.9
Adjusted operating profit	**42.9**	36.4

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

(iii) A reconciliation of profit before income tax to adjusted profit before tax is as follows:

£ Millions	2018	2017
Profit before income tax ("PBT")	37.6	32.2
Adjusted for:		
Acquisition costs	0.6	3.3
Costs related to ERP implementation	0.2	–
Amortisation of intangible assets due to business combination	2.8	0.6
	3.6	3.9
Adjusted PBT	**41.2**	36.1

(iv) A reconciliation of profit after tax to adjusted profit after tax is as follows:

£ Millions	2018	2017
Profit after tax ("PAT")	30.4	28.6
Adjusted for:		
Acquisition costs	0.6	3.3
Costs related to ERP implementation	0.2	–
Amortisation of intangible assets due to business combination	2.8	0.6
Non-recurring tax benefits[1]	(0.1)	(3.7)
	3.5	0.2
Adjusted PAT	**33.9**	28.8

1. Adjusted for tax on exceptional expense for both completed and aborted acquisitions of £0.1 million (2017: £1.1 million), one-off tax adjustment of £nil (2017: £1.3 million) and tax effect of change in US federal tax of £nil (2017: £1.3 million).

5. EMPLOYEE COMPENSATION (INCLUDING DIRECTORS)

£ Millions	2018	2017
Wages and salaries	47.6	36.8
Employers' contribution to defined contribution plans	6.8	6.2
Share option expense	0.8	0.4
Total	**55.2**	43.4

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

6. FINANCE CHARGE

£ Millions	2018	2017
Interest expense on bank loans and overdrafts	1.5	0.2
Amortisation of financing cost	0.1	–
Others	0.1	0.1
Total	**1.7**	0.3

7. EXPENSES BY NATURE

£ Millions	2018	2017
Profit after tax is after charging:		
Amortisation of intangible assets	**5.7**	3.1
Depreciation of property, plant and equipment	**3.4**	2.8
Employee compensation (Note 5)	**55.2**	43.4
Foreign exchange loss	**0.4**	–
(Gain)/loss on foreign exchange forwards	**(0.3)**	0.2
Purchases of inventories	**102.4**	80.3
Changes in inventories	**(18.7)**	(5.5)
Fees payable to the Group's Auditor for the audit of the Group's accounts	**0.5**	0.4
Tax fees payable to other firms for services provided to the Group	*****	0.2
Rent/lease expense	**1.6**	1.6
Finance charge (Note 6)	**1.7**	0.3
Net capitalised software development expenditure	**(1.1)**	–
Other charges	**6.7**	7.8
Total	**157.5**	134.6

* Balance is less than £100,000.

Fees payable to the Group's Auditor for non-audit services is £nil (2017: £nil) of their total audit fees.

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

£ Millions	2018	2017
Gross research and development expenditure	**14.7**	11.5
Development expenditure capitalised	**(6.2)**	(5.2)
Amortisation of development expenditure capitalised	**2.9**	2.5
Net research and development expenditure	**11.4**	8.8

Included in the above is net capitalised software development expenditure as follows:

£ Millions	2018	2017
Gross spending on software development expenditure	**1.3**	–
Costs related to ERP implementation	**(0.2)**	–
Net capitalised software development expenditure	**1.1**	–

8. INCOME TAXES

£ Millions	2018	2017
Singapore corporation tax:		
– current year	3.5	3.1
– over-provision in prior financial year	(0.2)	(1.5)
Overseas corporation tax:		
– current year	3.3	2.6
– under/(over)-provision in prior financial year	0.3	(0.4)
Current income tax	6.9	3.8
Deferred income tax		
– current year	0.3	1.1
– change in tax rate	–	(1.3)
Income tax expense	7.2	3.6

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

In 2017, the United States of America ("USA") Government announced changes to the USA tax laws, which reduces the federal tax rate from 35% to 21% with effect from financial year 2018. The deferred tax expense for the financial year ended 31 December 2017 had taken into consideration the change in the federal tax rate which resulted in a reduction of deferred tax liability by £1.3 million.

In 2017, the financial year 2014, 2015 and 2016 Singapore tax assessment was finalised, there was an approximate tax credit of £1.3 million to be recoverable from the Singapore tax authority. In 2018, £1.7 million was refunded by the Singapore tax authority.

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	2018	2017
Profit before income tax	37.6	32.2
Tax on profit at standard Singapore tax rate of 17% (2017: 17%)	6.4	5.5
Tax incentives	(0.5)	(0.9)
Higher rates of overseas corporation tax	1.1	2.0
Deduction for employee share options	(0.2)	0.2
Non-deductible expenditure	0.3	–
Adjustment in respect of prior year	0.1	(1.9)
Change in tax rate	–	(1.3)
Income tax expense	7.2	3.6

Movement in corporate tax recoverable:

£ Millions	2018	2017
At 1 January	2.9	–
Currency translation differences	0.2	–
Income tax payable		
– current year	(2.5)	–
– (under)/over-provision in prior financial year	(0.1)	1.5
Income tax paid	2.0	1.4
Refund received	(1.7)	–
At 31 December	0.8	2.9

8. INCOME TAXES (CONTINUED)

Movement in current income tax liabilities:

£ Millions	2018	2017
At 1 January	(3.5)	(3.3)
Currency translation differences	(0.2)	0.4
Income tax paid	3.8	4.7
Income tax payable		
– current year	(4.3)	(5.7)
– over-provision in prior financial year	–	0.4
At 31 December	(4.2)	(3.5)

There is no (2017: £nil) tax (charge)/credit relating to components of other comprehensive income.

Aggregate deferred tax asset arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly (debited) or credited to equity:

£ Millions	2018	2017
Deferred tax asset – share option plan expenses	(0.9)	1.1
Total	(0.9)	1.1

9. DIVIDENDS

Amounts recognised as distributions to equity holders in the period:

	2018		2017	
	Pence per share	£ Millions	Pence per share	£ Millions
Prior year third quarter dividend paid	18.0*	3.4	16.0	3.0
Prior year final dividend paid	29.0*	5.5	26.0	5.0
First quarter dividend paid	16.0^	3.1	15.0*	2.9
Second quarter dividend paid	17.0^	3.3	16.0*	3.1
Total	80.0	15.3	73.0	14.0

* Dividends in respect of 2017 (78.0p).
^ Dividends in respect of 2018 (85.0p).

The third quarter dividend of 19.0 pence per share was paid on 9 January 2019. The proposed final dividend of 33.0 pence per share for the year ended 31 December 2018 is subject to approval by Shareholders at the Annual General Meeting scheduled for 16 April 2019 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 23 April 2019 to members on the register as at 22 March 2019.

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	2018	2017
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**30.2**	28.3
Earnings for earnings per share	**30.2**	28.3
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**19,134**	19,082
Effect of potentially dilutive share options (thousands)	**366**	306
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,500**	19,388
Earnings per share from operations		
Basic	**157.8p**	148.3p
Basic adjusted*	**176.1p**	149.4p
Diluted	**154.9p**	146.0p
Diluted adjusted*	**172.8p**	147.0p

*Reconciliation to compute the diluted adjusted earnings from operations is as per below:

£ Millions	2018	2017
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**30.2**	28.3
Amortisation of intangible assets due to business combination	**2.8**	0.6
Acquisition costs	**0.6**	3.3
Non-recurring tax benefits	**(0.1)**	(3.7)
Costs related to ERP implementation	**0.2**	–
Adjusted earnings	**33.7**	28.5

11. GOODWILL

£ Millions	2018	2017
Cost		
At 1 January	**40.4**	37.7
Accrued consideration (Note 20)	**–**	(0.2)
Recognised on acquisition of business	**12.5**	3.9
Foreign currency translation	**1.2**	(1.0)
At 31 December	**54.1**	40.4
Accumulated impairment loss		
At 31 December	**–**	–
Carrying amount		
At 31 December	**54.1**	40.4

Goodwill arises on the consolidation of business/subsidiary undertakings.

As at the balance sheet date, the Group has recorded an estimated future payment related to the acquisition of the final 10.1% of Powersolve Electronics Limited. The Group will acquire the remaining 10.1% of Powersolve Electronics Limited in early 2022. When discounted to present value, the total of this payment is estimated at £0.6 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. There is no change in accrued consideration in 2018.

For the purpose of impairment testing, goodwill has been allocated to the cash-generating units according to 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. The rate used in 2018 was 10.8% for Europe, 7.1% for North America and 7.9% for Asia. For 2017, a rate of 5.5% was used for Europe, North America and Asia.

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 2018 was £54.1 million (2017: £40.4 million) with no impairment adjustment required for 2018 (2017: no impairment).

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 2019 to 31 December 2023. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill to exceed its recoverable amount.

12. INTANGIBLE ASSETS

£ Millions	Development costs	Brand	Trademarks	Technology	Customer relationships	Customer contracts	Intangible software	Intangible software under development	Total
Cost									
At 1 January 2017	25.0	–	1.0	0.7	0.7	0.1	–	–	27.5
Additions	5.2	0.1	–	1.6	–	–	–	–	6.9
Acquisition of business	–	–	–	–	4.9	0.3	–	–	5.2
Foreign currency translation	(1.2)	–	–	–	(0.1)	–	–	–	(1.3)
At 31 December 2017	**29.0**	**0.1**	**1.0**	**2.3**	**5.5**	**0.4**	**–**	**–**	**38.3**
Additions	6.2	–	–	–	–	–	0.2	1.1	7.5
Reclassification from property, plant and equipment	–	–	–	–	–	–	–	0.5	0.5
Acquisition of business	–	0.8	–	2.6	12.1	0.2	–	–	15.7
Foreign currency translation	1.2	0.1	–	0.3	1.0	–	–	0.1	2.7
At 31 December 2018	**36.4**	**1.0**	**1.0**	**5.2**	**18.6**	**0.6**	**0.2**	**1.7**	**64.7**
Amortisation									
At 1 January 2017	10.8	–	1.0	0.1	0.2	0.1	–	–	12.2
Charge for the year	2.5	–	–	0.1	0.4	0.1	–	–	3.1
Foreign currency translation	(0.3)	–	(0.1)	–	(0.1)	–	–	–	(0.5)
At 31 December 2017	**13.0**	**–**	**0.9**	**0.2**	**0.5**	**0.2**	**–**	**–**	**14.8**
Charge for the year	2.9	0.1	–	0.5	1.8	0.4	*	–	5.7
Foreign currency translation	0.4	–	–	0.1	0.1	–	–	–	0.6
At 31 December 2018	**16.3**	**0.1**	**0.9**	**0.8**	**2.4**	**0.6**	*****	**–**	**21.1**
Carrying amount									
At 31 December 2018	**20.1**	**0.9**	**0.1**	**4.4**	**16.2**	**–**	**0.2**	**1.7**	**43.6**
At 31 December 2017	16.0	0.1	0.1	2.1	5.0	0.2	–	–	23.5

* Balances are 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.

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 2017	0.6	10.5	2.2	19.7	0.6	2.7	0.1	36.4
Acquisition of business	0.2	–	0.3	0.3	–	2.0	–	2.8
Additions	–	–	–	3.5	0.1	0.5	0.8	4.9
Disposals	(0.2)	–	(0.2)	(0.3)	–	–	–	(0.7)
Transfer	–	–	–	0.7	–	–	(0.7)	–
Foreign currency translation	–	(0.4)	–	(1.2)	(0.1)	(0.3)	–	(2.0)
At 31 December 2017	**0.6**	**10.1**	**2.3**	**22.7**	**0.6**	**4.9**	**0.2**	**41.4**
Acquisition of business	0.9	2.1	–	–	–	–	–	3.0
Additions	–	0.1	–	2.2	0.1	0.7	4.8	7.9
Disposals	–	–	–	(1.4)	(0.2)	(0.5)	–	(2.1)
Transfer	–	–	–	2.0	–	–	(2.0)	–
Reclassification to intangible assets	–	–	–	(0.5)	–	–	–	(0.5)
Foreign currency translation	0.1	0.5	0.1	1.1	–	0.2	0.2	2.2
At 31 December 2018	**1.6**	**12.8**	**2.4**	**26.1**	**0.5**	**5.3**	**3.2**	**51.9**
Depreciation								
At 1 January 2017	–	1.7	0.4	12.9	0.2	2.1	–	17.3
Charge for the year	–	0.3	0.1	2.0	0.1	0.3	–	2.8
Disposals	–	–	–	(0.3)	–	–	–	(0.3)
Foreign currency translation	–	0.1	–	(0.7)	–	(0.3)	–	(0.9)
At 31 December 2017	**–**	**2.1**	**0.5**	**13.9**	**0.3**	**2.1**	**–**	**18.9**
Charge for the year	–	0.3	0.1	2.4	0.1	0.5	–	3.4
Disposals	–	–	–	(1.3)	(0.1)	(0.4)	–	(1.8)
Foreign currency translation	–	–	–	0.7	–	–	–	0.7
At 31 December 2018	**–**	**2.4**	**0.6**	**15.7**	**0.3**	**2.2**	**–**	**21.2**
Carrying amount								
At 31 December 2018	**1.6**	**10.4**	**1.8**	**10.4**	**0.2**	**3.1**	**3.2**	**30.7**
At 31 December 2017	0.6	8.0	1.8	8.8	0.3	2.8	0.2	22.5

The Group has entered into agreements to lease land and buildings ranging from 34 years to 999 years.

14. SUBSIDIARIES

Details of principal subsidiaries as at 31 December 2018, all of which are consolidated, are as follows:

Name of subsidiary	Place of incorporation/ ownership (or registration) and operation	**Proportion of Ownership 2018 (%)**	Proportion of Ownership 2017 (%)	Statutory Auditor of subsidiaries
XP Power Plc	UK	**100**	100	PricewaterhouseCoopers LLP
XP PLC	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power Holdings Limited	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power AG	Switzerland	**100**	100	Karpf Treuhand & Revisions AG
Powersolve Electronics Limited*	UK	**89.9**	89.9	PricewaterhouseCoopers LLP
XP Power Srl	Italy	**100**	100	Exempted to be audited by local statutory law
XP Power ApS	Denmark	**100**	100	Bierholm
XP Power Sweden AB	Sweden	**100**	100	Rodl & Partner Nordic AB
XP Power BV	Holland	**100**	100	Exempted to be audited by local statutory law
XP Power GmbH	Germany	**100**	100	Exempted to be audited by local statutory law
XP Power SA	France	**100**	100	Deloitte
XP Power Norway AS	Norway	**100**	100	BDO AS
XP Power International Limited	UK	**100**	100	Exempted to be audited by local statutory law
Forx, Inc.	Delaware	**100**	100	Exempted to be audited by local statutory law
XP Power LLC	USA	**100**	100	Exempted to be audited by local statutory law
XP Power (Shanghai) Co., Limited	China	**100**	100	Shanghai Jahwa CPAs
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
XP Power Japan K.K.	Japan	**100**	100	Exempted to be audited by local statutory law
Hanpower Co., Ltd	South Korea	**51**	51	Exempted to be audited by local statutory law

* Refer to Note 20.

15. CASH AND CASH EQUIVALENTS

£ Millions	2018	2017
Cash at bank and on hand	10.9	14.4
Short-term bank deposits	0.6	0.6
Total	**11.5**	15.0

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

£ Millions	2018	2017
Cash at bank and on hand (as above)	11.5	15.0
Cash and cash equivalents per consolidated cash flow statement	**11.5**	15.0

16. INVENTORIES

£ Millions	2018	2017
Goods for resale	25.2	16.7
Raw materials	27.2	18.9
Work-in-progress	4.1	2.2
Total	**56.5**	37.8

The cost of inventories recognised as an expense and included in “cost of sales” amounts to £102.8 million (2017: £89.2 million).

17. TRADE RECEIVABLES

£ Millions	2018	2017
Trade receivables	33.0	23.8
Total	**33.0**	23.8

The average credit period taken on sales of goods is 62 days (2017: 52 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	2018	2017
Prepayments	2.2	1.9
Deposits	0.3	0.3
VAT receivables	0.4	0.9
Other receivables	0.4	0.7
Total	**3.3**	3.8

19. TRADE AND OTHER PAYABLES

£ Millions	2018	2017
Trade payables	11.5	11.7
Other taxes	1.4	1.8
Other creditors and accruals	9.5	7.9
Total	**22.4**	21.4

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

20. ACCRUED CONSIDERATION

£ Millions	2018	2017
At 1 January	1.4	2.0
Movement in provision during the year	–	(0.1)
Payment	–	(0.5)
At 31 December	**1.4**	1.4

The Group owns 89.9% (2017: 89.9%) of the shares of Powersolve Electronics Limited ("Powersolve") and entered into an amended agreement on 29 October 2016 to purchase the remaining 10.1% of the shares in 2022. The Group owns 51% (2017: 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 accrued consideration and is calculated based on the expected future payment which will be based on a predefined multiple of the average earnings for three 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 for Powersolve. For Hanpower, the amount that is payable under the agreement is initially recognised at the present value of the redemption amount within liabilities with a corresponding charge directly to equity. The liability is subsequently accreted through equity up to the redemption amount that is payable in 2020 and 2025.

21. BORROWINGS

The borrowings are repayable as follows:

£ Millions	2018	2017
On demand or within one year	–	–
In the second year	–	–
In the third year	63.5	–
In the fourth year	–	24.0
Total	**63.5**	24.0

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

£ Millions	2018	2017
Bank loans (in USD)	63.5	24.0
Total	**63.5**	24.0

UNDRAWN BORROWING FACILITIES

£ Millions	2018	2017
Expiring beyond one year	19.0	5.4
Total	**19.0**	5.4

The average interest rates paid were as follows:

£ Millions	2018	2017
Bank overdrafts	–	1.8%
Bank loans	3.3%	2.1%

There is no drawdown on bank overdrafts (2017: £1.3 million) during the year.

The fair value of the Group's bank loans and overdrafts approximates their book value.

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

1. On 27 September 2017, the Group entered into a revolving credit facility of US$40.0 million with a US$20.0 million additional accordion option with HSBC and Fifth Third Bank. In May 2018, the Group increased the revolving credit facility to US$85.0 million with a US$20.0 million additional accordion option. In November 2018, the Group has fully exercised the US$20.0 million additional accordion option and the revolving credit facility has increased to US$105.0 million. The facility has no fixed repayment terms until maturity. The revolving loan is priced at LIBOR plus a margin of 1.2% for the utilisation facility and a margin of 0.4% to 0.5% for the unutilised facility.
2. Management assessed that all loan covenants have been complied with as at 31 December 2018.

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) Instruments applying hedge accounting

In 2018, the total notional amount of outstanding currency forward contracts that the Group has committed is £10.8 million (2017: £7.3 million). These contracts are to hedge against exchange rate movements on future sales and hedge accounting has been applied.

31 December 2018 £ Millions	**Contract notional amount**	**Fair value asset**
Forward foreign exchange contracts		
Current portion	**10.8**	*
Total	**10.8**	*

* Balances are less than £100,000.

31 December 2017 £ Millions	Contract notional amount	Fair value (liability)
Forward foreign exchange contracts		
Current portion	7.3	(0.2)
Total	7.3	(0.2)

HEDGING INSTRUMENTS USED IN THE GROUP'S HEDGING STRATEGY IN 2018

	Carrying amount			**Changes in fair value used for calculating hedge ineffectiveness**				
£ Millions	**Contractual notional amount**	**Assets/ (Liabilities)**	**Financial statement line item**	**Hedging instrument**	**Hedged item**	**Hedged ineffectiveness recognised in P&L#**	**Weighted average hedged rate**	**Maturity date**
Cash flow hedge								
Foreign exchange risk								
Forward contracts to hedge highly probable transactions	10.8	*	Derivative Financial Instruments	*	*	–	EUR1: US$1.1673	January 2019 – December 2019

* Balances are less than £100,000.
\# All hedge ineffectiveness and costs of hedging are recognised in profit and loss within "exchange gains/loss".

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Instruments not applying hedge accounting

Certain currency forward contracts were taken up to protect against exchange rate movements on future purchases of goods. Hedge accounting has not been applied to these contracts.

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

December 2018 £ Millions	Assets Contract notional amount	Assets Fair value asset	Liabilities Contract notional amount	Liabilities Fair value (liability)
Forward foreign exchange contracts				
Current portion	–	–	15.0	(0.2)
Total	**–**	**–**	**15.0**	**(0.2)**

December 2017 £ Millions	Assets Contract notional amount	Assets Fair value asset	Liabilities Contract notional amount	Liabilities Fair value (liability)
Forward foreign exchange contracts				
Current portion	5.9	0.2	0.5	–
Total	5.9	0.2	0.5	–

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	Intangible assets amortisation	Share-based payment	Capitalised development costs	Other temporary differences	Total
At 1 January 2017	(0.7)	(1.5)	0.4	(3.7)	1.2	(4.3)
Charge/(credit) to statement of comprehensive income	–	0.6	(0.1)	0.1	(0.4)	0.2
Charge to equity	–	–	1.1	–	–	1.1
Foreign currency translation	–	0.1	–	0.2	(0.1)	0.2
At 31 December 2017	**(0.7)**	**(0.8)**	**1.4**	**(3.4)**	**0.7**	**(2.8)**
Charge/(credit) to statement of comprehensive income	–	–	0.1	(0.8)	0.4	(0.3)
Charge to equity	–	–	(0.9)	–	–	(0.9)
Foreign currency translation	0.1	(0.1)	–	(0.2)	0.1	(0.1)
At 31 December 2018	**(0.6)**	**(0.9)**	**0.6**	**(4.4)**	**1.2**	**(4.1)**

£ Millions	2018	2017
Deferred tax assets		
– To be recovered after more than 12 months	**0.6**	1.4
	0.6	1.4
Deferred tax liabilities		
– To be settled after more than 12 months	**(4.7)**	(4.2)
	(4.7)	(4.2)
Deferred tax liabilities (net)	**(4.1)**	(2.8)

24. SHARE CAPITAL AND RESERVES

CALLED UP SHARE CAPITAL

£ Millions	2018	2017
Allotted and fully paid 19,242,296 ordinary shares (2017: 19,242,296)	**27.2**	27.2

As at 31 December 2018, the Group's Employee Share Ownership Plan (ESOP) held 79,740 (2017: 134,540) shares carrying a value of £960,084 (2017: £1,788,783) owned by the Trust.

MERGER RESERVE

£ Millions	2018	2017
Balance at 31 December	**0.2**	0.2

TREASURY SHARES AND SHARE OPTION RESERVE

£ Millions	2018	2017
Balance at 1 January	**0.4**	(0.5)
Sale of treasury shares	**0.8**	1.0
Purchase of treasury shares	**–**	(1.6)
(Reversal)/addition of deferred tax assets – share option plan expenses	**(0.9)**	1.1
Employee share option plan expenses	**0.8**	0.4
Balance at 31 December	**1.1**	0.4

HEDGING RESERVE

£ Millions	2018	2017
Balance at 1 January	**(0.2)**	0.3
Fair value gains/(losses)	**0.3**	(0.5)
Balance at 31 December	**0.1**	(0.2)

TRANSLATION RESERVE

£ Millions	2018	2017
Balance at 1 January	**(0.4)**	3.5
Exchange differences on translation of foreign operations	**4.6**	(3.9)
Less: Non-controlling interests	**(0.2)**	*
Balance at 31 December	**4.0**	(0.4)

* Balance is less than £100,000.

24. SHARE CAPITAL AND RESERVES (CONTINUED)

OTHER RESERVE

£ Millions	2018	2017
Balance at 31 December	**(0.8)**	(0.8)

The Group has an agreement with the non-controlling shareholders of its Hanpower Co. Ltd ("Hanpower") subsidiary to purchase an additional 15.0% of the shares in 2020 and another 15.0% of the shares in 2025.

RETAINED EARNINGS

£ Millions	2018	2017
Balance at 1 January	**89.6**	75.4
Changes in accounting policy	**0.4**	–
Dividend paid	**(15.3)**	(14.0)
Profit for the year	**30.2**	28.3
Loss on treasury shares	**(0.3)**	(0.1)
Balance at 31 December	**104.6**	89.6

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	2018	2017
Within one year	**2.1**	1.6
In the second to fifth years inclusive	**5.2**	5.2
After five years	**0.5**	0.9
Total	**7.8**	7.7

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

The Group has remaining £0.1 million commitments (2017: £2.7 million) on the contract for the construction of a factory in Vietnam.

26. ESOP LOAN TO EMPLOYEES

£ Millions	2018	2017
ESOP loan to employees	**0.2**	0.3
Total	**0.2**	0.3

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. DEFINED CONTRIBUTION PLANS

The total cost recognised is £6.8 million (2017: £6.2 million) for the Group.

In the USA the total cost charged to the statement of comprehensive income of £3.7 million (2017: £3.6 million) represents the Group's defined contribution.

In the United Kingdom and Europe, the Group operates defined contribution pension schemes for its employees with contributions amounting to £1.8 million (2017: £1.5 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 statement of comprehensive income in the period to which the contributions relate. The total cost charged to the statement of comprehensive income was £1.3 million (2017: £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 2018, the Company's Employee Share Ownership Plan provided nil (2017: nil) interest-free loans to Directors for the deferred payment share scheme. The detailed information is provided for in the Directors' Remuneration Report on pages 80 to 85.

The remuneration of the Directors of the Group who are considered to be key management 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 80 to 85.

£ Millions	2018	2017
Short-term employee benefits	2.0	1.7
Post-employment benefits	*	*
Total Directors' remuneration	**2.0**	1.7

* Balances are less than £100,000.

29. SHARE-BASED PAYMENTS

SHARE OPTION PLANS

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 (pence)	Grant Date	Expiry Date
129,750	946	10 October 2012*	10 October 2022
381,000	1,543	23 February 2016#	23 February 2026
510,750			

* 2012 Approved option scheme has been fully vested.

50% of 2016 Approved option scheme will vest in 2019 and 50% will vest in 2020.

	2018		2017	
	Number of share options	**Weighted average exercise price (pence)**	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of the year	**568,550**	**1,350**	687,650	1,278
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(3,000)**	**-**	(9,000)	1,543
Exercised during the year	**(54,800)**	**957**	(110,100)	883
Outstanding at the end of the year	**510,750**	**1,391**	568,550	1,350
Exercisable at the end of the year	**129,750**	**946**	183,550	946

The weighted average share price at the date of exercise for the share options exercised during the period was £34.89 (2017: £25.68). The options outstanding at 31 December 2018 had a weighted average exercise price of £13.91 (2017: £13.50), and a weighted average remaining contractual life of 6.3 years.

For options granted in 2016, the Group has taken a charge of £0.2 million (2017: £0.2 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 0.292, and an annual risk free interest rate of 0.28%.

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.

LONG-TERM INCENTIVE PLAN ("LTIP")

The Group has introduced a LTIP scheme to replace the Share Option Plan. Under the scheme, conditional awards of share options are made to the scheme participants at nil or nominal cost or deferred cash.

Number of shares	Exercise Price (pence)	Grant Date	Expiry Date
39,400	1	30 May 2017	30 May 2022
2,250	1	12 October 2017	12 October 2022
8,000	1	1 November 2017	1 November 2022
54,199	1	16 May 2018	16 May 2023
800	1	4 September 2018	4 September 2023
104,649			

29. SHARE-BASED PAYMENTS (CONTINUED)

At the vesting date, the share award will either vest, in full or in part, or lapse depending on the outcome of the performance conditions. The performance conditions of the awards made in 2018 are based on the growth in Earnings Per Share ("EPS") and the Total Shareholder Return ("TSR") of the Group measured against that of the FTSE 250 over the Performance Period. For LTIP granted in 2018, the Group has taken a charge of £0.2 million. For LTIP granted in 2017, the Group has taken a charge of £0.2 million (2017: £0.1 million). The fair value of the equity-settled LTIP options was calculated at the grant date using the Monte Carlo model and the Black–Scholes model based on the assumptions below.

	LTIP	
	2018	2017
Options granted	**54,999**	49,650
Fair value at grant date	**£24.84**	£17.13
Assumption used:		
Share price	**£35.50**	£26.77
Exercise price	**£0.01**	£0.01
Expected volatility	**27.66%**	27.69%
Expected option life	**3 years**	3 years
Expected dividend yield	**2.59%**	3.75%
Risk free interest rate	**1.50%**	0.99%

Volatility was estimated based on the historical volatility of the shares over a three year period prior to grant date.

	2018		2017	
	Number of LTIP options	**Weighted average exercise price (pence)**	Number of LTIP options	Weighted average exercise price (pence)
Outstanding at beginning of the year	**49,650**	**1**	–	–
Granted during the year	**54,999**	**1**	49,650	1
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Outstanding at the end of the year	**104,649**	**1**	49,650	1
Exercisable at the end of the year	**–**	**–**	–	–

50% of the share awards will vest after the third year and the remaining 50% of the share awards will vest after the fourth year. Upon vesting, employees will receive one share for each vested share award.

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.

(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 100% of highly probable forecast transactions for Europe sales in the next 12 months.

The risk is measured through a forecast of highly probable EUR sales and tracking of firm commitment in EUR. The objective of the hedges is to minimise the volatility of the Group's currency cost of highly probable transactions and firm commitment. In order to achieve these objectives, the Group entered into cash flow hedges for highly probable sale transactions. The foreign exchange forwards are denominated in the same currency as the highly probable sale transactions, therefore the hedge ratio is 1:1.

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedging relationship, and through periodic prospective effective assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness may occur due to changes in the credit risk of the derivative counterparty or the Group. There was no ineffectiveness during 2018 in relation to the revenue hedge.

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

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Currency risk (CONTINUED)

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

£ Millions	GBP	EUR	USD	Others	TOTAL
At 31 December 2018					
Financial assets					
Cash and cash equivalents	**1.1**	**1.0**	**6.9**	**2.5**	**11.5**
Trade receivables	**2.4**	**2.4**	**27.8**	**0.4**	**33.0**
Other current assets	**0.1**	**–**	**0.5**	**0.1**	**0.7**
ESOP loan to employees	**0.2**	**–**	**–**	**–**	**0.2**
Subtotal	**3.8**	**3.4**	**35.2**	**3.0**	**45.4**
Financial liabilities					
Borrowings	**–**	**–**	**(63.5)**	**–**	**(63.5)**
Trade and other payables	**(2.3)**	**(0.6)**	**(18.7)**	**(0.5)**	**(22.1)**
Other financial liabilities	**(0.6)**	**–**	**–**	**(0.8)**	**(1.4)**
Subtotal	**(2.9)**	**(0.6)**	**(82.2)**	**(1.3)**	**(87.0)**
Net financial assets/(liabilities)	**0.9**	**2.8**	**(47.0)**	**1.7**	**(41.6)**
Add: Firm commitments and highly probable forecast transactions in foreign currency	**–**	**12.6**	**–**	**–**	**12.6**
Currency forwards	**15.0**	**(10.8)**	**–**	**–**	**4.2**
Currency profile excluding non-financial assets and liabilities	**15.9**	**4.6**	**(47.0)**	**1.7**	**(24.8)**
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	**1.4**	**2.0**	**(53.6)**	**1.4**	**(48.8)**
Currency exposure of financial assets	**14.5**	**2.6**	**6.6**	**0.3**	**24.0**

£ Millions	GBP	EUR	USD	Others	TOTAL
At 31 December 2017					
Financial assets					
Cash and cash equivalents	0.8	0.8	11.5	1.9	15.0
Trade receivables	1.6	2.3	19.6	0.3	23.8
Other current assets	0.1	–	0.8	0.1	1.0
ESOP loan to employees	0.3	–	–	–	0.3
Subtotal	2.8	3.1	31.9	2.3	40.1
Financial liabilities					
Borrowings	–	–	(24.0)	–	(24.0)
Trade and other payables	(2.4)	(0.7)	(17.7)	(0.6)	(21.4)
Other financial liabilities	(0.6)	–	–	(0.8)	(1.4)
Subtotal	(3.0)	(0.7)	(41.7)	(1.4)	(46.8)
Net financial assets/(liabilities)	(0.2)	2.4	(9.8)	0.9	(6.7)
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	10.9	–	–	10.9
Currency forwards	5.9	(7.8)	–	–	(1.9)
Currency profile excluding non-financial assets and liabilities	5.7	5.5	(9.8)	0.9	2.3
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	1.0	1.9	(15.0)	1.4	(10.7)
Currency exposure of financial assets	4.7	3.6	5.2	(0.5)	13.0

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Currency risk (CONTINUED)

If the US Dollar and Euro change against Sterling by 5% and 1% respectively (2017: US Dollar 7%, Euro 8%) 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	2018 Profit after tax	2017 Profit after tax
Group		
EUR against GBP		
– strengthened	*	0.3
– weakened	*	(0.3)
USD against GBP		
– strengthened	**0.3**	0.3
– weakened	**(0.3)**	(0.3)

* Balances are less than £100,000.

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

(c) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income is substantially independent of changes in the market interest rates.

All of the Group's borrowings are at variable interest rates and are denominated in US Dollars. If the average interest rates on these borrowings increased/decreased by 0.5% (2017: 0.5%) with all other variables, including tax rates, being held constant, the profit tax will be lower/higher by £317,000 (2017: £123,000) as a result of higher/lower interest expense on these borrowings.

(d) Credit risk

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

The Group uses a provision matrix to measure the lifetime expected credit loss allowance for trade receivables. In measuring the expected credit loss, trade receivables are grouped based on shared credit risk characteristics and days past due.

In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers and adjusts to reflect current and forward macro-economic factors affecting the ability of the customers to settle the receivables. The Group has identified gross domestic product (GDP) and the public policy of the countries in which it sells goods as the most relevant factors.

Trade receivables are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group considers a financial asset as in default if the counterparty fails to make contractual payments within 90 days when they fall due and writes off the financial asset when a debtor is in significant financial difficulties and have defaulted on payment which is usually greater than 120 days past due. Where receivables are written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit risk (CONTINUED)

The Group's credit risk exposure in relation to trade receivables under IFRS 9 are set out in the provision matrix as follows:

	←			Past due		→	
£ Millions	Current	1 -30 days	31 – 60 days	61 – 90 days	91 – 120 days	> 120 days	Total
At 31 December 2018							
North America region							
Expected loss rate	**0.0%**	**0.1%**	**0.2%**	**0.2%**	**0.3%**	**21.8%**	
Trade receivables	**13.6**	**4.1**	**2.1**	**0.3**	**0.1**	**0.1**	**20.3**
Loss allowance	**–**	*	*	*	*	*	**#**
Europe region							
Expected loss rate	**0.0%**	**0.1%**	**0.2%**	**0.2%**	**0.3%**	**36.9%**	
Trade receivables	**5.8**	**1.5**	**0.5**	**0.3**	**0.1**	*	**8.2**
Loss allowance	**–**	*	*	*	*	*	**#**
Asia region							
Expected loss rate	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	
Trade receivables	**2.8**	**1.5**	**0.2**	**–**	**–**	**0.1**	**4.6**
Loss allowance	**–**	**–**	**–**	**–**	**–**	**–**	**–**

	←			Past due		→	
£ Millions	Current	1 -30 days	31 – 60 days	61 – 90 days	91 – 120 days	> 120 days	Total
At 1 January 2018							
North America region							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	21.8%	
Trade receivables	9.7	2.9	0.5	0.3	0.2	0.1	13.7
Loss allowance	–	*	*	*	*	*	#
Europe region							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	36.9%	
Trade receivables	5.7	1.6	0.5	–	*	*	7.8
Loss allowance	–	*	*	–	*	*	#
Asia region							
Expected loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Trade receivables	1.7	0.5	0.4	0.1	0.1	–	2.8
Loss allowance	–	–	–	–	–	–	–

* Balances are less than £100,000.
Total # approximates £100,000.

The movement in the allowance for impairment of trade receivables is as follows:

£ Millions	2018	2017
Beginning of financial year	**(0.5)**	(0.4)
Application of IFRS 9	**0.4**	–
Restated allowance for impairment under IFRS 9	**(0.1)**	(0.4)
Loss allowance[a] recognised in profit or loss during the year on:		
– Assets acquired/originated	**(0.1)**	(0.2)
Receivables written off as uncollectible	**0.1**	–
Foreign currency translation	**–**	0.1
End of the financial year	**(0.1)**	(0.5)

[a] Loss allowance measured at lifetime ECL.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit risk (CONTINUED)

Previous accounting policy for impairment of trade receivables

Prior to 1 January 2018, the impairment of financial assets was assessed based on the incurred loss impairment model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objectives evidence that an impairment had been incurred but not yet identified.

The Group's business is highly fragmented, reducing the credit exposure to any one customer. At 31 December 2017, no individual trade receivable represented more than 11% of the total trade receivables balance.

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

£ Millions	2017
By geographical areas	
Europe	7.6
North America	13.4
Asia	2.8
	23.8

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially with companies with a good collection track record with the Group.

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

£ Millions	2017
Past due 0 – 2 months	6.5
Past due 3 – 4 months	0.6
Past due over 4 months	0.3
	7.4

(e) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (Note 21) and the ability to close out market positions at a short notice. At the balance sheet date, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 15.

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 2018					
Trade and other payables	**22.4**	**–**	**–**	**–**	**22.4**
Accrued consideration	**–**	**0.5**	**0.6**	**0.3**	**1.4**
Borrowings, including interest	**2.8**	**2.6**	**65.5**	**–**	**70.9**
Total	**25.2**	**3.1**	**66.1**	**0.3**	**94.7**
At 31 December 2017					
Trade and other payables	21.4	–	–	–	21.4
Accrued consideration	–	–	1.0	0.4	1.4
Borrowings, including interest	0.7	0.6	25.1	–	26.4
Total	22.1	0.6	26.1	0.4	49.2

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

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair value measurements

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

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

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

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

The following table presents the assets and liabilities measured at fair value at 31 December 2018.

2018 £ Millions	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments	–	*	–	*
Liabilities				
Derivative financial instruments	–	**(0.2)**	–	**(0.2)**
2017				
Assets				
Derivative financial instruments	–	0.2	–	0.2
Liabilities				
Derivative financial instruments	–	(0.2)	–	(0.2)

*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

The Group has no financial instruments subject to enforceable master netting arrangements.

31. BUSINESS COMBINATION

On 25 May 2018, the Group acquired the business of Glassman High Voltage Inc. The principal activity of Glassman High Voltage Inc. is that of a designer and manufacturer of high voltage, high power, power supplies. In addition, the acquisition also includes the purchase of Glassman's small European sales business (XP Glassman Europe Limited formerly known as Glassman Europe Limited). The Group made the acquisition because Glassman and the Group share several customers, and while there is no direct overlap in product lines, the power supply solutions of the two companies are highly complementary. Glassman's products and engineering capabilities will enhance the Group's ability to implement its strategy of winning a greater share of business from its largest customers by achieving wider vertical penetration of key accounts. As well as a product offering suitable for an array of applications used by some of the Group's existing customer base, Glassman will also bring a number of new customers to the Group.

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

	£ Millions
(a) Purchase consideration	
Cash paid	35.7
Total purchase consideration	35.7
Consideration transferred for the business	**35.7**
(b) Effect on cash flows of the Group	
Cash paid (as above)	35.7
Less: cash and cash equivalents in subsidiary acquired	(0.2)
Cash outflow on acquisition	**35.5**

31. BUSINESS COMBINATION (CONTINUED)

(c) Identifiable assets acquired and liabilities assumed

	Provisional fair values recognised on acquisition 2018 £ Millions
Cash	0.2
Property, plant and equipment (Note 13)	3.0
Technology, Customers' Relationships, Contracts and Brand (included in intangibles – Note 12)	15.7
Inventories	2.3
Trade receivables	2.7
Total assets	23.9
Trade and other payables	(0.7)
Total liabilities	(0.7)
Total identifiable net assets	**23.2**
Add: Goodwill (Note 11)	**12.5**
Consideration transferred for the business	**35.7**

(d) Acquisition-related costs

Acquisition-related costs of £0.4 million 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 2018.

(e) Acquired receivables

The fair value of trade receivables is £2.7 million and all of which is expected to be collected.

(f) Provisional fair values

The fair value of the acquired identifiable intangible assets of £15.7 million (Brand, Technology, Customers' Relationships and Contracts) has been provisionally determined pending final valuations for those assets.

(g) Goodwill

The goodwill of £12.5 million arising from the acquisition is attributable to the distribution network in America and Europe and the synergies expected to arise from the economies of scale in combining the operations of the Group with those of Glassman High Voltage Inc. and XP Glassman Europe Limited.

(h) Revenue and profit contribution

The acquired business contributed revenue of £6.9 million and net profit of £1.4 million to the Group from the period from 25 May 2018 to 31 December 2018. Had Glassman High Voltage Inc. and XP Glassman Europe Limited been consolidated from 1 January 2018, consolidated revenue and consolidated profit before tax for the year ended 31 December 2018 for the Group would have been £201.5 million and £38.7 million respectively.

32. OTHER INFORMATION

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of XP Power Limited on 5 March 2019.

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2018

£'000	Note	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	4	**4,865**	4,633
Trade and other receivables	5	**16,719**	9,181
Other current assets	6	**660**	1,092
Derivative financial instruments	7	**42**	154
Inventories	8	**12,327**	10,434
Corporation tax recoverable	14	**–**	1,291
Total current assets		**34,613**	26,785
Non-current assets			
Investments in subsidiaries	3	**29,786**	29,786
Property, plant and equipment	9	**1,821**	2,299
Intangible assets	10	**12,220**	7,564
Long-term receivable	13	**28,171**	18,495
Total non-current assets		**71,998**	58,144
Total assets		**106,611**	84,929
LIABILITIES			
Current liabilities			
Trade and other payables	12	**34,190**	21,210
Current income tax liabilities	14	**3,784**	3,146
Derivative financial instruments	7	**229**	248
Total current liabilities		**38,203**	24,604
Non-current liability			
Deferred income tax liabilities	11	**1,738**	1,419
Total non-current liability		**1,738**	1,419
Total liabilities		**39,941**	26,023
NET ASSETS		**66,670**	58,906
EQUITY			
Share capital	15	**29,786**	29,786
Share option reserve	15	**179**	5
Hedging reserve	15	**42**	(239)
Translation reserve	15	**5,337**	3,364
Retained earnings	15	**31,326**	25,990
TOTAL EQUITY		**66,670**	58,906

NOTES TO THE COMPANY BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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 providing power supply solutions and acting as an investment holding company.

2. BASIS OF ACCOUNTING POLICIES

The Company applies the same principal accounting policies as the Group as set out in Note 2 under the Group Consolidated Financial Statements.

On 1 January 2018, the Company adopted the new or amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and IFRIC.

The adoption of these new or amended IFRS and IFRIC did not result in substantial changes to the Company's accounting policies and had no material effect on the amounts reported for the current or previous financial years except for the following:

IFRS 9 FINANCIAL INSTRUMENTS

The Company has adopted the new standard retrospectively from 1 January 2018, in line with the transition provision permitted under the standards. Comparatives for financial year ended 2017 are not restated and the Company has recognised any difference between the carrying amounts at 31 December 2017 and 1 January 2018 in the opening retained earnings.

The effects on adoption of IFRS 9 are as follows:

£'000	Financial assets at amortised costs	Retained earnings
Balances at 31 December 2017 before adoption of IFRS 9	32,372	25,990
Impairment allowances on trade receivables and intercompany loan receivables	9	9
Balances at 1 January 2018 after adoption of IFRS 9	32,381	25,999

(i) CLASSIFICATION AND MEASUREMENT

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at 1 January 2018.

£'000	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost	4,633	4,633
Trade receivables	Loans and receivables	Amortised cost	8,766	8,796
Intercompany loan receivables	Loans and receivables	Amortised cost	18,910	18,889
Other current assets (excluding prepayments and VAT receivables)	Loans and receivables	Amortised cost	63	63
Derivative financial instruments	Held-for-trading	Mandatorily at Fair Value through Profit or Loss ("FVTPL")	154	154

a. Cash and cash equivalents, trade receivables, intercompany loan receivables and other current assets (excluding prepayments and VAT receivables) were classified as loans and receivables under IAS 39 are now classified at amortised cost. There was no impact on the amounts recognised in relation to these assets except for trade and intercompany loan receivables from the adoption of IFRS 9.

b. Derivative financial instruments that were previously held for trading are required to be held as FVTPL under IFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of IFRS 9.

2. BASIS OF ACCOUNTING POLICIES (CONTINUED)

(ii) DERIVATIVES AND HEDGING ACTIVITIES

Foreign currency forward contracts in place as at 31 December 2017 were entered to hedge exchange rate movements of highly probable future sales and qualify as cash flow hedges under IFRS 9.

The Company's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

There have been no changes to the recognition and measurement of derivatives and hedging activities under IFRS 9.

(iii) IMPAIRMENT OF FINANCIAL ASSETS

The Company's financial assets that are subject to IFRS 9's new expected credit loss model includes trade receivables, intercompany receivables and other current assets (excluding prepayments and VAT receivables).

The Company revised its impairment methodology under IFRS 9 for trade and intercompany loan receivables. The impact of the change in impairment methodology is disclosed in the table above.

FINANCIAL GUARANTEES

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings. Intra-Group transactions are eliminated on consolidation.

Financial guarantee contracts are initially measured at fair values plus transaction costs and subsequently measured at the higher of:

a. premium received on initial recognition less the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
b. the amount of expected loss computed using the impairment methodology under IFRS 9.

Prior to 1 January 2018, financial guarantees were subsequently measured at the higher of (a) and the expected amount of payable to the banks in the event it is probable that the Company will reimburse the bank.

CLASSIFICATION

Certain amounts in 2017 under trade receivables from related parties has been reclassified to form the current year presentation. The reclassification relates to intercompany loans that are repayable on demand, which the Company does not intend for repayment to be made in the next 12 months. Therefore, the Company considers non-current presentation to be more appropriate.

3. INVESTMENTS IN SUBSIDIARIES

£'000	2018	2017
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 % 2018**	Proportion of Ownership % 2017	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	2018	2017
Cash at bank	**4,865**	4,633
Total	**4,865**	4,633

4. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	GBP £'000	USD £'000	EUR £'000	SGD £'000	JPY £'000	SEK £'000	DKK £'000	TOTAL £'000
At 31 December 2018								
Cash at bank	**17**	**3,495**	**352**	**946**	**4**	**1**	**50**	**4,865**

	GBP £ '000	USD £ '000	EUR £ '000	SGD £ '000	JPY £ '000	SEK £ '000	DKK £ '000	TOTAL £ '000
At 31 December 2017								
Cash at bank	81	4,079	208	253	–	–	12	4,633

5. TRADE AND OTHER RECEIVABLES

£'000	2018	2017
Trade receivables	**4,236**	2,520
Trade receivables from related parties	**12,168**	6,246
Other receivables from related parties	**258**	–
Loan receivables from a related party	**57**	415
Total	**16,719**	9,181

The average credit period taken on sales of goods is 59 days (2017: 41 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.

Loan from a related party is unsecured and bears interest at LIBOR plus 1.5% per annum.

6. OTHER CURRENT ASSETS

£'000	2018	2017
Deposit	**68**	63
Prepayments	**230**	568
VAT receivables	**362**	461
Total	**660**	1,092

7. DERIVATIVE FINANCIAL INSTRUMENTS

The total notional amount of outstanding currency forward contracts that the Company has committed is £10.8 million (2017: £7.3 million). These contracts are to hedge against exchange movements on future sales and hedge accounting has been applied.

As at 31 December 2018, the fair value asset/(liability) of the currency forward contracts recognised under a hedging reserve is £42,000 (2017: (£239,000)) (Note 15).

December 2018 £'000	**Contract notional amount**	**Fair value asset**
Current portion	**10,841**	**42**
Total	**10,841**	**42**

December 2017 £'000	Contract notional amount	Fair value (liability)
Current portion	7,313	(239)
Total	7,313	(239)

7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Certain currency forward contracts were taken up to protect against exchange movements on future sales. Hedge accounting has not been applied to these contracts.

	Assets		Liabilities	
December 2018 £'000	**Contract notional amount**	**Fair value asset**	**Contract notional amount**	**Fair value (liability)**
Current portion	–	–	**14,975**	**(229)**
Total	–	–	**14,975**	**(229)**

	Assets		Liabilities	
December 2017 £'000	Contract notional amount	Fair value asset	Contract notional amount	Fair value (liability)
Current portion	5,900	154	532	(9)
Total	5,900	154	532	(9)

HEDGING INSTRUMENTS USED IN COMPANY'S HEDGING STRATEGY IN 2018

		Carrying amount		Changes in fair value used for calculating hedge ineffectiveness				
£'000	Contractual notional amount	Assets/ (Liabilities)	Financial statement line item	Hedging instrument	Hedged item	Hedged ineffectiveness recognised in P&L*	Weighted average hedged rate	Maturity date
Cash flow hedge								
Foreign exchange risk								
Forward contracts to hedge highly probable transactions	10,841	42	Derivative Financial Instruments	42	(42)	–	EUR1: US$1.1673	January 2019 to December 2019

* All hedge ineffectiveness and costs of hedging are recognised in profit and loss within "exchange gains/loss".

8. INVENTORIES

£'000	**2018**	2017
Goods for resale	**12,327**	10,434

9. PROPERTY, PLANT AND EQUIPMENT

£'000	Freehold land	Building	Plant and equipment	Motor vehicles	Building improvements	Total
Cost						
At 1 January 2017	236	1,889	1,522	57	454	4,158
Additions	–	–	557	–	55	612
Disposals	–	–	(45)	(12)	–	(57)
Foreign currency translation	(19)	(146)	(139)	(4)	(38)	(346)
At 31 December 2017	**217**	**1,743**	**1,895**	**41**	**471**	**4,367**
Additions	–	–	90	–	–	90
Reclassification to intangible assets (Note 10)	–	–	(458)	–	–	(458)
Disposals	–	–	(30)	–	–	(30)
Foreign currency translation	13	105	89	2	29	238
At 31 December 2018	**230**	**1,848**	**1,586**	**43**	**500**	**4,207**
Depreciation						
At 1 January 2017	–	462	1,169	13	442	2,086
Additions	–	55	132	9	11	207
Disposals	–	–	(45)	(12)	–	(57)
Foreign currency translation	–	(38)	(94)	(1)	(35)	(168)
At 31 December 2017	**–**	**479**	**1,162**	**9**	**418**	**2,068**
Additions	–	52	137	8	15	212
Disposals	–	–	(30)	–	–	(30)
Foreign currency translation	–	32	77	1	26	136
At 31 December 2018	**–**	**563**	**1,346**	**18**	**459**	**2,386**
Carrying amount						
At 31 December 2018	**230**	**1,285**	**240**	**25**	**41**	**1,821**
At 31 December 2017	217	1,264	733	32	53	2,299

10. INTANGIBLE ASSETS

£'000	Development costs	Intangible software	Intangible software under development	Total
Cost				
At 1 January 2017	9,139	–	–	9,139
Additions	3,491	–	–	3,491
Foreign currency translation	(861)	–	–	(861)
At 31 December 2017	11,769	–	–	11,769
Additions	3,806	239	1,141	5,186
Reclassification from Property, plant and equipment (Note 9)	–	–	458	458
Foreign currency translation	949	15	100	1,064
At 31 December 2018	16,524	254	1,699	18,477
Amortisation				
At 1 January 2017	3,193	–	–	3,193
Charge for the year	1,321	–	–	1,321
Foreign currency translation	(309)	–	–	(309)
At 31 December 2017	4,205	–	–	4,205
Charge for the year	1,656	36	–	1,692
Foreign currency translation	358	2	–	360
At 31 December 2018	6,219	38	–	6,257
Carrying amount				
At 31 December 2018	**10,305**	**216**	**1,699**	**12,220**
At 31 December 2017	7,564	–	–	7,564

The amortisation period for development costs incurred varies between three 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 TAX LIABILITIES

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 2017	(75)	(996)	(65)	(1,136)
Charge to statement of comprehensive income	(71)	(343)	53	(361)
Exchange difference	4	67	7	78
At 31 December 2017	(142)	(1,272)	(5)	(1,419)
Charge to statement of comprehensive income	226	(399)	(46)	(219)
Exchange difference	6	(102)	(4)	(100)
At 31 December 2018	**90**	**(1,773)**	**(55)**	**(1,738)**

12. TRADE AND OTHER PAYABLES

£'000	2018	2017
Trade payables and other creditors	**4,594**	5,579
Amount payable to related parties	**29,596**	15,631
Total	**34,190**	21,210

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. Amount payable to related parties includes borrowings from related parties and trade and other payables to related parties. The Directors consider that the carrying amount 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	2018	2017
Loans to related parties	**28,171**	18,495
Total	**28,171**	18,495

Loans to related parties bear interest at LIBOR plus 1.5% – 2.0% per annum. The loans to related parties are unsecured. The Directors consider the carrying amount approximates their fair value.

14. CORPORATE TAX RECOVERABLE/CURRENT INCOME TAX LIABILITIES

Movement in corporate tax recoverable:

£'000	2018	2017
At 1 January	**1,291**	–
Currency translation differences	**53**	–
Under-provision in prior financial year	**(2)**	–
Income tax paid in excess	**–**	1,291
Refund received	**(1,342)**	–
At 31 December	**–**	1,291

Movement in current income tax liabilities:

£'000	2018	2017
At 1 January	**3,146**	3,060
Currency translation differences	**241**	(315)
Income tax paid (net of refund)	**(2,828)**	(2,552)
Current year tax expense	**3,396**	3,085
Over-provision in prior financial year	**(171)**	(132)
At 31 December	**3,784**	3,146

15. SHARE CAPITAL AND RESERVES

Share capital £'000	2018	2017
Allotted and fully paid 19,242,296 ordinary shares	**29,786**	29,786

Share option reserve £ '000	2018	2017
Balance at 1 January	**5**	–
Share option expense	**174**	5
Balance at 31 December	**179**	5

Hedging reserve £'000	2018	2017
Foreign exchange risk		
Balance at 1 January	**(239)**	332
Fair value gains/(losses)	**281**	(571)
Balance at 31 December	**42**	(239)

Translation reserve £'000	2018	2017
Balance at 1 January	**3,364**	5,442
Exchange differences on translation	**1,973**	(2,078)
Balance at 31 December	**5,337**	3,364

Retained earnings £'000	2018	2017
Balance at 1 January	**25,990**	21,121
Changes in accounting policy	**9**	–
Dividends paid	**(15,284)**	(13,921)
Profit for the year	**20,611**	18,790
Balance at 31 December	**31,326**	25,990

16. 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 15.

(b) Currency risk

The Company transacts 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 100% of highly probable forecast transactions for Europe sales in the next 12 months.

The risk is measured through a forecast of highly probable EUR sales and tracking of firm commitment in EUR. The objective of the hedges is to minimise the volatility of the Company's currency cost of highly probable transactions and firm commitment. In order to achieve these objectives, the Company entered into cash flow hedges for highly probable sale transactions. The foreign exchange forwards are denominated in the same currency as the highly probable sale transactions, therefore the hedge ratio is 1:1.

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedging relationship, and through periodic prospective effective assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Company enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness may occur due to changes in the credit risk of the derivative counterparty or the Company. There was no ineffectiveness during 2018 in relation to the revenue hedge.

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.

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Currency risk (CONTINUED)

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

At 31 December 2018 £'000	GBP	EUR	USD	Others	Total
Financial assets					
Cash and cash equivalents	17	352	3,495	1,001	4,865
Trade and other receivables	72	1,369	14,962	316	16,719
Other current assets	–	–	68	–	68
Long-term receivables	–	–	28,171	–	28,171
Subtotal	89	1,721	46,696	1,317	49,823
Financial liabilities					
Trade and other payables	(6,014)	(196)	(27,849)	(131)	(34,190)
Subtotal	(6,014)	(196)	(27,849)	(131)	(34,190)
Net financial (liabilities)/assets	(5,925)	1,525	18,847	1,186	15,633
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	12,604	–	–	12,604
Currency forwards	14,975	(10,841)	–	–	4,134
Currency profile excluding non-financial assets and liabilities	9,050	3,288	18,847	1,186	32,371
Less: Financial assets denominated in the entity's functional currency	–	–	18,847	–	18,847
Currency exposure of financial assets	9,050	3,288	–	1,186	13,524

At 31 December 2017 £'000	GBP	EUR	USD	Others	Total
Financial assets					
Cash and cash equivalents	81	208	4,079	265	4,633
Trade and other receivables	393	964	7,677	147	9,181
Other current assets	–	–	63	–	63
Long-term receivables	–	–	18,495	–	18,495
Subtotal	474	1,172	30,314	412	32,372
Financial liabilities					
Trade and other payables	(6,311)	14	(14,729)	(184)	(21,210)
Subtotal	(6,311)	14	(14,729)	(184)	(21,210)
Net financial (liabilities)/assets	(5,837)	1,186	15,585	228	11,162
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	10,935	–	–	10,935
Currency forwards	5,900	(7,844)	–	–	(1,944)
Currency profile excluding non-financial assets and liabilities	63	4,277	15,585	228	20,153
Less: Financial assets denominated in the entity's functional currency	–	–	15,585	–	15,585
Currency exposure of financial assets	63	4,277	–	228	4,568

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income is substantially independent of changes in the market interest rates.

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 0.75% (2017: 0.5%) with all other variables, including tax rates, being held constant, the profit before tax will be lower/higher by £102,844 (2017: £20,183) 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. Trade receivables are neither past due nor impaired are substantially companies with a good collection track record with the Company.

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.

The Company applies the IFRS 9 simplified approach to measuring expected credit loss which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, it is based on the Company's two-year historical credit loss experience and a provision matrix has been set up using the amount of bad debt incurred over the carrying value of the trade receivables per ageing brackets at each financial year end.

The Company's credit risk exposure in relation to trade receivables under IFRS 9 are set out in the provision matrix as follows:

		Past due					
£ '000	Current	1 -30 days	31 – 60 days	61 – 90 days	91 – 120 days	> 120 days	Total
At 31 December 2018							
Expected loss rate	0%	0%	0%	0%	0%	0%	
Trade receivables	12,567	3,072	275	56	4	430	16,404
Loss allowance	–	–	–	–	–	–	–

		Past due					
£ '000	Current	1 -30 days	31 – 60 days	61 – 90 days	91 – 120 days	> 120 days	Total
At 1 January 2018							
Expected loss rate	0%	0%	0%	0%	0%	0%	
Trade receivables	6,884	956	409	281	93	173	8,796
Loss allowance	–	–	–	–	–	–	–

The Company assessed the credit risk of each intercompany loan by considering the terms of the loans, whether the loan is past due, borrower's cash position, revenue, profit before tax and net assets. Based on these, it was concluded that the credit risk is low and hence, the Company computes the expected credit loss on a 12-month basis instead of a lifetime approach.

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit risk (CONTINUED)

FINANCIAL ASSETS AT AMORTISED COSTS

Category of internal credit rating	Performing	Under-performing	Non-performing	Write-off
Definition of category	Issuers have a low risk of default and a strong capacity to meet contractual cash flows	Issuers for which there is a significant increase in credit risk; as significant in credit risk is presumed if interest and/or principal repayment are 30 days past due	Interest and/or principal payments are 90 days past due	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery
Basis of recognition of expected credit loss	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Asset is written off

(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 2018					
Trade and other payables	**34,190**	**–**	**–**	**–**	**34,190**
Total	**34,190**	**–**	**–**	**–**	**34,190**

£'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2017					
Trade and other payables	21,210	–	–	–	21,210
Total	21,210	–	–	–	21,210

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

The Company has issued a multilateral guarantee to HSBC and Fifth Third Bank for the revolving credit facility entered into by the Group. On 27 September 2017, the Group entered into a revolving credit facility amounts of US$40 million with a US$20 million additional accordion option and have a tenure of four years from the loan agreement date with a potential one year extension. In May 2018, the Group increased the revolving credit facility to US$85.0 million with a US$20.0 million additional accordion option. In November 2018, the Group has fully exercised US$20.0 million additional accordion option and the revolving credit facility has increased to US$105.0 million. The facility has no fixed repayment terms until maturity. The revolving loan is priced at LIBOR plus a margin of 1% for the utilisation facility and a margin of 0.4% to 5.0% for the unutilised facility.

(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).

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair value measurements (CONTINUED)

The following table presents the assets measured at fair value at 31 December 2018:

£'000 **2018**	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments	**–**	**42**	**–**	**42**
Liabilities				
Derivative financial instruments	**–**	**(229)**	**–**	**(229)**
2017				
Assets				
Derivative financial instruments	–	154	–	154
Liabilities				
Derivative financial instruments	–	(248)	–	(248)

(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		
£'000 **At 31 December 2018**	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
Trade receivables	**–**	**–**	**–**	**12,168**	**–**	**12,168**
Total	**–**	**–**	**–**	**12,168**	**–**	**12,168**
At 31 December 2017						
Trade receivables	1,592	(168)	1,424	4,822	–	6,246
Total	**1,592**	**(168)**	**1,424**	**4,822**	**–**	**6,246**

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		
£'000 **At 31 December 2018**	Gross amounts – financial liabilities	Gross amounts – financial assets	Net amounts – financial liabilities presented in the balance sheet	Financial assets / liabilities	Financial collateral pledged	Net amount
Trade receivables	**–**	**–**	**–**	**(29,596)**	**–**	**(29,596)**
Total	**–**	**–**	**–**	**(29,596)**	**–**	**(29,596)**
At 31 December 2017						
Trade receivables	(168)	168	–	(15,631)	–	(15,631)
Total	(168)	168	–	(15,631)	–	(15,631)

FIVE YEAR REVIEW

CONSOLIDATED INFORMATION

	2018 £ Millions	2017 £ Millions	2016 £ Millions	2015 £ Millions	2014 £ Millions
Results					
Revenue	**195.1**	166.8	129.8	109.7	101.1
Profit from operations	**39.3**	32.5	28.0	25.6	24.5
Profit before tax	**37.6**	32.2	27.8	25.4	24.3
Assets employed					
Non-current assets	**129.2**	88.1	73.2	65.4	56.1
Current assets	**105.1**	83.5	65.7	53.5	47.0
Current liabilities	**(26.8)**	(25.1)	(25.8)	(19.8)	(18.6)
Non-current liabilities	**(70.1)**	(29.6)	(6.2)	(10.0)	(4.2)
Net assets	**137.4**	116.9	106.9	89.1	80.3
Financed by					
Equity	**136.4**	116.0	106.1	88.3	80.2
Non-controlling interests	**1.0**	0.9	0.8	0.8	0.1
	137.4	116.9	106.9	89.1	80.3
Key statistics (pence)					
Earnings per share	**157.8**	148.3	112.0	103.7	102.1
Adjusted earnings per share	**176.1**	149.4	116.2	105.3	102.1
Diluted earnings per share	**154.9**	146.0	111.2	102.8	101.1
Diluted adjusted earnings per share	**172.8**	147.0	115.3	104.3	101.1
Share price in the year (pence)					
High	**3,740.0**	3,626.0	1,845.0	1,750.0	1,798.0
Low	**2,090.0**	1,725.0	1,410.0	1,375.0	1,340.0
Dividends per share (pence)	**85.0**	78.0	71.0	66.0	61.0

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