XP Power

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

Stock code: XPP

THE XPERTS IN POWER

XP Power is a leading international provider of essential power control solutions. Power direct from the electricity grid is unsuitable for the equipment which it supplies. XP Power designs and manufactures power converters — components which convert power into the right form for our individual customers' needs, allowing their electronic equipment to function. XP Power supplies the healthcare, industrial and technology industries with this mission critical equipment. Significant, long term investment into research and development means that XP Power's products frequently offer significantly improved functionality and efficiency.

Our Value Proposition

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

Our Mission

Inspiring our people to be *The Experts in Power* delivering genuine value to our customers

Business Review

Financial Statements

XP Financial and Operational Highlights

Highlights	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Revenue	**£46.5m**	£51.9m
Gross profit	**£21.8m**	£25.7m
Gross margin	**46.9%**	49.5%
Operating margin	**21.3%**	23.9%
Profit before tax	**£9.6m**	£11.9m
Profit after tax	**£7.7m**	£10.1m
Diluted earnings per share (see Note 9)	**40.4p**	52.9p
Interim dividend per share (see Note 8)	**21.0p**	19.0p

- Revenue reduced by 10% to £46.5 million due to weaker order intake in the latter part of 2011 as industrial electronics demand softened in response to a weaker macroeconomic outlook
- Gross margin reduced to 46.9% (2011: 49.5%) due to a combination of Vietnam start-up costs and lower factory loading
- New production facility in Vietnam now operational and expected to break even by the end of 2012
- Continued expansion of own-design XP products to reach 61% of revenues (2011: 55%)
- New product introductions and the development of an industry leading in-house manufacturing capability have generated multiple new program wins to drive future growth and market share gains
- Order intake for first half of 2012 improved significantly, exceeding second half of 2011 by 16%
- Second half revenues and earnings expected to be substantially higher than those achieved in the first half of the current year

"Whilst the global trading environment is challenging, we are adapting our resource allocation to fit the current market conditions. Looking ahead, we expect that the on-going implementation of our strategy of vertical integration in designing and manufacturing our own products, targeted at servicing the power supply needs of industry leading customers, continues to position the group well for long term earnings growth."

Larry Tracey, Chairman

XP Chairman's Statement

Overview

First half revenues declined as expected following the weaker order intake reported during the second half of the previous financial year. The combination of subdued industrial electronics demand, the start-up costs associated with our Vietnamese manufacturing facility and lower factory loading, have combined to produce a reduction in earnings in the first half of 2012 versus the same period a year ago. Against this background, we achieved another strong design win performance during the period and further improved the proportion of our revenue which came from our own-design products, which reached 61% in the first half of 2012 (2011: 55%).

Markets

XP Power supplies power control solutions to original equipment manufacturers ("OEMs") who supply the healthcare, industrial and technology markets with high value products. The increasing importance of energy efficiency for environmental, reliability and economic reasons; the necessity for ever smaller products; the accelerating rate of technological change; and the increasing proliferation of electronic equipment, have all set a strong foundation for medium term growth in demand for XP Power's products.

Our value proposition to customers is to reduce their overall costs of design, manufacture and operation. We achieve this by providing excellent sales engineering support and producing new products that consume less power, take up less space, reduce installation times and which are highly reliable in service.

Revenues for the period decreased by 10% (11% in constant currency) to £46.5 million, compared with £51.9 million in the same period a year ago. Revenues in Asia were £4.3 million, up 8%; in Europe revenues were £20.3 million, down 13%; and those in North America were £21.9 million, down 11%, all on the same period a year ago.

Importantly, our customer base remains highly diversified. While we have seen certain of our existing larger customers show some decrease in demand in 2012 versus 2011, this has been offset in part by new programs and new customers. We expect demand from the majority of the older existing programs to recover when end markets improve. There has been no significant change in the revenue mix of the different industry sectors we target when comparing the first half of 2012 with the first half of 2011.

Our largest customer accounts for only 4% of revenue, spread over 71 different programs/part numbers.

Margins

Gross margin in the first half of 2012 was 46.9% compared with 49.5% in the same period a year ago. A combination of reduced factory loading in our China facility and £0.3 million of start-up costs associated with our new Vietnamese manufacturing facility contributed to this reduction. On top of this there were additional costs associated with the transfer of older own-design products from contract manufacturers into our own factory. We expect an improvement in gross margins in the second half of 2012 as factory loading improves and the Vietnam facility moves towards the expected breakeven position at year end.

Operating expenses were £11.9 million in the first half (2011: £13.3 million) and have been kept under tight control given the subdued trading environment.

Despite the adverse effects on margin highlighted above we still achieved excellent operating margins of 21.3% (2011: 23.9%) highlighting the strength of our business model. We expect improvement in this metric in the second half as the contribution of our own-design products continues to increase.

Product Development

New products are fundamental to driving our revenue growth. The broader our product offering, the more opportunity we have to increase our revenues by expanding our available market. As expected, the number of new product families introduced over the last three years is yet to have a significant impact on our revenues, given the time lag from launch to production. This is due to the lengthy design-in cycles required by customers to qualify the power converter in their equipment and then gain the necessary safety agency approvals.

We launched 10 new product families in the first half of 2012. In response to customer requirements for improved efficiency and environmental performance, our design teams are focusing on developing new products that reduce power wastage, reduce heat, and consume less raw material. Many of our new products will be environmentally friendly having very high efficiency and incorporating low stand-by power operation. Gross product development spending increased by 29% to £2.7 million in the first half from £2.1 million in the first half of 2011.

We have a broad array of standard products which are easy to modify to our diverse customers' specific requirements, avoiding the need for our customers to embark on an expensive and lengthy custom design process themselves. Use of a standard platform also reduces the customer's risk. Approximately 57% of our revenues come from standard products that we have either modified or adapted from our configurable product lines.

Larger customers are keen to reduce the number of vendors they deal with and XP Power's broad product offering, excellent global engineering support, in-house manufacturing capability and environmental credentials make us an ideal candidate as a preferred supplier.

Manufacturing

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

In June 2009, production commenced at a new manufacturing facility constructed on our existing site at Kunshan, close to Shanghai, China. The facility, which is certified under the ISO14001 Environmental Management Standard, delivers manufacturing capabilities which match or even exceed the best of our competitors.

Our new Vietnamese manufacturing facility, located in Ho Chi Minh City, was completed on schedule in December 2011 and began production of its first magnetic components during the period. The facility consists of an 8,000m^2 manufacturing building and 3,000m^2 administration building. There is sufficient space on the site to accommodate a second 8,000m^2 manufacturing building as demand dictates.

Producing our own magnetic components in Vietnam will help us mitigate the continued rise of Chinese labour costs and the appreciation of the Chinese Renminbi. In addition, extending vertical integration to the critical magnetic components used in power converters is seen as an additional value proposition by many of our customers, notably in the healthcare and high reliability industrial sectors.

The new Vietnam facility is the world's most environmentally advanced power converter manufacturing factory and will be the first building in Vietnam to meet the Singapore Building Construction Authority's Green Mark Gold Plus certification, a standard applicable to buildings in tropical climates. This facility embodies our commitment to lead the industry in environmental performance. Sustainability and sound environmental stewardship are increasingly important to our customers, employees, suppliers and the communities in which we operate.

At present, approximately one quarter of our total revenues are manufactured in-house. This figure will increase significantly as the proportion of own-design business continues to increase and the transfer of the older own-design products from third party to in-house manufacture is completed during 2012.

Dividend

Since April 2010 the Company has been making quarterly dividend payments. Our strong cash flow and confidence in the Group's prospects have enabled us to increase total dividends for the first half by 11% to 21.0 pence per share (2011: 19.0 pence per share).

The first quarterly payment of 10.0 pence per share was made on 10 July 2012. A second quarterly dividend of 11 pence per share will be paid on 11 October 2012 to shareholders on the register at 7 September 2012.

Dividend growth over the past ten years has exceeded a compound average growth rate of 15%.

Environmental Impact and "Green Power" products

XP Power has placed improved environmental performance at the heart of its operations both in terms of minimising the impact its activities have on the environment and, as importantly, in its product development strategy. These practices and initiatives not only resonate with our customers and employees; they also make significant commercial sense as countries legislate to reduce power wastage, improve recyclability of manufactured goods and ban the use of harmful chemicals.

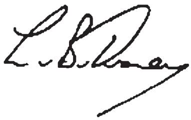
We have developed a class leading portfolio of green products with efficiencies up to 95% and many of these products also have low stand-by power (a feature to reduce the power consumed while the end equipment is not operational but in stand-by mode). We now apply our own "Green Power" logo to the products we designate ultra–high efficiency. During the first half of 2012, 6% of our revenues were generated by "Green Power" products compared to 5% in 2011 and 3% in 2010. At present, the uptake of these products by customers is primarily driven by their improved reliability and the ability to dispense with mechanical fans to dissipate waste heat, rather than the fact that they consume less energy in operation. However, we expect this to change as lower energy consumption becomes a higher priority to end users of capital equipment and more legislation is introduced.

Outlook

Whilst the global trading environment is challenging, we are adapting our resource allocation to fit the current market conditions. Looking ahead, we expect that the on-going implementation of our strategy of vertical integration in designing and manufacturing our own products, targeted at servicing the power supply needs of industry leading customers, continues to position the group well for long term earnings growth.

An expansive, up to date portfolio of market leading products and the development of an industry leading in-house manufacturing capability are at the core of our strategy and are leading to multiple new program wins which will drive our growth as we continue to take market share. While industrial electronics markets remain subdued at present, we continue to believe that our greater penetration of a Blue Chip customer base and significant design win success bode well for the future of XP.

Customers are continuing to place orders at a significantly higher rate than that seen in the second half of 2011, with orders in the first half of 2012 16% above those in the second half of the prior year. Against this background, we currently anticipate that second half revenues and earnings will be substantially higher than those achieved in the first half of the current year.



Larry Tracey
Chairman
23 July 2012

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

£ Millions	Note	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Revenue	5	**46.5**	51.9
Cost of sales	6	**(24.7)**	(26.2)
Gross profit		**21.8**	25.7
Operating expenses	6	**(11.9)**	(13.0)
Other operating expense	6	**–**	(0.3)
Operating profit		**9.9**	12.4
Finance cost	6	**(0.3)**	(0.5)
Profit before income tax	5	**9.6**	11.9
Income tax expense	7	**(1.8)**	(1.6)
Net profit		**7.8**	10.3
Other comprehensive income:			
Fair value gains/(losses) on cash flow hedges		**0.1**	(0.4)
Exchange differences on translation of foreign operations		**(0.1)**	0.4
Other comprehensive income, net of tax		**–**	–
Total comprehensive income		**7.8**	10.3
Profit attributable to:			
Owners of the parent		**7.7**	10.1
Non-controlling interest		**0.1**	0.2
		7.8	10.3
Total comprehensive income attributable to:			
Owners of the parent		**7.7**	10.1
Non-controlling interest		**0.1**	0.2
		7.8	10.3
Earnings per share attributable to owners of the parent (pence per share)			
— Basic	9	**40.6**	53.4
— Diluted	9	**40.4**	52.9

Consolidated Balance Sheet
At 30 June 2012

£ Millions	Note	At 30 June 2012 (Unaudited)	At 31 December 2011	At 30 June 2011 (Unaudited)
ASSETS				
Current assets				
Cash and cash equivalents	11	**4.5**	6.3	4.7
Deferred income tax assets		**–**	0.1	–
Trade receivables		**14.6**	16.0	16.5
Other current assets		**1.5**	2.6	2.0
Inventories		**22.0**	22.0	23.3
Total current assets		**42.6**	47.0	46.5
Non-current assets				
Interests in associates		**0.1**	0.1	0.1
Property, plant and equipment		**14.0**	12.9	9.6
Goodwill		**31.4**	31.3	30.8
Intangible assets	10	**7.1**	6.4	5.5
ESOP loans to employees		**1.2**	1.6	1.9
Deferred income tax assets		**0.3**	0.3	0.7
Total non-current assets		**54.1**	52.6	48.6
Total assets		**96.7**	99.6	95.1
LIABILITIES				
Current liabilities				
Trade and other payables		**13.3**	11.4	14.3
Current income tax liabilities		**0.9**	1.3	1.9
Derivative financial instruments		**–**	0.2	0.8
Borrowings	12	**10.0**	13.4	15.9
Provision for deferred contingent consideration		**–**	1.9	3.6
Total current liabilities		**24.2**	28.2	36.5
Non-current liabilities				
Borrowings	12	**9.5**	11.5	8.4
Deferred income tax liabilities		**2.1**	2.0	1.7
Provision for deferred contingent consideration		**2.2**	2.1	–
Total non-current liabilities		**13.8**	15.6	10.1
Total liabilities		**38.0**	43.8	46.6
NET ASSETS		**58.7**	55.8	48.5
Capital and reserves attributable to equity holders of the Company				
Share capital		**27.2**	27.2	27.2
Merger reserve		**0.2**	0.2	0.2
Treasury shares		**(0.8)**	(1.0)	(1.0)
Hedging reserve		**0.1**	–	(0.8)
Translation reserve		**(7.2)**	(7.1)	(7.2)
Retained earnings		**39.1**	36.3	29.9
		58.6	55.6	48.3
Non-controlling interest		**0.1**	0.2	0.2
TOTAL EQUITY		**58.7**	55.8	48.5

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 (Unaudited)

	Attributable to		
£ Millions	Share capital	Company treasury shares	Merger reserve
Balance at 1 January 2011	27.2	(1.0)	0.2
Sale of treasury shares	–	1.2	–
Purchase of treasury shares	–	(1.2)	–
Dividends paid	–	–	–
Total comprehensive income for the period	–	–	–
Balance at 30 June 2011	27.2	(1.0)	0.2
Balance at 1 January 2012	27.2	(1.0)	0.2
Sale of treasury shares	–	0.2	–
Dividends paid	–	–	–
Total comprehensive income for the period	–	–	–
Balance at 30 June 2012	27.2	(0.8)	0.2

equity holders of the company					
Hedging reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total Equity
(0.4)	(7.6)	24.2	42.6	0.2	42.8
–	–	(0.6)	0.6	–	0.6
–	–	–	(1.2)	–	(1.2)
–	–	(3.8)	(3.8)	(0.2)	(4.0)
(0.4)	0.4	10.1	10.1	0.2	10.3
(0.8)	(7.2)	29.9	48.3	0.2	48.5
–	(7.1)	36.3	55.6	0.2	55.8
–	–	–	0.2	–	0.2
–	–	(4.9)	(4.9)	(0.2)	(5.1)
0.1	(0.1)	7.7	7.7	0.1	7.8
0.1	(7.2)	39.1	58.6	0.1	58.7

Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

£ Millions	Note	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Cash flows from operating activities			
Total profit		**7.8**	10.3
Adjustments for			
— Income tax expense		**1.8**	1.6
— Amortisation and depreciation		**1.2**	1.0
— Finance cost		**0.3**	0.5
— Gain on fair valuation of derivative financial instruments		**(0.1)**	–
Change in the working capital			
— Inventories		**–**	(2.3)
— Trade and other receivables		**2.5**	(1.3)
— Trade and other payables		**1.0**	(1.1)
— Income tax paid		**(2.0)**	(2.9)
Net cash provided by operating activities	11	**12.5**	5.8
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired		**(1.0)**	–
Purchases and construction of property, plant and equipment		**(1.8)**	(2.1)
Research and development expenditure capitalised	6	**(1.2)**	(0.6)
ESOP loans repaid		**0.4**	0.5
Net cash used in investing activities		**(3.6)**	(2.2)
Cash flows from financing activities			
Repayment of borrowings		**(2.0)**	(2.8)
Sale/(purchase) of treasury shares by ESOP		**0.2**	(0.6)
Interest paid		**(0.3)**	(0.4)
Dividend paid to equity holders of the Company		**(4.9)**	(3.8)
Dividend paid to non-controlling interests		**(0.2)**	(0.2)
Net cash used in financing activities		**(7.2)**	(7.8)
Effects of currency translation		**(0.1)**	0.3
Net increase/(decrease) in cash and cash equivalents		**1.6**	(3.9)
Cash and cash equivalents at start of period		**(3.3)**	1.0
Effects of currency translation on cash and cash equivalents		**–**	0.1
Cash and cash equivalents at the end of the period	11	**(1.7)**	(2.8)

£ Millions	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Reconciliation of changes in cash and cash equivalents to movements in net debt		
Net increase/(decrease) in cash and cash equivalents	**1.6**	(3.9)
Repayment of borrowings	**2.0**	2.8
Effects on currency translation	**–**	(0.1)
Movement in net debt	**3.6**	(1.2)
Net debt at start of period	**(18.6)**	(18.4)
Net debt at end of period	**(15.0)**	(19.6)

Notes to the Interim Results

For the six months ended 30 June 2012

1. General information

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

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

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

2. Basis of preparation

The condensed consolidated interim financial statements for the period ended 30 June 2012 have been prepared in accordance with the Listing Rules of the Financial Services Authority and with IAS 34, Interim Financial Reporting as adopted by the European Union.

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011 which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

3. Going concern

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

4. Accounting policies

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

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated interim financial statements as were applied in the presentation of the Group's financial statements for the year ended 31 December 2011.

5. Segmented analysis

The Group operates substantially in one class of business, the provision of power control solutions to the electronics industry. Analysis of total Group operating profit, total assets, revenue and total group profit before taxation by geographical region is set out below.

£ Millions	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Revenue		
Asia	**4.3**	4.0
Europe	**20.3**	23.2
North America	**21.9**	24.7
Total revenue	**46.5**	51.9

£ Millions	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Total assets		
Asia	**30.9**	27.0
Europe	**26.3**	28.1
North America	**39.2**	39.3
Segment assets	**96.4**	94.4
Unallocated deferred tax	**0.3**	0.7
Total assets	**96.7**	95.1

5. Segmented analysis (continued)

Reconciliation of segment results to profit before tax:

£ Millions	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Asia	**0.5**	1.0
Europe	**3.6**	5.1
North America	**5.2**	6.0
Segment result	**9.3**	12.1
Corporate recovery from operating segment	**2.6**	2.2
Research and development cost	**(2.0)**	(1.9)
Finance income and cost	**(0.3)**	(0.5)
Profit before taxation	**9.6**	11.9
Tax	**(1.8)**	(1.6)
Total profit	**7.8**	10.3

The Group's three business segments operate in the following countries:

£ Millions	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
United States	**21.9**	24.7
United Kingdom	**11.0**	11.8
Singapore	**4.3**	4.0
Germany	**4.5**	4.5
Switzerland	**1.4**	1.8
Other countries	**3.4**	5.1
Total Revenue	**46.5**	51.9

6. Expenses by nature

£ Millions	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Profit for the period is after charging/(crediting):		
Depreciation of property, plant and equipment	**0.7**	0.6
Foreign exchange loss	**0.2**	0.3
Foreign exchange (gains) on forward contracts	**(0.1)**	–
Cost of inventories recognised as an expense	**24.4**	26.2
Fees paid to auditors:		
— Audit	**0.2**	0.2
— Other services — tax	**0.1**	–
All other charges	**11.4**	12.7
Total	**36.9**	40.0

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

£ Millions	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Gross research and development expenditure	**2.7**	2.1
Development expenditure capitalised	**(1.2)**	(0.6)
Amortisation of development expenditure capitalised	**0.5**	0.4
Net research and development expenditure	**2.0**	1.9

7. Taxation

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax expected for the full financial year. In arriving at the tax expense estimate, consideration for certain tax uncertainties were accounted for. The estimated effective annual tax rate used for 2012 is 19% (2011: 14%).

£ Millions	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Singapore	**0.6**	0.7
Other overseas taxation	**1.2**	0.9
Total taxation	**1.8**	1.6

8. Dividends

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

	Six months ended 30 June 2012 (Unaudited)		Six months ended 30 June 2011 (Unaudited)	
	Pence per share	£ Millions	Pence per share	£ Millions
Prior year third quarter dividend paid	**11.0**	**2.1**	8.0	1.5
Prior year final dividend paid	**15.0**	**2.8**	12.0	2.3
Total	**26.0**	**4.9**	20.0	3.8

The dividends paid recognised in the interim financial statements relate to the third quarter and final dividends for 2011.

	Six months ended 30 June 2012 (Unaudited)		Six months ended 30 June 2011 (Unaudited)	
	Pence per share	£ Millions	Pence per share	£ Millions
Proposed dividends	**21.0**	**4.0**	19.0	3.6

In April 2010 we announced that the Company's dividend payment schedule would change from a half yearly to a quarterly basis, to increase the attractiveness of the Group's shares to certain investors and to smooth cash flows. The first quarter payment of 10 pence per share (2011: 9 pence) was made on 10 July 2012 to shareholders on the register at 15 June 2012.

A second quarterly dividend of 11 pence per share (2011: 10 pence) will be paid on 11 October 2012 to shareholders on the register at 7 September 2012.

9. Earnings per share

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

£ Millions	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity shareholders of the company)	**7.7**	10.1
Earnings for adjusted earnings per share	**7.7**	10.1

Number of shares	'000	'000
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**18,977**	18,921
Effect of potentially dilutive share options (thousands)	**87**	162
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,063**	19,083
Earnings per share from operations		
Basic	**40.6p**	53.4p
Diluted	**40.4p**	52.9p
Diluted adjusted	**40.4p**	52.9p

10. Other intangible assets

Other intangible assets comprises development expenditure capitalised when it meets the criteria laid out in IAS 38, "Intangible Assets", trademarks and non-contractual customer relationships.

11. Cash and cash equivalents

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

£ Millions	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)
Cash and bank balances	**4.5**	4.7
Less: Bank overdrafts	**(6.2)**	(7.5)
Cash and cash equivalents per consolidated cash flow statement	**(1.7)**	(2.8)
Reconciliation to free cash flow		
Net cash inflow from operating activities	**12.5**	5.8
Research and development expenditure capitalised	**(1.2)**	(0.6)
Net interest expense	**(0.3)**	(0.4)
Free cash flow	**11.0**	4.8

12. Borrowings, bank loans and overdraft

£ Millions	30 June 2012 (Unaudited)	31 December 2011	30 June 2011 (Unaudited)
Non-Current	**9.5**	11.5	**8.4**
Current	**10.0**	13.4	**15.9**
Total	**19.5**	24.9	**24.3**

13. Currency Impact

We report in Pounds Sterling (GBP) but have significant revenues and costs as well as assets and liabilities that are denominated in United States Dollars (USD). The table below sets out the prevailing exchange rates in the periods reported.

	First half 2012 average	First half 2011 average	% Change	30 June 2012 Period end	31 December 2011 Period end	30 June 2011 Period end
USD/GBP	1.57	1.60	–1.9%	1.57	1.57	1.61
EUR/GBP	1.21	1.16	4.3%	1.24	1.20	1.12

Approximately 70% of the Group's revenues are invoiced in USD so the change in the USD to GBP exchange rate has a significant effect on reported revenue in GBP. However, as the majority of our cost of goods sold and operating expenses are also denominated in USD the change in profit before tax with the USD to GBP exchange rate is relatively minor. The impact of changes in the key exchange rates from the first half of 2011 to the first half of 2012 are summarised as follows:

£ Millions	USD	EUR
Impact on revenues	0.7	(0.1)
Impact on profit before tax	0.1	—
Impact on net debt	(0.5)	(0.1)

14. Risks and uncertainties

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

Fluctuations in foreign currency

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

Dependence on key personnel

The future success of the Group is substantially dependent on the continued services and continuing contributions of its Directors, senior management and other key personnel.

14. Risks and uncertainties (continued)

Loss of key customers/suppliers

The Group is dependent on retaining its key customers and suppliers. However, for the six months ended 30 June 2012, no one customer accounted for more than 5% of revenue.

Shortage, non–availability or technical fault with regard to key electronic components

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

Fluctuations of revenues, expenses and operating results

The revenues, expenses and operating results of the Group could vary significantly from period to period as a result of a variety of factors, some of which are outside its control.

Information Technology Systems

The business of the Group relies to a significant extent on information technology systems used in the daily operations of its operating subsidiaries. Any failure or impairment of those systems or any inability to transfer data onto any new systems introduced could cause a loss of business and/or damage to the reputation of the Group together with significant remedial costs.

Risks relating to taxation of the Group

The Group is exposed to corporation tax payable in many jurisdictions. The effective tax rate of the Group is affected by where its profits fall geographically. The Group effective tax rate could therefore fluctuate over time. This could have an impact on earnings and potentially its share price. Further, the Group's tax position includes judgments about past and future events and relies on estimates and assumptions.

15. Directors' responsibility statement

The interim financial statements were approved by the board of directors on 23 July 2012.

The directors confirm that to the best of their knowledge that:

- This unaudited condensed financial information has been prepared in accordance with IAS 34 "Interim Reporting" as adopted by the European Union; and
- The interim management report includes a fair view of the information required by DTR 4.2.7 (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year) and DTR 4.2.8 (disclosure of related party transactions and changes therein).

The directors of XP Power Limited are as listed in the Company's 2011 Annual Report.

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