

27 July 2015

XP Power Limited
(“XP” or “the Group”)

Interim Results for the six months ended 30 June 2015

XP, a world leading developer and manufacturer of critical power control components for the electronics industry, today announces its interim results for the six-month period ended 30 June 2015.

	Six months ended 30 June 2015	Six months ended 30 June 2014
	(Unaudited)	(Unaudited)
Highlights		
Orders	£56.5m	£51.1m
Revenue	£53.9m	£50.2m
Gross margin	49.4%	49.8%
Operating margin	23.6%	24.5%
Profit before tax	£12.6m	£12.2m
Profit after tax	£9.6m	£9.7m
Diluted earnings per share (see Note 9)	50.1p	50.5p
Interim dividend per share (see Note 8)	27.0p	25.0p

- Order intake increased by 11% to £56.5 million (+4% in constant currency)
- Revenue increased by 7% to £53.9 million (+1% in constant currency)
- Gross margin decreased to 49.4% (2014: 49.8%) due to start up costs for power converter manufacturing at our Vietnamese facility
- Own-design XP product revenues increased to £36.2 million (2014: £33.0) an increase of 10%, setting a new record, and now represent 67.2% of total revenues (2014: 65.7%)
- Revenues for ultra-high efficiency “Green XP Power” products continue to grow and are up by 29% to £11.1 million now representing 21% of total revenue (2014: 17%)
- Acquired a 51% interest in a South Korean power converter company giving us sales and engineering capability in an important manufacturing centre for industrial electronics
- New product introductions and the development of an industry leading in-house manufacturing capability continue to generate new program wins to drive future growth and market share gains

James Peters, Chairman, commented:

“The Group has had an encouraging first half. Our reported orders, revenues and profit before tax for the first six months of 2015 all set new records and this strong result was achieved while simultaneously expanding our engineering and sales resources to help drive future growth. Our

balance sheet position is strong and we are in an excellent position to make further acquisitions to further broaden our product offering and engineering capabilities.

“While the global economic outlook remains uncertain and exchange rates are volatile, the second half of the year has started well and we are encouraged by our order intake and strong backlog. This gives us confidence that we should be able to continue to grow revenues in the second half of 2015 as designs won in 2014 and prior years enter their production phase.”

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Note to editors

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.

For further information, please visit www.xppower.com

XP Power Limited
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Interim Results for the six months ended 30 June 2015

INTERIM STATEMENT

Overview

The Group has had an encouraging first half. Our reported orders, revenues and profit before tax for the first six months of 2015 all set new records and - although aided by the strength of the US Dollar - underpin earnings and cash flow for shareholders supporting a further increase in the dividend. This strong result was achieved while simultaneously expanding our engineering and sales resources to help drive future growth as outlined in our 2014 Annual Report.

Order intake in the first half of 2015 surpassed revenues as it did in the first and second half of 2014. Consequently, overall momentum continues to build in our business and we enter the second half of the current year with a strong order backlog.

Notably, our European business achieved very strong order intake and revenue growth after experiencing some weakness in the second half of 2014 and despite the translation effects of a weaker Euro. In contrast the North America business, which showed strong momentum in the second half of 2014, has slowed as customers placed orders at lower levels and revenues grew at a slower rate than in the second half of the previous year. The overall picture for the Group is one of steady progress.

We have continued to execute well against our strategy and we are encouraged both by the strength of our order backlog and the new programs we continue to win.

Strategy

The Group has applied a consistent strategy of moving up the value chain, powered by:

- Development of a strong pipeline of leading-edge products
- Provision of industry-leading levels of service and support
- Targeting new key accounts and increasing the penetration of existing key accounts
- An established pipeline of new class-leading “Green” products which operate at high efficiency
- The addition of a manufacturing capability, enhancing its value proposition to customers by ensuring greater control of the manufacturing process
- An increased proportion of high margin own designed/manufactured products within its revenue mix

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 and reduce installation times, and which are highly reliable in service.

Trading and Financial Review

XP Power supplies power control solutions to original equipment manufacturers (“OEMs”) who supply the healthcare, industrial and technology markets with high value, high reliability

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 established a strong foundation for growth in demand for XP Power's products

Order intake of £56.5 million (2014: £51.1 million) was up 11% (4% in constant currency). Compared to the same period a year ago, Asia increased by 26%, Europe increased by 5% and North America increased by 12%. The average US Dollar to Sterling exchange rate was 1.67 in the first half of 2014 compared with 1.52 in the first half of 2015 representing a 10% strengthening. This acted to increase the reported order intake compared to the first half of 2014 while the simultaneous weakening of the average Euro to Sterling exchange rate from 1.21 to 1.35 had the reverse effect.

Reported revenues grew 7% to £53.9 million in the six months to 30 June 2015 compared to £50.2 million in the same period a year ago. When adjusting to constant currency the underlying growth was 1% in the first half of the year compared to the same period a year ago.

Revenues in North America were £26.9 million (2014: £24.6 million) up 9% compared to the same period a year ago. Revenues in Europe were £23.2 million (2014: £21.7 million) up 7% on the same period a year ago. Revenues in Asia were £3.8 million (2014: £3.9 million), down 3% compared with the same period a year ago.

On a sector basis, revenues from healthcare grew 13% to £17.3 million (2014: £15.3 million) driven by new programs with key accounts, particularly in Europe, as well as existing programs coming back to life. Healthcare is benefiting from design wins entering production from larger accounts where we have gained approved or preferred supplier status in recent years. Industrial declined by 3% to £24.0 million (2014: £24.8 million) primarily driven by North American accounts, while the industrial business in Europe showed good growth. After a fairly prolonged period in the doldrums, the technology sector grew by 25% compared with the first half of 2014 to £12.6 million (2014: £10.1 million). In terms of overall revenue for the first half of 2015, healthcare represented 32% (2014: 31%), industrial 45% (2014: 49%) and technology 23% (2014: 20%).

Our customer base continues to be highly diversified with the largest customer accounting for only 6% of revenue, spread over 100 different programs/part numbers.

Margins

We continue to generate industry leading margins. Gross margin in the first half of 2015 was 49.4% (2014: 49.8%). The small decrease from 2014 was primarily due to start-up costs relating to the production of the first complete power converters in the Vietnam facility. We expect Vietnam to make a net contribution to margins in the second half of 2015 as production volumes running through that facility increase.

Operating expenses were £13.9 million (2014: £12.7 million). Again there is a significant translation effect from the strengthening US Dollar versus Sterling which we estimate acted to increase reported operating expenses by approximately £0.5 million. As highlighted in our 2014 earnings release and Annual Report we increased sales and engineering resources to drive future revenue growth which added approximately £0.4 million to operating expenses over the first half of 2014. Gross product development spend was £3.1 million (2014: £2.6 million), £1.4 million of which was capitalised (2014: £1.2 million), and £0.9 million amortised (2014: £0.7 million).

Notwithstanding our investment in additional sales and engineering resources to support future growth we continue to achieve excellent operating margins of 23.6% (2014: 24.5%) highlighting

the strength of our business model. We expect further improvement in this metric as market conditions improve.

Taxation

The tax charge for the period was £3.0 million (2014: £2.4 million) which represents an effective tax rate of 23.8% (2014: 19.7%). The increase in the effective tax rate from 2014 was flagged in our 2014 Annual Report. We maintain our guidance range for our future tax rate of 23.0% to 24.5 % depending on how profits fall geographically.

Acquisitions

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

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

Financial Position

Class-leading gross and operating margins and modest capital requirements have resulted in continued strong cash flow. After payment of the 2014 final dividend and the acquisition of our new South Korean subsidiary net debt was £0.4 million at the end of the period. This compares with net debt of £1.5 million at 30 June 2014.

Product Development

New products are fundamental to our revenue growth. The broader our product offering, the more opportunity we have to increase revenues by expanding our available market. As expected, the significant number of new product families introduced over the last three years is yet to have a material impact on our revenues, given the time lag from launch to them entering 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.

XP launched 13 new product families in the first half of 2015 (2014: 13). We continue to lead our industry on the introduction of high efficiency, "green" products. Of the products released in the first half of 2015, 10 are high efficiency products and we are also developing more products which make use of digital control. The GSP500 which was released during the period is an example of a leading edge product which is not only highly efficient but also has digital control. We have also released a version of our industrial 1.5 kilowatt product with digital control. As well as innovating on efficiency, our design teams are developing new products that reduce power wastage, reduce heat, consume less raw material and incorporate low stand-by power operation.

Revenue from own design products was £36.2 million up 10% from the same period in 2014 and now represents 67.2% (2014: 65.7%) of total revenue.

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

Manufacturing Progress

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

In addition to our Chinese manufacturing facility located in Kunshan near Shanghai, our Vietnamese manufacturing facility, located in Ho Chi Minh City, began production of its first magnetic components in March 2012 and is now producing the majority of the Group's monthly requirement for magnetics.

Producing our own magnetic components in Vietnam is helping 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.

In the fourth quarter of 2014 we began the production of the first complete power converters in Vietnam. We now have 27 part numbers approved for production in Vietnam with many more in the pipeline. XP manufactured 590,000 power converters in total during the first half of 2015 and 24,000 of these were produced in the Vietnamese facility. We expect the proportion of power converters produced in Vietnam to increase as we transfer more products to that facility. The start-up costs for power converter manufacture reduced the margin by £0.4 million in the first half of 2015.

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 8% to 27.0 pence per share (2014: 25.0 pence per share).

The first quarter dividend payment of 13 pence per share was made on 9 July 2015. The second quarter dividend of 14 pence per share will be paid on 8 October 2015 to shareholders on the register at 11 September 2015.

The compound average growth rate in dividends over the last 10 years has been 17% and over 5 years has been 24%.

Environmental Impact and "Green XP 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 XP Power" logo to the products we designate ultra-high efficiency. During the first half of 2015 21% of our revenues were generated by "Green XP Power" products compared to 17% in 2014, 11% in 2013, 6% in 2012 and 5% in 2011. 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.

Board Changes

On 1 January 2015 Terry Twigger joined the board. As the former Chief Executive of Meggitt PLC, Terry has a wealth of international and public company experience in the engineering sector, including numerous successful acquisitions. Terry is our senior non-executive director and chairs the audit committee.

Outlook

While the global economic outlook remains uncertain and exchange rates are volatile, following a strong first half, the second half of the year has started well and we are encouraged by our record order intake and strong backlog. This gives us confidence that we should be able to continue to grow revenues in the second half of 2015 as designs won in 2014 and prior years enter their production phase.

The additional sales and engineering resource that we began adding during the period is an important step forward with our plans to drive further growth in the future.

Our balance sheet position is strong which places us in an excellent position to make further acquisitions to further broaden our product offering and engineering capabilities.

A broad, up to date product portfolio and the development of an industry leading in-house manufacturing capability are at the core of our strategy and, when combined with excellent service and support, are leading to continued new program wins which should drive our future growth. The greater penetration of our Blue Chip customer base and significant design win success, bode well for the future of the Group.

XP Power Limited
Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2015

£ Millions	Note	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Revenue	5	53.9	50.2
Cost of sales	6	(27.3)	(25.2)
Gross profit		26.6	25.0
Operating expenses	6	(13.9)	(12.7)
Operating profit		12.7	12.3
Finance cost	6	(0.1)	(0.1)
Profit before income tax		12.6	12.2
Income tax expense	7	(3.0)	(2.4)
Profit after income tax		9.6	9.8
Other comprehensive income:			
Cash flow hedges		-	0.3
Exchange differences on translation of foreign operations		(0.5)	(0.8)
Other comprehensive income, net of tax		(0.5)	(0.5)
Total comprehensive income		9.1	9.3
Profit attributable to:			
- Equity holders of the Company		9.6	9.7
- Non-controlling interests		-	0.1
		9.6	9.8
Total comprehensive income attributable to:			
- Equity holders of the Company		9.1	9.2
- Non-controlling interests		-	0.1
		9.1	9.3
Earnings per share attributable to equity holders of the Company		Pence per Share	Pence per Share
Basic	9	50.5	51.1
Diluted	9	50.1	50.5

XP Power Limited
Consolidated Balance Sheet
At 30 June 2015

£ Millions	Note	At 30 June 2015 (Unaudited)	At 31 December 2014	At 30 June 2014 (Unaudited)
ASSETS				
Current assets				
Cash and cash equivalents	11	3.9	3.8	5.6
Trade receivables		18.3	16.0	14.7
Other current assets		2.2	1.7	1.2
Inventories		25.8	25.2	22.6
Derivative financial instruments		0.9	0.3	-
Total current assets		51.1	47.0	44.1
Non-current assets				
Property, plant and equipment		15.0	14.4	12.5
Goodwill		30.5	30.6	30.6
Intangible assets	10	10.4	9.9	9.0
Other Investment		0.1	-	-
Deferred income tax assets		0.3	0.3	0.5
ESOP loans to employees		0.8	0.9	1.0
Total non-current assets		57.1	56.1	53.6
Total assets		108.2	103.1	97.7
LIABILITIES				
Current liabilities				
Trade and other payables		14.4	14.4	13.4
Current income tax liabilities		2.1	1.7	1.2
Borrowings	12	4.3	2.5	7.1
Total current liabilities		20.8	18.6	21.7
Non-current liabilities				
Deferred income tax liabilities		2.6	2.5	2.1
Provision for deferred contingent consideration		1.8	1.7	1.7
Total non-current liabilities		4.4	4.2	3.8
Total liabilities		25.2	22.8	25.5
NET ASSETS		83.0	80.3	72.2
Equity				
Equity 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		(1.1)	(1.1)	(1.2)
Hedging reserve		0.6	0.6	-
Translation reserve		(6.8)	(6.3)	(8.8)
Retained earnings		62.2	59.6	54.7
		82.3	80.2	72.1
Non-controlling interest		0.7	0.1	0.1
TOTAL EQUITY		83.0	80.3	72.2

XP Power Limited
Consolidated Statement of Changes in Equity
For the six months ended 30 June 2015 (Unaudited)

£ Millions

	Attributable to equity holders of the company						Total	Non-controlling interest	Total Equity
	Share capital	Treasury shares	Merger reserve	Hedging reserve	Translation reserve	Retained earnings			
Balance at 1 January 2014	27.2	(1.0)	0.2	(0.3)	(8.0)	51.1	69.2	0.2	69.4
Sale of treasury shares	-	0.1	-	-	-	-	0.1	-	0.1
Purchase of treasury shares	-	(0.4)	-	-	-	-	(0.4)	-	(0.4)
Employee share option plan expenses	-	0.1	-	-	-	-	0.1	-	0.1
Dividends paid	-	-	-	-	-	(6.1)	(6.1)	(0.2)	(6.3)
Total comprehensive income for the period	-	-	-	0.3	(0.8)	9.7	9.2	0.1	9.3
Balance at 30 June 2014	27.2	(1.2)	0.2	-	(8.8)	54.7	72.1	0.1	72.2
Balance at 1 January 2015	27.2	(1.1)	0.2	0.6	(6.3)	59.6	80.2	0.1	80.3
Sale of treasury shares	-	-	-	-	-	(0.2)	(0.2)	-	(0.2)
Purchase of treasury shares	-	(0.1)	-	-	-	-	(0.1)	-	(0.1)
Employee share option plan expenses	-	0.1	-	-	-	-	0.1	-	0.1
Dividends paid	-	-	-	-	-	(6.8)	(6.8)	(0.1)	(6.9)
Acquisition of subsidiary	-	-	-	-	-	-	-	0.7	0.7
Total comprehensive income for the period	-	-	-	-	(0.5)	9.6	9.1	-	9.1
Balance at 30 June 2015	27.2	(1.1)	0.2	0.6	(6.8)	62.2	82.3	0.7	83.0

XP Power Limited
Consolidated Statement of Cash Flows
For the six months ended 30 June 2015

£ Millions	Note	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Cash flows from operating activities			
Total profit		9.6	9.8
Adjustments for			
- Income tax expense		3.0	2.4
- Amortisation and depreciation		1.8	1.4
- Finance cost		0.1	0.1
- (Gain)/loss on fair valuation of derivative financial instruments		(0.6)	0.1
- ESOP expenses		0.1	0.1
- Unrealised currency translation loss/(gain)		0.3	(0.6)
Change in the working capital			
- Inventories		(0.6)	(2.2)
- Trade and other receivables		(2.8)	0.9
- Trade and other payables		-	0.7
Income tax paid		(2.4)	(2.3)
Net cash generated from operating activities	11	8.5	10.4
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired		(0.6)	-
Purchases and construction of property, plant and equipment		(1.3)	(0.9)
Research and development expenditure capitalised	6	(1.4)	(1.2)
ESOP loan repaid		0.1	0.1
Net cash used in investing activities		(3.2)	(2.0)
Cash flows from financing activities			
Repayment of borrowings		-	(2.0)
Sale of treasury shares by ESOP		-	0.1
Purchase of treasury shares by ESOP		(0.1)	-
Interest paid		(0.1)	(0.1)
Dividends paid to equity holders of the Company		(6.8)	(6.1)
Dividends paid to non-controlling interest		(0.1)	(0.2)
Net cash used in financing activities		(7.1)	(8.3)
Net (decrease)/increase in cash and cash equivalents		(1.8)	0.1
Cash and cash equivalents at start of period		1.3	3.8
Effects of currency translation on cash and cash equivalents		0.1	(0.1)
Cash and cash equivalents at the end of the period	11	(0.4)	3.8
Reconciliation of changes in cash and cash equivalents to movements in net debt			
Net (decrease)/increase in cash and cash equivalents		(1.8)	0.1
Repayment of borrowings		-	2.0
Effects on currency translation		0.1	(0.1)
Movement in net debt		(1.7)	2.0
Net cash/(debt) at start of period		1.3	(3.5)
Net debt at end of period		(0.4)	(1.5)

XP Power Limited

Notes to the Interim Results for the six months ended 30 June 2015

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 2015 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 2014 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 2014.

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 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Revenue		
Asia	3.8	3.9
Europe	23.2	21.7
North America	26.9	24.6
Total revenue	53.9	50.2

5. Segmented analysis (continued)

£ Millions	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Total assets		
Asia	35.6	28.8
Europe	24.6	24.7
North America	47.7	43.7
Segment assets	107.9	97.2
Unallocated deferred tax	0.3	0.5
Total assets	108.2	97.7

Reconciliation of segment results to profit after income tax:

£ Millions	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Asia	-	1.1
Europe	3.8	4.3
North America	7.4	6.5
Segment result	11.2	11.9
Corporate recovery from operating segment	4.1	1.0
Research and development cost	(2.6)	(0.6)
Finance cost	(0.1)	(0.1)
Profit before income tax	12.6	12.2
Income tax expense	(3.0)	(2.4)
Profit after income tax	9.6	9.8

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

£ Millions	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Revenue		
North America	26.9	24.6
United Kingdom	12.4	11.6
Singapore	3.8	3.9
Germany	5.1	4.4
Switzerland	1.7	1.7
Other countries	4.0	4.0
Total revenue	53.9	50.2

6. Expenses by nature

£ Millions	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Profit for the period is after charging/(crediting):		
Amortisation of intangible assets	0.9	0.7
Depreciation of property, plant and equipment	0.9	0.7
Foreign exchange (gain)/loss	(0.8)	0.2
Loss/(gain) on foreign exchange forward	0.7	(0.1)
Purchases of inventories	22.6	19.8
Changes in inventories	0.6	2.2
Audit fee	0.2	0.2
Other services - tax	0.1	0.1
Other charges	16.1	14.2
Total	41.3	38.0

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

£ Millions	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Gross research and development expenditure	3.1	2.6
Development expenditure capitalised	(1.4)	(1.2)
Amortisation of development expenditure capitalised	0.9	0.7
Net research and development expenditure	2.6	2.1

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. The estimated effective annual tax rate used for 2015 is 24.1% (2014: 20%).

£ Millions	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Singapore corporation tax	1.0	0.7
Overseas corporation tax	2.0	1.7
Total taxation	3.0	2.4

8. Dividends

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

	Six months ended 30 June 2015 (Unaudited)		Six months ended 30 June 2014 (Unaudited)	
	Pence per share	£ Millions	Pence per share	£ Millions
Prior year 3 rd quarter dividend paid	14.0	2.6	13.0	2.5
Prior year final dividend paid	22.0	4.2	19.0	3.6
Total	36.0	6.8	32.0	6.1

The dividends paid recognised in the interim financial statements relate to the third quarter and final dividends for 2014.

The first quarterly dividend of 13 pence per share (2014: 12 pence) was paid on 9 July 2015. A second quarterly dividend of 14 pence per share (2014: 13 pence) will be paid on 8 October 2015 to shareholders on the register at 11 September 2015.

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 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity shareholders of the company)	9.6	9.7
Earnings for adjusted earnings per share	9.6	9.7

Number of shares	'000	'000
Weighted average number of shares for the purposes of basic earnings per share (thousands)	18,998	19,000
Effect of potentially dilutive share options (thousands)	177	209
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	19,175	19,209
Earnings per share from operations		
Basic	50.5p	51.1p
Diluted	50.1p	50.5p

10. Intangible assets

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 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Cash and bank balances	3.9	5.6
Less: Bank overdrafts	(4.3)	(1.8)
Cash and cash equivalents per consolidated cash flow statement	(0.4)	3.8
Reconciliation to free cash flow:		
Net cash inflow from operating activities	8.5	10.4
Development expenses capitalised	(1.4)	(1.2)
Finance cost	(0.1)	(0.1)
Free cash flow	7.0	9.1

12. Borrowings, bank loans and overdraft

£ Millions	30 June 2015 (Unaudited)	31 December 2014	30 June 2014 (Unaudited)
Current	4.3	2.5	7.1
Total	4.3	2.5	7.1

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 2015 Average	First half 2014 Average	% Change	30 June 2015 Period end	31 December 2014 Period end	30 June 2014 Period end
USD/GBP	1.52	1.67	(8.6%)	1.57	1.56	1.69
EUR/GBP	1.35	1.21	11.5%	1.40	1.28	1.25

Approximately 62% 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 2014 to the first half of 2015 are summarised as follows:

£ Millions	USD	EUR
Impact on revenues	2.9	(1.3)
Impact on profit before tax	0.7	(0.3)
Impact on net debt	(0.2)	-

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.

Loss of key customers/suppliers

The Group is dependent on retaining its key customers and suppliers. However, for the six months ended 30 June 2015, no one customer accounted for more than 6% 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 results were approved by the board of directors on 27 July 2015.

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

- This unaudited interim results has been prepared in accordance with IAS 34 "Interim Reporting" as adopted by the European Union; and
- The interim results 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 2014 Annual Report.