

The information in this section of the Directors' Remuneration Report is not subject to audit.

The objectives of the Remuneration Policy are as follows:

- To reward employees and Executives appropriately for the work they do (base salary);
- To provide market competitive remuneration packages to enable retention or recruitment (base salary plus benefits);
- To incentivise the employees and Executives to perform at their best consistently (bonus/Long-Term Incentive Plan/Restricted Share Plan);
- To align Shareholders' and senior management's interests (bonus in shares, Long-Term Incentive Plan/Restricted Share Plan and shareholding guidelines); and
- To retain key staff (long-term structures with delayed vesting).

The following table provides a summary of the key components of the remuneration package and changes to the prior policy are indicated in the table for:

EXECUTIVE DIRECTORS

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

REMUNERATION POLICY CONTINUED

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
ANNUAL BONUSES	Align interests of Executive Directors and Shareholders in the short- and medium-terms.	The annual bonus scheme participation levels (including maximum opportunities) are determined by the Remuneration Committee following the end of the year, based on performance achieved against the performance metrics set. Awards are split equally between (i) cash and (ii) shares vesting after two years, subject to continued employment or good leaver status.	Up to 125% of base salary for CEO and up to 100% for CFO (previous policy was 100% for both)	Specific targets and weightings may vary according to strategic priorities and may include: <ul style="list-style-type: none"> Financial performance Attainment of personal and strategic objectives Weighting will focus on Group financial performance	The Remuneration Committee has the power to reduce unpaid annual bonuses and clawback bonuses already paid on a net basis in circumstances set out below this table.
SHARE OPTION PLAN	Align the interests of Executive Directors and Shareholders in the long-term. Incentives long-term value creation.	Prior to the adoption of the XP Power Long-Term Incentive Plan, market value share options were granted with 50% options vesting after three years from date of grant and 50% options vesting after four years.	No further options are intended to be granted to Executive Directors.	Vesting of outstanding options is based on total Shareholders' return relative to the FTSE 350 Electronic and Electrical Equipment Sector. Top 20th percentile: 100% vest. Between median and top 20th percentile: vest on a straight-line basis between 25% and 100%. Below median: zero vest.	The Remuneration Committee has the discretion to claw back unvested options or require the return of the net value of vested options in circumstances of material financial misstatement, a major environmental event or a breach of the Company's code of ethics or a serious health and safety issue.
PENSIONS	Provide a basic pension benefit that would be expected for the position.	Percentage of base salary paid into a defined contribution scheme.	In line with pension benefits offered to the XP Power workforce in the relevant geography which is currently 8% in the UK. (Previous policy was 2-3% depending on geography).	n/a	There are no provisions for recovery of pension payments contributions.
SHAREHOLDING (MINIMUM)	Align the interests of Executive Directors and Shareholders in the long-term.	To build a minimum shareholding equivalent to two years' salary. Directors have a period of five years to achieve this.	n/a	n/a	n/a

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
LONG-TERM INCENTIVE PLAN (LTIP)	<p>Align the interests of Executive Directors and Shareholders in the long-term.</p> <p>Incentivises long-term value creation.</p>	<p>The XP Power Long-Term Incentive Plan was approved at the 2017 Annual General Meeting. This replaced the Company's share option scheme for awards to Executive Directors.</p> <p>LTIP awards may be made in the form of conditional share awards, nil or nominal cost. The LTIP also provides for awards to be structured as stock appreciation or phantom rights, which may be suitable for awards granted in overseas jurisdictions.</p> <p>Performance is typically measured over three financial years starting with the year of date of grant, or any longer period as the Remuneration Committee may decide.</p> <p>An award will be distributed two years after vesting. (Previous policy was 50% after measurement of performance vesting, with the remaining 50% distributed after a period of one year).</p> <p>Amounts equivalent to any dividends or Shareholder distributions made in respect of awards at vesting, are paid at the discretion of the Remuneration Committee.</p>	<p>The normal maximum award level under the LTIP is 150% (previous policy was 100%) of base salary or such higher amount as the Remuneration Committee in its absolute discretion may determine, up to a maximum of 200% of base salary. The 200% cap is restricted to exceptional circumstances only.</p>	<p>In respect of performance shares, it is the Remuneration Committee's intention to set relative TSR targets for 33% of the award and absolute EPS growth targets for 67%. (previous intention 50%: 50%) Restricted shares will not have performance conditions (previous policy did not include restricted shares) although the Remuneration Committee will set appropriate performance conditions and weightings each year prior to awards being made.</p> <p>On a change of control of the Company during the performance measurement period the Remuneration Committee has the discretion to determine the number of shares vesting by assessing the achievement of the performance conditions and apply a pro-rata reduction based on the proportion of the performance period elapsed at the time of the event, unless it determines a pro-rata reduction is not appropriate and applies a higher amount.</p> <p>Early vesting of performance awards may occur where a participant ceases employment for good leaver reasons. The Remuneration Committee has the discretion to determine the number of shares vesting by assessing the achievement of the performance conditions and applying a pro-rata reduction to the number of shares vesting based on the proportion of the performance period the participant was employed, unless the Remuneration Committee determines the reduction is not appropriate. Shares will vest at the end of the two-year holding period or such earlier date as the Remuneration Committee determines. Participants who leave after the measurement of performance shall be entitled to receive their vested shares at the end of the two-year holding period, or such earlier date as the Remuneration Committee determines.</p>	<p>The Remuneration Committee has the discretion to claw back some or all of the awards granted under the LTIP by reducing unvested awards or requiring the return of the net value of vested awards to the Company in circumstances set out below this table.</p>
RESTRICTED SHARE PLAN 2020 (RSP)	<p>Align the interests of Executive Directors and Shareholders in the long-term.</p> <p>Incentivises long-term value creation.</p>	<p>Awards may be granted as restricted shares without performance conditions under the 2020 Restricted Share Plan.</p> <p>Restricted share awards normally vest five years from the date of award.</p>	<p>Up to a maximum of 15% of base salary may be granted as restricted shares without performance conditions.</p> <p>In calculating value against 150% of salary LTIP limit, the value of restricted share awards will be multiplied by two to reflect that they do not have performance conditions attached.</p>	<p>Restricted shares will not have performance conditions (previous policy did not include restricted shares). Where a participant ceases to be an employee for good leaver reasons during the first three years of the restricted share period, the number of shares vesting will be subject to a pro-rata reduction by reference to period of time elapsed between the award date and the date of cessation. The Remuneration Committee has the discretion to permit acceleration of vesting and to disapply pro-rating. Where participants cease employment after the first three years of the restricted period no pro-rating will apply, but awards will vest on the fifth anniversary of the grant of the award unless the Remuneration Committee exercises its discretion to permit earlier vesting.</p> <p>On a change of control of the Company the Remuneration Committee shall determine the number of restricted shares vesting taking into account the time that has elapsed since the grant of the award and any factors it considers to be relevant.</p>	<p>The Remuneration Committee has the discretion to claw back some or all of the awards granted under the LTIP by reducing unvested awards or requiring the return of the net value of vested awards to the Company in circumstances set out below this table.</p>

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
POST EMPLOYMENT SHAREHOLDING	Align the interests of Executive Directors and Shareholders in the long-term.	<p>Post cessation executives must hold shares 200% of salary for the first year and 100% of salary for the second year or, if their holding is lower than this at cessation, the value of their holding at the point of cessation.</p> <p>Shares which have been or are in future purchased by executives will not be subject to restrictions on sale.</p> <p>Deferred bonus shares in their deferral period and vested LTIP awards which are still in their holding period will be counted against the percentage requirement on a net of tax basis</p>	n/a	n/a	n/a

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

USE OF DISCRETION

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

Annual bonus documentation and the LTIP, subject to shareholder approval, will contain provisions to give the Committee the ability to apply discretion to adjust any formulae and workings to reduce vesting levels to ensure pay-outs fully and properly reflect overall performance and shareholder experience and in response to exceptional negative events.

MALUS AND CLAWBACK

Annual bonus documentation, the LTIP and RSP, subject to shareholder approval, will contain provisions to give the Committee the ability to apply malus and clawback provisions. These allow the Committee to determine, in its absolute discretion, that an unvested award or bonus award (or part of an award) may not be permitted to vest or that the level of vesting is reduced in certain circumstances or payment back of some or all of an award is required after vesting.

Where the Committee acting fairly and reasonably determines within a period not exceeding three years from the determination of an award that:

- a serious breach of the Company’s code of ethics has arisen; or
- a serious health and safety issue has occurred; or
- the award holder has participated in or was responsible for conduct which has resulted in significant losses to the Group; or
- the award holder has failed to meet appropriate standards of fitness and propriety resulting in a material negative effect on the Group; or

- the award holder has committed material wrongdoing or has breached the terms of their employment contract in such manner as would result in a potentially fair reason for dismissal; or
- there was a material error in determining whether an award should be made, in determining the size or nature of the award or the extent to which it has vested, it may require any unvested awards held by the award holder to lapse in whole or in part immediately, and/or may require the award holder to repay to the Company the after-tax value of some or all of the vested awards received during that period, in such form as they may determine.

Malus and clawback will continue to apply to any awards held by leavers and those vesting in connection with corporate events/changes in control.

The Committee has the right to apply the ‘malus’ provision to an individual or on a collective basis. It shall also (acting reasonably and in good faith) determine the amount or award subject to clawback.

NON-EXECUTIVE DIRECTORS

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
FEES	Fees are set at a level which is sufficient to attract, motivate and retain quality Non-Executive Directors.	Fees are reviewed periodically. The Board (excluding the Non-Executive Directors) is responsible for setting Non-Executive Directors' fees. Non-Executive Directors are not entitled to participate in the Group's incentive plans.	The total amount of Non-Executive Directors' fees shall not exceed £600,000. (Previous policy was £300,000).	n/a	n/a

APPROACH TO EXECUTIVE RECRUITMENT

In the event of the recruitment of a new Executive Director, the Remuneration Committee would take into consideration the structure and levels of the remuneration for existing Directors and prevailing market together with the skills and value it believed the new Director would bring to the Company. It is therefore expected that a new Director's package would include the same elements as existing Directors and the maximum level of variable remuneration for annual bonus and LTIP would also be capped as it is for existing Executive Directors.

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

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

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

EXECUTIVE DIRECTORS' CONTRACTS

The Executive Directors' contracts run for an indefinite period, with the Company being able to terminate the contracts without cause giving 12 months' notice. When a Director is terminated without cause, the Director is entitled to a termination payment of 12 months of basic pay. Directors' service contracts are available for inspection at the Annual General Meeting of the Company. Directors are able to terminate the contracts giving 12 months' notice.

NON-EXECUTIVE DIRECTORS' CONTRACTS

The Non-Executive Directors' contracts run for an indefinite period, with the Company being able to terminate the contracts without cause giving 12 months' notice. If the Shareholders do not re-elect a Non-Executive Director, or they are retired from office under the Articles, their appointment terminates automatically, with immediate effect and without compensation. In accordance with the Code Non-Executive Directors will not serve more than nine years. Non-Executive Directors are not entitled to share option awards, long-term incentive plans or pensions.

SHAREHOLDER CONSULTATION

The Remuneration Committee's policy is to consult with major Shareholders in respect of significant decisions on Executive remuneration.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

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