XP Power plc

Annual Report & Financial Statements

for the year ended 31 December **2005**

THE XPERTS IN POWER

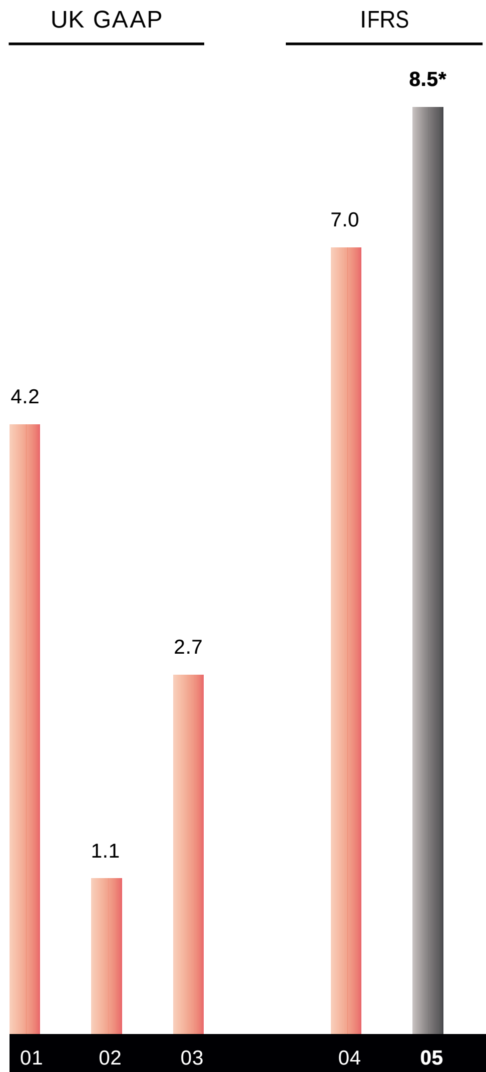
Inspiring our people to be The Experts in Power delivering genuine value to our customers.

Contents

Year at a Glance

Highlights

- Further growth in own branded products, accounting for 59% of revenue (2004: 55%)
- Improved diluted earnings per share
- Investment in a manufacturing joint venture in China
- Opening of office in Shanghai providing logistical and technical support
- Share buy back of 1,030,000 shares for an average price of £3.427 during the period
- Strong free cash flow (see note 24)
- Dividend to be increased by 14% to 16p per share (see note 8)

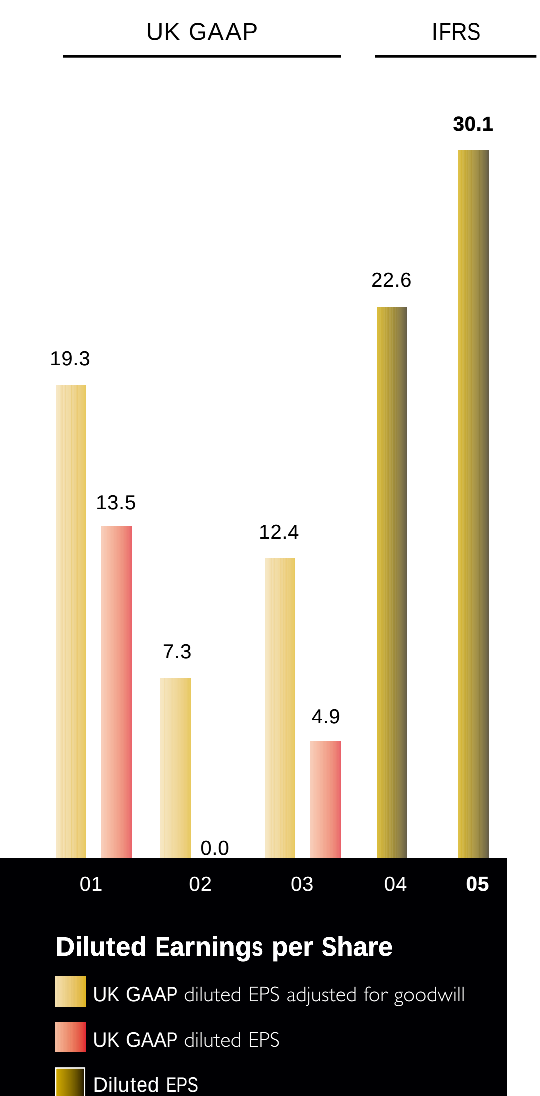


Profit from operations (£'millions)

* 2005 includes £1.0 million of capitalised development costs

Chairman's Statement

Technical accounting treatment was responsible for much of our growth in earnings during 2005. We aim to achieve reasonable growth in 2006 from operational successes. Growth in revenue is expected as is improvement in our gross margins. ***Larry Tracey***, Executive Chairman



Business Performance

The environment for industrial electronics, which is approximately 50% of our business, was somewhat tougher in 2005 than 2004. Despite this, XP has continued to make progress towards our strategic goals. In 2005 59% of our revenues came from products containing XP intellectual property compared with 55% in 2004. Our product development groups around the world have delivered a number of exciting new products during 2005, which will help us achieve our goal of achieving 75% of our revenues from XP product in 2007.

The business delivered earnings per share of 30.1 pence (2004: 22.6 pence) on a diluted basis. Approximately 4.0 pence of this improvement was due to the fact that, in accordance with International Accounting Standard, (IAS) 38 'Intangible Assets', £1.0 million of product development costs were capitalised (2004: £nil). No product development costs were capitalised in the 2004 figures as the Group did not have the necessary records and assessments in place during that time.

Dividend

The continued increase in profitability, together with strong free cash flow (see note 24), has enabled us to once again increase the dividend payable to shareholders. We will be proposing a final dividend of 9 pence per share at the

Annual General Meeting on 19 April 2006, making the total dividend for 2005 16 pence per share (2004: 14 pence per share), an increase of 14%.

In accordance with IAS 10 ‘Events after the Balance Sheet Date’, dividends are not recognised in the financial reporting information until they are declared.

Strategy

As we move into 2006 our strategy is a continuation of the goals set a few years ago:

- To focus on our key customers in the communications, defence and avionics, industrial and medical sectors
- To expand the level of our own intellectual property in the product offering using our various design engineering teams across the world

In recognition of the fact that an increasing number of our customers design their products in North America and Europe but outsource the manufacture of those products to Asia we have set up a small customer and manufacturing support office in China during the latter part of 2005. In addition we have embarked on a manufacturing joint venture with one of our existing manufacturing partners.

Outlook

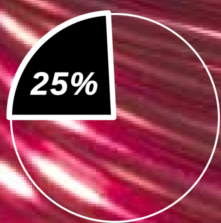
We expect that the market conditions in 2006 will improve marginally over those in 2005, in particular in the semiconductor manufacturing equipment sector. Overall we would expect to grow our earnings again in 2006 at a healthy rate subject to any external economic shocks.

We believe that we remain on track to achieve a revenue mix of approximately 75% XP intellectual property and 25% from our third party vendors which should result in improved gross margins. We should also expect further improvements in our operational gearing as our investment in the geographic expansion of our sales channel bears fruit.

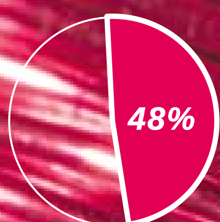
Larry Tracey – Executive Chairman

Industry Split %

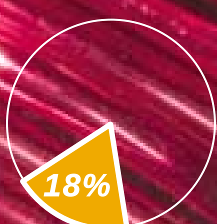
Communication



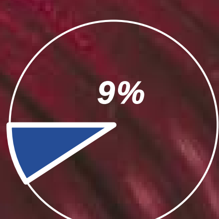
Industrial



Medical



Defence and Avionics



Background to the Group and its Products and Markets

The Group

The Group provides power supply solutions to the electronics industry. Power supplies take the relatively high voltage alternating current output from the mains supply and convert it into various lower voltage, stable direct current outputs that are required to drive most electronic equipment. All electronic equipment requires a power supply.

The Market

The market is highly fragmented made up of hundreds of thousands of customers and thousands of competitors. Our target geographic coverage is Europe and North America. We estimate that our available market is $1.8 billion.

Our Customers and Industry Segmentation

Our customers are original equipment manufacturers who can be characterised as having expertise in their particular area, whether it be medical devices, communications or industrial automation but generally do not have in-house power supply expertise. XP provides this expertise and assists our customers to design in a suitable power supply from our extensive range of products that meet the customer's cost and technical requirements. Technical requirements often involve helping the customer meet the relevant equipment safety standards that operate in their particular industry such as Medical or Telecom standards as well as Electro Magnetic Compatibility (EMC).

We segment our customer base into the following industries:

- Communications
- Industrial
- Medical
- Defence and Avionics

We have industry specialists who are versed in technical requirements and power supply legislation applicable to each of these different sectors. This way our people can add genuine value to our customers during the design in phase but can also use the knowledge they gain from these customers to develop new products to meet the needs of the market.

Products

The need for our customers to differentiate their product from that of their competitors gives rise to a vast number of power supply requirements to satisfy the endlessly increasing combinations of voltages at different power levels and different mechanical formats.

The Group offers standard and modified standard solutions along with custom supplies where necessary. The products range from AC to DC power supplies, DC to DC converters necessary for Distributed Power Architectures, through to Power Protection Products. The Group also provides ancillary products such as filters and fans necessary for meeting EMC legislation and thermal management.

We also provide a full value add capability to our customers. This involves providing the power supply in a format that makes it easier and therefore more cost effective for the customer to integrate into their product. This may require providing special housings, thermal and EMC management and specific cable harnesses or connectors.

Competition

Our competition ranges from numerous small custom manufacturers, mid tier manufacturers and distributors of Asian manufacturers. Consolidation continues to occur in the industry as scale, time to market, shorter product life cycles, keeping pace with legislation and design costs make it harder for the small custom manufacturers to compete.

Our aim is to be the leading provider of power supplies in our target market, the mid tier of the power supply industry in North America and Europe.

Product Development

Our model is to design the power supply using one of our design engineering groups around the world and manufacture the power supply in Asia. Our product range is supplemented by products from key third parties. In the course of time we expect the mix of our business to be approximately 75% our product and 25% third party product.

We have design engineering teams in Southern California, New England, United Kingdom and China.

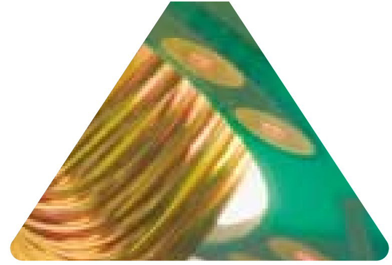
Engineering Services

Equipment design involves meeting the relevant safety standards that apply to a particular industry as well as EMC legislation and thermal performance. Our customers may also require non standard output voltages or require the power supply in a format that makes it easier and therefore more cost effective to integrate into their equipment. This may involve incorporating several power supplies into one chassis, adding signals, special housings, thermal and EMC management and specific cable harnesses or connectors.

Our engineering services group has centres throughout Europe and North America. They offer EMC pre-compliance facilities, thermal management advice and general pre and post application support. They also offer next day delivery of customer specific AC-DC power solutions with full safety agency approvals from our range of configurable power supplies. For a fully integrated solution the use of 3D computer generated design allows us to quickly generate a proposal with no commitment from the customer.

Our Mission

To inspire our people to be The Experts in Power delivering genuine value to our customers.



Chief Executive's Review

Many of the larger customers we deal with have reacted favourably to XP's move into manufacturing

Duncan Penny, Chief Executive

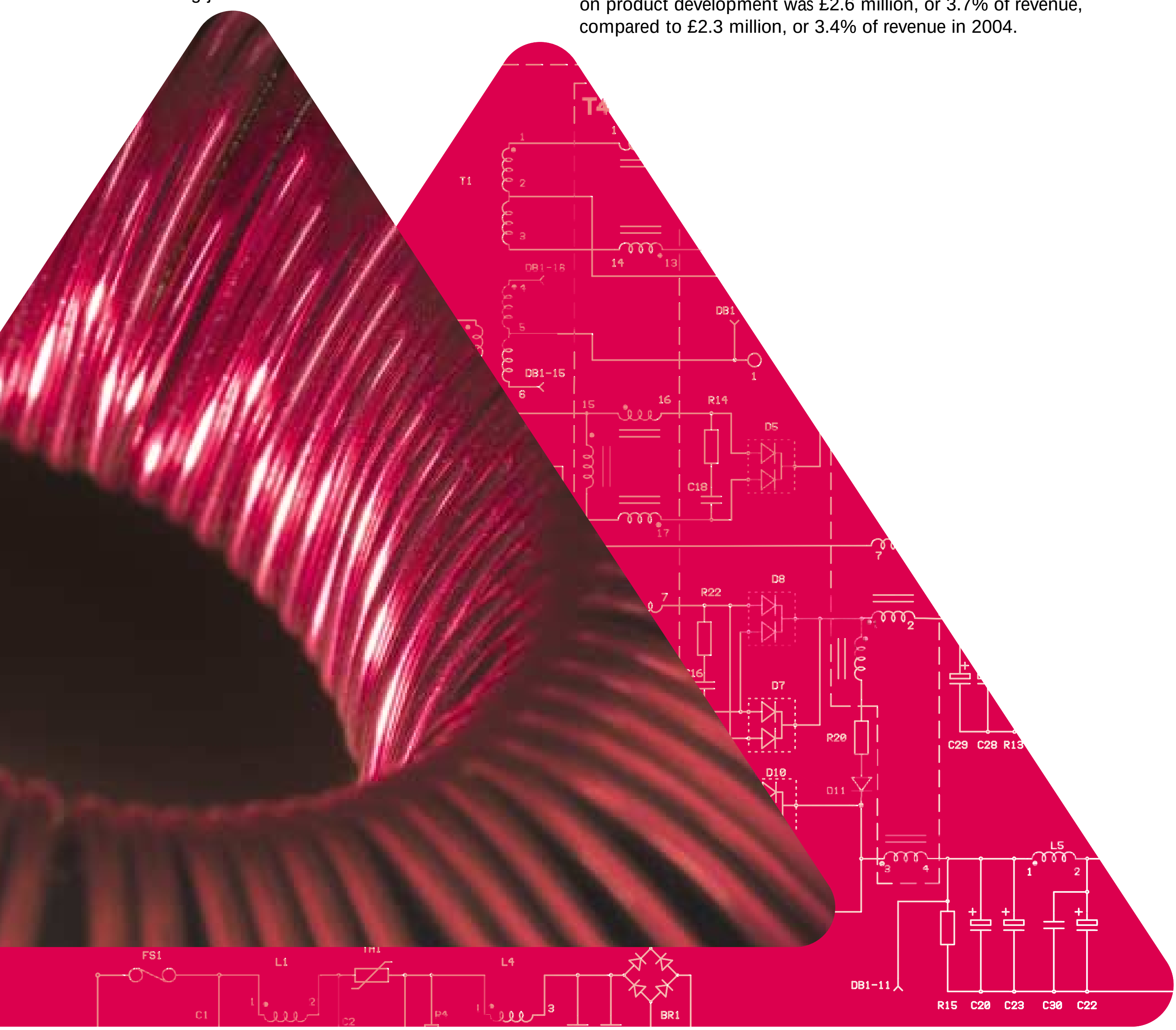
Financial Performance

In the year to 31 December 2005, XP continued to develop and expand its portfolio of own brand products and increase its geographic coverage.

Revenues were up 4% at £69.5 million (2004: £66.8 million). Of the product shipped in 2005, 59% was our own XP brand, up from 55% in the same period a year ago. This generated an increase in gross margin but was partially offset by lower margins on distribution business and inventory write offs in the UK, together with start up costs associated with our manufacturing joint venture in China.

This is our sixth successive year of gross margin improvement, this year up 0.2% points to 35.7% and we expect to make further improvements in gross margin as the proportion of our products containing XP intellectual property continues to grow.

Operating expenses were £16.7 million in the year compared with £17.1 million in 2004. However, in accordance with the requirements of IAS 38, £1.0 million of product development expenditure was capitalised in 2005 (2004: nil). Before capitalisation of product development costs, operating expenses would have been £17.7 million. Gross expenditure on product development was £2.6 million, or 3.7% of revenue, compared to £2.3 million, or 3.4% of revenue in 2004.





Profit before tax increased to £7.7 million from £6.4 million in the prior year. £1.0 million of this increase was due to the fact that £1.0m of product development cost is being capitalised (2004: £nil). Profit before tax also includes a charge of £0.1 million for the amortisation of intangibles resulting from the acquisition of Powersolve Electronics Limited. The resultant diluted earnings per share for the year ended 31 December 2005 was 30.1 pence (2004: 22.6 pence). After adjusting for the amortisation of intangibles the diluted earnings per share was 30.6 pence (2004: 22.6 pence).

Continued strong margins allowed us to generate free cash flow (see note 24) of £5.3 million during 2005 (2004: £3.5 million). After returning £6.3 million to shareholders in the form of dividends and a share buy back, net debt (cash of £4.8 million less borrowings of £19.9 million, see note 20) at 31 December 2005 was £15.1 million compared with £10.1 million at 31 December 2004.

International Financial Reporting Standards (IFRS)

This is the first year in which the Group is required to report its results in accordance with IFRS as adopted by the EU. There are three main areas that affect the reported earnings:

- Goodwill amortisation – under IAS 38 'Intangible Assets', the Group is no longer permitted to amortise goodwill. Prior to the conversion to IFRS, the 2004 financial statements included £1.4 million of goodwill amortisation. This has been added back to profit and goodwill in restating the comparatives under IFRS.

  In accordance with IAS 36 'Impairment of Assets', the Group is required to conduct an annual impairment review regarding the carrying value of goodwill. The results of this review were that an impairment of the carrying value of goodwill is not required.
- Development expenditure – the Group is now required to capitalise its development expenditure if it meets the criteria laid down by IAS 38. In accordance with IAS 38, the Group has capitalised £1.0 million (net of amortisation) of product development costs in 2005, but we have not adjusted the 2004 figures as the Group did not have the necessary records and assessments in place. In 2005, the effect of this is to increase the reported profit before tax by £1.0 million and enhance earnings by approximately 4 pence per share. To assist the readers of our financial statements, we estimate that had the records and assessments been in place in 2004 the Group would have capitalised approximately £0.8 million of development expenditure in that year.
- Amortisation of intangibles – the Group is now required to value any separately identifiable intangible assets acquired with a business. Intangible assets of £1.3 million arise on the acquisition of Powersolve Electronics Limited and an amortisation charge of £0.1 million has been made in 2005.

Customers and Industry Segmentation

We target customers in the communications, defence and avionics, industrial and medical end user markets. We have senior strategic teams driving these sectors in both North America and Europe, to identify the customers with whom we consider we should be working in each of these sectors, support the sales people to penetrate these accounts and work with the product development organisation to determine what products we should develop.

This structure has served us well and should help to drive future revenue growth. As our business grows in terms of scale and breadth of product offering, we are increasingly able to add value to the larger customers in the market sectors we serve. Accordingly, we will be focusing more resource on winning programs with larger customers during 2006.

Partnerships

Partnerships remain an important element of our business model, allowing XP to focus on its core skills of market knowledge, design engineering and technical sales. For high volume, low cost manufacturing, we will continue to partner with a select number of Asian manufacturers.

Due to the diversity and scale of our customer base, we do not always have the internal capacity to develop all the products our customers require. We therefore also partner with a small number of other organisations that design and manufacture products to our specification.

In recent years the proportion of our sales derived from our own products has increased dramatically in line with our strategy of repositioning the business as a manufacturer. We expect this trend to continue and that by 2007 75% of our revenues will come from products containing XP intellectual property. In order to provide the broad array of products our customers require, we shall continue to partner with a number of third party manufacturers for the remaining 25%.

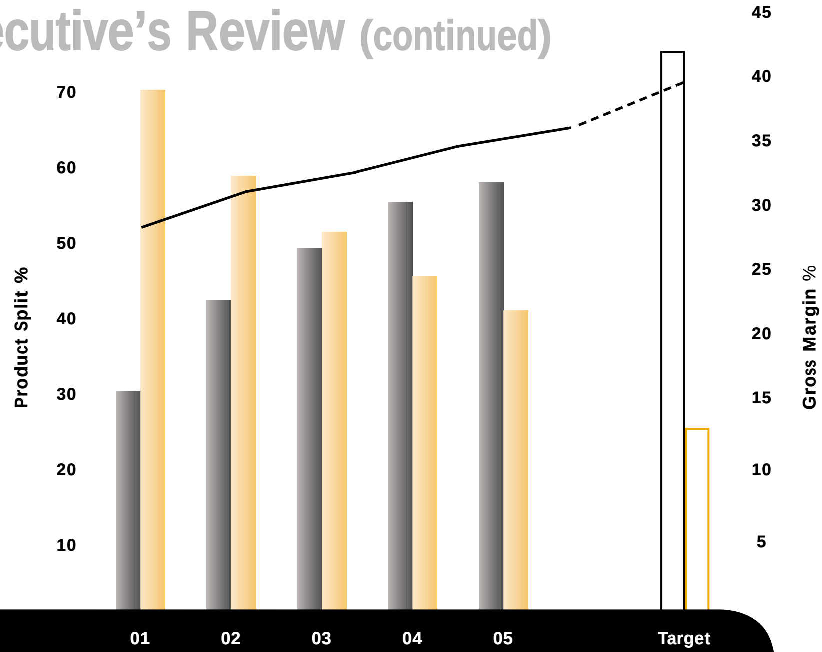
Each of these partnerships is vital to the health of our business and we invest much time and resource in nurturing these relationships.

Manufacturing Joint Venture

We are pleased to announce a 50:50 manufacturing joint venture with Fortron Source, a leading power supply manufacturer situated in the Shanghai area of China. Fortron Source has been an excellent contract manufacturing partner of XP for a number of years and operates a number of power supply manufacturing facilities in China. Fortron Source is renowned in the industry for excellent quality and value for money.

Many of the larger customers we deal with have reacted favourably to XP's move into manufacturing. We believe our joint venture will allow us to further penetrate some of the key accounts we are targeting and result in more

Chief Executive's Review (continued)



Margin and Product Split

%

● XP Product

● Third Party

— Gross Margin

The new fleXPower range of configurable power supplies launched in 2005

efficient supply chain management. Set up costs of less than £0.1 million were incurred at the end of 2005 and these have been charged to cost of sales in 2005. Set up costs in the first half of 2006 will be charged to the profit and loss account as incurred and should have an impact of less than 1 percentage point on our gross margin.

We expect that the facility will be producing pre-production units in the second quarter of 2006 and will be in full production during the third quarter. We expect that the facility will break even in the second half of 2006 and will be margin enhancing in 2007.

XP has invested £0.9 million in this joint venture (excluding set up costs written off).

Markets

After some improved momentum in the capital goods markets in 2004, last year was more difficult and we struggled to show growth in our more mature markets in California and the UK. In other segments, we have enjoyed reasonable growth in continental Europe and from certain sales offices in North America.

Revenues from our North American business decreased 4% to $68 million in 2005 from $71 million in 2004. This decline was principally driven by lacklustre demand from the semiconductor manufacturing equipment sector where XP has a broad exposure to numerous accounts.

Our UK business reported revenues of £20.6 million in 2005 up 16% from £17.8 million in 2004. Of this revenue increase, £2.4 million came from the consolidation of a new subsidiary. Despite increased revenues, operating profit of £3.0 million remained at the same level as 2004 due to weaker gross margins resulting from the effects of a strengthening US Dollar versus Sterling in the second half and more business going through distribution channels.

The investment in our sales channel in Continental Europe is continuing to pay off with European revenues growing 19% to £11.2 million in 2005 from £9.4 million in 2004. We believe we are taking market share principally from the small custom manufacturers which operate in these markets. We have considerable cost advantages over these local suppliers and the added advantage of being able to offer a standard or modified standard product which is available more quickly than the custom built designs we often compete with.

China Operations

During October 2005, XP opened its first office in Shanghai, China. This operation carries out various support activities for our customers and our manufacturing operations. We continue to see a trend, particularly amongst our larger customers, where the design work is performed in Europe or North America but the customers' product is transferred to Asia for manufacture. Our Shanghai operation now provides both local technical and logistical support to our customers who chose to manufacture in China.

As well as customer support activities XP Shanghai also undertakes quality assurance audits of the various partners we use in Asia for outsourced manufacturing.

The costs of opening and running this operation in 2005 were less than £0.2 million.

We have no plans for selling directly into China at this time.

Product Development

Offering our customers the strongest product range in the marketplace is a key component of XP's strategy. Therefore product development is vital to the long-term success of our business. We continue to commit more resource to this area in line with our strategy of expanding our own brand product portfolio.

In April 2005, the Group held its first worldwide sales conference and used that as a springboard to launch its brand new flagship products. These included its new configurable fleXPower series, together with the ECM100 range which is the industry's smallest convection cooled 100 watt power supply. Both these product series were developed by our Anaheim design team.

The fleXPower series was recognised by Electronic Design News who listed the product in its "hot 100 products of 2005" and by Electronic Engineering Product News which placed fleXPower best in its category.

In addition the Group launched its RCL175 range; a flexible quad output range developed to take market share from the multitude of small regional custom manufacturers with whom the Group competes. The RCL range is the first product range to be developed by the team at XP Electronics, a company acquired at the beginning of 2004. The small production runs and prototypes will be built in the UK with larger volumes being manufactured in Asia. This model will give XP an extremely quick time to market coupled with highly competitive pricing in comparison with small regional custom manufacturers.

The award-winning ECM40/60 range launched in March 2004 is now starting to see production revenues from the design-ins won at the time of its launch. We expect our new suite of products to show similar success in 2006.

In addition to these flagship products the Group launched a further eight new product lines in its first Worldwide Catalogue issued during April 2005.

Chief Executive’s Review (continued)

In the last three years the Group has placed great emphasis on the release of new products to expand its XP product line. We consider that the Group has the broadest product offering of any company in the industry. Furthermore, these products have been specifically developed to meet the needs of the target customers the Group has identified. These new products are gradually making up an ever-increasing proportion of our revenues and driving the increase in our gross margins.

Our product offering to our customers covers the whole range of options from standard product, to modified standard, through configurable to complete custom build if required. In addition, we continue to partner with other manufacturers who we consider to be the best in their specific areas of expertise. We will continue to sell other manufacturers’ products where it makes sense for our customers.

Acquisitions

Powersolve Electronics Limited (Powersolve)

In June 2005 we reached an agreement which committed the Group to acquire the remaining 60% of Powersolve Electronics Limited that we currently do not own. From June 2005 the results of Powersolve have been consolidated in the Group results. Revenue of £2.4 million and £0.5 million of pre tax profits were earned by Powersolve during the period.

XP Engineering Services (XPES)

During October 2005 we completed the acquisition of the remaining 80% of the issued share capital of XP Engineering Services Limited (“XPES”) that we did not already own for a consideration of £480,000 in cash.

XPES provides value added engineering services that enable customers to integrate power supplies into their end user equipment more easily and cost effectively. This process may involve incorporating several power supplies into one chassis, adding signals, special housings, thermal and EMC management and specific cable harnesses or connectors.

XP has worked very closely with XPES over the last four years and virtually all of its revenue comes from the Group.

We consider that the acquisition of the remaining share capital of XPES will expand the Group’s value added engineering capabilities, enhance the Group’s margins as more of the intellectual property in this type of offering is owned by XP; and add to XP’s standard product design capability.

MPI-XP Power

A payment of 7.2 million Swiss Francs was made during 2005 representing an instalment of 90% of the expected final consideration due for the purchase of 70% of the 75% of the issued share capital of MPI XP Power AG that XP does not currently own. The balance of the final payment is expected to be made in February 2006.

Share Buy Back

Between 9 November and 6 December 2005 the Company repurchased 1,030,000 shares at an average price of £3.427. These shares are held in treasury to use for funding the Company’s various share option schemes or for other appropriate purposes such as funding small acquisitions. At the year end there were 1,849,325 shares remaining in treasury.

People

In June, we announced the resignation of Rich Sakakeeny as non-executive director of the Company. We have identified a new non-executive director who has indicated his willingness to join the Board from April 2006.

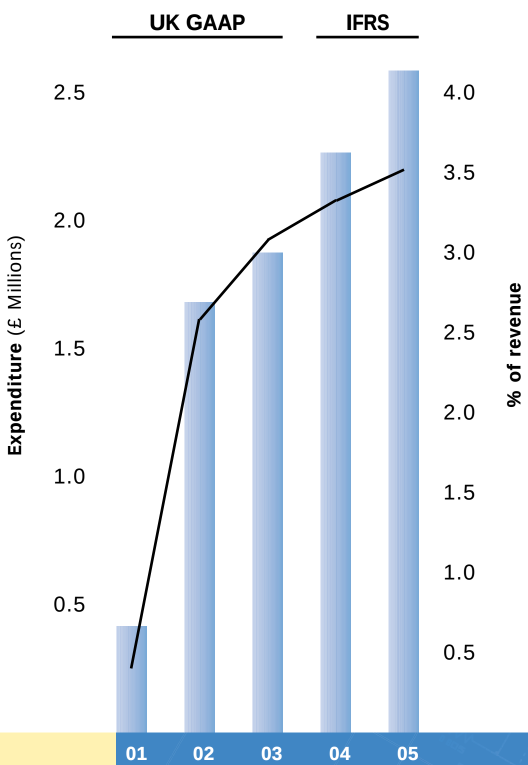
In March 2006, we announced the resignation of Steve Robinson and Frank Rene as executive directors of the Company. We are grateful for their contribution and wish them well for the future.

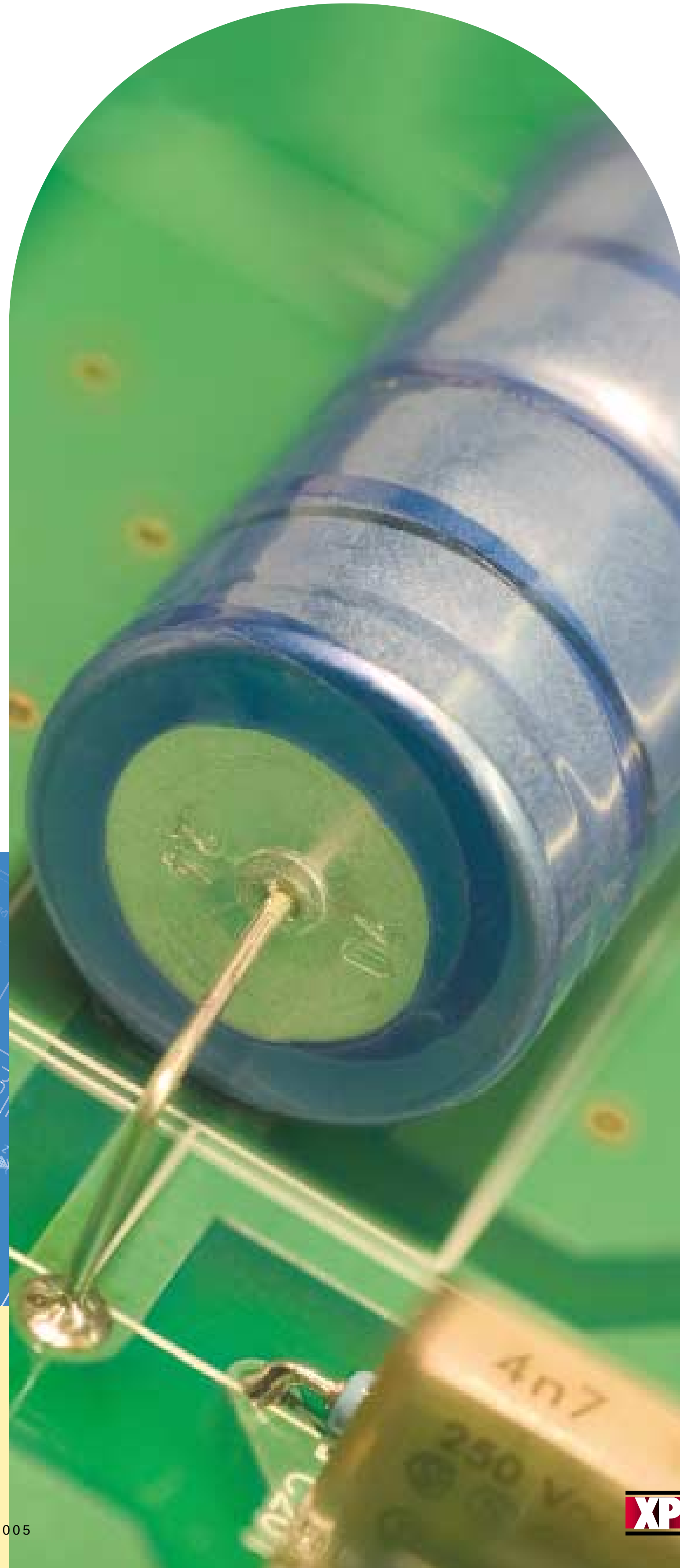
We strive to inspire all of our people to become experts in power to fulfil our aim of delivering genuine value to our customers. The role of our field sales engineers, who interface directly with our customers’ engineering teams to design our power supplies into their systems, is crucial and we believe that we have not only the largest direct sales force in our industry sector, but also the best trained and the most technical.

The Group needs to attract and retain the best people in the industry – people who will continue to drive the business forward and who, above all, act in our customers’ interests. XP has a culture that rewards excellent performance with profit sharing, sales commissions and equity participation. Over 100 of our 322 employees have some sort of equity interest in the Group.

Duncan Penny – Chief Executive

Product Development Expenditure





Expenditure (£ Millions)

% of revenue

Note: £1 million of development expenditure has been capitalised in 2005

Financial Review

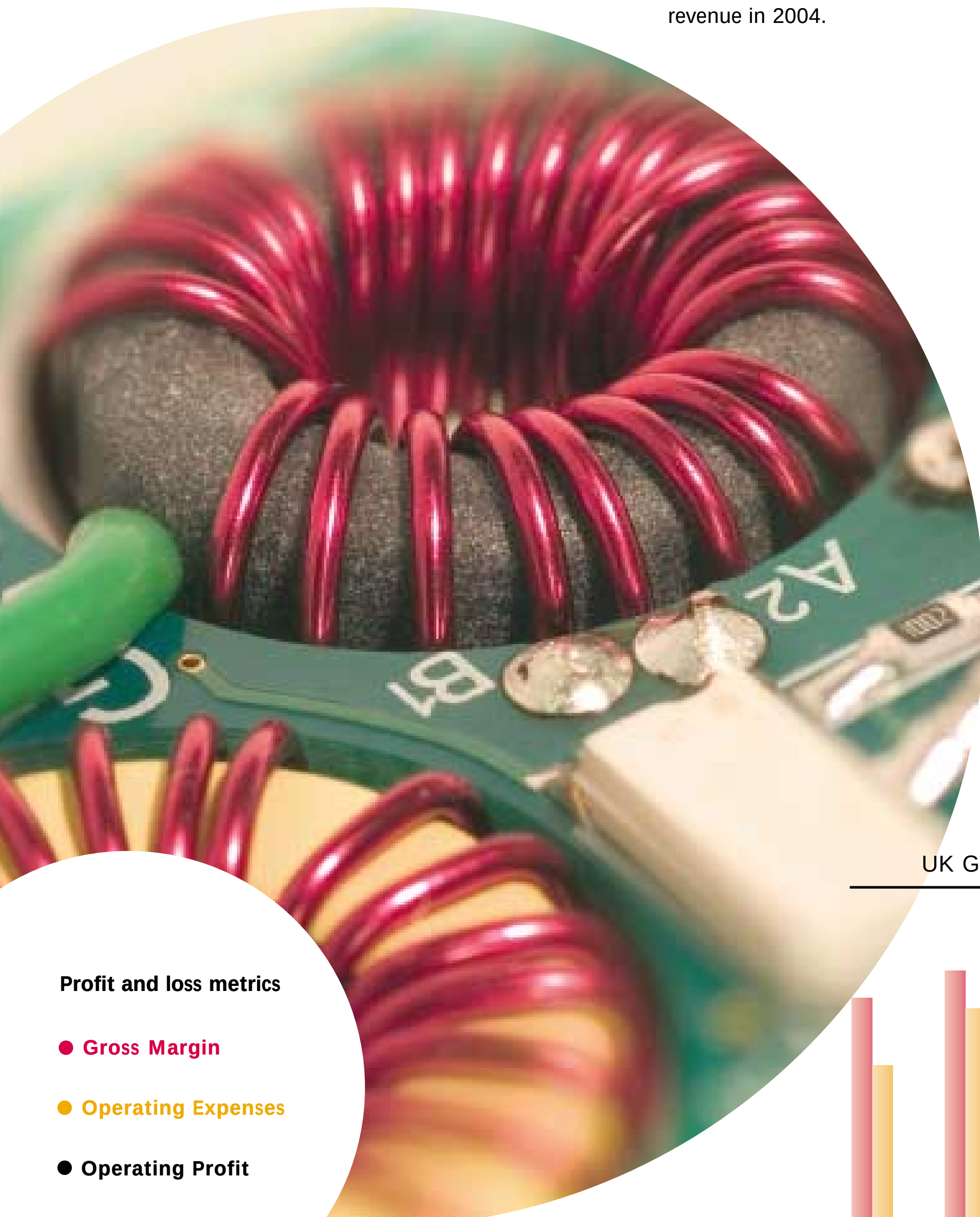
Cashflow

Our strong operating profit allowed us to generate free cash flow (cash flow before acquisitions and disposals, dividend payments and financing) of £5.3 million during 2005 (2004: £3.5 million). We returned £6.3 million to shareholders in the form of dividends and a share buy back.

Profit and Loss Account

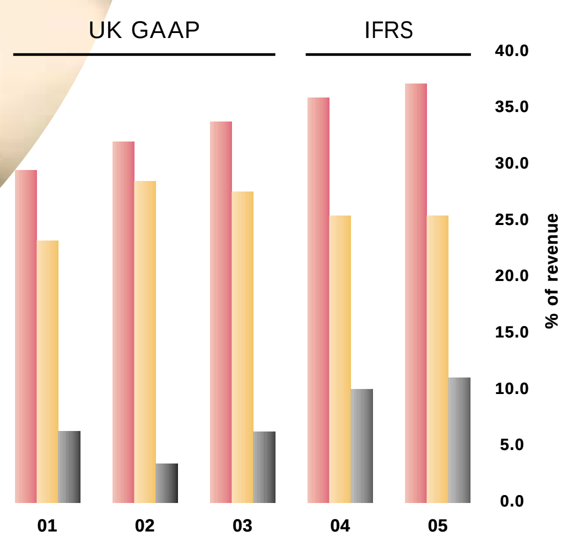
Revenues increased 4% to £69.5 million from £66.8 million in 2004.

Gross margins increased to 35.7% in 2005 from 35.5% in 2004 due to an increasing proportion of own brand sales. Own brand product revenues were £41.0 million or 59% of total revenue in 2005 versus £36.7 million or 55% of total revenue in 2004.



Profit and loss metrics

- Gross Margin
- Operating Expenses
- Operating Profit



Note: £1 million of development expenditure has been capitalised in 2005

This year's increased profitability and continued favourable free cashflow has enabled us to **increase the dividend** by **14%** to **16p**. ***Mickey Lynch***, Finance Director

Operating expenses were £16.7 million in the year compared with £17.1 million in 2004. However, in accordance with the requirements of IAS 38 the £1.0 million of product development expenditure was capitalised in 2005 (2004: nil). Before capitalisation of product development, operating expenses would have been £17.7 million. Gross expenditure on product development was £2.6 million, or 3.7% of revenue, compared to £2.3 million, or 3.4% of revenue in 2004.

Financial Control and Reporting

One of the many challenges when combining and acquiring companies is providing accurate, relevant, and timely financial reporting both externally to the market and our shareholders and internally to manage the business. We consider that we have efficient processes and systems in place to allow us to monitor the business on a continual basis by the review of monthly accounts at monthly management meetings, and that we provide timely information to our shareholders.

Derivatives and Other Financial Instruments

The Group's financial instruments consist of cash, money market deposits, overdrafts, and various other items such as trade receivables and trade payables that arise directly from its business operations.

The Group has not entered into any derivative or forward exchange transactions during the period under review.

Foreign Exchange and Hedging Policy

As approximately 53% of the Group's revenues originate in North America, our results when reported in Pounds Sterling will fluctuate with movements in the US Dollar/Sterling exchange rate. This effect is an inherent part of operating in North America and reporting in Sterling. Hedging such fluctuations may alleviate variances in the short term; however, our judgment is that in the long term hedging our US Dollar earnings will reduce shareholder value as we pay commissions and margins on financial instruments. We have therefore decided not to hedge this underlying economic risk.

Within our European business, we attempt, as far as possible, to cover foreign exchange exposures by matching the currencies in which we buy and sell product and by managing our Euro and US Dollar borrowings to match our Euro and US Dollar assets.

If a significant one off transaction occurs, which gives rise to a high element of foreign currency risk, we consider hedging such transactions as they occur.

Financing Costs

In November 2005, the Group increased its three-year revolving credit facility for acquisitions to £15.0 million. In September 2005 the Group renewed the annual working capital facility of £10.0 million. Both of these facilities are with the Bank of Scotland and are priced at LIBOR plus 1.5%.

Dividends

Our dividend policy is to pay dividends to our shareholders when legally and commercially able to do so. This year's increased profitability and continued favourable free cashflow has enabled us to increase the dividend by 14% to 16p.

J. **Mickey Lynch** – Finance Director

The Board of Directors

Executive Directors

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1 Larry Tracey
Executive Chairman (age 58)

Larry co-founded Powerline plc ("Powerline") in 1979, where he focused on the strategic direction of the business.

In March 1984, he was responsible for the flotation of Powerline on the Unlisted Securities Market of the London Stock Exchange and earnings grew 220 per cent in its three years as a quoted company. Larry headed Powerline's expansion into Germany and the US. Powerline was acquired by Chloride plc in September 1987. In May 1990, Larry joined the Board of XP as an Executive Director. In April 2000 he was appointed as Chief Executive Officer of XP Power plc, and in April 2002 he was appointed as Executive Chairman. On 3 February 2003 he stepped down from the role of Chief Executive and continued in the role of Executive Chairman.

2 James Peters
Deputy Chairman (age 47)

James has over 25 years experience in the power supply industry and trained with Marconi Space and Defence Systems, prior to joining Coutant Lambda, one of the UK's major power supply companies, as an internal sales engineer. He joined Powerline shortly after its formation in 1980 and was involved in all aspects of the business.

In November 1988 he founded XP. In April 2000, he was appointed as European Managing Director of XP Power plc and was responsible for the overall management of the Group's European businesses. On 3 February 2003 James was appointed as Deputy Chairman.

3 Duncan Penny
Chief Executive (age 43)
Between October 1998 and March 2000, Duncan was the controller for the European, Middle Eastern and African regions for Dell Computer Corporation, prior to which Duncan spent eight years working for LSI Logic Corporation where he held senior financial positions in both Europe and Silicon Valley. From 1985 to 1990, Duncan spent five years at Coopers & Lybrand in general practice and corporate finance. He joined XP in April 2000 as Group Finance Director. On 3 February 2003 he was appointed as Chief Executive.

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Non-executive Directors

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4 Mickey Lynch

Finance Director (age 53)

Mickey joined the Group in April 2001 as Vice President of Finance for XP's North America operations and since February 2003 he has headed up the finance team for the Group.

Prior to joining XP Mickey spent 10 years at Atari Games Corporation; the last five of which were in the role of Chief Financial Officer. Prior to that he spent 12 years with ITT Corporation, holding various financial controllership roles. In June 2004 he was appointed Finance Director.

5 Mike Laver

President North America (age 43)

Mike has 19 years experience in the power supply industry. After completing his degree in Electrical Engineering at UC Santa Barbara, Mike held sales and technical positions with Power Systems Distributors, Compumech and Delta Lu Research. Mike joined ForeSight Electronics in 1991 and carried out various senior roles.

Mike is currently responsible for the US sales and engineering services organisations. Mike joined the Board on 20 August 2002.

6 Roger Bartlett

Non-Executive Director (age 61)

Roger joined Touche Ross & Co. in 1967 and qualified in 1971 after which he specialised in corporate taxation and became a partner in 1977. He was involved in all types of UK and international corporate work, including UK flotations, global acquisitions and disposals.

On retiring from Deloitte & Touche in 1997, Roger was appointed Company Secretary of XP in April 1997. In January 1998, he became a Non-Executive Director of XP. He joined the Board of XP Power plc in June 2000. He is Chairman of the Audit Committee.

7 John Dyson

Non-Executive Director (age 57)

John was appointed Chief Executive of Pace Micro Technology plc in May 2003, prior to which he had been Finance Director since November 1997. Before Pace he held senior positions in both Silicon Valley and Europe for LSI Logic Corporation from June 1990 to November 1997. From September 1988 to June 1990 John was co-founder and Managing Director of Modacom Limited, prior to which he was Finance Director of Norbain Electronics plc (1986 - 1988) and Case Group plc from 1977 to 1986. He joined the Board of XP Power plc in June 2000. He is the senior Non-Executive Director and Chairman of the Remuneration Committee.

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2005.

XP Power plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on the rear cover.

Principal Activities and Review of the Business

The principal activity of the Company is to act as the Group's holding company. The Group provides power supply solutions to the electronics industry. A review of the financial results, business and future prospects are set out in the Chairman's Statement and the Chief Executive's Review.

The Group has not entered into any derivative or forward exchange transactions during the year under review.

The Group continued to expand the resources it deploys on research and development during 2005.

Directors and their Interests

The present membership of the Board is set out on Page 14 and the interests of the Directors in office at 31 December 2005 in the shares of XP Power plc are set out in the Directors' Remuneration Report. Richard Sakakeeny resigned on 9 June 2005, and Steve Robinson and Frank Rene resigned on 10 March 2006.

In accordance with the Company's Articles of Association Larry Tracey, James Peters and Roger Bartlett retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

Dividends

An interim dividend of 7p per share was paid on 6 October 2005 (2004: 6p). We are proposing a final dividend of 9p per share (2004: 8p) which would be payable to members on the register on 28 April 2006 and will be paid on 17 May 2006. This would make the total dividend for the year 16p (2004: 14p) (see note 8).

Substantial Interests

Other than the directors' interests (see Directors' Remuneration Report) at 24 January 2006, the Company was aware of the following interests in three per cent or more of the issued ordinary share capital of the Company:

	Number of shares	%
Credit Suisse Asset Management	1,761,698	8.5
Fidelity Investment Services Limited	1,073,025	5.2
Standard Life	1,006,073	4.9

Acquisition of the Company's Own Shares

Further to the shareholders' resolutions of 20 April 2005, the Company bought 1,030,000 shares with a nominal value of £10,300, and representing 5% of the Company's called up ordinary share capital, for a consideration of £3.5 million. The reason for the purchase was to fund share option schemes and for other purposes such as acquisitions.

At the end of the year, the directors had authority, under the shareholders' resolutions of 20 April 2005 to purchase through the market 174,212 of the company's ordinary shares at a maximum price equal to 105% of the average of the middle market price for the five business days immediately preceding the day on which the ordinary shares are contracted to be purchased. This authority expires on 19 April 2006.

Environmental Policy

The Group endeavours to minimise harm to the environment by adopting energy efficient products and re-cycling the waste it produces where possible. To this end, XP Power has gained ISO 14001 accreditation in the UK.

Payment Terms

It is the Group's policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers. Provided suppliers perform in accordance with agreed terms it is the Group's policy that payment should be made accordingly.

XP Power plc holds the investments in the Group companies, does not trade itself and does not have suppliers within the meaning of the Companies Act 1985.

Employment of Disabled Persons

The Group has a policy regarding the employment of disabled persons. Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities.

In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged.

Employee Involvement

Regular communication meetings are held with employees to discuss the performance of the individual company for which they work and Group matters where appropriate. Employees are given the opportunity to question senior executives at these meetings.

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 22 March 2006
and signed on behalf of the Board

Anne Honeyman

Anne Honeyman – Company Secretary

Corporate Governance Statement

The Company is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority and for which the Board is accountable to shareholders.

Statement of Compliance with the Code of Best Practice

Throughout the year ended 31 December 2005 the Company has been in compliance with the Code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance except for the following matters:

- Richard Sakakeeny was an executive and part owner of International Power Sources, Inc (now XP Power, Inc.), which was acquired by the Group in July 2000. Therefore he was not considered independent by the Combined Code (B2.2). He resigned in June 2005.
- Larry Tracey and James Peters, Executive Directors, are members of the Remuneration Committee and the Nominations Committee, in contravention with A4.1 and B2.1 of the Combined Code. They are both substantial shareholders and consider that any decisions they make will be aligned to the interests of the shareholders in general.
- There has been no formal evaluation of the performance of the Board, its Committees and the Directors during the year, as required by the Combined Code (A6.1).

Notwithstanding the above departures from the Combined Code, the Directors consider that the current structure and function of the Board is appropriate for the present size and composition of the Group.

Board Responsibilities

The Board is responsible for the proper management of the Group and for its system of corporate governance. It receives information on at least a monthly basis to enable it to review trading performance, forecasts and strategy. The following matters are specifically reserved for its decision:

- changes to the structure, size and composition of the Board
- consideration of the independence of Non-Executive Directors
- review of management structure and senior management responsibilities
- with the assistance of the Remuneration Committee, approval of remuneration policies across the Group
- approval of strategic plans, financial plans and budgets and any material changes to them
- oversight of the Group's operations, ensuring competent and prudent management, sound planning, an adequate system of internal control and adequate accounting and other records
- final approval of annual accounts and accounting policies
- approval of the dividend policy
- approval of the acquisition or disposal of subsidiaries and major investments and capital projects
- delegation of the Board's powers and authorities including the division of responsibilities between the Chairman, Chief Executive and the other Executive Directors.

Board Meetings

There were 8 Board Meetings during the year, the attendees were as follows.

Date	Attendees
31 January 2005	All
20 April 2005	All
9 June 2005	All
1 August 2005	All
12 October 2005	All except Mike Laver and Frank Rene
1 November 2005	All
7 November 2005	All except Roger Bartlett and Larry Tracey
13 December 2005	All except John Dyson

Internal Control

The Board acknowledges that it is responsible for the Group's internal control and for reviewing its effectiveness.

The Group's internal controls are designed to manage rather than eliminate the risk of failure to meet business objectives, and can only provide reasonable not absolute assurance against material misstatement or loss.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place during the entire financial year and has remained in place up to the approval date of the annual report and accounts. That process is regularly reviewed by the Board and Audit Committee and accords with the Internal Control guidance for directors on the Combined Code produced by the Turnbull working party.

The Board keeps its risk control procedures under constant review and deals with areas requiring improvement which come to its attention.

As might be expected in a Group of this size, a key control procedure is the day to day supervision of the business by the Executive Directors supported by managers within the Group companies.

The Board has considered the need for an internal audit function, but has decided that, because of the size of the Group and the systems and controls in place, it is not appropriate at present. The Board reviews this on a regular basis.

Audit Committee

The Audit Committee consists of the Non-Executive Directors and is chaired by Roger Bartlett. All Non-Executive Directors are considered independent except for Richard Sakakeeny (until his resignation in June 2005) through his executive management and ownership of International Power Sources Inc., which was acquired by the Group in July 2000. The Audit Committee met four times during 2005 and every meeting was attended by all the Audit Committee members.

The Committee is responsible for, amongst other things, ensuring that the financial performance of the Group is properly reported and monitored focusing particularly on compliance with legal requirements, accounting standards, and the requirements of the UK Listing Authority. The Committee also meets with the auditors and reviews the reports from the auditors without executive Board members present.

As part of its remit, the Audit Committee also keeps under review the nature and extent of audit and non-audit services provided to the Group by the Auditors. The Committee has formalised its policy and approved a set of procedures in relation to the appointment of external Auditors to undertake audit and non-audit work. Under this policy:

- the award of audit-related services to the Auditors in excess of £50,000 must first be approved by the Chairman of the Audit Committee, who in his decision to approve will take into account the aggregate of audit-related revenue already earned by the Group Auditor in that year. Audit related services include formalities relating to borrowing, shareholder and other circulars, regulatory reports, work relating to disposals and acquisitions, tax assurance work and advice on accounting policies;
- the award of tax consulting services to the Auditors in excess of £100,000 must first be approved by the Chairman of the Audit Committee;
- the award of other non-audit related services to the Auditors in excess of £20,000 must first be approved by the Chairman of the Audit Committee; and
- the Auditors are required to make a formal report to the Audit Committee annually on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity.

Nomination Committee

The Nomination Committee consists of Larry Tracey, James Peters and the Non-Executive Directors. It is chaired by Larry Tracey and it reviews and considers the appointment of new directors. Any appointment of a new director is voted on by the whole Board. There were no meetings during the year.

Relations with Shareholders

The Group engages in two-way communication with both its institutional and private investors and responds quickly to all queries received. The Group uses its website www.xppower.com to give private investors access to the same information that institutional investors receive. Interested parties are able to register for the Group's email alert service on this website to receive timely announcements and other information published from time to time. The Annual General Meeting is also an opportunity to communicate with shareholders where Directors and Committee chairs are available for questions. The Senior Non-Executive Director, John Dyson, will be available at the Annual General Meeting.

Going Concern

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

Directors' Remuneration Report

Introduction

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for unaudited and audited information.

Unaudited information

Remuneration Committee

The Company has established a Remuneration Committee which is not constituted in accordance with the recommendations of the Combined Code (see Corporate Governance Statement). The members of the Committee during 2005 were John Dyson, Roger Bartlett, Richard Sakakeeny (until June 2005), the Non-Executive Directors; and James Peters and Larry Tracey. The Committee is chaired by John Dyson.

The Committee makes recommendations to the Board. No Director plays a part in any discussion about his own remuneration.

There were 4 Remuneration Committee Meetings during the year, the attendees were as follows.

Date	Attendees
20 April 2005	All
9 June 2005	All
1 August 2005	All
13 December 2005	All

Remuneration Policy for the Executive Directors

Executive remuneration packages are prudently designed to attract, motivate and retain directors of the high calibre needed to maintain the Group's position and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

There are five main elements of the remuneration package for Executive Directors and senior management:

- basic annual salary;
- benefits-in-kind;
- annual profit share payments;
- share incentives; and
- pension arrangements.

The Company's policy is that a proportion of the remuneration of the Executive Directors should be performance-related. As described below, Executive Directors may earn annual profit shares together with the benefits of participation in share option schemes.

Basic Salary

An Executive Director's basic salary is reviewed by the Committee prior to the beginning of each year and when an individual changes position or responsibility. Basic salaries for Executive Directors were reviewed in December 2004 with increases taking effect from 1 January 2005. They were again reviewed in February 2006 and the base salary for Duncan Penny was increased from £120,000 to £140,000. No other increases were granted for 2006. Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

Benefits-in-kind

The Executive Directors receive certain benefits-in-kind, principally private medical insurance and car allowances.

Annual Bonus Payments

The Committee establishes the profit thresholds that must be met for each financial year if a cash bonus is to be paid. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is growth in operating profit. Account is also taken of the relative success of the different parts of the business for which the Executive Directors are responsible. The profit share that an Executive Director can be paid is uncapped. Profit share for the year ended 31 December 2005 was nil. This reflects performance of various parts of the business against budget.

Share Options

The Group operates a number of share incentive schemes. The IFX Power plc Share Option Plan as approved by the shareholders in April 2001 allows the Company to grant options over up to 2,113,711 shares representing 10% of the issued share capital with or without performance conditions. To date 1,022,000 options have been granted under this scheme with exercise prices ranging from £1.75 to £4.50. No options under this scheme have been awarded to Executive Directors since 2002.

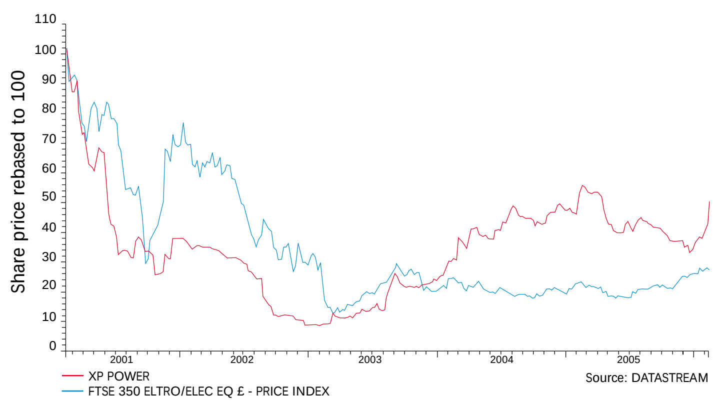
Pension Arrangements

The Group operates a defined contribution 'Stakeholder' pension scheme in the UK. In 2005 the Group contributed 3% of base salary to this scheme on behalf of Duncan Penny, James Peters and Steve Robinson.

In the USA the Group operates a defined contribution "401K Plan". The Group did not contribute to this plan in 2005.

Performance Graph

The following graph shows the Company's share price performance over the past 5 years, compared with the performance of the FTSE Electronic and Electrical Equipment Price Index, of which XP Power Plc has been a constituent since its flotation in July 2000.



Directors' Contracts

The UK 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 basic pay.

The US-based Executive Directors' contracts are automatically extended for a 12 month period. When a Director is terminated without cause the Director is entitled to a termination payment of 12 months basic pay.

Non-Executive Directors' contracts run for an initial 12 months period, renewable each year. They are not entitled to any termination payments. Non-Executive Directors are not entitled to share options or pensions.

Non-Executive Directors

All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association. The terms and conditions of appointment of Non-Executive Directors the basic fee paid to each Non-Executive Director was £12,000. This fee rises to £15,000 in 2006.

Directors' Remuneration Report (continued)

Audited information

Aggregate Directors' Remuneration

The total amounts for Directors' remuneration were as follows:

£	**2005**	2004
Basic salaries	**742,606**	639,756
Benefits in kind	**74,455**	91,805
Profit share	**–**	217,730
Fees paid to Third Parties	**35,000**	–
Money purchase pension contributions	**10,500**	9,000
Non-executives fees	**30,000**	30,000
Total remuneration	**892,861**	**988,291**

Directors' Emoluments

Name of Director	Salary and fees	Fees to Third Parties	Pension	Benefits	Profit share	2005 Total	2004 Total
Executive							
Larry Tracey	70,500	35,000	–	1,294	–	106,794	121,783
Paul Christiansen (i)	–	–	–	–	–	–	45,602
Mike Laver	112,620	–	–	3,864	–	116,484	123,179
Mickey Lynch (ii)	97,716	–	–	5,031	–	102,747	64,893
Duncan Penny	120,000	–	3,600	20,890	–	144,490	155,856
James Peters	110,000	–	3,300	18,250	–	131,550	153,660
Frank Rene (iii)	111,770	–	–	4,714	–	116,484	123,179
Steve Robinson (iii)	120,000	–	3,600	20,412	–	144,012	170,139
Non-Executive							
Roger Bartlett	12,000	–	–	–	–	12,000	10,000
John Dyson	12,000	–	–	–	–	12,000	10,000
Richard Sakakeeny (iv)	6,000	–	–	–	–	6,000	10,000

(i) Resigned 2 July 2004. Emoluments are up to the date of resignation
(ii) Appointed 11 June 2004. Emoluments are from date of appointment
(iii) Resigned 10 March 2006.
(iv) Resigned 9 June 2005. Emoluments are up to the date of resignation

Fees to third parties comprise amounts paid to Corryann Limited under an agreement to provide the Group with the services of Larry Tracey.

Directors' interests in ordinary shares of XP Power plc

	As at 31 December 2005	As at 1 January 2005
Executive		
Larry Tracey (a)	3,129,779	3,729,779
Mike Laver	151,000	151,000
Mickey Lynch	50,000	50,000
Duncan Penny (a)	304,000	300,000
James Peters (a)	3,152,779	3,405,779
Frank Rene	170,000	170,000
Steve Robinson (a)	100,000	125,000
Non-Executive		
Roger Bartlett	34,000	34,000
John Dyson	15,000	15,000

(a) Larry Tracey sold 600,000 shares at a price of 520p per share on 8 February 2005.
James Peters sold 250,000 shares at a price of 520p per share on 8 February 2005.
The James Peter Childrens Trust sold 3,000 shares at a price of 520p per share on 8 February 2005.
Steve Robinson sold 25,000 shares at a price of 520p on 11 February 2005.
Duncan Penny exercised and sold 25,000 options at a price of 522p on 9 February 2005.
Duncan Penny acquired 4,000 shares at a price of 290p on 9 December 2005.

In addition to the Directors' interests in ordinary shares of the Company the following Directors have interests in share options:

Executive	Date of grant	Exercise price	Term of option	Number of shares
Mike Laver	24 August 2001	£3.425	(a)	24,000
	21 August 2002	£1.75	(c)	50,000
Mickey Lynch	24 August 2001	£3.425	(a)	15,000
	21 August 2002	£1.75	(a)	20,000
Duncan Penny	24 August 2001	£1.15	(b)	25,000
Frank Rene	24 August 2001	£3.425	(a)	5,000
	21 August 2002	£1.75	(c)	50,000
Steve Robinson	24 August 2001	£3.425	(a)	25,000

(a) Option exercisable over 4 years in equal annual instalments from the date of grant.

(b) Option exercisable after 2 years from the date of grant. Options subject to performance criteria which have been met.

(c) Option exercisable 50% after 3 years and 50% after 4 years.

All options expire 10 years after the date of grant.

The highest and lowest mid market prices of the shares of XP Power plc during 2005 were 526p and 279p per share respectively. The mid-market price on 31 December 2005 closed at 336p per share.

Approval

This report was approved by the Board of Directors on 22 March 2006 and signed on its behalf by:

John Dyson – Remuneration Committee Chairman

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act and Article 4 of the IAS Regulation. The Directors have prepared the financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have elected to prepare the financial statements for the Company in accordance with UK GAAP.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standard Board's 'Framework for the Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impacts of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities, and for the preparation of a Directors' Report and the Directors' Remuneration Report which comply with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Anne Honeyman – Company Secretary

Independent Auditors' Report

to the members of XP Power plc

We have audited the Group financial statements of XP Power plc for the year ended 31 December 2005 which comprise the consolidated income and expenditure statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expenses, and the related notes 1 to 30. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the individual Company financial statements of XP Power plc for the year ended 31 December 2005.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with the relevant framework and whether the Group financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' Report is not consistent with the financial statements. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the annual report for the above year as described in the contents section and including the unaudited part of the Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

Independent Auditors' Report (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' Remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and

- the Group financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Deloitte & Touche LLP.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors

Cardiff, United Kingdom

22 March 2006

Consolidated Income and Expenditure Statement

Year ended 31 December 2005

£ Millions	Note	2005	2004
Revenue – continuing operations	3	**69.5**	66.8
Cost of sales		**(44.7)**	(43.1)
Gross profit		**24.8**	23.7
Selling and distribution costs		**(12.3)**	(11.9)
Administrative expenses		**(4.4)**	(5.2)
Share of results of associates		**0.3**	0.4
Other operating income		**0.1**	–
Profit from operations		**8.5**	7.0
Finance costs	5	**(0.8)**	(0.6)
Profit before tax	3, 6	**7.7**	6.4
Tax	7	**(1.8)**	(1.9)
Profit for the year from continuing operations attributable to equity shareholders of the parent	3	**5.9**	4.5
Earnings per share from continuing operations			
Basic	9	**30.7p**	23.1p
Diluted	9	**30.1p**	22.6p

Consolidated Statement of Recognised Income and Expenses

Year ended 31 December 2005

£ Millions	2005	2004
Exchange differences on translation of foreign operations	**1.7**	(1.3)
Tax on items taken directly to equity	**(0.2)**	0.4
Net income/(expense) recognised directly in equity	**1.5**	(0.9)
Profit for the year	**5.9**	4.5
Total recognised income and expenses for the period attributable to equity shareholders of the parent	**7.4**	3.6

Consolidated Balance Sheet

31 December 2005

£ Millions	Note	2005	2004
Non-current assets			
Goodwill	10	**27.8**	23.1
Other intangible assets	11	**2.2**	–
Property plant and equipment	12	**3.0**	2.5
Interests in associates	15	**0.3**	1.8
Deferred tax asset	22	**0.3**	0.5
Total non-current assets		**33.6**	27.9
Current assets			
Inventories	16	**8.1**	7.5
Trade and other receivables	17	**17.2**	13.1
Cash		**4.8**	2.7
Total current assets		**30.1**	23.3
Current liabilities	18	**(32.0)**	(16.8)
Net current (liabilities)/assets		**(1.9)**	6.5
Total assets less current liabilities		**31.7**	34.4
Non-current liabilities	19	**(4.5)**	(8.5)
Net assets		**27.2**	25.9
Equity			
Share capital	23	**0.2**	0.2
Share premium account	23	**27.0**	27.0
Merger reserve	23	**0.2**	0.2
Own shares	23	**(6.7)**	(3.4)
Translation reserve	23	**1.5**	(0.2)
Retained earnings	23	**5.0**	2.1
Equity attributable to equity shareholders of the parent		**27.2**	25.9

These financial statements were approved by the Board of Directors on 22 March 2006.

Signed on behalf of the Board of Directors

Larry Tracey – Chairman

Duncan Penny – Chief Executive

Consolidated Cash Flow Statement

Year ended 31 December 2005

£ Millions	Note	**2005**	2004
Net cash flow from operating activities	24	**7.3**	4.1
Investing activities			
Dividends received from associates		**0.6**	0.2
Purchases of property plant and equipment		**(0.8)**	(0.2)
Acquisition of investment in associates		**(0.3)**	–
Expenditure on product development		**(1.0)**	–
Loan to majority shareholder of associated undertaking		**–**	(0.5)
Acquisition of investment in subsidiary	28	**(3.7)**	(0.6)
Net cash used in investing activities		**(5.2)**	(1.1)
Financing activities			
Dividends paid to minority shareholders		**–**	(0.1)
Interest paid		**(0.8)**	(0.6)
Equity dividends paid to XP Power shareholders		**(2.8)**	(2.5)
Payments for share buy back		**(3.5)**	(3.5)
Proceeds from sale of own shares		**0.2**	0.1
Increase/(decrease) in bank loans		**3.1**	(0.3)
Increase in bank overdrafts		**4.0**	2.1
Overdraft acquired with subsidiary		**(0.2)**	–
Net cash from/(used in) financing activities		**–**	(4.8)
Net increase/(decrease) in cash		**2.1**	(1.8)
Cash at the beginning of the year		**2.7**	4.5
Cash at the end of the year		**4.8**	2.7

Notes to the Financial Statements

Year ended 31 December 2005

1. General information

XP Power plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on the back cover. The nature of the Group's operations and its principal activities are set out in the Background to the Group and its Products and Markets on page 5.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 7	Financial Instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease

2. Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The disclosures required by IFRS 1 concerning transition from UK GAAP to IFRS as adopted by the EU are given in note 30.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

Basis of consolidation
The consolidated financial information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of in the year are included in the consolidated income and expenditure statement from the effective date of acquisition or up to the effective date of disposal as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations
The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Separate intangibles

When an acquisition is made, a review is undertaken to identify separately identifiable non-monetary assets that meet the definition under IAS 38. In respect of acquisitions made in 2005, trade names and non contractual customer relationships were recognised as being separately identifiable. The fair value was determined on a basis that reflects the amounts the acquirer would have paid for the assets in arms length transactions between knowledgeable willing parties based on the best information available.

Separate intangibles are amortised over a 5 year period.

Investment in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit and loss in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Joint ventures

A joint venture is an entity over which the Group has joint control, through the ability to govern financial and operating policy decisions of the economic activity so as to obtain benefits from it.

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the proportionate consolidation method.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are shipped and title has passed.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit and loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

Borrowing costs
All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Taxation
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 income statement 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 income statement, 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.

Property, plant and equipment
Property, plant and equipment, including land and buildings are stated at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is charged so as to write off the cost or valuation of the assets over their estimated useful lives, using the straight-line method, on the following bases:

Plant and machinery	–	25 – 33%
Motor vehicles	–	25%
Office equipment	–	25 – 33%
Leasehold improvements	–	10% or over the life of the lease if shorter
Long leasehold buildings	–	2%

Long leasehold land is not depreciated

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognised in income.

Internally generated intangible assets – research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- An asset is created that can be separately identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives, which vary between 4 and 7 years depending on the exact nature of the project undertaken. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible and intangible assets excluding goodwill
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of the impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. 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 and reductions for estimated irrecoverable amounts.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to a an insignificant risk of changes in value.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the Income and Expenditure account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

The Group has elected not to restate any comparatives under IAS 32 and IAS 39.

Share based payments
The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

Directors have concluded that any potential charge to the Income and Expenditure account is immaterial and have consequently decided not to undertake a full valuation exercise.

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 Directors have concluded that any potential charge to the income and expenditure account is immaterial and have consequently decided not to undertake a full valuation exercise.

3. Segmental reporting

For management purposes, the Group is organised on a geographic basis by location. This is the basis on which the Group reports its primary segment information. The Group's products are essentially a single class of business, however from a sales and marketing perspective, the Group's sales activities are organised by class of customer. The same geographic assets deliver the same class of products to the different classes of customer. The sales information by class of customer has been provided to assist the user of the accounts, however since the assets are not separated by classes of business further information on net assets and capital additions by class of customers has not been provided.

Geographic segment
The geographical segmentation is as follows:

£ Millions	**2005**	2004
Revenue		
Europe	**31.8**	27.3
North America	**37.7**	39.5
Total revenue	**69.5**	66.8
Profit on ordinary activities before taxation		
Europe	**4.2**	4.0
North America *	**5.3**	3.6
Interest, corporate operating costs and associates	**(1.8)**	(1.2)
Profit before tax	**7.7**	6.4
Tax	**(1.8)**	(1.9)
Profit after tax	**5.9**	4.5

*Profit in North America is net of £1.0 million capitalised development costs.

3. Segmental reporting (continued)

Other information

£ Millions	Year to 31 December 2005 Europe	North America	Total	Year to 31 December 2004 Europe	North America	Total
Capital additions	**0.8**	**0.3**	**1.1**	0.2	0.1	0.3
Depreciation	**0.3**	**0.3**	**0.6**	0.3	0.3	0.6

Operating net assets	Year to 31 December 2005 Europe	North America	Total	Year to 31 December 2004 Europe	North America	Total
Goodwill	**8.5**	**19.3**	**27.8**	3.8	19.3	23.1
Other intangible assets	**1.2**	**1.0**	**2.2**	–	–	–
Property plant and equipment	**2.2**	**0.8**	**3.0**	1.7	0.8	2.5
Interests in associates	**0.3**	**–**	**0.3**	1.8	–	1.8
Deferred tax asset	**–**	**0.3**	**0.3**	–	0.5	0.5
Inventories	**3.6**	**4.5**	**8.1**	3.0	4.5	7.5
Trade and other receivables	**10.2**	**7.0**	**17.2**	6.8	6.3	13.1
Current liabilities	**(7.1)**	**(5.0)**	**(12.1)**	(6.3)	(5.8)	(12.1)
Non-current liabilities	**(4.5)**	**–**	**(4.5)**	–	(0.4)	(0.4)
Total operating net assets	**14.4**	**27.9**	**42.3**	10.8	25.2	36.0

Operating net assets are defined as net assets adjusted for net borrowings (cash of £4.8 million (2004: £2.5 million) less borrowings of £19.9 million (2004: £12.8 million) see note 20).

Analysis by customer

The revenue by class of customer was as follows:
£ Millions

	31 December 2005 Europe	North America	Total	31 December 2004 Europe	North America	Total
Communications	**6.8**	**11.0**	**17.8**	5.0	11.1	16.1
Industrial	**16.8**	**16.3**	**33.1**	15.4	17.8	33.2
Medical	**3.2**	**9.3**	**12.5**	3.3	9.8	13.1
Defence and Avionics	**5.0**	**1.1**	**6.1**	3.6	0.8	4.4
Total	**31.8**	**37.7**	**69.5**	27.3	39.5	66.8

All revenue was derived from the sale of goods.

4. Information regarding employees (including directors)

£ Millions	2005	2004
Employee costs during the year:		
Wages and salaries	**10.8**	10.3
Social security	**1.1**	1.1
Pension	**0.1**	0.1
Total	**12.0**	11.5

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

	Number	Number
Average number of persons employed:		
Sales	**107**	107
Administration	**76**	76
Manufacturing	**64**	49
Engineering	**63**	59
Total	**310**	291

5. Finance costs

£ Millions	2005	2004
Bank loans and overdraft	**0.8**	0.6

No interest was received during the year.

6. Profit for the year

£ Millions	2005	2004
Profit for the year is after charging:		
Research and development costs*	**1.6**	2.3
Amortisation of intangible assets	**0.1**	–
Depreciation of property plant and equipment	**0.6**	0.6
Staff costs (see note 4)	**12.0**	11.5
Fees paid to auditors:		
Audit	**0.2**	0.1
Other services – Tax	**0.1**	0.1

*Total expenditure on research and development costs was £2.6 million, however £1.0 million (2004: £nil) of development costs have been capitalised in accordance with IAS 38.

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below.

	2005		2004	
	£'000	**%**	£'000	%
Audit services:				
statutory audit	**141**	**84**	106	100
further assurance services	**27**	**16**	–	–
	168	**100**	106	100
Tax services:				
compliance services	**–**	**–**	–	–
advisory services	**68**	**100**	70	100
	68	**100**	70	100

A description of the work of the audit committee is set out in the corporate governance statement on page 19 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7. Tax on profit on ordinary activities

£ Millions	2005	2004
United Kingdom corporation tax – current year	**3.2**	0.5
– prior year	**(0.3)**	–
Double tax relief	**(2.1)**	–
Overseas corporation tax – current year	**1.3**	1.3
– prior year	**(0.8)**	–
Share of associate tax charge	**0.1**	0.1
Total current tax	**1.4**	1.9
Deferred tax	**0.4**	–
Total current tax	**1.8**	1.9

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

7. Tax on profit on ordinary activities (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of United Kingdom corporation tax to the profit before tax are as follows.

£ Millions	**2005**	2004
Profit on ordinary activities before tax	**7.7**	6.4
Tax on profit on ordinary activities at standard United Kingdom tax rate of 30% (2004: 30%)	**2.3**	1.9
Higher rates of overseas corporation tax	**0.2**	–
Non-deductible expenditure	**0.8**	(0.1)
Timing differences	**(0.4)**	0.1
Prior year adjustments	**(1.1)**	–
Current tax charge for the period	**1.8**	1.9

Subject to the mix of the Group's profits in the various territories in which it operates, the Group is not currently aware of any factors, other than the above, which may have a material impact on the future tax charges.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As these earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

8. Dividends

Amounts recognised as distributions to equity holders in the period

	Pence per share	**2005 £m**	Pence per share	2004 £m
Prior year final dividend paid	**8.0p***	**1.5**	7.0p	1.4
Interim paid	**7.0p^**	**1.3**	6.0p*	1.2
Total	**15.0p**	**2.8**	13.0p	2.6
Proposed final dividend for the year ended 31 December 2005 of 9p (2004: 8p) per share	**9.0p^**	**1.7**	8.0p	1.5
* Dividends in respect of 2004	14.0p			
^ Dividends in respect of 2005	16.0p			

The interim dividend was waived on 318,851 shares. All the shares on which dividends were waived were held in the Group's ESOP.

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

9. Earnings per share

Continuing operations

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data

Earnings	**2005** £ Millions	2004 £ Millions
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity shareholders of the parent)	**5.9**	4.5
Amortisation of intangibles	**0.1**	–
Earnings for adjusted earnings per share	**6.0**	4.5
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**19,240**	19,510
Effect of potentially dilutive share options (thousands)	**377**	411
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,617**	19,921
Earnings per share from continuing operations		
Basic	**30.7p**	23.1p
Diluted	**30.1p**	22.6p
Diluted adjusted for amortisation of intangibles	**30.6p**	22.6p

10. Goodwill

	£ Millions
Cost and Net Book Value	
At 1 January 2004	22.4
Recognised on acquisition of subsidiary	0.7
At 31 December 2004	23.1
Transferred from Investment in Associates	1.1
Recognised on acquisition of subsidiaries	3.6
At 31 December 2005	**27.8**
Accumulated impairment Losses	
At 1 January 2004, 1 January 2005 and 31 December 2005	–
Carrying amount	
At 31 December 2005	**27.8**
At 31 December 2004	23.1

Goodwill arises on the consolidation of subsidiary undertakings. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

The increase in goodwill comprises £3.0 million for the acquisition of Powersolve (including £0.9 million transferred from Investment in Associates), £0.6 million for the acquisition of XP Engineering Services (including £0.2 million transferred from Investment in Associates), and £1.1 million for the additional consideration payable for the acquisition of MPI-XP. See Note 28.

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

The recoverable amount of the goodwill is determined from value in use calculations. The key assumptions 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 uses discount rates of 10% 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 growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years assuming no growth from that date.

11. Other intangible assets

Other intangible assets comprise development expenditure capitalised when it meets the criteria laid out in IAS 38, plus the separately identifiable intangible assets acquired with the Powersolve business (see note 28).

£ Millions	Development costs	Trade marks	Non-contractual customer relationships	Total
Cost				
At 1 January 2005 and 1 January 2004	–	–	–	–
Additions	1.0	1.0	0.3	2.3
At 31 December 2005	**1.0**	**1.0**	**0.3**	**2.3**
Amortisation				
At 1 January 2005 and 1 January 2004	–	–	–	–
Charge in the year	–	0.1	–	0.1
At 31 December 2005	**–**	**0.1**	**–**	**0.1**
Carrying amount				
At 31 December 2005	**1.0**	**0.9**	**0.3**	**2.2**
At 31 December 2004	–	–	–	–

The amortisation period for development costs incurred on the Group's developments varies between 4 and 7 years according to the expected useful life of the products being developed.

The separately identifiable intangible assets acquired with the Powersolve business have an expected useful life of 5 years and amortisation of £0.1 million has been incurred during the period since acquisition.

Amortisation commences when the asset is available for use.

12. Property plant and equipment

£ Millions	Plant and machinery	Motor vehicles	Office equipment	Long leasehold land and buildings	Total
Cost					
At 1 January 2004	**2.5**	**0.5**	**1.6**	**1.7**	**6.3**
Additions	0.1	0.1	0.1	**–**	0.3
Disposals	(0.2)	(0.2)	(0.1)	**–**	(0.5)
At 31 December 2004	2.4	0.4	1.6	1.7	6.1
Additions	0.8	0.2	0.1	–	1.1
Acquired with subsidiaries	0.1	–	–	–	0.1
Disposals	(0.1)	–	–	–	(0.1)
At 31 December 2005	**3.2**	**0.6**	**1.7**	**1.7**	**7.2**
Depreciation					
At 1 January 2004	1.6	0.2	1.3	0.3	3.4
Charge for the year	0.2	0.2	0.1	0.1	0.6
Disposals	(0.1)	(0.2)	(0.1)	–	(0.4)
At 31 December 2004	1.7	0.2	1.3	0.4	3.6
Charge for the year	0.2	0.2	0.1	0.1	0.6
At 31 December 2005	**1.9**	**0.4**	**1.4**	**0.5**	**4.2**
Carrying amount					
At 31 December 2005	**1.3**	**0.2**	**0.3**	**1.2**	**3.0**
At 31 December 2004	0.7	0.2	0.3	1.3	2.5

13. Subsidiaries

Details of subsidiaries at 31 December 2005 all of which are equity accounted are as follows:

Name of subsidiary	Place of incorporation ownership (or registration) and operation	Proportion of voting power held %	Proportion of ownership %
Forx Inc	USA	100	100
MPI-XP Power AG	Switzerland	95	95
XP Electronics Limited	UK	100	100
XP Power, Inc (California)	USA	100	100
XP Power, Inc (Massachusetts)	USA	100	100
XP PLC	UK	100	100
XP Power ApS	Denmark	100	100
XP Power BV	Netherlands	100	100
XP Power GmbH	Germany	100	100
XP Power Holdings Ltd	UK	100	100
XP Power Norway AS	Norway	100	100
XP Power SA	France	100	100
XP Power Sweden AB	Sweden	100	100
XP Engineering Services Limited	UK	100	100
XP Power International Limited	UK	100	100
Powersolve Electronics Limited	UK	39.4	100
Specialist Power Systems Limited	UK	100	100
XP Power (Shanghai) Co Limited	China	100	100

Whilst the Group only held 39.4% of the voting power of Powersolve at 31 December 2005, the group has the power to control Powersolve. The Group has committed to purchasing the remaining 60.6% of the shares (see note 10 and note 28). The voting rights will transfer when the deferred consideration is paid.

14. Interest in Joint Ventures

The Group has 3 jointly controlled entities. It has 50% shareholdings in Fortron XP Power (Hong Kong) Limited, a company incorporated in Hong Kong, and XP Power (S) Pte Limited, a company incorporated in Singapore, and a 35% shareholding in Mieltec, a company incorporated in Italy. The investment in Mieltec has been treated as a joint venture as the Group has joint control over the entity's financial and operating policies.

The Group accounts for its jointly controlled entities on a proportional consolidation basis.

The Group's share of the Joint Ventures assets and liabilities and of income and expenses is shown below.

Aggregated amounts relating to Joint Ventures:
£ Millions

	2005 £	2004 £
Long term assets	**–**	–
Current assets	**1.1**	–
Current liabilities	**(0.2)**	–
Long term liabilities	**–**	–
Total	**0.9**	–
Income	**1.0**	–
Expenses	**(1.0)**	–
Profit before tax	**–**	–

15. Interests in associates

£ Millions	**2005**	2004
Aggregated amounts relating to associates		
Total assets	**0.3**	2.3
Total liabilities	**–**	(0.5)
	0.3	1.8
Income	**1.0**	1.7
Expenses	**(0.7)**	(1.3)
Profit before tax	**0.3**	0.4

Powersolve has been treated as a subsidiary from 1 July 2005 (see Note 28). The share of net assets and associated goodwill at 31 December 2004 was £1.6 million and the share of profit for the six months to 30 June 2005 was £0.3 million. £0.9 million (£0.4 million of goodwill and £0.5 million of loan) was transferred to goodwill (See Note 10).

XP Engineering Services (XPES) has been treated as a subsidiary from 1 October 2005 (see Note 28). The share of net assets and associated goodwill at 31 December 2004 was £0.2 million and the share of profit for the nine months to 30 September 2005 was £nil. £0.2 million of associated goodwill was transferred to goodwill (see Note 10) on XPES becoming a subsidiary.

Additions of £0.3 million related to the acquisition of a 20% stake in Safety Power, a company incorporated in the United Kingdom. Safety Power is the associated entity at 31 December 2005.

The movements in interests in Associates were as follows:

£ Millions	Goodwill	Share of Net Assets	Loan	Total
At 1 January 2005	0.6	0.7	0.5	1.8
Share of results of associates	–	0.3	–	0.3
Additions	0.3	–	–	0.3
Dividend received	–	(0.6)	–	(0.6)
Transfer to goodwill on becoming a subsidiary	(0.6)	–	(0.5)	(1.1)
Disposal on becoming a subsidiary	–	(0.4)	–	(0.4)
At 31 December 2005	**0.3**	**–**	**–**	**0.3**

16. Inventories

£ Millions	**2005**	2004
Goods for resale	**8.1**	7.5

17. Other financial assets

Trade and other receivables

£ Millions	**2005**	2004
Trade Receivables	**13.7**	10.9
Prepayments and other receivables	**3.5**	2.2
Total	**17.2**	13.1

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Credit risk
The Group's principal financial assets are bank balances and cash, trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

17. Other financial assets (continued)

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

18. Current liabilities

Trade and other payables

£ Millions	**2005**	2004
Bank loans and overdrafts	**19.9**	4.7
Trade creditors and accruals	**8.5**	7.2
Corporation tax	**2.8**	2.2
Other taxation	**0.4**	0.2
Deferred consideration	**0.4**	2.5
Total	**32.0**	16.8

£11.2 million of the bank loans and overdrafts relates to the 3 year revolving credit facility due for renewal in 2006 (see below). The remaining £8.7 million relates to the overdraft.

The bank loans and overdrafts are secured on the assets of the Group.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

The deferred consideration in 2004 related to the acquisition of 70% of the shares of MPI-XP Power AG, and the deferred consideration in 2005 relates to the final tranche due to be paid in February 2006.

19. Non-current liabilities

	Group	
£ Millions	**2005**	2004
Bank loans	**–**	8.1
Provisions – Deferred contingent consideration	**3.3**	–
Deferred tax (See Note 22)	**1.2**	0.4
Total	**4.5**	8.5

The deferred consideration is the discounted net present value of expected payments related to the acquisition of the remaining 60.6% of Powersolve which the Group will pay between 2007 and 2012, (see Note 28).

20. Bank loans and overdrafts

£ Millions

The borrowings are repayable as follows:

	2005	2004
On demand or within one year	**19.9**	4.7
In the second year	**–**	8.1
In the third year	**–**	–
	19.9	12.8
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(19.9)**	(4.7)
Amount due for settlement after 12 months	**–**	8.1

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

December 2005

£ Millions	**UK £**	**US $**	**€**	**Norwegian Krone**	**Japanese Yen**	**Swiss Franc**	**Total**
Bank overdrafts	**–**	**3.4**	**1.7**	**0.3**	**0.4**	**2.9**	**8.7**
Bank loans	**8.3**	**2.9**	**–**	**–**	**–**	**–**	**11.2**
Total	**8.3**	**6.3**	**1.7**	**0.3**	**0.4**	**2.9**	**19.9**

December 2004

£ Millions	**UK £**	**US $**	**€**	**Norwegian Krone**	**Japanese Yen**	**Total**
Bank overdrafts	1.1	1.6	1.7	0.2	0.1	4.7
Bank loans	5.4	2.7	–	–	–	8.1
Total	6.5	4.3	1.7	0.2	0.1	12.8

The average interest rates paid were as follows:

	2005	2004
Bank overdrafts	**4.1%**	3.6%
Bank loans	**5.9%**	5.0%

All overdrafts and loans are arranged at a rate of LIBOR plus 1.5%.

The fair value of the Group's loans and overdrafts is the same as the book value

20. Bank loans and overdrafts (continued)

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

i. Bank overdrafts are repayable on demand. The bank overdrafts are secured on the assets of the Group. At 31 December 2005, the Group had an overdraft of £8.7 million. The overall working capital facility is £10.0 million.

ii. The bank loan at 31 December 2005 of £11.2 million represents the amount drawn down under the multi-currency revolving credit facility from Bank of Scotland. In November 2005 the Group increased this multi-currency revolving credit facility with Bank of Scotland to £15 million and is committed until September 2006 at an interest rate of 1.5% above LIBOR and is provided for the purpose of financing acquisitions. The non-utilisation fee on this facility is 0.50% on undrawn commitments from acceptance of the Facility Agreement, calculated on a daily basis and payable quarterly in arrears.

21. Derivative Financial Instruments

The group does not use currency derivatives to hedge transactions nor interest rate swaps to manage exposure to interest rate movements.

22. Deferred tax

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	Goodwill amortisation	Share based payment	Capitalised development costs	Other intangible assets	Total
At 1 January 2004	0.1	(0.3)	–	–	–	(0.2)
Charge to income	–	(0.1)	–	–	–	(0.1)
Charge to equity	–	–	0.4	–	–	0.4
Exchange differences	–	–	–	–	–	–
At 1 January 2005	0.1	(0.4)	0.4	–	–	0.1
Charge to income	–	–	–	(0.4)	–	(0.4)
Charge to equity	–	–	(0.2)	–	–	(0.2)
Acquisition of subsidiary	–	–	–	–	(0.4)	(0.4)
As 31 December 2005	**0.1**	**(0.4)**	**0.2**	**(0.4)**	**(0.4)**	**(0.9)**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2005	2004
Deferred tax liabilities	**(1.2)**	(0.4)
Deferred tax assets	**0.3**	0.5
	(0.9)	0.1

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £0.1 million (2004: Nil). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the future.

23. Share capital and reserves

Called up share capital

£ Millions	**2005**	2004
Authorised 35,000,000 ordinary shares of 1p each	**0.4**	0.4
Allotted and fully paid 20,704,621 ordinary shares of 1p each (2004: 20,704,621)	**0.2**	0.2

The Company has one class of ordinary shares which carry no right to fixed income.

Share premium account

	2005	2004
Balance at 1 January and 31 December	**27.0**	27.0

Merger Reserve	**2005**	2004
Balance at 1 January and 31 December	**0.2**	0.2

Own shares

	2005	2004
Balance at 1 January	**(3.4)**	–
Purchase of own shares	**(3.5)**	(3.5)
Sale of Shares	**0.2**	0.1
Balance at 31 December	**(6.7)**	(3.4)

As at 31 December 2005, the Group's Employee Share Ownership Plan (ESOP) held 318,851 (2004: 656,251) shares at a value of £1,600 (2004: £3,431). During the year, the Trust sold 218,000 shares at the market value of 428.25 pence, 136,000 shares at the market value of 412.00 pence and 10,000 shares at the market value of 320 pence. The consideration for these shares is deferred until they are disposed of.

Own shares also includes 1,849,325 treasury shares (2004: 888,750).

Translation reserve

	2005	2004
Balance at 1 January	**(0.2)**	1.1
Exchange differences on translation of foreign operations	**1.7**	(1.3)
Balance at 31 December	**1.5**	(0.2)

Retained earnings

	2005	2004
Balance at 1 January	**2.1**	(0.3)
Dividends paid	**(2.8)**	(2.5)
Net profit for the year	**5.9**	4.5
Tax on items taken directly to equity	**(0.2)**	0.4
Balance at 31 December	**5.0**	2.1

24. Notes to the cashflow statement

£ Millions	2005	2004
Profit from operations (excluding associates)	**8.2**	6.6
Adjustments for:		
Amortisation of intangible fixed assets	**0.1**	–
Depreciation of property plant and equipment	**0.6**	0.6
Foreign currency differences	**1.2**	(0.7)
Operating cash flows before movements in working capital	**10.1**	6.5
Increase in inventories	**(0.2)**	(0.7)
Increase in receivables	**(2.7)**	(1.5)
Decrease in payables	**0.8**	0.6
Cash generated by operations	**8.0**	4.9
Corporation tax paid	**(0.7)**	(0.8)
Net cash inflow from operating activities	**7.3**	4.1

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

Reconciliation to free cash flow

£ Millions	2005	2004
Net cash inflow from operating activities	**7.3**	4.1
Dividends from associates	**0.6**	0.2
Purchase of property, plant and equipment	**(0.8)**	(0.2)
Development expenses capitalised	**(1.0)**	–
Interest paid	**(0.8)**	(0.6)
Free cash flow	**5.3**	3.5

25. Operating leases and other commitments

£ Millions	2005	2004
Minimum lease payments under operating leases recognised in income for the year	**1.0**	1.0

At the balance sheet date, the Group was committed to annual costs in respect of the future minimum lease payments under non-cancellable operating leases, which expire as follows:

	2005	2004
Within one year	**0.2**	0.2
In the second to fifth years inclusive	**0.7**	0.7
After five years	**0.1**	0.1
	1.0	1.0

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

26. Pensions

The Group operates a defined contribution pension scheme for its employees in the United Kingdom. Contributions are charged to the profit and loss account as they become payable.

The total cost charged to income of £0.1 million (2004: £0.1 million) represents contributions payable to these schemes by the Group at a rate of 3% of salary of all members. As at 31 December 2005, all contributions for the year had been made.

There are no defined benefit schemes.

27. Related party transactions

The ultimate controlling party of the Group is XP Power plc.

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. Details of transactions between the Group and other related parties are disclosed below.

The Group has bought goods to the value of £26,000 (2004: £517,000) from, and sold goods to the value of £nil (2004: £nil) to associated undertakings. Purchases were made at market price. The Group has sold goods to the value of £103,000 to joint ventures. Purchases and sales were made at market price.

The amount payable to associates at 31 December 2005 is £nil (2004: £92,000) and the amount receivable is £nil (2004: £nil). The amount receivable from joint ventures is £103,000. All transactions are conducted on an arm's length basis.

The amount outstanding is unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

The remuneration of the Directors, who are the key management personnel of the Group is set out below for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 20 to 23.

	Year Ended 31 December 2005	Year Ended 31 December 2004
Short term employee benefits	**882,361**	979,291
Post employment benefits	**10,500**	9,000
Total	**892,861**	988,291

28. Acquisitions

In 2005 the Group made a payment of Swiss Francs 7.2 million (£3.2 million), representing 90% of the expected consideration for an additional 70% of the issued share capital of MPI-XP Power. The Group is committed to paying an additional Swiss Francs 1 million (£0.4 million) in February 2006. In total this is £1.1 million higher than the amount provided for in 2004, and is attributable to the increased profitability of the business in the year. The difference is shown as an adjustment to goodwill.

With effect from July 2005, the Group agreed to acquire the 60.6% of Powersolve Electronics Limited it did not already own.

Balance sheets at acquisition

£ Millions	Powersolve Electronics Limited	XP Engineering Services Limited
Property plant and equipment	0.1	–
Inventories	0.3	0.1
Trade and other receivables	0.5	0.1
Cash and overdrafts	(0.2)	–
Trade and other payables	(0.4)	(0.1)
Net assets acquired	**0.3**	**0.1**
Fair value adjustments:		
Separable intangibles acquired	1.3	–
Associated deferred tax liability	(0.4)	–
Fair value of net assets acquired	**1.2**	**0.1**
Goodwill	2.1	0.4
Purchase consideration	**3.3**	**0.5**
Satisfied by;		
Cash	–	0.5
Deferred contingent consideration	3.3	–
Total	**3.3**	**0.5**

28. Acquisitions (continued)

The Group acquired the 80% of XP Engineering Services Limited (XPES) it did not already own for a total cash consideration of £0.5 million in November 2005. There were no differences between the book value and the fair value of the assets acquired. Goodwill of £0.4 million was generated on the transaction. The goodwill recorded within Investments of £0.2 million at 31 December 2004 when the company was treated as an associate has been transferred to goodwill. The goodwill arising on the acquisition is attributable to cost and revenue synergies which will enable the Group to generate enhanced profitability from XPES's value added products. Revenue of £0.2 million and £0.0 million of pre-tax profit were earned by XPES during the period.

The Group is committed to acquiring the remaining 60.6% of the shares of Powersolve Electronics Limited between 2007 and 2012. There were no differences between the book value and the fair value of the assets acquired. The current best estimate of the consideration payable is £4.4 million. A prepayment of £0.5 million was made to the majority shareholder during 2004 which is repayable in full in 2012, so the net amount payable between 2007 and 2012 is £3.9 million. At net present values, this has been discounted to £3.3 million. The goodwill recorded within Investments of £0.4 million at 31 December 2004 when the company was treated as an associate has been transferred to goodwill. The goodwill is attributable to cost and revenue synergies which will enable the Group to generate enhanced profitability from Powersolve's products as well as anticipated market benefits to the Group's existing products. Revenue of £2.4 million and £0.5 million of pre-tax profit were earned by Powersolve during the period from 1 July 2005.

29. Share based payments

Options have been granted under the Company's Unapproved and Approved Share Option schemes. The numbers outstanding, subscription prices and exercise periods are as follows:

Number of Shares	Exercise price	Exercisable from	Expiry date
73,600	£1.15	22 December 2000	22 December 2010
10,000	£1.15	21 August 2003	21 August 2011
128,250	£3.425	21 August 2001*	21 August 2011
58,500	£3.20	31 January 2002*	31 January 2012
85,000	£2.925	1 May 2002*	1 May 2012
44,000	£1.15	24 August 2004	24 August 2012
378,900	£1.75	24 August 2002*	24 August 2012
40,000	£2.675	2 February 2004*	2 February 2014
5,000	£4.50	16 February 2005*	16 February 2015
20,000	£4.11	21 April 2005*	21 April 2015
4,500	£3.20	14 December 2005*	14 December 2015
847,750			

*Approved option schemes, vesting in 4 equal annual instalments from the exercisable date

	2005 Number of Share options	**2005** Weighted average exercise price (pence)	2004 Number of Share options	2004 Weighted average exercise price (pence)
Outstanding at beginning of the year	**966,450**	**216**	1,035,000	208
Granted during the year	**29,500**	**419**	45,000	268
Forfeited during the year	**(26,265)**	**242**	(2,500)	156
Exercised during the year	**(121,935)**	**193**	(111,050)	156
Outstanding at the end of the year	**847,750**	**225**	966,450	216
Exercisable at the end of the year	**657,650**	**218**	582,963	205

The weighted average share price at the date of exercise for share options exercised during the period was 379p. The options outstanding at 31 December 2004 had a weighted average exercise price of 225p, and a weighted average remaining contractual life of 6 years.

29. Share based payments (continued)

Consideration has been given by the Directors of the implications of IFRS2 Share based payment transactions. In the 3 years since the Standard was introduced, the Group has issued a total of 74,500 options at a weighted average cost of 328p (of which 69,500 are currently outstanding) with a vesting period of 4 years. The Directors have concluded that any potential charge to the income and expenditure account is immaterial and have consequently decided not to undertake a full valuation exercise.

30. Explanation of transition to IFRSs

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRSs was therefore 1 January 2004.

Reconciliation of equity at 1 January 2004 (date of transition to IFRS)

£ Millions	Note	UK GAAP	Effect of transition to IFRS	IFRS
Goodwill		22.4	–	22.4
Property plant and equipment		2.9	–	2.9
Interests in associates		1.1	–	1.1
Total non-current assets		26.4	–	26.4
Inventories		6.6	–	6.6
Trade and other receivables		11.5	–	11.5
Cash		4.5	–	4.5
Total current assets		22.6	–	22.6
Total assets		49.0	–	49.0
Current liabilities	1,2,3	(12.0)	0.9	(11.1)
Non current liabilities		(10.6)	–	(10.6)
Total liabilities		(22.6)	0.9	(21.7)
Total assets less total liabilities		26.4	0.9	27.3
Called up share capital		0.2	–	0.2
Share premium account		27.0	–	27.0
Merger reserve		0.2	–	0.2
Translation reserve		1.1		1.1
Retained earnings		(2.2)	0.9	(1.3)
Total shareholders equity		26.3	0.9	27.2
Minority interest		0.1	–	0.1
Total equity		26.4	0.9	27.3

Notes to the reconciliation of equity at 1 January 2004

1) IAS 10 'Events after the Balance Sheet Date' states that if an entity declares dividends to holders of equity instruments after the balance sheet date, the entity shall not recognise those dividends as a liability at the balance sheet date. Therefore the proposed dividend of £1.4 million has been reversed.

2) IAS 19 'Employee benefits' requires entities to measure the expected costs of accumulated compensated absences which can be carried forward. An accrual for holiday pay of £0.2 million has been charged.

3) IAS 12 'Income Taxes' applies a balance sheet approach to deferred tax. It requires full provisioning based on temporary differences. The adoption of IFRS gives rise to a deferred tax adjustment. On the date of transition a deferred tax liability of £0.3 million is recognised in relation to goodwill amortisation allowable in the USA.

30. Explanation of transition to IFRSs (continued)

Reconciliation of equity at 31 December 2004

£ Millions	Note	UK GAAP	Effect of transition to IFRS	IFRS
Goodwill	3	21.7	1.4	23.1
Property plant and equipment		2.5	–	2.5
Interests in associates		1.8	–	1.8
Deferred tax asset		0.5	–	0.5
Total non-current assets		26.5	1.4	27.9
Inventories		7.5	–	7.5
Trade and other receivables		13.1	–	13.1
Cash and cash equivalents		2.7	–	2.7
Total current assets		23.3	–	23.3
Total assets		49.8	1.4	51.2
Current liabilities	1,2	(18.0)	1.2	(16.8)
Non current liabilities		(8.5)	–	(8.5)
Total liabilities		(26.5)	1.2	(25.3)
Total assets less total liabilities		23.3	2.6	25.9
Called up share capital		0.2	–	0.2
Share premium account		27.0	–	27.0
Merger reserve		0.2	–	0.2
Own shares		(3.4)	–	(3.4)
Translation reserve		(0.2)	–	(0.2)
Retained earnings		(0.5)	2.6	2.1
Total equity		23.3	2.6	25.9

Notes to the reconciliation of equity at 31 December 2004

1) IAS 10 'Events after the Balance Sheet Date' states that if an entity declares dividends to holders of equity instruments after the balance sheet date, the entity shall not recognise those dividends as a liability at the balance sheet date. Therefore the proposed dividend of £1.5 million has been reversed.

2) IAS 19 'Employee benefits' requires entities to measure the expected costs of accumulated compensated absences which can be carried forward. An additional accrual for holiday pay of £0.1 million has been charged, making the total balance sheet provision £0.3 million.

3) IAS 38 'Intangible Assets' requires goodwill to have an indefinite useful life. The goodwill was frozen on the date of transition to IFRS (1 January 2004) therefore the charge of £1.4 million for the year to 31 December 2004 is no longer recognised under IFRS.

4) IAS 12 'Income Taxes' applies a balance sheet approach to deferred tax. It requires full provisioning based on temporary differences. The adoption of IFRS gives rise to a deferred tax adjustment. On the date of transition a deferred tax liability of £0.3 million is recognised in relation to goodwill amortisation allowable in the USA in 2003. This liability increases in 2004 to £0.4 million giving rise to a charge of £0.1 million to the income and expenditure account in that period. Also, a deferred tax asset of £0.4 million is recognised for the future tax deduction on the exercise of share options. This is recognised in equity.

30. Explanation of transition to IFRSs (continued)

Reconciliation of profit for 2004

£ Millions	Note	UK GAAP	Effect of transition to IFRS	IFRS
Revenue		66.8	–	66.8
Cost of sales		(43.1)	–	(43.1)
Gross profit		23.7	–	23.7
Distribution costs	2	(11.8)	(0.1)	(11.9)
Administrative expenses	1	(6.6)	1.4	(5.2)
Share of associates' operating profit		0.4	–	0.4
Finance costs		(0.6)	–	(0.6)
		(18.6)	1.3	(17.3)
Profit before tax		5.1	1.3	6.4
Tax expense	3	(1.8)	(0.1)	(1.9)
Net profit		3.3	1.2	4.5

Notes to the reconciliation of profit for 2004

1) IAS 38 'Intangible Assets' requires goodwill to have an indefinite useful life. The goodwill was frozen on the date of transition to IFRS (1 January 2004) therefore the charge of £1.4 million for the year to 31 December 2004 is no longer recognised under IFRS.

2) IAS 19 'Employee benefits' requires entities to measure the expected costs of accumulated compensated absences which can be carried forward. An accrual for holiday pay of £0.1 million has been charged.

3) The adoption of IFRS gives rise to a deferred tax adjustment. On the date of transition a deferred tax liability of £0.3 million is recognised in relation to goodwill amortisation allowable in the USA in 2003. This liability increases in 2004 to £0.4 million giving rise to a charge of £0.1 million to the income and expenditure account in that period.

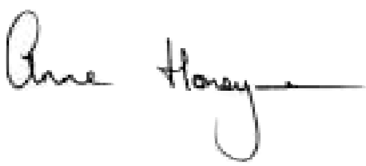
4) A deferred tax asset of £0.4 million is recognised for the future tax deduction on the exercise of share options. This is recognised in equity.

Statement of Directors' Responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Anne Honeyman – Company Secretary

Independent Auditors' Report

to the members of XP Power plc

We have audited the individual Company financial statements of XP Power plc for the year ended 31 December 2005 which comprise the balance sheet and the related notes 1 to 8. These individual Company financial statements have been prepared under the accounting policies set out therein.

The Corporate Governance Statement and the Directors' Remuneration Report are included in the Group Annual Report of XP Power plc for the year ended 31 December 2005. We have reported separately on the Group Financial Statements of XP Power plc for the year ended 31 December 2005, and on the information in the Directors' Remuneration Report included in the Group Annual Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the individual Company financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view in accordance with the relevant framework and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the Directors' Report is not consistent with the individual Company financial statements. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the individual Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

Opinion

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Cardiff, United Kingdom

22 March 2006

Company Balance Sheet

Year Ended 31 December 2005

£ Millions	Note	2005	2004 (as restated see note 8)
Non-current assets			
Investment in subsidiaries	3	**6.0**	25.8
		6.0	25.8
Current assets			
Debtors	4	**30.9**	8.8
Creditors: amounts falling due within one year	5	**(8.6)**	(0.1)
Net current assets		**22.3**	8.7
Total assets less current liabilities		**28.3**	34.5
Creditors: amounts falling due after one year	5	**–**	(6.3)
Net Assets		**28.3**	28.2
Capital and reserves			
Share capital	6	**0.2**	0.2
Share premium account	7	**27.0**	27.0
Retained earnings	7	**7.8**	4.4
Own shares	7	**(6.7)**	(3.4)
Shareholders' funds		**28.3**	28.2

These financial statements were approved by the Board of Directors on 22 March 2006.

Signed on behalf of the Board of Directors

Larry Tracey – Chairman

Duncan Penny – Chief Executive

Notes to the Company Financial Statements

Year Ended 31 December 2005

1. Significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year with the exception of new accounting standards which have been introduced since the preceding year and are applicable to the current year; details of which are as follows:

Basis of accounting
The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Investments
Investments held as fixed assets are stated at cost less provision for impairment.

Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Pension costs
The Company operates a defined contribution pension scheme for its employees. Contributions are charged to the profit and loss account as they become payable.

FRS 20: Share based payments
The impact of adopting this standard is not material to the individual Company financial statements, hence no prior year adjustment has been made.

FRS 21: Events after the balance sheet date
Prior year adjustments have been made in respect of dividends receivable and final proposed dividends following the implementation of FRS 21 (see note 8 below). There were no further impacts from the implementation of standard.

FRS 23: The effects of changes in foreign exchange rates
The Company does not have any transactions in foreign currencies, therefore there is no impact of this change in accounting standard.

FRS 25/26: Financial instruments
As stated in note 21 to the Group financial statements, neither the Company nor the Group uses currency derivatives to hedge transactions or interest rate swaps to manage exposure to interest rate movements or any other financial instruments, therefore there is no impact from these changes in accounting standards. The disclosures relating to Group treasury policies and financial instruments are provided in the Group financial statements.

2. Profit for the year

As permitted by Section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year. XP Power Plc reported a profit for the financial year ended 31 December 2005 of £6.2 million (2004: £6.3 million).

The auditors' remuneration for services to the Company was £0.1million (2004: £0.1 million).

The average monthly number of employees (including executive directors employed by the Company was six (2004: seven). All employees were employed in a management capacity. The cost of these employees was £0.5million (2004: £0.5 million).

Notes to the Company Financial Statements (continued)

Year Ended 31 December 2005

3. Investment in subsidiaries

Details of the Company's direct subsidiaries at 31 December 2005 are as follows:

£ Millions	**2005**	2004
Balance brought forward	**25.8**	25.8
Additions	**0.1**	–
Disposals	**(19.9)**	–
Total	**6.0**	25.8

The investment in IFX Power BVI was disposed of to another Group company during the year.

Name of subsidiary	**Place of incorporation ownership (or registration) and operation**	**Proportion of voting power held %**	**Proportion of ownership %**
Forx Inc	USA	100	100
XP PLC	UK	100	100
XP Power International Limited	UK	100	100
XP Power (Shanghai) Co Limited	China	100	100

Details of Group subsidiaries, joint ventures and associates are given in notes 13 to 15 in the Group Financial Statements.

4. Debtors

£ Millions	**2005**	2004 (As restated See note 8)
Amounts receivable from Group companies	**30.3**	8.0
Prepayments and Other Debtors	**0.6**	0.8
Total	**30.9**	8.8

5. Creditors

£ Millions **Amounts falling due within one year**	**2005**	2004 (As restated See note 8)
Bank loans and overdrafts	**8.6**	0.1

Amounts falling due after one year	**2005**	2004
Bank loans and overdrafts	**–**	6.3

The bank loans and overdrafts are secured on the assets of the Group.

6. Called up share capital

£ Millions	**2005**	2004
Authorised 35,000,000 shares at 1p each	**0.4**	0.4
Allotted and fully paid 20,704,621 ordinary shares of 1p each (2004: 20,704,621)	**0.2**	0.2

7. Combined reconciliation of movements in shareholders funds and statement of movements on reserves

£ Millions	Called up share capital	Share premium	Retained earnings	Own shares	**2005 Total**	2004 Total (restated)
At the beginning of the year (as previously reported)	0.2	27.0	4.2	(3.4)	**28.0**	27.3
Prior year adjustments in relation to adoption of FRS21						
Income from shares in Group companies	–	–	(1.3)	–	**(1.3)**	(0.9)
Final proposed dividend	–	–	1.5	–	**1.5**	1.5
At the beginning of the year (as restated)	0.2	27.0	4.4	(3.4)	**28.2**	27.9
Purchase of own shares	–	–	–	(3.5)	**(3.5)**	(3.5)
Sales of own shares	–	–	–	0.2	**0.2**	0.1
Profit for the year (as previously reported)	–	–	6.2	–	**6.2**	6.7
Current year impact of prior year adjustment in relation to adoption of FRS21 Income from shares in Group companies						(0.4)
Profits for the year (as restated)	–	–	–	–	**–**	6.3
Dividends paid	–	–	(2.8)	–	**(2.8)**	(2.6)
At the end of the year	0.2	27.0	7.8	(6.7)	**28.3**	28.2

8 Note on prior year adjustment

In accordance with FRS21 'Events after the Balance Sheet Date', dividends are not recognised as liabilities until they have been approved by the Board of Directors. The 2003 proposed dividend of £1.5 million has therefore been restated and included in the 2004 profit and loss account. The 2004 proposed final dividend of £1.5 million has also been restated and included in the 2005 profit and loss account and the 2004 creditors have been restated. Similarly, the dividend receivable from Group companies which were declared after the year end have been adjusted. This resulted in a reduction to the profit and loss account brought forward at 1 January 2004 of £0.9 million, a reduction in the 2004 profit of £0.4 million and a reduction in debtors at 31 December 2004 of £1.3 million.

9 Post balance sheet event

Subsequent to the year end, the directors have proposed a dividend of £1.8 million.

Five Year Review

	IFRS		UK GAAP		
	2005 £	2004 £	2003 £	2002 £	2001 £
Results					
Revenue	69.5	66.8	59.4	64.0	86.5
Profit from operations	**8.5**	**7.0**	**2.7**	**1.1**	**4.2**
Profit before tax	**7.7**	**6.4**	**2.1**	**0.7**	**3.7**
Assets employed					
Non-current assets	33.6	27.9	26.4	27.6	25.0
Current assets	30.1	23.3	22.6	22.9	24.2
Current liabilities	(32.0)	(16.8)	(12.0)	(12.6)	(13.0)
Non-current liabilities	(4.5)	(8.5)	(10.6)	(8.2)	(3.4)
Net assets	**27.2**	**25.9**	**26.4**	**29.7**	**32.8**
Financed by					
Equity	27.2	25.9	26.3	29.1	33.3
Minority interests	–	–	0.1	0.6	(0.5)
	27.2	**25.9**	**26.4**	**29.7**	**32.8**
Key statistics					
Earnings per share	30.7p	23.1p	5.0p	0.0p	13.6p
Diluted earnings per share	30.1p	22.6p	4.9p	0.0p	13.5p
Share price in the year					
High	526p	466p	250p	352.5p	1032p
Low	279p	218p	73.5p	82.5p	240p

The amounts disclosed for 2003 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRSs. The principal differences between UK GAAP and IFRSs are explained in note 26 to the accounts which provides an explanation of the transition to IFRSs.

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Cardiff

Solicitors
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The Registry
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BR3 4TU

Shareholder Notes

XP Power plc

THE XPERTS IN POWER

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