XP Power plc

Annual Report & Financial Statements

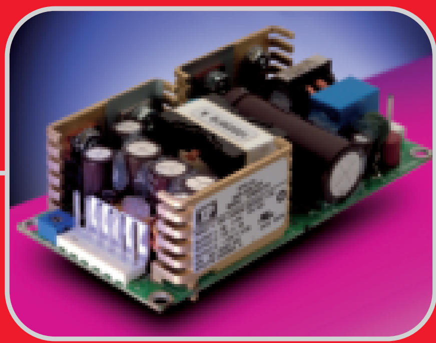
for the year ended 31 December **2006**

Contents

All electronic equipment needs a power supply.

By meeting this demand XP Power provides its investors with access to technology and industrial markets through its global customer base.

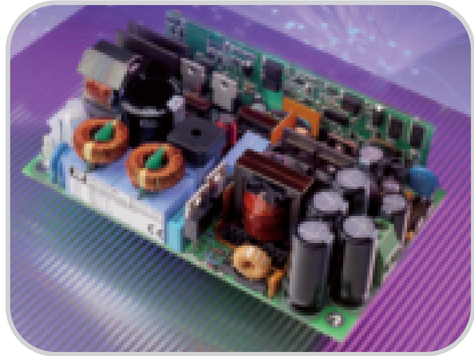
Electricity supply



Power supply

End-user equipment

Year at a Glance

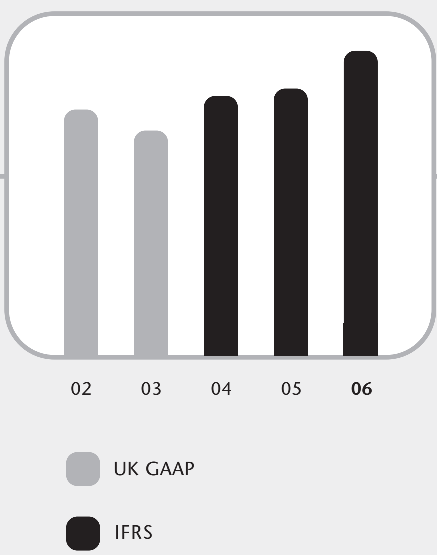


The EMA212 launched during 2006,
the world's smallest commercially available
212watt power supply.

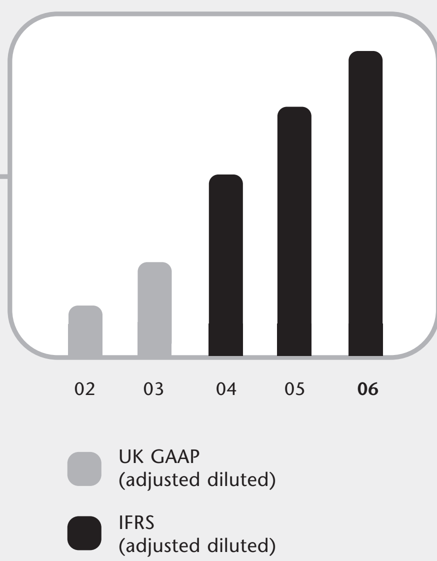
Highlights

- Revenue grows 13.2% to £78.7 million
- Diluted earnings per share (adjusted for restructuring and amortisation of intangibles associated with acquisitions) increases by 20.9% to 37.0 pence (2005: 30.6 pence). Basic earnings per share increases by 4.9% to 32.2 pence (2005: 30.7 pence)
- Manufacturing joint venture in China operational and profitable in the second half of the year
- Seventh successive year of gross margin improvements to 37.1% (2005: 35.7%)
- Dividend to be increased by 12.5% to 18p per share

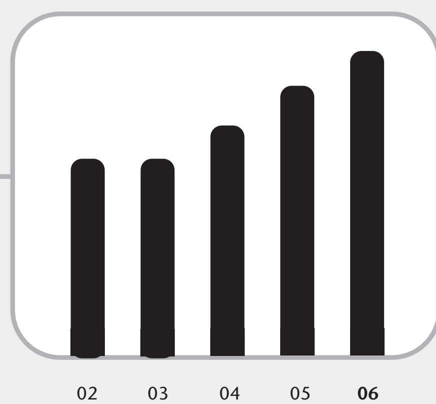
Revenue



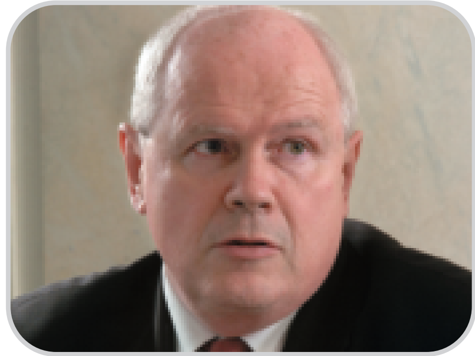
Earnings per share



Dividend per share



Chairman's Statement



“We are embarking on a plan that will make our Company more Asia centric.”

Larry Tracey, Executive Chairman

Business Performance

XP Power has made significant increases in sales and dividends in 2006. Our competitive position continues to improve in our key medical, industrial and communications markets. We are making significant progress in developing commercial relationships with target customers through our own new products.

The business delivered earnings per share of 37.0 pence (2005: 30.6 pence) on a diluted basis after adjustment for restructuring charges and amortisation of intangibles associated with acquisitions. Basic earnings per share was 32.2 pence (2005: 30.7 pence). This is the fourth successive year that we have grown adjusted diluted earnings per share and the average compound growth rate over this period has been 50%.

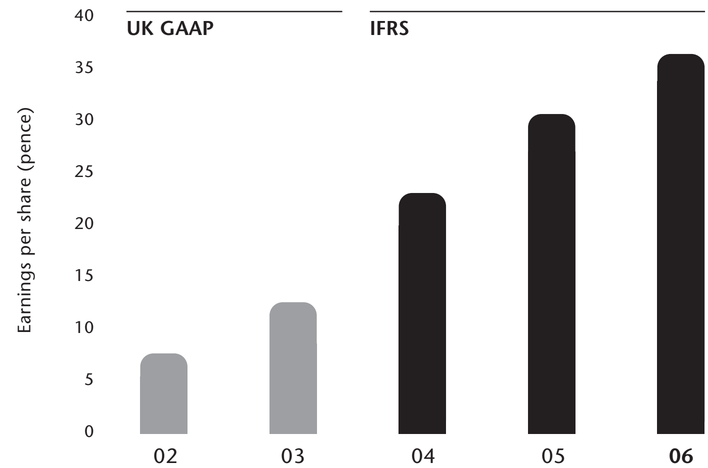
Larry Tracey, XP Power Executive Chairman (left) and Jackson Wang, Fortron Source President (centre) along with local dignitaries at the opening of the Chinese manufacturing facility in May 2006.

Strategy

As we move into 2007, XP Power is well placed to continue to grow its earnings through the successful implementation of our focused sales strategy. With the discontinuation in 2006 of £12 million of annualised sales of third party lines, the majority of our products are now our own IP and are enabling significant improvements in gross margins.

In 2006 we opened our own joint venture manufacturing facility in Kunshan, China. The facility is fully operational and is expected to reduce our component material and running costs, thereby maintaining the increase in gross margins.

Earnings per Share (pence)



UK GAAP (adjusted diluted)

IFRS (adjusted diluted)

We have purchased the remaining 50% of our successful Singapore joint venture. As we look forward to the next five years, growing business opportunities are likely to come from Asia. For this reason we are embarking on a plan that will make our Company more Asia centric.

Dividend

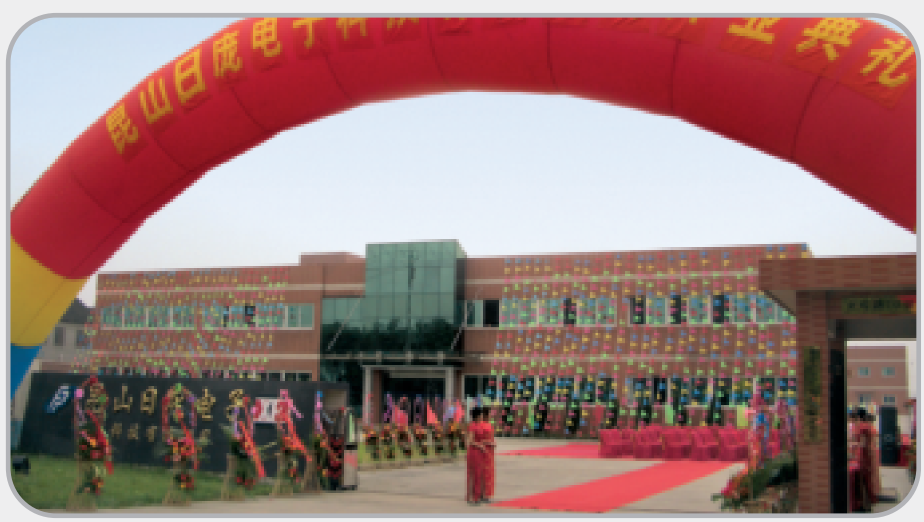
The continued increase in profitability has enabled us to once again increase the dividend. We will be proposing a final dividend of 10 pence per share at the Annual General Meeting on 18 April 2007, making the total dividend for 2006 18 pence per share (2005: 16 pence per share), an increase of 12.5% (see note 10).

Outlook

Actions we have taken in 2006 to focus on market leading customers with our own IP product should enable us to replace the revenues lost from discontinued product lines.

Gross margin improvements, due to a higher mix of our own IP product and the impact of manufacturing in China, will mean that we should be able to report improved gross margin again in 2007.

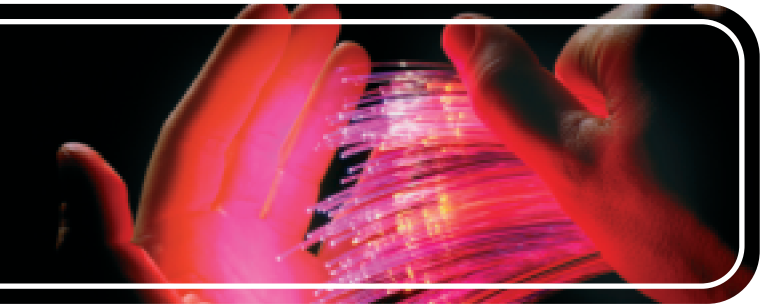
Larry Tracey – Executive Chairman



Pictured during the opening ceremony, the Fortron XP Power joint venture manufacturing facility is located in Kunshan, approximately one hour north west of Shanghai.

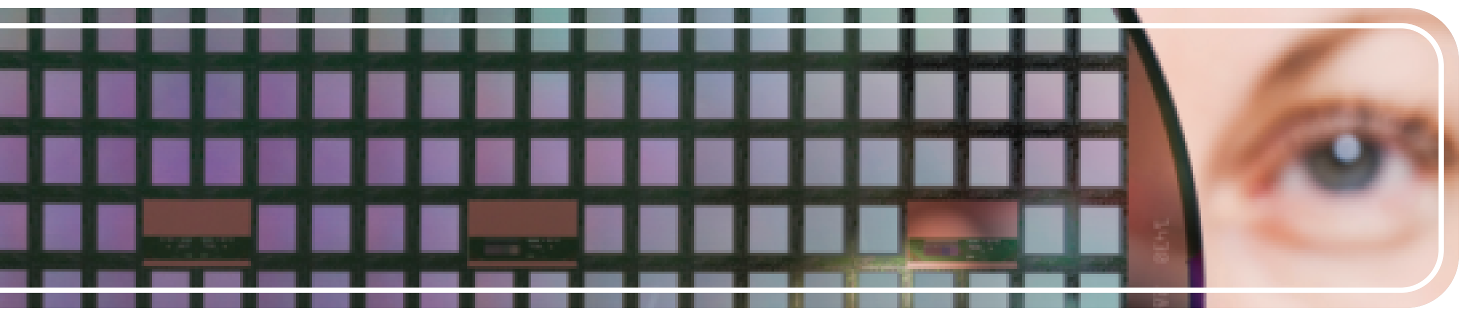
Industry Split %

Communications



25%

Industrial



48%

Medical

18%

Defence and Avionics

9%

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 electricity supply and convert it into various lower voltage, stable direct current outputs that are required to drive electronic equipment. All electronic equipment requires some form of power supply.

The Market

The market is highly fragmented and made up of hundreds of thousands of customers and thousands of competitors. Our target geographic coverage for design-in is North America, Europe and Asia; in addition we have a support group in Asia for our world-wide customers who manufacture there. We estimate that our available market is $2.6 billion.

Our Customers and Industry Segmentation

Our customers are original equipment manufacturers (OEMs) who can be characterised as having expertise in their particular vertical market, whether it be medical devices, communications or industrial automation but who 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; and
- 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 not only 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 future 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 in exceptional circumstances. The products range from AC to DC power supplies, DC to DC converters necessary for Distributed Power Architectures, through to Power Protection Products.

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 modelling allows us to quickly generate a proposal with no commitment from the customer.

Product Development

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

We have design engineering teams in Europe, North America and Asia.

Manufacturing

All of our new product releases are manufactured in our joint venture factory in Kunshan, China. This low cost, high volume, ISO 9001 facility allows us to meet the price demands seen in the market whilst being able to manage the quality and component selection.

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.

Our Mission

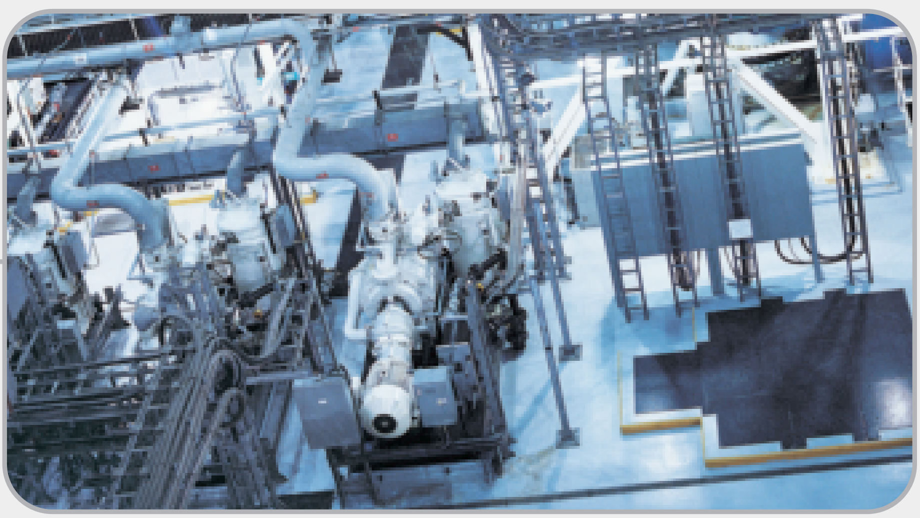
To inspire our people to be The Experts in Power delivering genuine value to our customers.

Chief Executive's Review

"It is important that we make our business more Asia centric in order to take advantage of the changing dynamics in the world economy."

The Chief Executive's Review is prepared solely to provide additional information to shareholders to assess the Company's strategy and the potential for those strategies to succeed, and should not be relied on by any other party or for any other purpose.

The Chief Executive's Review contains certain forward looking statements and (a) these statements are made in good faith based on the information available up to the time of the approval of this report and (b) these statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.



Sales to customers in the industrial sector accounted for 48% of revenues in 2006.

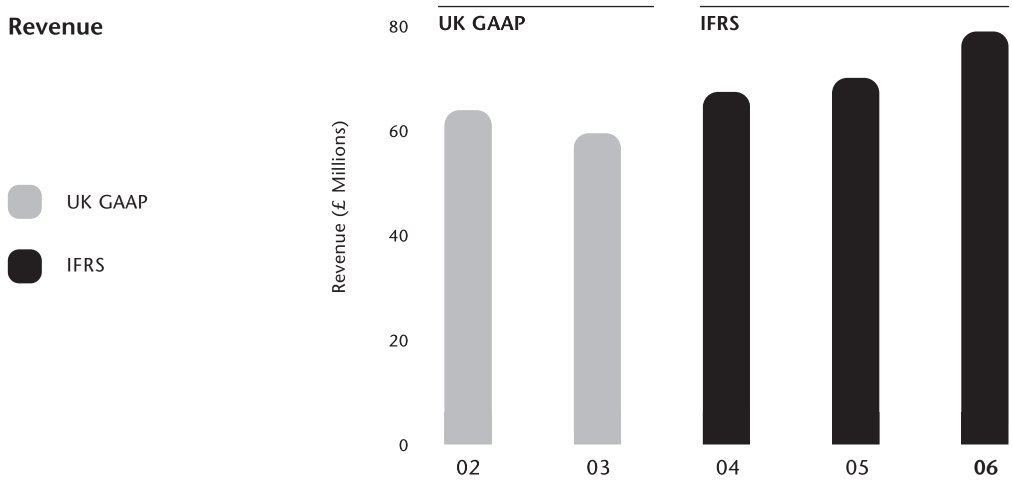
Financial Performance

In the year to 31 December 2006, revenues increased by 13.2% to £78.7 million (2005: £69.5 million). Of the product shipped in 2006, 66% was our own XP brand, up from 59% in the same period a year ago. This drove an increase in gross margin to 37.1% (2005: 35.7%).

This is our seventh successive year of gross margin improvement and we expect to make further improvements in gross margin as the proportion of our products containing XP intellectual property continues to grow.

In April 2006, the Board decided to restructure certain parts of the business to focus the Group's resources on its own product lines. A number of third party product lines were terminated by

Revenue



XP which had been expected to generate annualised revenues of approximately £10.0 million. We stopped taking orders for these lines on 1 July 2006. Since that time two other third party lines made the decision to terminate their relationship with XP. The expected annualised revenues from these lines were approximately £2.0 million. In conjunction with these changes, we closed our Benelux office and reduced the headcount in various parts of our business. There were also some inventory write-offs associated with the third party lines that were terminated. The total cost relating to this restructuring was £1.0 million.

Profit before tax increased to £8.0 million from £7.6 million in the prior year. Profit before tax includes a charge of £0.3 million (2005: £0.1 million) for the amortisation of intangibles resulting from the acquisition of Powersolve Electronics Limited (Powersolve) and £1.0 million of restructuring charges. The basic earnings per share for the year ended 31 December 2006 was 32.2p (2005: 30.7p). The diluted earnings per share for the year ended 31 December 2006 was 31.8 pence (2005: 30.1 pence). After adjusting for the amortisation of intangibles associated with acquisitions and restructuring costs, the diluted earnings per share was 37.0 pence (2005: 30.6 pence).

Continued strong margins allowed us to generate free cash flow (see note 28 and as described in the financial review) of £1.9 million during 2006 (2005: £5.3 million) despite a significant build in our own product inventories. After returning £3.2 million to shareholders in the form of dividends, net debt (cash of £4.2 million less borrowings of £22.0 million, see note 23) at 31 December 2006 was £17.8 million compared with £15.1 million at 31 December 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. These teams identify the customers we consider we should be working with in each of these sectors, support the sales people to penetrate these accounts and work with the product development organisation to specify future product requirements.

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 programmes with larger customers.

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.

> "During 2007 we expect 75% of our revenue to come from products containing XP intellectual property."

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 during 2007 we anticipate 75% of our revenues will come from products containing XP intellectual property. Despite the changes we made in 2006 to decrease the number of third party lines we sell, we shall continue to partner with a small number of key third party manufacturers for the remaining 25%, in order to provide the broad array of products our customers require.

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

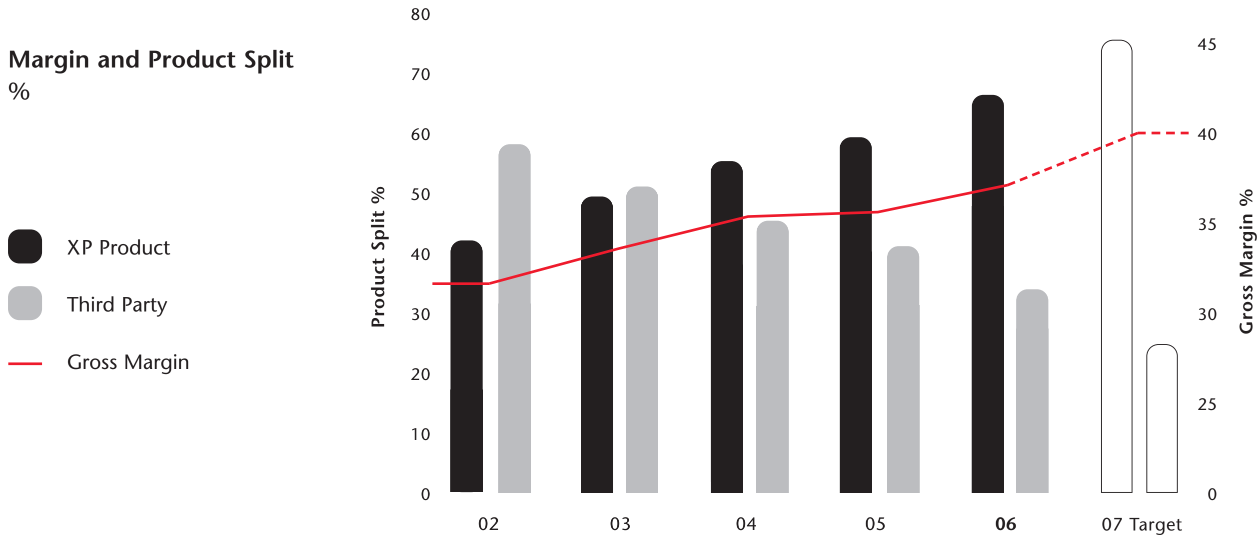
A year ago, we announced a 50:50 manufacturing joint venture in association with Fortron Source, a leading power supply manufacturer situated in the Shanghai area of China. Fortron Source has been an excellent contract manufacturing partner of XP for a number of years and operates a number of power supply manufacturing facilities in China. Fortron Source is renowned in the industry for excellent quality and value for money.

We are pleased to announce that this manufacturing facility officially opened in May 2006 and was profitable during the second half of the year.

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 penetrate further some of the key accounts we are targeting and result in more efficient supply chain management.

XP has invested £0.9 million in this joint venture (excluding set-up costs written off to cost of sales). The results of the joint venture have not had a material effect on the Group's margin during the year.

Margin and Product Split
%



Markets

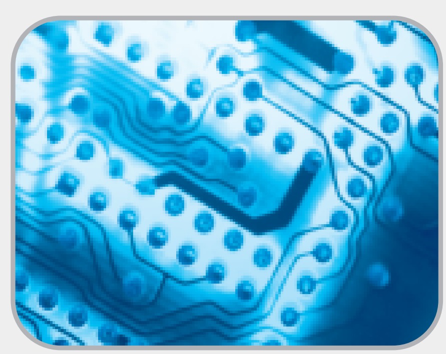
The momentum we saw in the capital goods markets in 2004 resumed in 2006 and this was particularly so in North America. Revenues from our North American business increased 19% to \$81.0 million (£44.1 million) in 2006 from \$68.0 million (£37.7 million) in 2005. Most sectors we service were buoyant including the infamously cyclical semi-conductor manufacturing equipment sector.

Our UK business suffered somewhat in 2006. Despite reported revenues of £22.3 million in 2006, up 8.3% from £20.6 million in 2005, the increased revenue contribution from Powersolve Electronics Limited (Powersolve) which has been consolidated since July 2005 was £3.4 million and masked the underlying performance of the UK. Restructuring actions reducing the third party lines and implementing price increases took its toll on some sectors of the business, as did the implementation of new business systems to position the Group for future growth. We believe these issues are now behind us.

Revenues from Continental Europe were £12.3 million in 2006, up 9.8% from £11.2 million in 2005. 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.

Move to Asia

Of the total Group revenues in 2006, approximately \$11.3 million (£6.1 million) or 7.8% of total revenue (2005: \$2.0 million (£1.1 million) or 1.6% of total revenue) was shipped into Asia. For some time, we have seen a trend developing where our customers’ design engineering work is performed in Europe or North America yet the customer builds their product in Asia. Therefore, a requirement exists for XP to



Chief Executive's Review (continued)

> " XP Power is now well positioned to support our customers as they move their manufacturing to Asia. "

provide logistical and technical support in Asia. It is clear this trend has accelerated. Further, we are now seeing greater emergence of Asian based design teams in our target customer base.

On the supply side, the vast majority of our product is sourced from Asia. Our experience of Asian power supply companies is that they often have good design engineering and manufacturing capabilities but their lack of direct contact with the customer base means they generally do not design appropriate standard products to meet the market needs. This will undoubtedly change as Asia increasingly becomes a larger player in the world-wide economy. We believe our future competition will come from Asia and so it is important that we make our business more Asia centric in order to take advantage of this changing world economy.

Against this background, we are embarking on establishing a new headquarters and parent company in Singapore while retaining a listing on the London Stock Exchange. We plan that this will be accomplished by a Scheme of Arrangement which will need to be approved by the Courts and the Shareholders. We estimate that the one-off costs of making this move will be in the order of £2.0 million.

Product Development

Offering our target customers industry leading products 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 the last three years, the Group has placed great emphasis on the release of new products to expand its XP product line. 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 increasing proportion of our revenues and driving the increase in our gross margins.

We expect to release a number of exciting products to the market during 2007.

Acquisitions

XP Power (S) Pte. Limited

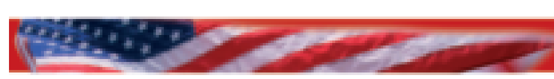
In October 2006, the Group acquired the remaining 50% of the issued share capital it did not already own of XP Power (S) Pte. Limited for Singapore Dollars 3.0 million (£1.0 million) in cash. XP Power (S) Pte. Limited is the Group's Asian sales company and was set up as a joint venture in 2003.

MPI-XP Power AG

In February 2006, the Group paid the outstanding amount due on the acquisition of MPI-XP Power AG of £0.5 million. MPI-XP Power AG, our Swiss sales company, is now fully integrated into the Group as XP Power AG.

Powersolve Electronics Limited (Powersolve)

In June 2005, we reached an agreement which committed the Group to acquire the remaining 60.6% of Powersolve Electronics Limited which it currently does



North America

% of revenue by destination

48%

Europe

% of revenue by destination

44%

Asia

% of revenue by destination

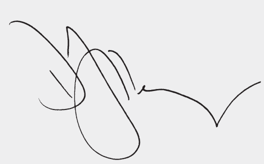
8%

not own. The Group expects to make a payment of approximately £1.4 million to the shareholders of Powersolve early in 2007 in respect of the next tranche of 30.3% of the equity. This payment is in addition to an advance of £1.0 million already paid to the Powersolve shareholders in respect of this tranche.

From July 2005, the results of Powersolve have been consolidated into the Group results. Revenue of £5.8 million (2005: £2.4 million) and £1.4 million (2005: £0.5 million) of pre tax profits have been consolidated into the financial statements.

Mieltec XP Power Srl

In March 2006, the Group paid £0.1 million to acquire a further 45% interest in its Italian distributor Mieltec XP Power Srl; the Group now owns 80% of the equity.



Duncan Penny – Chief Executive

Financial Review

"We continue to return cash to our shareholders through our progressive dividend policy."

Key performance indicators

	2006	2005	Target
Own brand revenue (£ millions) (1)	**51.9**	41.0	(1)
Proportion of own brand revenue (2)	**66%**	59%	75%
Gross margin (3)	**37.1%**	35.7%	40.0%
Adjusted earnings per share (4)	**37.0p**	30.6p	(4)
Free cash flow (£ millions) (5)	**1.9**	5.3	(5)

(1) **Own brand revenue = revenue derived from sale of XP products**

The Group does not have an absolute long term target for this metric. However, the Group targets to grow this metric by 20% per annum.

(2) **Proportion of own brand revenue = revenue from sale of XP products as a percentage of total revenue**

Revenue as per the consolidated income statement in the financial statements.

The target was set in 2002 to achieve 75% by the end of 2007.

(3) **Gross margin = Gross profit as a percentage of revenue**

Gross profit and revenue both per the consolidated income statement in the financial statements.

The target was set in 2002 to achieve 40% by the end of 2007.

(4) **Adjusted earnings per share = earnings per share adjusted for amortisation of intangibles associated with acquisitions, exceptional charges or profits, and diluted for the effect of the outstanding share options**

Diluted earnings per share is per the consolidated financial statements.

Adjustments to the earnings per share are set out in note 11.

There is no absolute long term target set for this metric but the Group targets to grow this metric by 20% per annum. The compound growth rate for this metric over the last four years has been 50%.

(5) **Free cash flow = Net cash flow from operating activities plus dividends from associates; less net purchases of property, plant and equipment; less net capitalised development costs; less interest paid.**

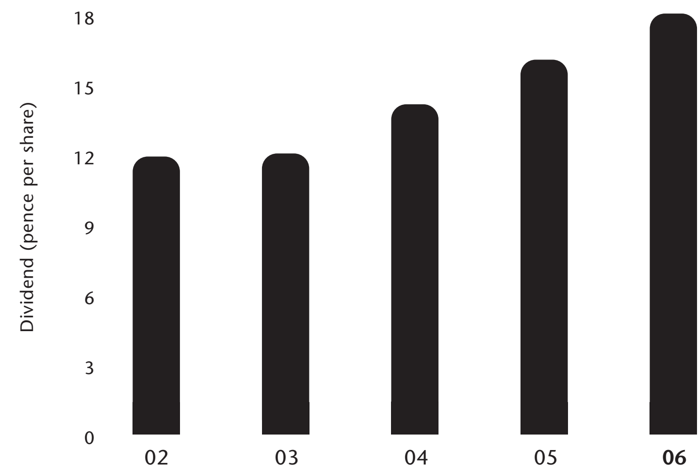
All figures derived from the consolidated financial statements as set out in note 28.

There is no long term target set for this metric but the Group considers it is important that the business model produces positive free cash flow.



The MTC series of COTS (commercial off-the-shelf) dc-dc converters has been developed for 28volt dc input defence and avionics systems.

Dividend



We met our targets for three of our five performance indicators as set out above. Two objectives (proportion of own brand product and gross margin) are to be achieved by the end of 2007 so are 'in progress'. Each of our financial objectives is discussed in the Chief Executive's Review. Whilst other performance measures are discussed in this Annual Report, it is the above five measures that the Directors use as the Group's key performance indicators.

Risks specific to the industry in which the Group operates

Fluctuations in foreign currency

The Group deals in many currencies for both its purchases and sales. In particular, North America represents an important geographic market for the Group where virtually all the revenues are denominated in US dollars. The Group therefore has an exposure to foreign currency fluctuations, most notably the US dollar. This could lead to material adverse movements in reported earnings.

Competition

The power supply market is diverse and competitive in Europe, North America and Asia. The Directors believe that the development of new technologies could give rise to significant new competition to the Group, which may have a material effect on its business. At the lower end of the Group's target market the barriers to entry are low and there is, therefore, a risk that competition could quickly increase.

Risks specific to the Group

Dependence on key personnel

The future success of the Group is substantially dependent on the continued services and continuing contributions of its Directors, senior management and other key personnel. The loss of the services of any of their respective executive officers or other key employees could have a material adverse effect on their businesses.

Loss of key customers/suppliers

The Group is dependent on retaining its key customers and suppliers. Should the Group lose a number of its key customers or a key supplier this could have a material impact on the Group's business financial condition and results of operations. However, for the year ended 31 December 2006, no one customer accounted for more than 5% of revenue.

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

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

Fluctuations of revenues, expenses and operating results

The revenues, expenses and operating results of the Group could vary significantly from period to period as a result of a variety of factors, some of which are outside its control. These factors include general economic conditions, adverse movements in interest rates, conditions specific to the market, seasonal trends in revenues, capital expenditure and other costs, the introduction of new products or services by the Group, or by their competitors. In response to a changing competitive environment, the Group may elect from time to time to make certain pricing, service or marketing decisions or acquisitions that could have a material adverse effect on the Group's revenues, results of operations and financial condition.

Management stretch

The management team that runs the Group will be faced with changes in their business management methodology, as well as additional complexity in the business and increased travel following the successful conclusion of the proposed move of the headquarters to Asia. This additional management stretch could adversely affect the Group if the management team is not able successfully to cope with the changes.

Information Technology Systems

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

Risks relating to taxation of the Group

The Group is exposed to corporation tax payable in many jurisdictions including the USA where the effective rate can be as high as 40%, the UK where the corporation tax rate is 30% and a number of European jurisdictions where the rates vary between 25.5% and 38.7%. In addition, the Group has manufacturing activities in Hong Kong where the corporation tax rate is 17.5% and sales companies in Singapore and Switzerland where the corporation tax rate is 20%.

The effective tax rate of the Group is affected by where its profits fall geographically. The Group effective tax rate could therefore fluctuate over time. This could have an impact on earnings and potentially its share price.

Cash flow

Our strong operating profit allowed us to generate free cash flow (see note 28) of £1.9 million during 2006 (2005: £5.3 million) despite a significant inventory build of our own product. We returned £3.2 million (2005: £2.8 million) to shareholders in the form of dividends.

Income and Expenditure Account

Revenues increased 13.2% to £78.7 million from £69.5 million in 2005.

Gross margins increased to 37.1% in 2006 from 35.7% in 2005 due to a greater proportion of own brand sales. This was despite inventory write-offs of £0.6 million or 0.8% of revenues relating to non RoHS compliant material. Own brand product revenues were £51.9 million or 65.9% of total revenue in 2006 versus £41.0 million or 59.0% of total revenue in 2005.

Operating expenses were £19.0 million in the year before restructuring costs of £1.0 million as compared with £16.7 million in 2005. In accordance with the requirements of IAS 38, during 2006 £0.9 million of product development expenditure was capitalised (2005: £1.0 million) and £0.2 million was amortised (2005: nil). Gross expenditure on product development was £2.8 million, or 3.6% of revenue, compared to £2.6 million, or 3.7% of revenue, in 2005.

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 ensure 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.

Due to the rapid weakening of the US Dollar versus Sterling and the Euro, in December 2006 the Group took the decision to hedge its expected US Dollar short position in Europe for all of 2007 of approximately $17.6 million via forward currency exchange contracts.

Foreign Exchange and Hedging Policy

As approximately 55% of the Group's revenues originate in the USA, our results when reported in Sterling will fluctuate with movements in the US Dollar/Sterling exchange rate. This effect is an inherent part of operating in the USA and reporting in Sterling.

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. As described above, due to the rapid weakening of the US Dollar we decided to lock in our entire expected US Dollar short position for 2007 at what we saw as favourable foreign exchange rates.

At 31 December 2006 the fair value of the forward exchange asset was £0.1m (see notes 8 and 24).

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

Financing Costs

In September 2006 the Group renewed its annual working capital facility of £10.0 million. At that time the Group also replaced its £15.0 million multicurrency revolving credit facility with a £10.0 million term loan repayable over 5 years and a £5.0 million revolving credit facility committed for 3 years. Both of these facilities are with Halifax Bank of Scotland and are priced at LIBOR plus a margin linked to certain covenants, which ranges from 1.0% to 1.5%.

The £10.0 million term loan is repayable £2.5 million in year 3, £2.5 million in year 4 and £5.0 million in year 5.

In February 2007 the Group reduced the £10.0 million working capital facility with Halifax Bank of Scotland to £4.0 million at the same time as it increased the committed term loan from £10.0 million to £16.0 million, with the additional £6.0 million to be repaid in year 5, making the total amount of the year 5 repayment £11.0 million. The £5.0 million revolving credit facility remained unchanged.

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 free cash flow has enabled us to increase the 2006 dividend (including final proposed) by 12.5% to 18p per share.

J. Mickey Lynch – Finance Director

The Board of Directors

Executive Directors

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Non-executive Directors

1 Larry Tracey
Executive Chairman (age 59)

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 48)

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 44)

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 he 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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4 Mickey Lynch
Finance Director (age 54)

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 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.

7 John Dyson
Non-Executive Director (age 58)

John was appointed Chief Executive of Pace Micro Technology plc in May 2003, prior to which he had been Finance Director since November 1997. John retired from Pace Micro Technology plc during 2006 and has co-founded a new business called Telehealth Solutions Ltd which has developed communications technology to remotely monitor medical devices. 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.

5 Mike Laver
President North America (age 44)

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. He joined ForeSight Electronics in 1991 and carried out various senior roles.

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

8 Paul Dolan
Non-Executive Director (age 54)

Paul joined Touche Ross as a chartered accountant in 1979, becoming a partner in 1980. He retired from the partnership in 2004. Paul specialised in audit and assurance often acting as lead advisor to clients and acted as the lead partner on the XP account until his retirement in 2004.

Paul worked for over 20 years with listed and large private companies in the technology, distribution and manufacturing sectors. He was involved in advising on stock exchange listings, acquisitions, disposals, reconstructions and corporate governance matters.

Paul is chairman of the Audit Committee.

6 Roger Bartlett
Non-Executive Director (age 62)

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.

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2006.

XP Power plc is a company incorporated in the United Kingdom under the Companies Act 1985.

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 subsidiary, joint venture and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in notes 15 to 17 to the financial statements.

The Group is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2006 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group ('business review'). The information that fulfils the requirements of the business review can be found within the Financial review on page 12. The Financial review also includes details of expected future developments in the business of the Group, an indication of its activities in the field of research and development and details of the key performance indicators that management use.

Directors and their Interests

The present membership of the Board and the interests of the Directors in the shares of XP Power plc are set out in the Directors' Remuneration Report.

In accordance with the Company's Articles of Association John Dyson, Duncan Penny and Mike Laver retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

Dividends

An interim dividend of 8p per share was paid on 5 October 2006 (2005: 7p). We are proposing a final dividend of 10p per share (2005: 9p) which would be payable to members on the register on 20 April 2007 and will be paid on 17 May 2007. This would make the total dividend for the year 18p (2005: 16p).

Substantial Interests

Other than the Directors' interests (see Directors' Remuneration Report), at 31 December 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	%
Lion Trust Asset Management	1,457,745	7.6
Old Mutual Asset Management	1,178,781	6.2
Credit Suisse Asset Management	804,678	4.2
Edinburgh Fund Managers	695,091	3.6

Acquisition of the Company's Own Shares

At the end of the year, the Directors had authority, under the shareholders' resolutions of 19 April 2006 to purchase through the market 435,437 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 18 April 2007.

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 investments in 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

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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 20 February 2007
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 that was issued in 2003 by the Financial Reporting Council ('the Code') for which the Board is accountable to shareholders.

Statement of Compliance with the Code of Best Practice

Throughout the year ended 31 December 2006 the Company has been in compliance with the Code provisions set out in Section 1 of the Code except for the following matters:

- Larry Tracey and James Peters, Executive Directors, are members of the Remuneration Committee and the Nomination Committee, in contravention with A4.1 and B2.1 of the Combined Code. They are the two main shareholders and consider that any decisions they make will be aligned to the interests of the shareholders;
- 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 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 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 financial statements 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.

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 financial statements. 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 of 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.

Board Meetings

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

Date	Attendees
6 February 2006	All
22 March 2006	All
19 April 2006	All except Mickey Lynch
8 June 2006	All
31 July 2006	All except Roger Bartlett and John Dyson
1 September 2006	All except Paul Dolan and John Dyson
11 October 2006	All
12 December 2006	All

Audit Committee

The Audit Committee consists of the Non-Executive Directors and is chaired by Paul Dolan. The Audit Committee met three times during 2006 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.

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 procedures in relation to the appointment of external auditors to undertake audit and non-audit work are as follows:

- 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 will be 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. The Nomination Committee met once during the year, on 19 April 2006. All members attended.

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 AGM.

Going Concern

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

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 audited and unaudited information.

Unaudited information

Remuneration Committee

The members of the Remuneration Committee during 2006 were John Dyson and Roger Bartlett (Non-Executive Directors) and James Peters and Larry Tracey. The committee is chaired by John Dyson.

The Group considers it appropriate that Larry Tracey and James Peters are members of the Remuneration Committee although this is recognised as a breach of the Combined Code on Corporate Governance (see page 20). 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 being as follows:

Date	Attendees
6 February 2006	All
10 March 2006	All
19 April 2006	All
27 September 2006	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 2005 with increases taking effect from 1 February 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 car allowance.

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. The profit share pool for the year ended 31 December 2006 was £133,840. 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. No options under this scheme have been awarded to Executive Directors since 2002.

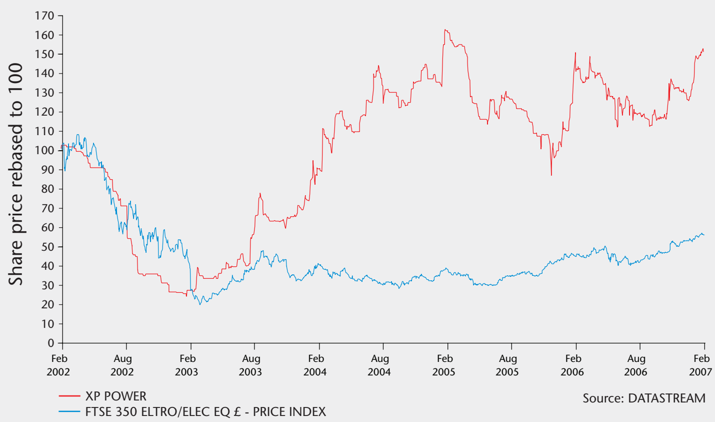
Pension Arrangements

The Group operates a defined contribution Stakeholder pension scheme in the UK. In 2006, the Group contributed 3% of base salary to this scheme on behalf of Duncan Penny and James Peters.

In the USA, the Group operates a defined contribution "401K Plan". The Group matches the Director's contribution to this plan up to a maximum of 2% of salary.

Performance Graph

The following graph shows the Company's performance, compared with the performance of the FTSE 350 Electronic and Electrical Equipment Price Index.



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-month 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

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

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. Under the terms and conditions of appointment of Non-Executive Directors, the basic fee paid to each Non-Executive Director was £15,000.

Audited information

Aggregate Directors' Remuneration

The total amounts for Directors' remuneration were as follows:

£	**2006**	2005
Basic salaries	**517,968**	742,606
Benefits in kind	**72,720**	74,455
Profit share	**133,840**	–
Fees to third parties	**60,000**	35,000
Money purchase pension contributions	**8,411**	10,500
Non-executive fees	**40,000**	30,000
Contractual severance payments	**334,769**	–
Total remuneration	**1,167,708**	892,561

Directors' Emoluments

Name of Director £	Salary and fees	Contracted Severance Payments	Pension	Benefits	Profit share	2006 Total	2005 Total
Executive							
Larry Tracey (v)	68,952		–	18,596	24,592	112,140	106,794
Mike Laver	114,244		–	4,348	36,802	155,394	116,484
Mickey Lynch	99,126		–	5,718	23,262	128,106	102,747
Duncan Penny	138,333		4,100	20,434	24,592	187,459	144,490
James Peters	110,000		3,600	18,250	24,592	156,442	131,550
Frank Rene (i)	23,621	193,552	–	1,191	–	218,364	116,484
Steve Robinson (ii)	23,692	141,217	711	4,183	–	169,803	144,012
Non-Executive							
Roger Bartlett	15,000		–	–	–	15,000	12,000
John Dyson	15,000		–	–	–	15,000	12,000
Paul Dolan (iii)	10,000		–	–	–	10,000	–
Richard Sakakeeny (iv)	–		–	–	–	–	6,000

(i) Resigned 10 March 2006.

(ii) Resigned 10 March 2006.

(iii) Appointed 19 March 2006.

(iv) Resigned 9 June 2005.

(v) Larry Tracey's salary and fees includes £60,000 paid to Corryann Limited, a company 100% owned by Larry Tracey, 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 2006	As at 1 January 2006
Executive		
Larry Tracey (a)	2,829,779	2,929,779
Mike Laver (b)	154,750	151,000
Mickey Lynch	50,000	50,000
Duncan Penny (c)	300,000	304,000
James Peters (d)	3,149,779	3,152,779
Non-executive		
Roger Bartlett	34,000	34,000
John Dyson	15,000	15,000
Paul Dolan (e)	12,000	–

(a) Larry Tracey sold 100,000 shares at a price of 426p on 7 December 2006.
(b) Mike Laver acquired 3,750 shares at a price of 373p on 16 June 2006.
(c) Duncan Penny sold 4,000 shares at a price of 452p on 3 March 2006.
(d) The James Peters Children's Trust sold 3,000 shares at a price of 442p on 16 March 2006.
(e) Paul Dolan acquired 12,000 shares at a price of 386p on 15 August 2006.

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

Executive	Date of grant	Exercise price	As at 31 December 2006 Number of shares	As at 1 January 2006 Number of shares
Mike Laver	24 August 2001 *	£3.425	24,000	24,000
	21 August 2002 *	£1.75	50,000	50,000
Mickey Lynch	24 August 2001 *	£3.425	15,000	15,000
	21 August 2002 *	£1.75	20,000	20,000
Duncan Penny	24 August 2001 *	£3.425	25,000	25,000

* Options become exercisable over 4 years in equal annual instalments from the date of grant. 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 2006 were 486.5p and 327p per share respectively. The mid-market price on 31 December 2006 closed at 407.5p per share.

Approval

This report was approved by the Board of Directors on 20 February 2007 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. The Directors are required to prepare 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. Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act and Article 4 of the IAS Regulation.

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

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 2006 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 33. 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 parent Company financial statements of XP Power plc for the year ended 31 December 2006.

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 Report and financial statements, the Directors' Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant 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, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Financial Review that is cross referred from the Principal activities and review of the business section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 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 statements on internal control cover 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 other information contained in the Report and financial statements as described in the contents section and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' Report, the year at a glance, the Chairman's Statement, the unaudited part of the Directors' Remuneration Report, the Background to the Group and its products and markets, the Chief Executive's Review and the Financial review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 to be 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 Group'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 Group financial statements and the part of the Directors' Remuneration Report to be 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 to be audited.

Independent Auditors' Report (continued)

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

As explained in Note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended.

Deloitte & Touche LLP.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors

Cardiff, United Kingdom

20 February 2007

Consolidated Income Statement

Year ended 31 December 2006

£ Millions	Note	2006	2005
Revenue – continuing operations	4	**78.7**	69.5
Cost of sales		**(49.5)**	(44.7)
Gross profit		**29.2**	24.8
Selling and distribution costs		**(14.3)**	(12.3)
Administrative expenses		**(4.7)**	(4.4)
Restructuring costs	5	**(1.0)**	–
Share of results of associates (net of tax)		**–**	0.2
Other operating income		**0.1**	0.1
Operating profit – continuing operations		**9.3**	8.4
Finance costs	7	**(1.3)**	(0.8)
Profit before tax	4, 8	**8.0**	7.6
Tax	9	**(2.0)**	(1.7)
Profit for the year from continuing operations attributable to equity shareholders of the parent	4	**6.0**	5.9
Earnings per share from continuing operations			
Basic	11	**32.2p**	30.7p
Diluted	11	**31.8p**	30.1p

Consolidated Statement of Recognised Income and Expense

Year ended 31 December 2006

£ Millions	2006	2005
Exchange differences on translation of foreign operations	**(1.2)**	1.7
Tax on items taken directly to equity	**0.1**	(0.2)
Net (expense)/income recognised directly in equity	**(1.1)**	1.5
Profit for the year	**6.0**	5.9
Total recognised income and expense for the period attributable to equity shareholders of the parent	**4.9**	7.4

Consolidated Balance Sheet

31 December 2006

£ Millions	Note	2006	2005
Non-current assets			
Goodwill	12	**30.1**	28.0
Other intangible assets	13	**2.6**	2.2
Property, plant and equipment	14	**3.2**	3.0
Interests in associates	17	**0.1**	0.1
Deferred tax asset	25	**0.6**	0.3
Total non-current assets		**36.6**	33.6
Current assets			
Inventories	18	**11.1**	8.1
Trade and other receivables	19	**17.2**	17.2
Cash		**4.2**	4.8
Derivative financial instruments	24	**0.1**	–
Total current assets		**32.6**	30.1
Current liabilities	20	**(21.5)**	(32.0)
Net current assets/(liabilities)		**11.1**	(1.9)
Total assets less current liabilities		**47.7**	31.7
Non-current liabilities			
Bank loans		**(14.4)**	–
Deferred tax liabilities		**(1.4)**	(1.2)
Deferred contingent consideration	21	**(2.5)**	(3.3)
Net assets		**29.4**	27.2
Equity			
Share capital	26	**0.2**	0.2
Share premium account	26	**27.0**	27.0
Merger reserve	26	**0.2**	0.2
Own shares	26	**(5.9)**	(6.7)
Translation reserve	26	**0.4**	1.5
Retained earnings	26	**7.5**	5.0
Equity attributable to equity shareholders of the parent		**29.4**	27.2

These financial statements were approved by the Board of Directors on 20 February 2007

Signed on behalf of the Board of Directors

Larry Tracey – Chairman

Duncan Penny – Chief Executive

Consolidated Cash Flow Statement

Year ended 31 December 2006

£ Millions	Note	2006	2005
Net cash inflow from operating activities	28	**5.3**	7.3
Investing activities			
Dividends received from associates		–	0.6
Purchases of property plant and equipment		**(1.2)**	(0.8)
Acquisition of investment in associate		–	(0.3)
Expenditure on product development		**(0.9)**	(1.0)
Payment of deferred consideration		**(1.0)**	–
Acquisition of investment in subsidiary (net of cash/(overdraft) acquired)	32	**(0.8)**	(3.9)
Net cash used in investing activities		**(3.9)**	(5.4)
Financing activities			
Interest paid		**(1.3)**	(0.8)
Equity dividends paid to XP Power shareholders		**(3.2)**	(2.8)
Payments for share buy-back		–	(3.5)
Proceeds from sale of own shares		**0.4**	0.2
Increase in bank loans		**3.2**	3.1
Net cash used in financing activities		**(0.9)**	(3.8)
Net (decrease)/increase in cash and cash equivalents		**0.5**	(1.9)
Cash and cash equivalents at the beginning of the year		**(3.9)**	(2.0)
Cash and cash equivalents at the end of the year		**(3.4)**	(3.9)

Notes to the Consolidated Financial Statements

Year ended 31 December 2006

1. General information

XP Power plc is a company incorporated in the United Kingdom under the Companies Act 1985. 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
IFRIC 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim reporting and impairments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

2. Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

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 statements incorporate the financial statements 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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of in the year are included in the consolidated income 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.

2. Basis of accounting (continued)

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.

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 except when classified as held for sale (see below). 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.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services 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.

2. Basis of accounting (continued)

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.

Derivative financial instruments and hedge accounting
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

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.

2. Basis of accounting (continued)

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 of 11.2% 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.

2. Basis of accounting (continued)

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 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 statement 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.

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.

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. Using the Black Scholes valuation model, the charge to the income statement and the affect on net assets is immaterial, therefore no charge is disclosed.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, as described in note 2, management has made the following judgements and estimations that have the most significant effect on the amounts recognised in the financial statements.

Recoverability of Capitalised R&D

During the year £0.9 million of development costs were capitalised bringing the total amount of development cost capitalised as intangible assets as of 31 December 2006 to £1.9 million. The cost has been reduced by the amortisation charges for the year of £0.2 million giving the carrying value at 31 December 2006 of £1.7 million. Management has reviewed the balances by project, compared the carrying amount to expected future revenues and profits and is satisfied that no impairment exists and that the costs capitalised will be fully recovered as the products are launched to market. New product projects are monitored regularly and should the technical or market feasibility of a new product be in question, the project would be cancelled and capitalised costs to date removed from the balance sheet and charged to the income statement.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of Goodwill

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 and estimates for the value in use calculations are those regarding the discount rates, growth rates and expected changes to sales and overheads during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management (which take into account past experience and industry growth forecasts) for the next five years and extrapolates cash flows for the following five years assuming no growth from that date. The carrying amount of goodwill as at 31 December 2006 is £30.1 million with no impairment adjustment required for 2006.

Estimation of future deferred consideration payments

As of the 31 December 2006 balance sheet date the Group has recorded estimated future payments to the shareholders of Powersolve related to the payment for the remaining 60.6% of Powersolve. When discounted to present value the total of these payments are estimated at £3.9 million and that amount is reflected on the balance sheet as of 2006 year end. Since the final payments will be dependent on the actual future financial performance of the business an estimate is required to approximate future business conditions.

4. Segmental reporting

For management purposes, the Group is organised on a geographic basis by location of where the sales originated. 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	**2006**	2005
Revenue		
Europe	**34.6**	31.8
North America	**44.1**	37.7
Total revenue	**78.7**	69.5
Profit on ordinary activities before taxation		
Europe	**3.3**	4.2
North America	**6.6**	5.3
Interest, corporate operating costs and associates	**(1.9)**	(1.9)
Profit before tax	**8.0**	7.6
Tax	**(2.0)**	(1.7)
Profit after tax	**6.0**	5.9

4. Segmental reporting (continued)

£ Millions	Year to 31 December 2006 Europe	North America	Total	Year to 31 December 2005 Europe	North America	Total
Other information						
Capital additions	**0.6**	**0.6**	**1.2**	0.8	0.3	1.1
Depreciation	**0.4**	**0.3**	**0.7**	0.3	0.3	0.6
Intangible additions	**1.6**	**1.5**	**3.1**	1.3	1.0	2.3
Amortisation	**0.3**	**0.2**	**0.5**	0.1	–	0.1
Balance sheet						
Goodwill	**8.6**	**21.5**	**30.1**	7.1	20.7	28.0
Other non-current assets	**5.4**	**0.5**	**5.9**	5.1	0.4	5.3
Inventories	**5.9**	**5.2**	**11.1**	3.6	4.5	8.1
Trade and other receivables	**9.8**	**7.5**	**17.3**	10.2	7.0	17.2
Cash	**3.0**	**1.2**	**4.2**	2.8	2.0	4.8
Segment assets	**32.7**	**35.9**	**68.6**	28.8	34.6	63.4
Unallocated deferred tax			**0.6**			0.3
Consolidated total assets			**69.2**			63.7
Trade and other payables	**(4.6)**	**(5.0)**	**(9.6)**	(5.3)	(3.2)	(8.5)
Deferred consideration	**(3.9)**	–	**(3.9)**	(3.7)	–	(3.7)
Segment liabilities	**(8.5)**	**(5.0)**	**(13.5)**	(9.0)	(3.2)	(12.2)
Unallocated corporate liabilities			**(22.0)**			(19.9)
Unallocated deferred and current tax			**4.3**			4.4
Consolidated total liabilities			**(39.8)**			(36.5)

Analysis by customer

The revenue by class of customer was as follows:

£ Millions	Year to 31 December 2006 Europe	North America	Total	Year to 31 December 2005 Europe	North America	Total
Communications	**7.9**	**11.5**	**19.4**	6.8	11.0	17.8
Industrial	**15.4**	**23.4**	**38.8**	16.8	16.3	33.1
Medical	**4.7**	**8.3**	**13.0**	3.2	9.3	12.5
Defence and avionics	**6.6**	**0.9**	**7.5**	5.0	1.1	6.1
Total	**34.6**	**44.1**	**78.7**	31.8	37.7	69.5

All revenue was derived from the sale of goods.

5. Restructuring costs

In April 2006 the Board decided to restructure certain parts of the business to focus the Company's resources on its own product lines. A number of third party suppliers were terminated which had expected annualised revenues of approximately £10 million. We stopped taking orders for these lines on 1 July 2006. Since that time two other third parties made the decision to terminate their relationship with XP. The expected annualised revenues from these lines were approximately £2 million. In conjunction with these changes we closed our Benelux office and reduced the headcount in various parts of our business. There were also some inventory write-offs associated with the third party lines that were terminated. The total costs relating to this restructuring were £1.0 million.

£ Millions	2006
Redundancy costs	**0.7**
Inventory write-offs	**0.3**
	1.0

6. Information regarding employees (including Directors)

£ Millions	2006	2005
Employee costs during the year:		
Wages and salaries	**11.8**	10.8
Social security	**1.1**	1.1
Pension	**0.3**	0.1
Restructuring costs	**0.7**	–
Total	**13.9**	12.0

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

	Number	Number
Average number of persons employed:		
Sales	**103**	107
Administration	**63**	76
Manufacturing	**142**	64
Engineering	**69**	63
Total	**377**	310

7. Finance costs

£ Millions	2006	2005
Bank loans and overdraft	**1.1**	0.8
Unwinding of discount on deferred consideration	**0.2**	–
	1.3	0.8

No interest was received during the current or prior year.

8. Profit for the year

£ Millions	2006	2005
Profit for the year is after charging:		
Research and development costs	**1.9**	1.6
Amortisation of intangible assets	**0.5**	0.1
Depreciation of property, plant and equipment	**0.7**	0.6
Staff costs (see note 6)	**13.1**	12.0
Foreign exchange gains	**0.2**	–
Gain on foreign exchange forward	**(0.1)**	–
Cost of inventories recognised as expense *	**49.5**	44.7
Charge for doubtful debts	**0.2**	0.2
Fees paid to auditors:		
Audit	**0.2**	0.2
Other services – tax	**0.1**	0.1

* This includes write-downs of inventories of £0.6 million (2005: £0.1 million).

8. Profit for the year (continued)

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

	2006		2005	
	£'000	%	£'000	%
Audit services:				
Statutory audit	**149**	**90**	141	84
Further assurance services	**17**	**10**	27	16
	166	**100**	168	100
Tax services:				
Compliance services	**41**	**39**	–	–
Advisory services	**65**	**61**	68	100
	106	**100**	68	100

A description of the work of the Audit Committee is set out in the corporate governance statement on pages 20 and 21 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

9. Tax on profit on ordinary activities

£ Millions		2006	2005
United Kingdom corporation tax	– current year	**0.9**	3.2
	– adjustment in respect of prior year	**0.2**	(0.3)
Double tax relief		**(0.1)**	(2.1)
Overseas corporation tax	– current year	**1.4**	1.3
	– adjustment in respect of prior year	**(0.3)**	(0.8)
Total current tax		**2.1**	1.3
Deferred tax		**(0.1)**	0.4
Tax charge for the year		**2.0**	1.7

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

The differences between the total 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	2006	2005
Profit on ordinary activities before tax	**8.0**	7.6
Tax on profit on ordinary activities at standard United Kingdom tax rate of 30% (2005: 30%)	**2.4**	2.2
Higher rates of overseas corporation tax	**0.3**	0.2
Utilisation of overseas losses	**(0.3)**	–
Non-deductible expenditure	**0.1**	0.5
Non-taxable income	**(0.3)**	(0.1)
Prior year adjustments	**(0.2)**	(1.1)
Total tax charge for the year	**2.0**	1.7

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.

10. Dividends

Amounts recognised as distributions to equity holders in the period

	2006		2005	
	Pence per share	**£ Millions**	Pence per share	£ Millions
Prior year final dividend paid	**9.0p***	**1.7**	8.0p	1.5
Interim paid	**8.0p^**	**1.5**	7.0p*	1.3
Total	**17.0p**	**3.2**	15.0p	2.8
Proposed final dividend for the year ended 31 December 2006 of 10p per share	**10.0p^**	**1.9**		

* Dividends in respect of 2005 (16.0p)
^ Dividends in respect of 2006 (18.0p)

The interim dividend was waived on 315,631 shares. All the shares on which dividends were waived were held in the Group's ESOP.

The proposed final dividend for 2006 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

11. Earnings per share

Continuing operations

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

Earnings	**2006 £ Millions**	2005 £ Millions
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity shareholders of the parent)	**6.0**	5.9
Amortisation of intangibles associated with acquisitions	**0.3**	0.1
Restructuring costs	**1.0**	–
Tax effect of restructuring	**(0.3)**	–
Earnings for adjusted earnings per share	**7.0**	6.0
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**18,627**	19,240
Effect of potentially dilutive share options (thousands)	**270**	377
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**18,897**	19,617
Earnings per share from continuing operations		
Basic	**32.2p**	30.7p
Diluted	**31.8p**	30.1p
Diluted adjusted	**37.0p**	30.6p

12. Goodwill

	£ Millions
Cost and net book value	
At 1 January 2005	23.1
Transferred from investment in associates	1.3
Recognised on acquisition of subsidiaries	3.6
At 1 January 2006	28.0
Recognised on acquisition of subsidiaries	2.1
At 31 December 2006	**30.1**
Accumulated impairment losses	
At 1 January 2005, 1 January 2006 and 31 December 2006	–
Carrying amount	
At 31 December 2006	**30.1**
At 31 December 2005	28.0

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 £0.6 million for the acquisition of XP Power (S) Pte. Limited, £0.1 million for the acquisition of Mieltec XP Power Srl and £1.4 million for the estimated additional consideration payable for the acquisition of Powersolve.

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

The Cash Generating Units used equate to the business segments as set out in note 4.

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 estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units (a rate of 11.2% was used for 2006).

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management (which take into account past experience and industry growth forecasts) for the next five years and extrapolates cash flows for the following five years assuming no growth from that date.

13. 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.

£ Millions	Development costs	Trade marks	Non-contractual customer relationships	Total
Cost				
At 1 January 2005	–	–	–	–
Additions	1.0	1.0	0.3	2.3
At 1 January 2006	1.0	1.0	0.3	2.3
Additions	0.9	–	–	0.9
At 31 December 2006	**1.9**	**1.0**	**0.3**	**3.2**
Amortisation				
At 1 January 2005	–	–	–	–
Charge in the year	–	0.1	–	0.1
At 1 January 2006	–	0.1	–	0.1
Charge in the year	0.2	0.2	0.1	0.5
At 31 December 2006	**0.2**	**0.3**	**0.1**	**0.6**
Carrying amount				
At 31 December 2006	**1.7**	**0.7**	**0.2**	**2.6**
At 31 December 2005	1.0	0.9	0.3	2.2

The amortisation period for development costs incurred on the Group's developments varies between four and seven 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 five years and amortisation of £0.3 million has been incurred during the period.

Amortisation commences when the asset is available for use.

14. Property, plant and equipment

£ Millions	Plant and machinery	Motor vehicles	Office equipment	Long leasehold land and buildings	Total
Cost					
At 1 January 2005	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 1 January 2006	3.2	0.6	1.7	1.7	7.2
Additions	0.5	0.1	0.4	0.2	1.2
Disposals	(0.1)	(0.2)	(0.7)	–	(1.0)
Foreign exchange	(0.5)	–	–	–	(0.5)
At 31 December 2006	**3.1**	**0.5**	**1.4**	**1.9**	**6.9**
Depreciation					
At 1 January 2005	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 1 January 2006	1.9	0.4	1.4	0.5	4.2
Charge for the year	0.4	0.1	0.1	0.1	0.7
Disposals	(0.1)	(0.2)	(0.7)	–	(1.0)
Foreign exchange	(0.2)	–	–	–	(0.2)
At 31 December 2006	**2.0**	**0.3**	**0.8**	**0.6**	**3.7**
Carrying amount					
At 31 December 2006	**1.1**	**0.2**	**0.6**	**1.3**	**3.2**
At 31 December 2005	1.3	0.2	0.3	1.2	3.0

The Group has pledged land and buildings having a carrying amount of approximately £1.3 million (2005: £1.2 million) to secure banking facilities granted to the Group.

15. Subsidiaries

Details of subsidiaries at 31 December 2006, 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
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*
XP Power (Shanghai) Co Ltd	China	100	100
Mieltec XP Power Srl	Italy	80	80
XP Power (S) Pte. Limited	Singapore	100	100
XP Energy Systems Limited	UK	100	100

* The Group held 39.4% of the voting power of Powersolve at 31 December 2006, and has committed to purchasing the remaining 60.6% of the shares (see notes 20 and 21). The voting rights will transfer when the deferred consideration is paid.

IAS 27 states that control can exist, even if the parent owns less than 50% of the voting power of the entity, when (*inter alia*) there is power to govern the financial and operating policies of the entity under a statute or agreement (IAS 27 13 (b)). The board believes that, with effect from 1 July 2005, XP had the power to control the financial and operating policies of Powersolve under the shareholders' agreements and so Powersolve was treated as a subsidiary and its results consolidated in the Group financial statements with effect from that date.

16. Interest in joint ventures

The Group has a 50% shareholding in Fortron XP Power (Hong Kong) Limited, a company incorporated in Hong Kong.

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	2006	2005
Current assets	**0.6**	1.1
Non-current assets	**0.4**	–
Current liabilities	**(0.2)**	(0.2)
Non-current liabilities	–	–
Total	**0.8**	0.9
Income	**0.8**	1.0
Expenses	**(0.8)**	(1.0)
Profit before tax	–	–

XP Power (S) Pte. Limited has been treated as a subsidiary from October 2006 (see note 32). The share of net assets and associated goodwill at 31 December 2005 was £0.3 million and the share of profit for the nine months to October 2006 was £0.3 million. £0.6 million was transferred to goodwill on XP Power (S) Pte. Limited becoming a subsidiary.

Mieltec XP Power Srl has been treated as a subsidiary from March 2006 (see note 32). The share of net assets and associated goodwill at 31 December 2005 was £nil and the share of profit for the two months to March 2006 was £nil. £0.1 million was transferred to goodwill on Mieltec XP Power Srl becoming a subsidiary.

17. Interests in associates

The Group has a 20% stake in Safety Power, a company incorporated in the United Kingdom.

Aggregated amounts relating to associates:

£ Millions	2006	2005
Total assets	**0.1**	0.1
Total liabilities	–	–
Total	**0.1**	0.1
Income	**0.1**	1.0
Expenses	**(0.1)**	(0.7)
Profit before tax	–	0.3

Total assets of £0.1 million relate to goodwill on acquisition of the 20% stake in Safety Power during 2005. There are no movements in interests in associates.

18. Inventories

£ Millions	2006	2005
Goods for resale	**11.1**	8.1

19. Other financial assets

Trade and other receivables

£ Millions	2006	2005
Trade receivables	**13.6**	13.7
Prepayments and other receivables	**3.6**	3.5
Total	**17.2**	17.2

The average credit period taken on sales of goods is 63 days. No interest is charged on the outstanding receivable balance. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £0.3 million (2005: £0.3 million). This allowance has been determined by reference to past default experience.

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

Prepayments and other receivables includes the fair value of the forward exchange asset of £0.1 million (see notes 8 and 24).

Cash

Cash comprised 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 its maximum exposure to credit risk in relation to financial assets.

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.

20. Current liabilities

£ Millions	2006	2005
Bank loans and overdrafts (see note 23)	**7.6**	19.9
Trade and other payables	**9.6**	8.5
Corporation tax	**2.4**	2.8
Other taxation	**0.5**	0.4
Provisions – Deferred contingent consideration	**1.4**	0.4
Total	**21.5**	32.0

£11.2 million of the bank loans and overdrafts in 2005 relates to the three year revolving credit facility which was renewed in 2006 (see note 23).

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 2005 related to the acquisition of 25% of the shares of MPI-XP Power AG. The deferred consideration in 2006 relates to the payment due in 2007 for a further 30.3% of the share capital of Powersolve Electronics Limited.

21. Non-current liabilities

£ Millions	**2006**	2005
Bank loans	**14.4**	–
Provisions – Deferred contingent consideration	**2.5**	3.3
Deferred tax (see note 25)	**1.4**	1.2
Total	**18.3**	4.5

The deferred consideration is the discounted net present value of expected payments related to the acquisition of the remaining 30.3% of the share capital of Powersolve Electronics Limited which the Group will pay between 2008 and 2012.

22. Provisions – Deferred contingent consideration

£ Millions	XP Power AG	Powersolve Electronics Limited	Total
At 1 January 2006	0.4	3.3	3.7
Additional provision in the year	0.1	0.9	1.0
Payment	(0.5)	(0.5)	(1.0)
Adjustment for unwinding of discount rate	–	0.2	0.2
At 31 December 2006	**–**	**3.9**	**3.9**

23. Bank loans and overdrafts

£ Millions

The borrowings are repayable as follows:

	2006	2005
On demand or within one year	**7.6**	19.9
In the second year	–	–
In the third year	**6.9**	–
In the fourth and fifth year	**7.5**	–
	22.0	19.9
Less: amounts due for settlement within 12 months (shown under current liabilities)	**(7.6)**	(19.9)
Amount due for settlement after 12 months	**14.4**	–

23. Bank loans and overdrafts (continued)

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

December 2006	**GBP**	**USD**	**EUR**	**NOK**	**JPY**	**CHF**	**SGD**	**Total**
£ Millions								
Bank overdrafts	1.0	2.4	1.3	0.1	0.9	1.9	–	7.6
Bank loans	10.0	2.6	–	–	–	0.8	1.0	14.4
Total	**11.0**	**5.0**	**1.3**	**0.1**	**0.9**	**2.7**	**1.0**	**22.0**

December 2005	GBP	USD	EUR	NOK	JPY	CHF	SGD	Total
£ Millions								
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

The average interest rates paid were as follows:

	2006	2005
Bank overdrafts	**5.2%**	4.1%
Bank loans	**6.1%**	5.9%

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

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

1. Bank overdrafts are repayable on demand. The bank overdrafts are secured on the assets of the Group. At 31 December 2006, the Group had an overdraft of £7.6 million. The overall working capital facility is £10.0 million. The overdraft interest rate ranges from 1.0% to 1.5% above LIBOR depending on covenant performance.
2. The bank loan at 31 December 2006 of £14.4 million represents the amount drawn down under the multi-currency revolving credit facility from Halifax Bank of Scotland. In September 2006 the Group renewed this £15.0 million multi-currency revolving credit facility with Halifax Bank of Scotland and is committed until September 2009 at an interest rate which ranges from 1.0% to 1.5% above LIBOR depending on covenant performance. The non-utilisation fee on this facility of 0.50% is calculated on a daily basis and payable quarterly in arrears.

In February 2007 the Group reduced the £10.0 million working capital facility with Halifax Bank of Scotland to £4.0 million. Correspondingly the Group increased the committed term loan from £10.0 million to £16.0 million, with the additional £6.0 million to be repaid in year 5, making the total amount of the year 5 repayment £11.0 million. The £5.0 million revolving credit facility remained unchanged.

24. Derivative financial instruments

The Group utilised currency derivatives for the first time in 2006 to hedge significant future transactions and cash flows. The instruments purchased are denominated in the currencies of the Group's principal markets.

At the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are as below.

	2006	2005
Forward foreign exchange contracts	**8.9**	–

These contracts are to hedge against exchange losses on future purchases of goods.

The forward exchange contracts do not qualify for hedge accounting. Therefore, changes in the fair value of currency derivatives amounting to £0.1 million have been credited to income in the year (2005: £nil) (see note 8).

The fair value of the forward exchange asset at 31 December 2006 was £0.1 million (2005: £nil). This is included within Prepayments and other receivables (see note 19).

The Group does not use interest rate swaps to manage exposure to interest rate movements.

25. 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	Other timing differences	Total
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)
At 1 January 2006	0.1	(0.4)	0.2	(0.4)	(0.4)	–	(0.9)
Charge to income	0.1	–	0.1	(0.3)	0.1	0.1	0.1
At 31 December 2006	**0.2**	**(0.4)**	**0.3**	**(0.7)**	**(0.3)**	**0.1**	**(0.8)**

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:

£ Millions	**2006**	2005
Deferred tax liabilities	**(1.4)**	(1.2)
Deferred tax assets	**0.6**	0.3
	(0.8)	(0.9)

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 £nil (2005: £0.1 million). 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.

26. Share capital and reserves

Called up share capital

£ Millions	**2006**	2005
Authorised 35,000,000 ordinary shares of £1 each	**0.4**	0.4
Allotted and fully paid 20,704,621 ordinary shares of 1p each (2005: 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

£ Millions	**2006**	2005
Balance at 1 January and 31 December	**27.0**	27.0

Merger reserve

£ Millions	**2006**	2005
Balance at 1 January and 31 December	**0.2**	0.2

Own shares

£ Millions	**2006**	2005
Balance at 1 January	**(6.7)**	(3.4)
Purchase of own shares	–	(3.5)
Sale of shares	**0.8**	0.2
Balance at 31 December	**(5.9)**	(6.7)

26. Share capital and reserves (continued)

As at 31 December 2006, the Group's Employee Share Ownership Plan (ESOP) held 393,051 (2005: 318,581) shares carrying a value of £387,940 (2005: £106,600). The movement in the year relates to lapsed options.

Own shares also include 1,632,525 treasury shares (2005: 1,849,325), carrying value £5,860,797 (2005: £6,682,474). The movement in the year relates to treasury options exercised. Proceeds from sales of shares were £0.4 million (2005: £0.2 million), and a loss of £0.4 million (2005: £nil).

Translation reserve

£ Millions	**2006**	2005
Balance at 1 January	**1.5**	(0.2)
Exchange differences on translation of foreign operations	**(1.1)**	1.7
Balance at 31 December	**0.4**	1.5

Retained earnings

£ Millions	**2006**	2005
Balance at 1 January	**5.0**	2.1
Dividends paid	**(3.2)**	(2.8)
Profit for the year	**6.0**	5.9
Tax on items taken directly to equity	**0.1**	(0.2)
Charge to equity for equity-settled share-based payments	**(0.4)**	–
Balance at 31 December	**7.5**	5.0

27. Disposal of Subsidiary

On 30 August 2006 the Group disposed of its interest in Specialist Power Systems Limited.

The net assets of Specialist Power Systems Limited at the date of disposal and at 31 December 2005 were as follows:

£ Millions	**30 August 2006**	2005
Trade receivables	**0.1**	0.2
Bank balances and cash	–	–
Current tax liability	–	–
Trade payables	–	–
Inter-company creditors	–	(0.3)
	0.1	(0.1)
Loss on disposal	**(0.1)**	
Total consideration	–	

28. Notes to the cash flow statement

£ Millions	2006	2005
Operating profit (excluding associates)	**9.3**	8.2
Adjustments for:		
Amortisation of intangible fixed assets	**0.5**	0.1
Depreciation of property, plant and equipment	**0.7**	0.6
Foreign currency differences	**(0.3)**	1.2
Operating cash flows before movements in working capital	**10.2**	10.1
Increase in inventories	**(2.9)**	(0.2)
Decrease/(increase) in receivables	**0.1**	(2.7)
Increase in payables	**0.4**	0.8
Cash generated by operations	**7.8**	8.0
Corporation tax paid	**(2.5)**	(0.7)
Net cash inflow from operating activities	**5.3**	7.3

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 and bank overdrafts repayable on demand.

Reconciliation to free cash flow

£ Millions	2006	2005
Net cash inflow from operating activities	**5.3**	7.3
Dividends from associates	**–**	0.6
Purchase of property, plant and equipment	**(1.2)**	(0.8)
Development expenses capitalised	**(0.9)**	(1.0)
Interest paid	**(1.3)**	(0.8)
Free cash flow	**1.9**	5.3

29. Operating leases and other commitments

£ Millions	2006	2005
Minimum lease payments under operating leases recognised as an expense in the year	**1.1**	1.0

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2006	2005
Within one year	**1.1**	1.0
In the second to fifth years inclusive	**2.5**	1.5
After five years	**0.5**	0.2
	4.1	2.7

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

30. 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 £0.2 million (2005: £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 2006, all contributions for the year had been made.

In the USA the Group operates a defined contribution "401K Plan". The Group contributes an amount matching the employees contribution up to a maximum of 2% of the employees total earnings. The total cost charged to income of £0.1 million (2005: £nil) represents the Group's "matching" contribution which will be in paid in 2007.

There are no defined benefit schemes.

31. 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 £nil (2005: £nil) from, and sold goods to the value of £nil (2005: £nil) to associated undertakings. The Group has sold goods to the value of £506,000 (2005: £103,000) to and purchased £802,000 (2005: £nil) from joint ventures. Purchases and sales were made at market price.

The amount payable to associates at 31 December 2006 is £nil (2005: £nil) and the amount receivable is £nil (2005: £nil). The amount receivable from joint ventures is £170,000 (2005: £103,000) and payable is £3,000 (2005: £nil). All transactions are conducted on an arm's length basis.

The Group has paid rent of £5,000 (2005: £nil) to Corryann Limited, a company of whom Larry Tracey is a director and 100% shareholder.

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 the individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 20 to 25.

	2006	2005
	£	£
Short-term employee benefits	**1,159,297**	882,361
Post employment benefits	**8,411**	10,500
Total	**1,167,708**	892,861

32. Acquisitions

In February 2006 the Group made a payment of Swiss Francs 1.0 million (£0.5 million), representing outstanding deferred consideration on the acquisition of MPI-XP Power AG (now renamed to XP Power AG).

In March 2006 the Group acquired an additional 45% of the outstanding share capital of Mieltec-XP Power Srl for £0.1 million bringing the Group's total holding in this company to 80%. There were no differences between the book value and the fair value of the assets acquired. Goodwill of £0.1 million was generated on the transaction. Goodwill is attributable to cost and revenue synergies which will enable the Group to generate enhanced profitability from Mieltec-XP Power Srl in the future.

In October 2006 the Group acquired the remaining 50% of the outstanding share capital of XP Power (S) Pte. Limited, its sales joint venture in Singapore, for a cash consideration of £1.0 million. There were no differences between the book value and the fair value of the assets acquired. Goodwill of £0.6 million was generated on the transaction. Goodwill is attributable to cost and revenue synergies which will enable the Group to generate enhanced profitability from XP Power (S) Pte. Limited in the future.

Proportion of balance sheets at acquisition

£ Millions	**Mieltec-XP Power Srl**	**XP Power (S) Pte. Limited**
Inventories	–	0.1
Trade and other receivables	0.1	0.2
Cash and overdrafts	–	0.3
Trade and other payables	(0.1)	(0.2)
Net assets acquired	–	0.4
Fair value adjustments:		
Separable intangibles acquired	–	–
Associated deferred tax liability	–	–
Fair value of net assets acquired	–	0.4
Goodwill	0.1	0.6
Purchase consideration satisfied by cash	0.1	1.0
Net cash outflow	0.1	0.7

Mieltec-XP Power Srl contributed £0.6 million revenue and £nil to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

XP Power (S) Pte. Limited contributed £0.6 million revenue and £0.4 million to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

33. 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
46,900	£1.15	22 December 2000	22 December 2010
10,000	£1.15	21 August 2003	21 August 2011
71,250	£3.425	21 August 2001*	21 August 2011
41,500	£3.20	31 January 2002*	31 January 2012
66,250	£2.925	1 May 2002*	1 May 2012
44,000	£1.15	24 August 2004	24 August 2012
259,100	£1.75	24 August 2002*	24 August 2012
30,000	£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
48,000	£3.90	28 September 2006*	28 September 2016
646,500			

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

	2006 Number of share options	**2006** Weighted average exercise price (pence)	2005 Number of share options	2005 Weighted average exercise price (pence)
Outstanding at beginning of the year	**847,750**	**225**	966,450	216
Granted during the year	**48,000**	**390**	29,500	419
Forfeited during the year	**(16,000)**	**150**	(26,265)	242
Exercised during the year	**(233,250)**	**235**	(121,935)	193
Outstanding at the end of the year	**646,500**	**236**	847,750	225
Exercisable at the end of the year	**561,375**	**216**	657,650	218

The weighted average share price at the date of exercise for share options exercised during the period was 431p. The options outstanding at 31 December 2006 had a weighted average exercise price of 236p, and a weighted average remaining contractual life of six years.

Consideration has been given by the Directors of the implications of IFRS 2 Share based payment transactions. In the four years since the standard was introduced, the Group has issued a total of 122,500 options at a weighted average cost of 348p (of which 107,500 are currently outstanding) with a vesting period of four years. The Directors have concluded that any potential charge to the income statement is immaterial and have consequently decided not to undertake a full valuation exercise.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report including the financial statements. The Directors have chosen to prepare the financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

United Kingdom company law requires the Directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the company and of the profit or loss of the Company for that period. The financial statements should also comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the Directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and estimates that are reasonable and prudent;

(c) state whether applicable accounting standards have been followed; and

(d) 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 to 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 parent Company financial statements of XP Power plc for the year ended 31 December 2006 which comprise the Balance Sheet and the related notes 1 to 8. These parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of XP Power plc for the year ended 31 December 2006 and on the information in the Directors' Remuneration 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 Annual Report, the Directors' Remuneration Report and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company financial statements give a true and fair view and whether the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent Company financial statements. The information given in the Directors' Report includes that specific information presented in the Financial Review that is cross referred from the Principal Activities and Review of the Business section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent Company financial statements. The other information comprises only the Directors' Report, the Chairman's Statement the Background to the Group and its products and markets, the Chief Executive's Review and the Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 parent Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent 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 parent 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 parent Company financial statements.

Opinion

In our opinion:

- the parent 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 2006;
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent Company financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Cardiff, United Kingdom
20 February 2007

Company Balance Sheet

Year ended 31 December 2006

£ Millions	Note	**2006**	2005
Non-current assets			
Investment in subsidiaries	3	**7.0**	6.0
Current assets			
Debtors	4	**34.0**	30.9
Creditors: amounts falling due within one year	5	**(1.1)**	(8.6)
Net current assets		**32.9**	22.3
Total assets less current liabilities		**39.9**	28.3
Creditors: amounts falling due after one year	5	**(11.8)**	–
Net assets		**28.1**	28.3
Capital and reserves			
Share capital	6	**0.2**	0.2
Share premium account	7	**27.0**	27.0
Retained earnings	7	**6.8**	7.8
Own shares	7	**(5.9)**	(6.7)
Shareholders' funds		**28.1**	28.3

These financial statements were approved by the Board of Directors on 20 February 2007

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 2006

1. Significant accounting policies

The principal accounting polices 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 income statement as they become payable.

2. Profit for the year

As permitted by Section 230 of the Companies Act 1985, the Company has elected not to present its own income statement for the year. XP Power plc reported a profit for the financial year ended 31 December 2006 of £2.2 million (2005: £6.2 million).

The auditors' remuneration for services to the Company was £0.1 million (2005: £0.1 million).

The average monthly number of employees (including Executive Directors) employed by the Company was five (2005: six).
All employees were employed in a management capacity. The cost of these employees was £0.6 million (2005: £0.5 million).

3. Investment in subsidiaries

Details of the Company's direct subsidiaries at 31 December 2006 are as follows:

£ Millions	Shares in subsidiaries
Cost and carrying value	
At 1 January 2006	6.0
Additions	1.0
Disposals	–
At 31 December 2006	**7.0**

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
XP Power (S) Pte. Limited	Singapore	100	100

Details of Group subsidiaries, joint ventures and associates are given in notes 15 to 17 in the Group financial statements.

4. Debtors

£ Millions	2006	2005
Amounts receivable from Group companies	**34.0**	30.3
Prepayments and other debtors	–	0.6
Total	**34.0**	30.9

5. Creditors

£ Millions	2006	2005
Amounts falling due within one year		
Bank loans and overdrafts	**0.6**	8.6
Other creditors and accruals	**0.5**	–
Total	**1.1**	8.6
Amounts falling due after one year		
Bank loans and overdrafts	**11.8**	–

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

6. Called up share capital

£ Millions	**2006**	2005
Authorised 35,000,000 shares at 1p each	**0.4**	0.4
Allotted and fully paid 20,704,621 ordinary shares of 1p each (2005: 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	**2006 Total**	2005 Total
At the beginning of the year	0.2	27.0	7.8	(6.7)	**28.3**	28.2
Purchase of own shares	–	–	–	–	**–**	(3.5)
Sale of own shares	–	–	–	0.8	**0.8**	0.2
Profit for the year	–	–	2.2	–	**2.2**	6.2
Dividends paid	–	–	(3.2)	–	**(3.2)**	(2.8)
At the end of the year	0.2	27.0	6.8	(5.9)	**28.1**	28.3

8. Post balance sheet event

Subsequent to the year end, the Directors have proposed a dividend of 10p per share.

Five Year Review

	IFRS			UK GAAP	
	2006 £ Millions	2005 £ Millions	2004 £ Millions	2003 £ Millions	2002 £ Millions
Results					
Revenue	78.7	69.5	66.8	59.4	64.0
Profit from operations	9.3	8.4	7.0	2.7	1.1
Profit before tax	8.0	7.6	6.4	2.1	0.7
Assets employed					
Non-current assets	36.0	33.6	27.9	26.4	27.6
Current assets	32.6	30.1	23.3	22.6	22.9
Current liabilities	(21.5)	(32.0)	(16.8)	(12.0)	(12.6)
Non-current liabilities	(18.3)	(4.5)	(8.5)	(10.6)	(8.2)
Net assets	28.8	27.2	25.9	26.4	29.7
Financed by					
Equity	28.8	27.2	25.9	26.3	29.1
Minority interests	–	–	–	0.1	0.6
	28.8	27.2	25.9	26.4	29.7
Key statistics					
Earnings per share	32.2p	30.7p	23.1p	5.0p	0.0p
Diluted earnings per share	31.8p	30.1p	22.6p	4.9p	0.0p
Share price in the year					
High	486.5p	526.0p	466.0p	250.0p	352.5p
Low	327.0p	279.0p	218.0p	73.5p	82.5p

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.

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Auditors
Deloitte & Touche LLP
Cardiff

Shareholders Notes

XP Power plc

THE XPERTS IN POWER

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