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XP Power plc
(“XP” or “the Group”)

Preliminary Results for the Year Ended 31 December 2005

XP Power, one of the world’s leading providers of power supply solutions to the mid-tier of the electronics industry, today announces Preliminary Results for the year ended 31 December 2005.

FINANCIAL HIGHLIGHTS

£ Millions	**Year ended 31 December 2005**	Year ended 31 December 2004
Income and expenditure		
Revenue	**69.5**	66.8
Gross margin	**24.8**	23.7
Gross margin %	**35.7%**	35.5%
Profit before tax	**7.7**	6.4
Profit before tax and amortisation of intangibles £0.1 million (2004: nil)	**7.8**	6.4
Cash flow		
Net cash flow from operating activities	**7.3**	4.1
Free cash flow (see page 10)	**5.3**	3.5
Basic earnings per share	**30.7p**	23.1p
Diluted earnings per share	**30.1p**	22.6p
Diluted earnings per share adjusted for the amortisation of intangibles	**30.6p**	22.6p
Proposed final dividend per share	**9.0p**	8.0p
Total dividend per share (see note 5)	**16.0p**	14.0p

HIGHLIGHTS

- Further growth in own branded products, accounting for 59% of revenue (2004: 55%)
- Improved diluted earnings per share
- Investment in a manufacturing joint venture in China
- Opening of office in Shanghai providing logistical and technical support
- Share buy back of 1,030,000 shares for an average price of £3.427 during the period
- Strong free cash flow (see page 10)
- Dividend to be increased by 14% to 16p per share (see note 5)

Larry Tracey, Executive Chairman said:

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

Enquiries:

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Notes to editors:

XP Power plc provides power supply solutions to the electronics industry.

All electronic equipment needs a power supply. Power supplies convert the incoming AC supply into various levels of DC voltages to drive electronic components and sub-assemblies within the end user’s equipment. XP Power segments its business into Communications, Defence and Avionics, Industrial and Medical. By servicing these markets XP Power provides investors with access to technology and industrial sectors of the North American and European electronics market.

The market is highly fragmented and made up of a large number of small to medium sized Original Equipment Manufacturers who source standard and modified standard power supplies from several hundred power supply companies.

For further information, please visit www.xppower.com

XP Power plc
(“XP” or “the Group”)

Preliminary Results for the Year Ended 31 December 2005

Business Performance

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

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

Dividend

The continued increase in profitability, together with strong free cash flow (see page 10), has enabled us to once again increase the dividend payable to shareholders. We will be proposing a final dividend of 9 pence per share at the Annual General Meeting on 19 April 2006, making the total dividend for 2005 16 pence per share (2004: 14 pence per share), an increase of 14%.

In accordance with IAS 10, dividends are not recognised in the financial reporting information until they are declared.

Strategy

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

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

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

Financial Performance

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

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

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

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

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

Continued strong margins allowed us to generate free cash flow (see page 10) of £5.3 million during 2005 (2004: £3.5 million). After returning £6.3 million to shareholders in the form of dividends and a share buy back, net debt (cash of £4.8 million less borrowings of £19.9 million, see note 7) at 31 December 2005 was £15.1 million compared with £10.1 million at 31 December 2004.

International Financial Reporting Standards (IFRS)

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

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

  In accordance with IAS 36 the Group is required to conduct an annual impairment review regarding the carrying value of goodwill. The results of this review were that an impairment of the carrying value of goodwill is not required.

- Development expenditure – the Group is now required to capitalise its development expenditure if it meets the criteria laid down by IAS 38 “Intangible Assets”. In accordance with IAS 38, the Group has capitalised £1.0 million (net of amortisation) of product development costs in 2005, but we have not adjusted the 2004 figures as the Group did not have the necessary records and assessments in place. In 2005, the effect of this is to increase the reported profit before tax by £1.0 million and enhance earnings by approximately 4 pence per share. To assist the readers of our financial statements, we estimate that had the records and assessments been in place in 2004 the Group would have capitalised approximately £0.8 million of development expenditure in that year.

- Amortisation of intangibles – the Group is now required to value any separately identifiable intangible assets acquired with a business. Intangible assets of £1.2 million arise on the acquisition of Powersolve Electronics Limited and an amortisation charge of £0.1 million has been made in 2005.

Customers and Industry Segmentation

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

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

Partnerships

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

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

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

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

Manufacturing Joint Venture

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

Many of the larger customers we deal with have reacted favourably to XP's move into manufacturing. We believe our joint venture will allow us to further penetrate some of the key accounts we are targeting and result in more efficient supply chain management. Set up costs of less than £0.1 million were incurred at the end of 2005 and these have been charged to cost of sales in 2005. Set up costs in the first half of 2006 will be charged to the profit and loss account as incurred and should have an impact of less than 1 percentage point on our gross margin.

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

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

Markets

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

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

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

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

China Operations

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

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

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

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

Product Development

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

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

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

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

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

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

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

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

Acquisitions

XP Engineering Services (XPES)

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

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

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

We consider that the acquisition of the remaining share capital of XPES will expand the Group's value added engineering capabilities, enhance the Group's margins as more of the intellectual

property in this type of offering is owned by XP; and add to XP's standard product design capability.

MPI-XP Power

A payment of 6.5 million Swiss Francs was made during December 2005 representing an instalment of 90% of the expected final consideration due for the purchase of the 75% of the issued share capital of MPI XP Power AG that XP does not currently own. The balance of the final payment is expected to be made in February 2006.

Powersolve Electronics Limited (Powersolve)

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

Share Buy Back

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

People

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

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

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

Outlook

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

We believe that we remain on track to achieve a revenue mix of approximately 75% XP intellectual property and 25% from our third party vendors in 2007 which should result in improved gross margins. We should also expect further improvements in our operational gearing as our investment in the geographic expansion of our sales channel bears fruit.

Larry Tracey
Executive Chairman

Consolidated Income and Expenditure Statement
Year Ended 31 December 2005

£ Millions	Note	**2005**	2004
Revenue-continuing operations		**69.5**	**66.8**
Cost of sales		(44.7)	(43.1)
Gross profit		**24.8**	**23.7**
Selling and distribution costs		(12.3)	(11.9)
Administrative expenses		(4.4)	(5.2)
Share of results of associates		0.3	0.4
Other operating income		0.1	-
Profit from operations		**8.5**	**7.0**
Finance costs		(0.8)	(0.6)
Profit before tax		**7.7**	**6.4**
Tax	4	(1.8)	(1.9)
Profit for the year from continuing operations attributable to equity shareholders of the parent		**5.9**	**4.5**
Earnings per share from continuing operations			
Basic	6	30.7p	23.1p
Diluted	6	30.1p	22.6p

Consolidated Statement of Recognised Income and Expense
Year ended 31 December 2005

£ Millions	**2005**	2004
Exchange differences on translation of foreign operations	1.9	(1.3)
Tax on items taken directly to equity	(0.2)	0.4
Net income/(expense) recognised directly in equity	1.7	(0.9)
Profit for the year	5.9	4.5
Total recognised income and expenses for the period attributable to equity shareholders of the parent.	7.6	3.6

Consolidated Balance Sheet
31 December 2005

£ Millions

	2005	2004
Non-current assets		
Goodwill	27.8	23.1
Other intangible assets	2.2	-
Property plant and equipment	3.0	2.5
Interests in associates	0.3	1.8
Deferred tax asset	0.3	0.1
Total non-current assets	**33.6**	**27.5**
Current assets		
Inventories	8.1	7.5
Trade and other receivables	17.2	13.1
Cash	4.8	2.7
Total current assets	**30.1**	**23.3**
Current liabilities	(32.6)	(16.8)
Net current (liabilities)/assets	**(2.5)**	**6.5**
Total assets less current liabilities	**31.1**	**34.0**
Non-current liabilities	**(3.7)**	**(8.1)**
Net assets	**27.4**	**25.9**
Equity		
Share capital	0.2	0.2
Share premium account	27.0	27.0
Merger reserve	0.2	0.2
Own shares	(6.7)	(3.4)
Translation reserve	1.7	(0.2)
Retained earnings	5.0	2.1
Equity attributable to equity shareholders of the parent	**27.4**	**25.9**

Consolidated Cash Flow Statement
Year Ended 31 December 2005

£ Millions	Note	**2005**	2004
Net cash flow from operating activities	8	**7.3**	**4.1**
Investing activities			
Dividends received from associates		**0.6**	0.2
Purchases of property plant and equipment		**(0.8)**	(0.2)
Acquisition of investment in associates		**(0.3)**	-
Expenditure on product development		**(1.0)**	-
Loan to majority shareholder of associated undertaking		**-**	(0.5)
Acquisition of investment in subsidiary	9	**(3.7)**	(0.6)
Net cash used in investing activities		**(5.2)**	**(1.1)**
Financing activities			
Dividends paid to minority shareholders		**-**	(0.1)
Interest paid		**(0.8)**	(0.6)
Equity dividends paid to XP Power shareholders		**(2.8)**	(2.5)
Payments for share buy back		**(3.5)**	(3.5)
Proceeds from sale of own shares		**0.2**	0.1
Increase/(decrease) in bank loans		**3.1**	(0.3)
Increase in bank overdrafts		**4.0**	2.1
Overdraft acquired with subsidiary		**(0.2)**	-
Net cash from/(used in) financing activities		**-**	**(4.8)**
Net increase/(decrease) in cash		**2.1**	(1.8)
Cash at beginning of the year		**2.7**	4.5
Cash at the end of the year		4.8	2.7

Reconciliation to free cash flow

£ Millions			
Net cash inflow from operating activities	8	7.3	4.1
Dividends from associates		0.6	0.2
Purchase of property, plant and equipment		(0.8)	(0.2)
Development expenses capitalised		(1.0)	-
Interest paid		(0.8)	(0.6)
Free cash flow		**5.3**	**3.5**

Notes to the preliminary statement
Year ended 31 December 2005

1. General information

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

2. Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time, as adopted by the EU.

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

Basis of consolidation

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

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

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

Business combinations

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

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

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.

Investment in associates
The investment in the Joint Venture has been proportionately consolidated.

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.

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

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange

differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

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

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

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

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

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

Long leasehold land is not depreciated

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

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

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

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

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

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

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

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

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

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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.

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 profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

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

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

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

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

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 and Expenditure Account and the affect on net assets is immaterial, therefore no charge is disclosed.

3. Segmental reporting

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

Geographic segment
The geographical segmentation is as follows:

£ Millions

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

Other information

	Year to 31 December 2005			Year to 31 December 2004		
	Europe	**USA**	**Total**	Europe	USA	Total
Capital additions	**0.8**	**0.3**	**1.1**	0.2	0.1	0.3
Depreciation	**0.3**	**0.3**	**0.6**	0.3	0.3	0.6

	Year to 31 December 2005			Year to 31 December 2004		
Operating net assets	**Europe**	**USA**	**Total**	Europe	USA	Total
Goodwill	**8.5**	**19.3**	**27.8**	3.8	19.3	23.1
Other intangible assets	**1.2**	**1.0**	**2.2**	-	-	-
Property plant and equipment	**2.2**	**0.8**	**3.0**	1.7	0.8	2.5
Interests in associates	**0.3**	**-**	**0.3**	1.8	-	1.8
Deferred tax asset		**0.3**	**0.3**	-	0.1	0.1
Inventories	**3.6**	**4.5**	**8.1**	3.0	4.5	7.5
Trade and other receivables	**10.2**	**7.0**	**17.2**	6.8	6.3	13.1
Current liabilities	**(7.7)**	**(5.0)**	**(12.7)**	(6.3)	(5.8)	(12.1)
Non-current liabilities	**(3.7)**	**-**	**(3.7)**	-	-	-
Total operating net assets	**14.6**	**27.9**	**42.5**	10.8	25.2	36.0

Operating net assets are defined as net assets adjusted for net borrowings (cash of £4.8 million (2004: £2.5 million) less borrowings of £19.9 million (2004: £12.8 million) see note 7).

Business segments
The revenue by class of customer was as follows:

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

4. Tax on profit on ordinary activities

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

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

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

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

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

5. Dividends

Amounts recognised as distributions to equity holders in the period

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

6. Earnings per share
Continuing operations

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

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

7. Borrowings

£ Millions

The Group's borrowings are repayable as follows:	**2005**	2004
On demand or within one year	19.9	4.7
In the second year	-	8.1
In the third year	-	-
Total	**19.9**	**12.8**

The bank loan at 31 December 2005 represents the amount drawn down under the multi-currency revolving credit facility from Bank of Scotland. This is due for renewal in September 2006 and hence has been shown as a current liability. The board expects the facility to be renewed.

8. Notes to the cash flow statement

£ Millions	**2005**	2004
Profit from operations (excluding associates)	8.2	6.6
Adjustments for:		
Depreciation of property plant and equipment	0.6	0.6
Foreign currency differences	1.5	(0.7)
Operating cash flows before movements in working capital	10.3	6.5
Increase in inventories	-	(0.7)
Increase in receivables	(3.0)	(1.5)
Decrease in payables	0.7	0.6
Cash generated by operations	8.0	4.9
Corporation tax paid	(0.7)	(0.8)
Net cash inflow from operating activities	7.3	4.1

9. Acquisitions

In 2005 the Group made a payment of Swiss Francs 7.2 million (£3.2 million), representing 90% of the expected consideration for the remaining 75% of the issued share capital of MPI-XP Power. The Group is committed to paying an additional Swiss Francs 1 million (£0.4 million) in February 2006. In total this is £1.1 million higher than the amount provided for in 2004, and is attributable to the increased profitability of the business in the year. The difference is shown as an adjustment to goodwill.

In June 2005, the Group agreed to acquire the 60.6% of Powersolve Electronics Limited it did not already own.

Balance sheets at acquisition

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

The group acquired the 80% of XP Engineering Services Limited (XPES) it did not already own for a total cash consideration of £480,000 in November 2005. There were no differences between the book value and the fair value of the assets acquired. Goodwill of £400,000 was generated on the transaction. The goodwill recorded within Investments of £0.2 million at 31 December 2004 when the company was treated as an associate has been transferred to Goodwill. The goodwill arising on the acquisition is attributable to cost and revenue synergies which will enable the Group to generate enhanced profitability from XPES's value added products.

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

10. Explanation of transition to IFRS

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

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

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

Notes to the reconciliation of equity at 1 January 2004

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

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

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

Reconciliation of equity at 31 December 2004

£ Millions	Note	UK GAAP	Effect of transition to IFRS	IFRS
Goodwill	3	21.7	1.4	23.1
Property plant and equipment		2.5	-	2.5
Interests in associates		1.8	-	1.8
Deferred tax asset		0.1	-	0.1
Total non-current assets		26.1	1.4	27.5
Inventories		7.5	-	7.5
Trade and other receivables		13.1	-	13.1
Cash and cash equivalents		2.7	-	2.7
Total current assets		23.3	-	23.3
Total assets		49.4	1.4	50.8
Current liabilities	1,2	(18.0)	1.2	(16.8)
Non current liabilities		(8.1)	-	(8.1)
Total liabilities		(26.1)	1.2	(24.9)
Total assets less total liabilities		23.3	2.6	25.9
Called up share capital		0.2	-	0.2
Share premium account		27.0	-	27.0
Merger reserve		0.2	-	0.2
Own shares		(3.4)	-	(3.4)
Translation reserve		(0.2)	-	(0.2)
Retained earnings		(0.5)	2.6	2.1
Total equity		23.3	2.6	25.9

Notes to the reconciliation of equity at 31 December 2004

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

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

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

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

Reconciliation of profit for 2004

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

Notes to the reconciliation of profit for 2004

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

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

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

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

11. General

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2005 or 2004. The financial information for the year ended 31 December 2004 is derived from the XP Power plc statutory accounts for the year ended 31 December 2004 as amended for the adoption of International Accounting Standards, which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s237 (2) or (3) Companies Act 1985. The statutory accounts for the year ended 31 December 2005 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in March 2006.

This announcement was approved by the directors on 6 February 2006.