

**XP Power plc**  
**(“XP” or “the Group”)**

**Interim Results for the six months ended 30 June 2005**

XP, one of the world’s leading providers of power supply solutions to the electronics industry, today announces its interim results for the six-month period ended 30 June 2005.

**Highlights**

<b>Income and Expenditure</b>	<b>Six months 30 June 2005 (Unaudited)</b>	Six months 30 June 2004 (Unaudited)
Revenue	<b>£32.2M</b>	£33.2M
Gross profit	<b>£11.6M</b>	£11.7M
Gross margin	<b>36.0%</b>	35.2%
Profit before tax	<b>£3.7M</b>	£3.0M
	*	
Basic earnings per share	<b>14.0p</b>	10.5p
Diluted earnings per share	<b>13.7p</b>	10.3p
Interim dividend per share	<b>7.0p</b>	6.0p

\* *International Financial Reporting Standards (IFRS) adopted for the first time. Before capitalisation of development costs profit before tax would have been £3.2 million.*

- Tenth successive half-year period of improvement in gross margin percentage due to further development of our own product range
- XP product now represents over 56% of Group revenues
- Group remains on track to reach previously identified 40% gross margin and 75% own brand product range targets by 2007
- Interim dividend raised to 7.0p (2004: 6.0p) per share underlining confidence in future prospects
- Significant new flagship product launches to further increase own product range
- Weaker performance in Northern California and UK markets offset by stronger trading in the rest of US and new Continental European offices

**Larry Tracey, Executive Chairman, commented:** “Steady progress has been maintained in more difficult markets resulting in a further growth in earnings allowing an increase in the interim dividend.”

Enquiries:

**XP Power plc**

James Peters, Deputy Chairman  
Duncan Penny, Chief Executive Officer

**On 2 August 2005 Tel:020 7067 0700  
Thereafter Tel: 0118 984 5515**

**Weber Shandwick Square Mile**

Kevin Smith or Nick Dibden

**020 7067 0700**

**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](http://www.xppower.com)

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**("XP" or "the Group")**

**Interim Results for the six months ended 30 June 2005**

**CHAIRMAN'S STATEMENT**

Despite slightly lower revenues compared to the same period a year ago I am pleased to report that XP has continued to grow earnings as a result of the continued success of its strategy of developing its portfolio of own brand products.

**Financial Performance**

Total revenue for the six months ended 30 June 2005 was £32.2 million compared with £33.2 million in the same period a year ago.

Gross margins improved to 36.0% in the first half of 2005 compared with 35.2% in the same period a year ago. This is the tenth successive half-yearly report where we have demonstrated an improvement in the gross margin percentage, which is a result of our decision to reposition the business further up the value chain. In the first half of 2005, 56% of our revenue came from our own XP branded product. The main driver of the Group's gross margin performance has been its ability to deliver power supply solutions which meet the specific needs of its customers, either through its own XP branded products or through its value added and design engineering capabilities.

The overall result is that profit before tax was £3.7 million compared with £3.0 million in the same period a year ago (refer to income and expenditure statement). Basic earnings per share were 14.0 pence compared with 10.5 pence in the same period a year ago. Diluted earnings per share were 13.7 pence compared with 10.3 pence in the same period a year ago (refer to note 5).

**International Financial Reporting Standards (IFRS)**

This is the first period in which the Group is required to report its results in accordance with IFRS. This interim financial report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. There are two main areas that affect the reported earnings:

- Goodwill amortisation – the Group is no longer permitted to amortise goodwill. The effect of this change versus UK Generally Accepted Accounting Principles ("UK GAAP") is to increase 2005 profit before tax by £0.7 million (2004: £0.7 million) and 2005 earnings by 3.6 pence per share (2004: 3.4 pence per share).

In accordance with International Accounting Standard 36 the Group is required to conduct an annual impairment review regarding the carrying value of goodwill. The results of this review were satisfactory.

- Development expenditure – the Group is now required to capitalise its development expenditure if it meets the criteria laid down by International Accounting Standard 38 "Intangible Assets". The effect of this change is to increase the 2005 profit before tax by £0.5 million and the 2005 earnings by 1.5 pence per share. In accordance with International Accounting Standard 38, we have not adjusted the 2004 figures as the Group did not have the necessary records and assessments in place during 2004.

However, 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 £0.4 million of development expenditure in the six months ended 30 June 2004.

Group's profit before tax and earnings per share would have increased by £0.2 million and 1.9 pence per share respectively if the Group was continuing to report under UK GAAP.

## **Dividend**

Improved profitability has allowed us to once again increase the dividend payable to shareholders. The Group has declared an interim dividend of 7.0 pence per share for the six months ended 30 June 2005 (2004: 6.0 pence per share). The interim dividend will be paid on 6 October 2005 to shareholders on the register at 2 September 2005.

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

## **Geographic Markets and Industry Segmentation**

Trading conditions have been variable in the last twelve months. After a comparatively weaker finish to 2004, we saw very strong bookings in the first quarter of 2005 followed by a weaker environment in the second quarter.

There has been noticeable weakness in industrial markets that has adversely affected our more mature geographic markets of Northern California and the United Kingdom. By contrast, we have seen strong performances from our newer sales offices across the remainder of North America and Continental Europe as they have continued to take market share. Versus the second half of 2004, the weakness in Industrial markets has been partially offset by improvement in Communications, Defence & Avionics and Medical. We consider that the broad spread of exposure the Group has to various market sectors is beneficial in reducing risk.

North American revenues for the period were \$32.6 million (or £17.4 million) compared with \$34.0 million (or £19.1 million) in the same period a year ago. This revenue decline was restricted to California where revenues retreated by \$3.6 million, mainly in the industrial sector, notably semiconductor manufacturing customers and related industries. We have seen many customers in this area pushing their demand for product out into the second half of the year. All other geographic regions of North America showed increased revenue.

The average US dollar to sterling exchange rate for the six months ended 30 June 2005 was 1.87 versus 1.80 in the same period a year ago, a 4% weakening. Lower reported revenues and therefore earnings resulting from translating our North America results using a weaker US dollar rate are partially compensated for by higher margins in Europe where the Group purchases more product in US dollars than it sells in US dollars. If the recent strengthening of the US dollar versus sterling continues through the second half of 2005, this will result in a commensurate increase in our revenues but earnings are unlikely to be materially affected for the reasons stated above.

Revenues in our more mature UK business were slightly down for the period at £9.2 million compared with £9.3 million in the same period a year ago. By contrast our newer Continental European business grew revenues by 17% compared to the same period a year ago as they continued to take market share. Our Continental European business reported revenues for the six months ended 30 June 2005 of £5.6 million compared to £4.8 million in 2004.

We continue to focus our resources on the higher value customers in our four market sectors; Communications, Defence & Avionics, Industrial and Medical. This focus will ensure that we

devote our engineering resources to the right customers and that our current and future product development is carefully targeted and, above all, customer driven.

For the six months ended 30 June 2005, 26% of our revenues came from Communications (2004: 27%), 46% from Industrial (2004: 45%), 20% from Medical (2004: 21%) and 8% from Defence & Avionics (2004: 7%).

## **New Products**

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.

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 volume runs manufactured in the Far East. This model will give XP an extremely quick time to market coupled with highly competitive pricing in comparison with small regional custom manufacturers. All these products come with dual medical and industrial approvals – a concept our competition has started to follow.

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. We are confident that these new products will continue to build on XP's success and drive the product mix towards our 75% own brand target by 2007.

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.

We continue to partner with other leading power supply providers where we have strong historic relations and complementary product offerings so we can give our customers the best possible solution for their needs. The breadth of product required means that it does not make sense to develop all product lines ourselves but to partner with other strategic power supply providers.

## **People**

Our value proposition to our customers is a power specialist who can solve their power supply problems quickly and design a cost-effective solution into their system. This requires a high level of technical expertise. We continually train our people to ensure they have the required skills.

In June, we announced the resignation of Rich Sakakeeny as non-executive director of the Company. We are grateful for his contribution and wish him well for the future. We have identified a new non-executive director who has indicated his willingness to join the Board from March 2006.

## **Outlook**

Current market conditions continue to be tough with lacklustre electronics demand in the Industrial sector set against a backdrop of high oil prices. Trading conditions in the Defence & Avionics, Medical and Communications markets are however more encouraging. Despite these conditions, we still believe that XP will produce significantly higher earnings in 2005 than those achieved in 2004. This is a result of the Group's new product introductions driving further increases in gross margin and geographic expansion over the past three years.

We remain committed to our strategy of offering the broadest range of products to our customers through the largest and best trained sales force in the industry in order to deliver genuine value to our customers. This will result in increasing rewards for our people and our shareholders.

**Larry Tracey**  
**Executive Chairman**  
2 August 2005

**XP Power plc**  
**Consolidated Income and Expenditure Statement**  
**For the six months ended 30 June 2005**

£ Millions	Note	Six months ended 30 June 2005 (Unaudited)	Six months ended 30 June 2004 (Unaudited) (restated-note 11)
Revenue	2	32.2	33.2
Cost of sales		(20.6)	(21.5)
<b>Gross profit</b>		<b>11.6</b>	<b>11.7</b>
Operating expenses		(7.9)	(8.6)
Share of associates' operating profit		0.2	0.2
Other operating income		0.1	-
<b>Operating profit</b>		<b>4.0</b>	<b>3.3</b>
Finance cost		(0.3)	(0.3)
<b>Profit on ordinary activities before taxation</b>	2	<b>3.7</b>	<b>3.0</b>
Tax on profit on ordinary activities	3	(1.0)	(0.9)
<b>Profit for the period attributable to shareholders</b>		<b>2.7</b>	<b>2.1</b>
Equity dividends paid	4	(1.5)	(1.4)
<b>Retained profit for the period</b>		<b>1.2</b>	<b>0.7</b>
Basic earnings per share	5	14.0p	10.5p
Diluted earnings per share	5	13.7p	10.3p
<b>Consolidated statement of recognised income and expense</b>			
Exchange differences on translation of foreign operations		0.5	-
Net income recognised directly in equity		0.5	-
Profit for the period		1.2	0.7
<b>Total recognised income and expense for the period</b>		<b>1.7</b>	<b>0.7</b>

All activities derive from continuing operations.

**XP Power plc**  
**Consolidated Balance Sheet**  
**At 30 June 2005**

£ Millions	Note	<b>At 30 June 2005 (unaudited)</b>	At 31 December 2004 (unaudited) (restated - note 11)	At 30 June 2004 (unaudited) (restated - note 11)
<b>Non-current assets</b>				
Goodwill		23.2	23.1	23.4
Other intangible assets	6	0.5	-	-
Property plant and equipment		2.6	2.5	2.7
Interests in associates		2.1	1.8	0.6
<b>Total non-current assets</b>		<b>28.4</b>	<b>27.4</b>	<b>26.7</b>
<b>Current assets</b>				
Inventories		9.1	7.5	7.5
Trade and other receivables		14.0	13.2	13.8
Cash		4.0	2.7	4.0
<b>Total current assets</b>		<b>27.1</b>	<b>23.4</b>	<b>25.3</b>
<b>Current liabilities</b>		(19.6)	(16.8)	(16.7)
<b>Net current assets</b>		<b>7.5</b>	<b>6.6</b>	<b>8.6</b>
<b>Total assets less current liabilities</b>		<b>35.9</b>	<b>34.0</b>	<b>35.3</b>
<b>Non-current liabilities</b>		(8.3)	(8.1)	(10.5)
<b>Net assets</b>		<b>27.6</b>	<b>25.9</b>	<b>24.8</b>
<b>Capital and reserves</b>				
Called up share capital		0.2	0.2	0.2
Share premium account		27.0	27.0	27.0
Merger reserve		0.2	0.2	0.2
Profit and loss account		3.2	2.1	0.9
Translation reserve		0.3	(0.2)	-
Own shares		(3.3)	(3.4)	(3.5)
<b>Total equity shareholders' funds</b>		<b>27.6</b>	<b>25.9</b>	<b>24.8</b>

These financial statements were approved by the Board of Directors on 2 August 2005.

**XP Power plc**  
**Consolidated Cash Flow**  
**For the six months ended 30 June 2005**

£ Millions	Note	Six months ended 30 June 2005 (unaudited)	Six months ended 30 June 2004 (unaudited)
<b>Net cash flow from operating activities</b>	7	<b>2.1</b>	3.5
<b>Investing activities</b>			
Dividends received from associates		<b>0.3</b>	0.2
Dividends paid to minority shareholders		<b>(0.1)</b>	(0.1)
Purchases of property, plant and equipment		<b>(0.3)</b>	(0.1)
Acquisition of associate/subsidiary		<b>(0.1)</b>	(0.9)
<b>Net cash used in investing activities</b>		<b>(0.2)</b>	(0.9)
<b>Financing activities</b>			
Interest paid		<b>(0.3)</b>	(0.3)
Equity dividends paid to XP Power shareholders		<b>(1.5)</b>	(1.4)
Share buy back		-	(3.5)
Sale of shares		<b>0.1</b>	-
Increase/(decrease) in bank loans		<b>0.2</b>	(0.1)
Increase in bank overdrafts		<b>0.9</b>	2.2
<b>Net cash used in financing activities</b>		<b>(0.6)</b>	(3.1)
Net increase/(decrease) in cash		<b>1.3</b>	(0.5)
Cash at beginning of the year		<b>2.7</b>	4.5
Cash at the end of the period		4.0	4.0

## **XP Power plc**

### **Notes to the Interim Results for the six months ended 30 June 2005**

#### **1. Basis of preparation**

The next annual financial statements of the Group will be prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the EU. Accordingly, the interim financial report has been prepared using accounting policies consistent with IFRS. IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and there is an on-going process of review and endorsement by the European Commission.

The half year results are unaudited and were approved by the Board of Directors on 2 August 2005. The full year figures for 2004 included in this report do not constitute statutory accounts for the purpose of section 240 of the Companies Act 1985. A copy of the statutory accounts for that year under UK GAAP has been delivered to the Registrar of Companies on which an unqualified report has been made by the auditors under section 235 of the Companies Act 1985.

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

#### **Basis of consolidation**

The consolidated interim 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.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent.

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

#### **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.

#### **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 jointly controlled entity, 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. Goodwill written off to reserves under UK GAAP prior to 2003 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

**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.

**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. See note 11.

**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 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.

### **Property, plant and equipment**

Property, plant and equipment 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. Amortisation is charged from 12 months after the internal product launch as due to normal product lifecycles it takes on average 12 months from the date of the product launch to the point when the company begins to generate revenue from the product.

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.

### **Investments**

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

### **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.

#### *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.

## 2. Segmental analysis

The Group operates substantially in one class of business, the provision of power supply solutions to the electronics industry. Analysis of total Group operating profit, net assets, turnover and total Group profit before taxation by geographical region is set out below.

£ Millions	Six months ended 30 June 2005 (unaudited)			Six months ended 30 June 2004 (unaudited)		
<b>Revenue</b>						
Europe			14.8			14.1
USA			17.4			19.1
<b>Total revenue</b>			<b>32.2</b>			<b>33.2</b>
<b>Profit on ordinary activities before taxation</b>						
Europe			2.4			2.2
USA			2.2			1.6
Interest, corporate operating costs and associates			(0.9)			(0.8)
<b>Profit on ordinary activities before taxation</b>			<b>3.7</b>			<b>3.0</b>
			<b>June 2005 (unaudited)</b>			<b>June 2004 (unaudited)</b>
<b>Operating net assets</b>	<b>Europe</b>	<b>USA</b>	<b>Total</b>	Europe	USA	Total
Goodwill	3.7	19.5	23.2	3.8	19.6	23.4
Other intangible assets	-	0.5	0.5	-	-	-
Property plant and equipment	1.8	0.8	2.6	1.8	0.9	2.7
Interests in associates	2.1	-	2.1	0.6	-	0.6
Inventories	3.1	6.0	9.1	2.5	5.0	7.5
Trade and other receivables	7.9	6.1	14.0	7.9	5.8	13.7
Current liabilities	(7.3)	(6.7)	(14.0)	(5.5)	(6.4)	(11.9)
Non-current liabilities	-	-	-	(2.2)	-	(2.2)
<b>Total operating net assets</b>	<b>11.3</b>	<b>26.2</b>	<b>37.5</b>	<b>8.9</b>	<b>24.9</b>	<b>33.8</b>

Operating net assets are defined as net assets adjusted for net borrowings.

£ Millions	At 30 June 2005 (unaudited)	At 30 June 2004 (unaudited)
Net assets	27.6	24.7
Net debt	9.9	9.1
<b>Total Operating Net Assets</b>	<b>37.5</b>	<b>33.8</b>

## 3. Taxation

£ Millions	Six months ended 30 June 2005 (unaudited)	Six months ended 30 June 2004 (unaudited)
Europe	0.2	0.4
USA	0.8	0.5
<b>Total taxation</b>	<b>1.0</b>	<b>0.9</b>

#### 4. Equity dividends

The equity dividend payable disclosed on the Consolidated Income and Expenditure Statement related to the 2004 year end dividend.

An interim dividend of 7p (2004: 6p) per share will be paid on 6 October 2005 to shareholders on the register of members on 2 September 2005.

#### 5. Earnings per share

	Six months ended 30 June 2005 (unaudited)		Six months ended 30 June 2004 (unaudited)	
	£millions	EPS (pence)	£millions	EPS (pence)
Profit attributable to shareholders for the financial period for basic earnings per share	2.7	14.0	2.1	10.5
Weighted average number of shares (thousands) (basic)	19,247		19,934	
Impact of share options (thousands)	435	(0.3)	387	(0.2)
Weighted average number of shares (thousands) (diluted)	19,682	13.7	20,321	10.3

The weighted average number of shares excludes 596,739 ESOP shares (2004: 676,451) and 860,799 (2004: 80,027) treasury shares.

We have considered the impact of IFRS 2 "Share-based payments" in relation to share options issued after 7 November 2002 and concluded that there is no material impact.

#### 6. Other intangible assets

Other intangible fixed assets comprise development expenditure capitalised when it meets the criteria laid out in IAS 38 (see Accounting Policies).

#### 7. Reconciliation of operating profit to net cash inflow from operating activities

£ Millions	Six months ended 30 June 2005 (unaudited)	Six months ended 30 June 2004 (unaudited)
Operating profit (excluding associates)	3.8	3.1
Depreciation	0.3	0.3
Increase in stocks	(1.5)	(0.9)
Increase in debtors	(0.7)	(2.2)
Increase in creditors	1.3	3.2
Capitalisation of development costs	(0.5)	-
Tax paid	(0.3)	-
Foreign currency differences	(0.3)	-
<b>Net cash inflow from operating activities</b>	<b>2.1</b>	<b>3.5</b>

#### 8. Borrowings

On 14 December 2004 the Group renewed its multi-currency working capital credit facility with Bank of Scotland. This facility is unchanged at £10 million, an interest rate of 1.5% above LIBOR and is repayable on demand. In addition to this the Group has a multi-currency revolving credit facility of £10 million, which

is provided for the purpose of financing acquisitions. Both facilities are secured on the assets of the Group.

## 9. Own shares

Own shares includes 471,851 (December 2004: 656,251; June 2004: 676,451) shares in the Group's employee share ownership plan (ESOP). These shares are carried at the lower of cost and market value.

Own shares also includes 846,375 treasury shares (2004: 910,000).

## 10. Shareholders' funds

£ Millions	Share capital	Share premium	Merger reserve	Own shares	Translation reserve	Profit and Loss	Total
At 31 December 2003 as previously reported	0.2	27.0	0.2	-	-	(1.1)	26.3
IFRS adjustments (note 11)	-	-	-	-	-	0.9	0.9
<b>At 31 December 2003 (under IFRS - unaudited)</b>	<b>0.2</b>	<b>27.0</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>(0.2)</b>	<b>27.2</b>
Purchase of own shares	-	-	-	(3.5)	-	-	(3.5)
Deferred tax adjustment to equity (note 11)	-	-	-	-	-	0.4	0.4
Retained profit to 30 June 2004 (under IFRS - note 11)	-	-	-	-	-	0.7	0.7
<b>At 30 June 2004 (under IFRS - unaudited)</b>	<b>0.2</b>	<b>27.0</b>	<b>0.2</b>	<b>(3.5)</b>	<b>-</b>	<b>0.9</b>	<b>24.8</b>
Sale of own shares	-	-	-	0.1	-	(0.1)	-
Exchange differences on translation of overseas operations	-	-	-	-	(0.2)	-	(0.2)
Retained profit to 31 December 2004 (under IFRS - note 11)	-	-	-	-	-	1.3	1.3
<b>At 31 December 2004 (under IFRS - unaudited)</b>	<b>0.2</b>	<b>27.0</b>	<b>0.2</b>	<b>(3.4)</b>	<b>(0.2)</b>	<b>2.1</b>	<b>25.9</b>
Sale of own shares	-	-	-	0.1	-	(0.1)	-
Exchange differences on translation of overseas operations	-	-	-	-	0.5	-	0.5
Retained profit to 30 June 2005 (under IFRS - note 11)	-	-	-	-	-	1.2	1.2
<b>At 30 June 2005 (under IFRS - unaudited)</b>	<b>0.2</b>	<b>27.0</b>	<b>0.2</b>	<b>(3.3)</b>	<b>0.3</b>	<b>3.2</b>	<b>27.6</b>

## 11. International Financial Reporting Standards (IFRS) adjustments

	Period to June 2005 (unaudited)	Period to December 2004 (unaudited)	Period to June 2004 (unaudited)	Year to December 2003 (unaudited)
<b>Retained profit as reported under UK GAAP</b>	0.3	0.4	0.3	(1.5)
<b>IFRS adjustments:</b>				
Proposed dividend (1)	1.4	1.5	1.1	1.4
Paid dividend (1)	(1.5)	(1.1)	(1.4)	-
Goodwill amortisation (2)	0.7	0.7	0.7	-
Vacation pay accrual (3)	-	(0.1)	-	(0.2)
Development costs (4)	0.3	-	-	-
Deferred tax (5)	-	(0.1)	0.4	(0.3)
<b>Retained profit as reported under IFRS</b>	<b>1.2</b>	<b>1.3</b>	<b>1.1</b>	<b>(0.6)</b>
Deferred tax adjustment to equity (5)	-	-	0.4	(0.3)
<b>Total recognised income and expense for the period</b>	<b>1.2</b>	<b>1.3</b>	<b>1.1</b>	<b>(0.6)</b>

- (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.

At each of the four balance sheet dates above, the dividends had not been declared and have therefore been reversed (£1.4 million at 31 December 2003, £1.1 million at 30 June 2004, £1.5 million at 31 December 2004 and £1.4 million at 30 June 2005).

The dividends have instead been recognised in the period in which they were paid (i.e. £1.4 million in the six months to 30 June 2004, £1.1 million in the six months to 31 December 2004 and £1.5 million in the six months to 30 June 2005).

- (2) IAS 38 "Intangible assets" requires an intangible asset to be regarded as having an indefinite useful life.

The goodwill was frozen on the date of transition to IFRS (1 January 2004), and therefore the charges for the period to 30 June 2004 - £0.7 million, for the period to 31 December 2004 - £0.7 million, and the period to 30 June 2005 - £0.7 million, are no longer recognised under IFRS.

- (3) IAS 19 "Employee benefits" requires entities to measure the expected cost of accumulated compensated absences which can be carried forward. An accrual for holiday pay has therefore been charged - £0.2 million in the year to 31 December 2003, and a further £0.1 million in the six months to 31 December 2004. The Group's liability in respect of vacation pay at 30 June 2005 is £0.3 million.

- (4) IAS 38 requires an intangible asset arising from development (or from the development phase of an internal project) to be recognised if certain criteria are met; this has resulted in the capitalisation of £0.5 million of development costs (£0.3 million net of tax) in the period to 30 June 2005. Prior to the current period, the group did not have the necessary records and assessments in place in order to meet the criteria required by IAS 38 and therefore no prior period adjustments have been made.

- (5) 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 number of

deferred tax adjustments. On the date of transition (1 January 2004) a deferred tax liability of £0.3 million is recognised in relation to goodwill amortisation allowable in North America. This liability increases to £0.4 million at 31 December 2004 giving rise to a charge of £0.1 million to the income and expenditure account in that period. Also, a deferred tax asset is recognised for the future tax deduction on the exercise of share options, the value is nil (1 January 2004), £0.4 million (30 June 2004, 31 December 2004 and 30 June 2005), the movement in the period to 30 June 2004 is recognised in equity.

## **12. Restatement**

Depreciation of £0.3 million was shown separately on the face of the Income statement in June 2004, but has been reclassified into operating expenses in accordance with the October 2004 International Financial Reporting Interpretations Committee (IFRIC) update. Depreciation of £0.3 million for the six month period to 30 June 2005 has also been included in operating expenses.

## **INDEPENDENT REVIEW REPORT TO XP POWER PLC**

### **Introduction**

We have been instructed by the Group to review the financial information for the six months ended 30 June 2005 which comprises the summarised consolidated income statement, consolidated statement of recognised income and expense, summarised consolidated balance sheet information as at 30 June 2005, 30 June 2004 and 31 December 2004, summarised consolidated cash flow statement, comparative figures and associated notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### **International Financial Reporting Standards**

As disclosed in note 1, the next annual financial statements of the group will be prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules.

### **Review work performed**

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

**Deloitte & Touche LLP**  
Chartered Accountants  
Cardiff, United Kingdom  
2 August 2005