

- Significantly improved financial performance
- Diluted earnings per share adjusted for goodwill amortisation and profit on sale of own shares grows 70% to 12.4 pence per share. Basic earnings per share increased from 0.0 pence to 7.0 pence
- Gross margins improved by a further 1.6% points to 33.5% - the fourth year of successive improvement
- Strong free cash flow and increased profitability enabled dividend to be maintained at 12p per share
- Introduction of own brand XP product range now materially complete
- Continental European operations report first operating profit
- New design wins and the introduction of further own branded product families to underpin prospects in 2004



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

Background to the Group, its Products and Markets

The Group

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

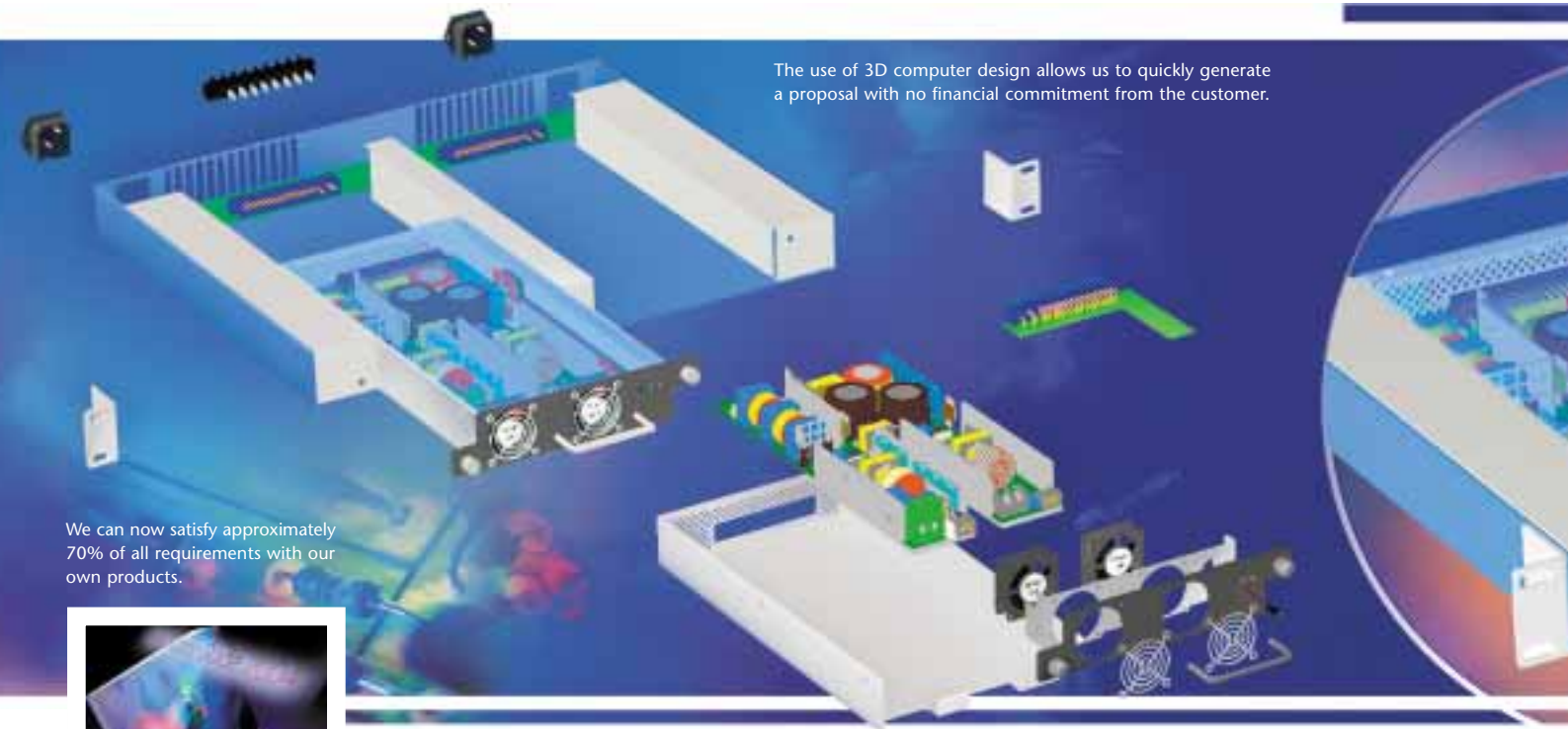
Products

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

As we are not constrained by our own factory, we are able to offer over 5,000 standard products, this, combined with our engineering services group and custom design facility, allows us to offer the industry's largest range of power solutions. These products range from AC to DC power supplies, DC to DC converters, through to secure power systems. The Group also provides ancillary products such as filters and fans necessary for meeting electro magnetic compatibility (EMC) legislation and thermal management.

Market

The world merchant market can be split into three distinct tiers:



The use of 3D computer design allows us to quickly generate a proposal with no financial commitment from the customer.

We can now satisfy approximately 70% of all requirements with our own products.



The Group specifies and designs its own products as well as providing other manufacturers' products. We have a design engineering team with over 20 engineers based in Southern California and New England. Our products are manufactured for us by a number of manufacturing partners throughout the world.

Upper-Tier: consists of a small number of large original equipment manufacturers (OEMs) who typically source custom power supplies in high volumes.

Mid-Tier: our target market, which is highly fragmented, is made up of a large number of small to medium sized OEMs who source standard and modified standard power supplies.

Lower-Tier: small volume customers such as maintenance, education and research establishments who we service via catalogue companies.

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

Customers

Our customers can be characterised as having expertise in their particular industry, whether it be in communications, medical, industrial or defence electronics - our key areas of focus - they generally do not have in-house power supply expertise. XP's technical sales force provides this expertise; assisting our customers' engineers to design in a suitable power supply from our extensive range of products that meets both the customer's cost target and technical requirements.

Engineering Services

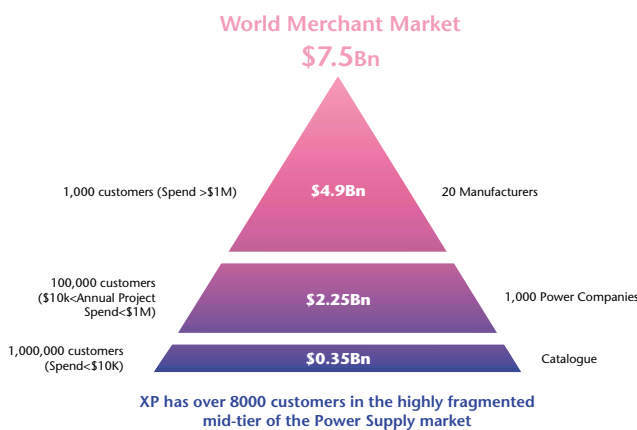
Equipment design involves meeting the relevant safety standards that apply to an industry such as particular medical or telecom standards as well as EMC legislation and thermal performance. Our customers may also require non-standard output voltages or want the power supply in a format that makes it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



Photo Therapeutics worked with our engineers to source a suitable power supply for their innovative skin cancer treatment.



Our engineering services group offer pre and post application support.



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

Our Mission

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

Chairman's Statement and Operational Review

Business Performance

During the last three years, and against a background of difficult conditions in industrial electronics markets worldwide, XP has successfully evolved its business model to become a virtual manufacturer of power supplies under its own, global XP brand. This movement up the value chain, whereby XP is responsible for product design and customer relationships but outsources manufacture to low cost markets in the Far East, has seen the Group transform its product portfolio and post a steady improvement in gross margin. Furthermore, XP has remained profitable throughout this period, one of the few power supply companies worldwide to do so.

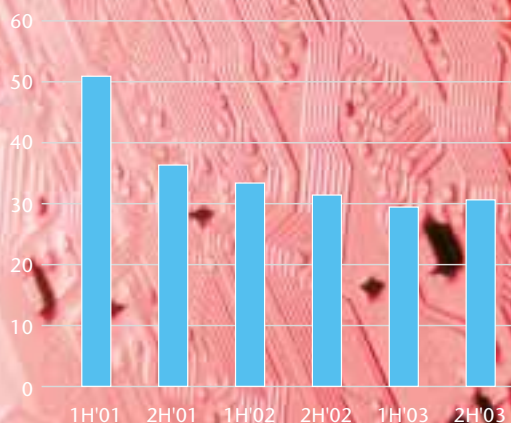
depreciating US Dollar, we have reported higher revenues in the second half of 2003 versus those reported in the first half.

This is the first half on half increase in revenues since 2000 and we believe that it signifies that the Group is back on a revenue growth path driven by new design wins and the introduction of many own branded product families.

Gross profit margins have improved to 33.5% in 2003 from 31.9% in 2002. This is our fourth successive year of gross margin improvement in the face of difficult markets and generally declining prices. The improvement is a direct result of our continued development of own brand products designed specifically to meet the requirements of customers in each of the markets we serve.

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Revenue (£ millions)



Revenues decreased by 7% to £59.4 million in the year (2002: £64.0 million), with the impact of the uncertain economic environment on capital equipment purchases continuing to be the major factor behind the decline. In addition, and as expected, we continued to experience a loss of revenue as certain manufacturers whose product we had distributed previously severed their relationships with us as the Group continued to implement its strategy of developing own brand products based around its own intellectual property. We believe that this reaction has now run its course and we do not expect to experience significant further erosion in the current year. Against this background, and taking into account the effects of the rapidly

Operating expenses (total overheads excluding goodwill amortisation of £1.5 million; 2002 £1.5 million) were cut further to £16.2 million in the year compared with £18.0 million in 2002. In addition to the cost savings made at the end of 2002 in the continental European organisation, we have continued to make savings in the operational and administrative parts of the business which have enabled us to fund increased product development expenditure. Investment in product development was £1.9 million compared to £1.7 million in 2002 and we are now starting to see the benefits of this investment in new products in the mix of business now flowing to the profit and loss account.

Despite these cutbacks, our current infrastructure is sufficient to support sizeable growth should a significant recovery take place in our underlying markets during 2004.

We have seen a significant decline in the value of the US Dollar versus Sterling during the second half of 2003. This obviously has an affect on our financial statements when we translate the results of our US business into Sterling for reporting purposes as the US represents approximately two thirds of our overall business. The US business itself is immune to the financial effects of foreign exchange as both its revenues and expenses are denominated in US Dollars.

increase of 70%. Basic earnings per share increased to 7.0p from 0.0p in 2002.

Sales and Marketing

We strive to inspire all of our people to become experts in power with the 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. We plan to continue to develop our sales people as



Aruba Wireless Networks develops and markets centralised wireless security systems to securely connect mobile users and mobile devices to corporate applications.



We strive to inspire our people to become experts in power.

Larry Tracey, Executive Chairman said:

"I believe the substantial investment made during the past 24 months in the development of our people and products will yield growing returns for our shareholders in 2004 and beyond."

Regarding translation differences, the Group would have reported additional revenues of approximately £2.9 million and additional operating profit of £0.2 million if the average exchange rate that prevailed in 2003 was the same as that in 2002.

Profit before tax increased from £0.7m to £2.5m. Profit before tax, goodwill amortisation (£1.5m) and the exceptional profit from the sale of shares in the Group's Employee Benefit Trust (£0.4m) was up 64% to £3.6 million compared to £2.2 million in 2002. This resulted in diluted earnings per share adjusted for goodwill amortisation and the exceptional profit on sale of shares of 12.4p compared with 7.3p in 2002, an

a key component of our competitive advantage. Our competitors either sell through smaller direct sales forces which have been cut back significantly during the downturn or they sell through the increasingly diminishing specialist distribution channels. We consider our model of developing our own products, partnering with low cost manufacturers and selling these products directly using a technical and well trained sales team to be the right one.

I am pleased to report that the actions we took during Q4 2002 - when we scaled back the continental European operations with the goal of breaking even in 2003 - have been successful. Revenues from continental

Chairman's Statement and Operational Review (Continued)

Europe have improved to £7.1 million compared to £6.1 million in 2002 and, more importantly, the gross margin these businesses have earned increased from 24.6% in 2002 to 30.8% in 2003 as the design-in of our own product took effect. The result is that continental Europe produced its first operating profit of £0.3 million in the year.

Our more mature UK business performed well; revenues increased to £15.9 million in 2003 from £15.2 million in 2002 and operating profit improved to £2.6 million from £1.6 million in the same period. We were particularly successful in adding new customers in the defence and avionics markets and have had some renewed success with telecom infrastructure. The industrial sector, however, remains the core of the UK business.

production moving offshore to the Far East. In order to support our customers who choose this model we opened an office in Singapore in July 2003 and we are now in a position to support our customers throughout the world.

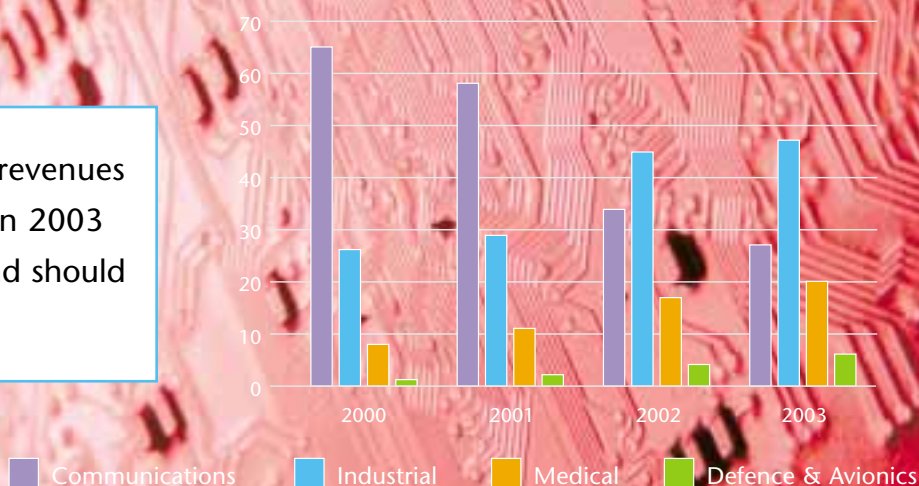
Our Customers

The profile of our customer base has changed dramatically since the beginning of 2001, when the market conditions in our industry deteriorated, which continued through 2002 and into 2003.

Revenues derived from the communications sector have decreased from £50m in 2001 to £16m in 2003 as these industries experienced a severe retrenchment. However, revenues from the communications sector still

Industrial and medical revenues continued to improve in 2003 and we believe this trend should continue in 2004.

End market sector split (% of revenue)



Revenues from the US business declined from \$64 million in 2002 to \$59 million in 2003. The US has been hardest hit by both the decline in the communications end markets and the termination of the US principals whose product we distributed. However, we believe that we have now taken the pain of this and new business from the efforts of designing in our own product is starting to show through. Our US operations have been particularly successful in designing in our new branded product and this should bear fruit over the next two years as many of these projects move into production. Our customers' projects take on average 14 months from identification to producing their first production revenues.

We have seen an increasing trend of product design occurring in either North America or Europe and the

represented 27% of our total in 2003 – compared to 58% in 2001 – and, despite the decline, this remains an important market sector for the Group. We believe that the reduction in our revenues from communications markets has run its course and are now seeing signs of improvement as some companies in this sector show a willingness to invest in capital equipment again.

In response to falling demand in some of our traditional sectors, we implemented a strategy of targeting and developing new end-user markets. This expansion of our capabilities has been successful and, as a result, revenues derived from the medical, industrial and defence sectors have increased steadily with 2003 revenues being some £7 million more than the levels achieved in 2001. Industrial and medical revenues continued to improve in 2003 and we believe this

trend should continue in 2004. In Europe we have also seen the revenues generated from defence and avionics customers advance.

The evolution of the XP business model has also opened up a number of new customer opportunities to the Group. A recent new project win on the Kalos® 2 with Credence Systems Corporation, a worldwide leader in automated test equipment for the semiconductor industry, is a good example of how the Group's tailored products and virtual manufacturing model are combining to deliver high value added solutions to the customer.

it to the needs of our customers as well as to closely manage the sales force.

In 2001 and 2002 we introduced a total of 67 new product families. In 2003 a further 25 product families were introduced, all of which are sold under the XP brand. This huge introduction of product over the last 3 years means our product portfolio is materially complete. We believe we can now satisfy approximately 70% of all requirements we see in the market with our own XP product. The number of product families we introduce in 2004 will therefore decelerate.



This Credence Systems Kalos® 2 semiconductor wafer test system incorporates power supplies from XP.



The F7 - our new 700 Watt configurable power supply.

New Product Development

New product development is vital to the long-term success of our business. The individual, specialist requirements of a fragmented customer base in the mid-tier of the power supply market, combined with a lack of suitable standard product from the top-tier players, has given us a considerable advantage in this arena. Development activity during the last few years has been concentrated on the introduction of our own XP branded product as we have completed the shift to the virtual manufacturer business model.

Our knowledge management systems allow us to capture huge amounts of marketing data gathered during customer visits. We use this information to carefully target our product development and tailor

These new products allow us to win more of the available business in our tier of the market and to make significantly higher gross margins as we own more of the intellectual property in the product. At the same time as delivering higher gross margins, and therefore earnings to our shareholders, we are delivering cost savings to our customers.

We are working ever closer with our manufacturing partners in the Far East. Our design engineers interface with our manufacturing partners throughout the product development cycle to ensure that cost is optimised at every stage of the design process. Furthermore, because we designed these products ourselves, it is straightforward for us to modify them to meet our customers' requirements.

Chairman's Statement and Operational Review (Continued)

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.

Dividend and Share Buy Back

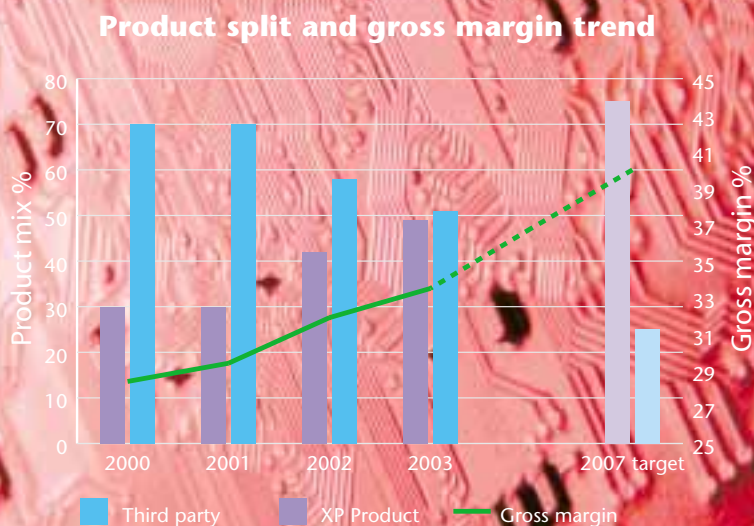
Our continued profitability and strong cash flow in the face of difficult market conditions has enabled us to maintain our dividend. We will be proposing a final dividend of 7p per share at our forthcoming Annual General Meeting which is scheduled for 21 April 2004.

People

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 237 employees have some sort of equity interest in the Group.

In structuring its incentive schemes for senior management the Group has sought to align the interests of the directors with those of shareholders as directly as possible. To this end, towards the end of the financial year four executive directors purchased shares

This is our fourth successive year of gross margin improvement in the face of difficult markets and generally declining prices.



In the early part of 2003 the dividend yield on our shares reached 12%. Since this is significantly greater than our cost of debt we took advantage of the situation, benefiting our shareholders, and purchased 470,000 of our own shares at an average price of 108.5 pence per share. In view of the high yield and the absence of suitable acquisition targets, we considered a share buy back to be the best use of the debt resources available to the Group at that time.

at market value, on deferred payment terms, from the Group's Employee Benefit Trust, an arrangement which captures the best elements of an option scheme but avoids diluting shareholders.

The competence of our management and dedication of our people was recognised by the Investors In People award in the UK during the year. We will continue to invest in our people, in particular by providing technical and commercial training to enable them to be recognised as experts in power by our customers.

Outlook

We believe that we are now seeing signs of a return of confidence in our customer base, particularly in the US, where an improvement in economic conditions has been widely reported in the later part of 2003. Whilst, to date, this economic improvement has yet to fully filter through to produce higher orders of the capital equipment which incorporate our products, the signs are encouraging and I expect that we should see improving economic conditions in 2004.

Subject to any external economic shock I expect 2004 to be better than 2003 for XP. Many of the programmes we won in 2002 and 2003 should start turning into revenue and we expect our expanded product range to underpin further sales growth. The outlook can only be helped by any improvement the wider industrial economy provides us.

Larry Tracey – Executive Chairman

We believe that we are now seeing signs of a return of confidence in our customer base, particularly in the US.



INVESTOR IN PEOPLE

“I have been most impressed by the competence and dedication of the company’s management and also the commitment and loyalty of the employees” **P.J. Maskrey** - Assessor

Board of Directors

1 Larry Tracey – Executive Chairman

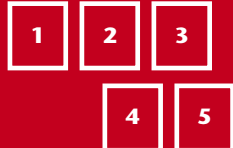
Larry (age 56) co-founded Powerline plc (“Powerline”) in 1979, where he focused on the strategic direction of the business. In March 1984, he was responsible for the flotation of Powerline on the Unlisted Securities Market of the London Stock Exchange and earnings grew 220 per cent in its three years as a quoted company. Larry headed Powerline’s expansion into Germany and the US. Powerline was acquired by Chloride plc in September 1987. In May 1990, Larry joined the Board of XP as an Executive Director. In April 2000 he was appointed Chief Executive Officer of XP Power plc and in April 2002 he was appointed Executive Chairman. He is responsible for Group strategy including acquisition policy. In February 2003 Larry stepped down from the role of Chief Executive and continued in the role of Executive Chairman.



4 Paul Christiansen – Chairman XPiQ and XP-ForeSight

Paul (age 49) has 21 years experience in the power supply industry and has previously held sales positions with Powermate Corporation and Compumech Electronics prior to co-founding Delta Lu Research, a specialist power supply distributor based in Northern California.

Since joining ForeSight Electronics in 1991, Paul has carried out various senior sales roles. ForeSight Electronics was acquired by the Group in May 2000. Paul is responsible for the North American marketing organisation. In August 2002 Paul was elected to the Board and on 3 February 2003 he was appointed Chairman of both of the Group’s US businesses.



2 James Peters – Deputy Chairman

James (age 45) has over 25 years experience in the power supply industry and trained with Marconi Space and Defence Systems, prior to joining Coutant Lambda, one of the UK’s major power supply companies, as an internal sales engineer. He joined Powerline shortly after its formation in 1980 and was involved in all aspects of the business.

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

3 Duncan Penny – Chief Executive

Between October 1998 and March 2000, Duncan (age 41) was the controller for the European, Middle Eastern and African regions for Dell Computer Corporation, prior to which Duncan spent eight years working for LSI Logic Corporation where he held senior financial positions in both Europe and Silicon Valley. From 1985 to 1990, Duncan spent five years at Coopers & Lybrand in general practice and corporate finance. He joined XP Power plc in April 2000 as Group Finance Director. In February 2003 he was appointed Chief Executive.

5 Mike Laver – President XP-ForeSight

Mike (age 41) has 18 years experience in the power supply industry. After completing his degree in Electrical Engineering at UC Santa Barbara, Mike held sales and technical positions with Power Systems Distributors, Compumech and Delta Lu Research. Mike joined ForeSight Electronics in 1991 and carried out various senior roles.

Mike is currently responsible for the US sales and engineering services organisations. Mike was elected to the Board in August 2002 and in February 2003 was made President of XP-ForeSight.



6 Frank Rene – President XPiQ

Frank (age 40) has held several senior engineering positions with Raytheon Corporation, a US defence contractor, as well as Digital Equipment Corporation (now Compaq) a leading supplier of computer products and services. He joined International Power Sources in 1993, which was acquired by the Group in July 2000.

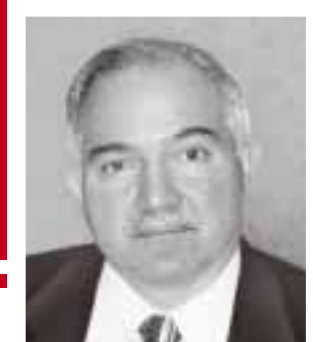
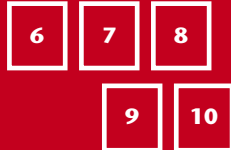
In August 2002 Frank was elected to the Board. In February 2003 he was appointed President of XPiQ, the product development arm of XP Power plc.



9 John Dyson – Non-Executive Director

John (age 55) was appointed Chief Executive Officer of Pace Micro Technology plc in May 2003, prior to which he had been Finance Director since November 1997. He held senior positions in both Silicon Valley and Europe for LSI Logic Corporation from June 1990 to November 1997.

From September 1988 to June 1990 John was co-founder and Managing Director of Modacom Limited, prior to which he was Finance Director of Norbain Electronics plc (1986 -1988) and Case Group plc from 1977 to 1986. He joined the Board of XP Power plc in June 2000. He is the senior non-executive director and chairman of the Remuneration Committee.



7 Steve Robinson – Managing Director - Europe

Steve (age 40) has been involved in the power industry since his graduation in 1984. Since joining XP in 1996, Steve has held senior positions at XP including Divisional Director, Joint Managing Director of the UK and since July 2003 Managing Director - Europe. Steve has been involved in the development of e-business strategy within XP since May 1999 and joined the Board of XP Power plc in January 2001.

8 Roger Bartlett – Non-Executive Director

Roger (age 59) joined Touche Ross & Co. in 1967 and qualified in 1971 after which he specialised in corporate taxation and became a partner in 1977. He was involved in all types of UK and international corporate work, including UK flotations, global acquisitions and disposals.

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

10 Rich Sakakeeny – Non-Executive Director

Rich Sakakeeny (age 55) has over 30 years experience in the North American, European and Asian Electronics Industry. Prior to founding International Power Sources, a 'virtual manufacturer' of electronic power supplies, in 1985, he held several senior positions at Intronic Inc., including VP of International Sales and Senior VP, General Manager. Since 1985, Rich has also founded and managed several companies in North America related to power and power measurement on behalf of European companies. He joined the Board of XP Power plc in August 2001.



Mickey Lynch *Vice President of Finance*

Cashflow

Because of our 'Virtual Manufacturing' model the Group is not burdened with the high capital cost and infrastructure associated with manufacturing facilities. This benefits the Group by increased free cash flow that can help fund business growth and minimise borrowings.

The Group generated £4.3 million of free cashflow (cashflow before acquisitions, dividends and financing) for the year ended 31 December 2003 (2002: £6.6 million). Most of this cashflow was generated from operations as working capital requirements have now stabilized. Our inventory position has further reduced to £6.6 million (2002: £7.7 million) and at the end of 2003 the proportion of own brand inventory has increased to 55% (2002: 46%) reflecting the underlying changes in product mix which are driving our gross margin improvements. The net increase in cash was £1.3 million (2002: £3.2 million).

Profit & Loss Account

Revenues decreased 7% from £64.0 million during 2002 to £59.4 million for the year ended 31 December 2003. During the second half of 2003 there has been a significant decline in the value of the US Dollar versus Sterling. Had the 2003 exchange rates been maintained at 2002 levels the Group would have reported additional 2003 revenues of £2.9 million and additional operating profit of £0.2 million.

Gross profit margins increased from 31.9% in 2002 to 33.5% in 2003 due to an increasing proportion of own brand sales. Own brand product revenues were £29.1 million or 49% of total revenue in 2003 versus £19.0 million or 30% of total revenue in 2002.

Operating expenses (total overheads excluding goodwill amortisation of £1.5 million; 2002 £1.5 million) have

been reduced 10% from £18.0 million in 2002 to £16.2 million in 2003. This reduction is a result of the continental Europe reorganisation, which took place at the end of 2002 and continued consolidation of the operations and administrative functions.

Financial Control & Reporting

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

Derivatives & Other Financial Instruments

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

The Group has not entered into any derivative or forward exchange transactions during the period under review. It is the Group's policy that no trading in financial instruments shall be undertaken. The main risk from the Group's financial instruments is foreign currency risk, which will be discussed in the next section.

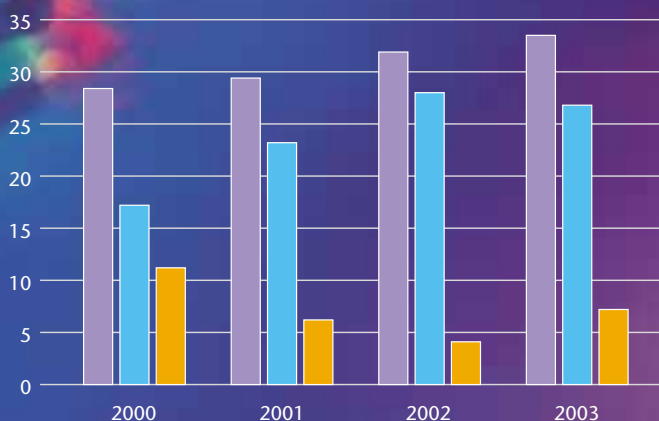
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Foreign Exchange & Hedging Policy

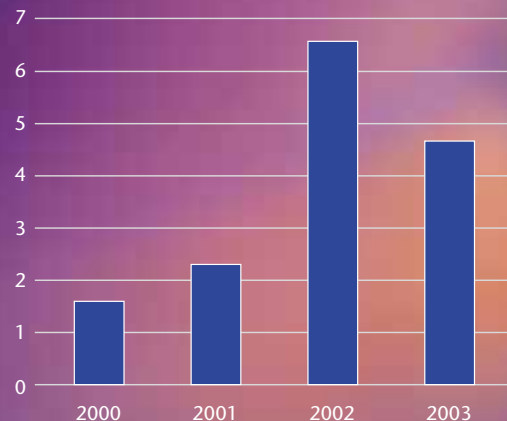
As approximately 61% of the Group's revenues originate in the USA, our results when reported in Pounds Sterling will fluctuate with movements in the US Dollar/Sterling exchange rate. This effect is an inherent part of operating in the USA and reporting in Sterling. Hedging such fluctuations may alleviate variances in the short term; however, our judgment is that in the long term hedging our US Dollar earnings will reduce shareholder value as we pay commissions and margins on financial instruments. We have therefore decided not to hedge this underlying economic risk.

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

Profit and loss metrics (% of revenue)



Free cash flow (£ millions)



- Gross margin
- Operating expenses
- Operating income

Improved profitability and strong cash flow in the face of difficult market conditions has enabled us to maintain our dividend.

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

Financing Costs

In December 2003, the Group renewed a working capital facility of £10.0 million and a revolving credit facility for acquisitions of £10.0 million committed for three years with the Bank of Scotland. The facility is priced at LIBOR plus 1.5%.

Taxation

Due to the lower level of profits in the USA, where corporate tax rates are comparatively high, and to favourable timing differences the Group's effective

tax rate is lower than last year, after adding back goodwill amortisation, which is generally not deductible for tax purposes.

Dividends

Our dividend policy is to pay dividends to our shareholders when commercially able to do so. This year's free cashflow has enabled us to maintain the dividend at last year's level.

J. Mickey Lynch – Vice President of Finance

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal Activities and Review of the Business

The Group provides power supply solutions to the electronics industry. A review of the financial results, business and future prospects are set out in the Chairman's Statement and Operational Review.

The Group continued to expand the resources it deploys on research and development during 2003, and acquired its first Patent during the year.

Directors and Their Interests

The present membership of the Board, all of whom served throughout the year, and the interests of the Directors in the shares of XP Power plc are set out in the Directors' Remuneration Report.

In accordance with the Company's Articles of Association Roger Bartlett, John Dyson, Steve Robinson and Rich Sakakeeny retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

Dividends

An interim dividend of 5p per share was paid on 17 October 2003. We are proposing a final dividend of 7p per share which would be payable to members on the register on 7 May 2004 and will be paid on 25 May 2004. This would make the total dividend for the year 12p.

Substantial Interests

Other than the directors' interests (refer to Remuneration Report) at 3 February 2004 the Company was aware of the following interests in three per cent or more of the issued ordinary share capital of the Company:

	Number of shares	%
Credit Suisse Asset Management	2,350,243	11.4
Aberforth UK Small Companies Fund	735,874	3.6

Environmental Policy

Whilst the Group does not have a formal environmental policy it endeavours to minimise harm to the environment by adopting energy efficient products and re-cycling the waste it produces where possible.

Payment Terms

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

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

Employment of Disabled Persons

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

Employee Involvement

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

Post Balance Sheet Event

On 26 February 2004, XP Power plc acquired the 80% of the issued share capital of XP Electronics Ltd it did not already own. The total consideration of £1.0 million was satisfied by £0.9 million in cash and £0.1 million in shares in XP Power plc. The goodwill generated by the transaction was approximately £0.6 million.

On the same day, the Group also acquired the 20% minority interest in XP Power Sweden AB in exchange for 5,600 shares in XP Power plc.

Auditors

On 1 August 2003, Deloitte & Touche, the company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to reappoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

Corporate Governance Statement

The company is committed to the principles of corporate governance contained in the Combined Code which is appended to the Listing Rules of the Financial Services Authority and for which the board is accountable to shareholders.

Compliance with the Combined Code

We are able to confirm that throughout the year ended 31 December 2003 we were in compliance with the code except for the following items.

- Since the retirement of Ed Kramar on 17 April 2002 Larry Tracey fulfilled the roles of Chairman and Chief Executive. On 3 February 2003 Duncan Penny was appointed to the role of Chief Executive. (A2.1)
- Rich Sakakeeny was an executive and part owner of XPiQ Inc. and is not considered independent by the combined code (B2.2)

Notwithstanding the above departures from the combined code, the directors consider that the current structure and function of the board is appropriate for the present size and composition of the Group.

Corporate Governance Statement (Continued)

Internal Control

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

The Group's internal controls are designed to manage rather than eliminate the risk of failure to meet business objectives, and can only provide reasonable not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place during the entire financial year and has remained in place up to the approval date of the annual report and accounts. That process is regularly reviewed by the board and Audit Committee and accords with the Internal Control guidance for directors on the Combined Code produced by the Turnbull working party.

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

As might be expected in a group of this size, a key control procedure is the day to day supervision of the business by the executive directors supported by managers within the Group companies. The executive directors are involved in the budget setting process, monitor key statistics on a weekly basis and review management accounts on a monthly basis, noting and investigating major variances.

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

Audit Committee

The Audit Committee consists of all three non-executive directors and is chaired by Roger Bartlett. All non-executive directors are considered independent except for Rich Sakakeeny through his executive management and ownership of International Power Sources Inc., which was acquired by the Group in July 2000. The Audit Committee has met three times in 2003.

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

Nominations Committee

The Nominations Committee consists of Larry Tracey, and the non-executive directors.

Relations with Shareholders

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

Going Concern

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

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration committee

The Remuneration Committee consists of the three non-executive directors, who are independent, except for Rich Sakakeeny through his executive management and ownership of International Power Sources Inc. (now XPIQ), which was acquired by the Group in July 2000. The committee is chaired by John Dyson. The committee met four times during 2003 to review the performance of the executive directors and within agreed terms of reference sets the scale and structure of their remuneration. The Committee sets the Group's policy on compensation of executive directors and the basis of their service agreements with due regard to the interests of shareholders. It also approves the allocation of share options to employees.

The remuneration of the executive directors consists of annual salary, taxable benefits in kind and profit related bonus.

Remuneration policy

The objective of the Group's remuneration policy is that executive directors should receive remuneration which is appropriate to their position of responsibility, and which will attract, motivate and retain executives of the necessary calibre.

There is an annual review at which the Committee approves the basic salary and profit sharing bonus scheme for each director. The Committee receives input from the Chairman regarding recommended packages for the executive directors. No changes were made in 2003 to the packages recommended to the Committee by the Chairman.

Basic salary

No changes to basic salaries were made in 2003.

Bonus payments

Bonus payments are linked to achieving internal annual plan targets for profit before tax and amortisation. A bonus of £17,925 was payable to Steve Robinson for the performance of the European business under his management. He received 7.5% of £239,000, being the amount by which the European business exceeded its budgeted operating profit.

Directors' Remuneration Report (Continued)

Share incentive schemes

The Group operates a number of share incentive schemes. The IFX Power plc Share Option Plan as approved by the shareholders in April 2001 allows the Company to grant options over up to 2,113,711 shares representing 10% of the issued share capital with or without performance conditions. To date 982,500 options have been granted under this scheme with exercise prices ranging from £1.75 to £3.425. The options are granted at the discretion of the Trustees, and except for the options disclosed on Page 20, are not subject to any performance criteria.

The Group also operates an Employee Benefit Trust, which currently contains 438,851 unencumbered shares. The Group has the ability to make option and share awards from this Trust.

As the majority of the Group's business takes place in the US the various share incentive schemes have been constructed with general practice in the US in mind.

Pension arrangements

The Group operates a defined contribution "Stakeholder" pension scheme in the UK. In 2003 the Group contributed 3% of base salary to this scheme on behalf of Duncan Penny, James Peters and Steve Robinson. As stated in the 2002 Annual Report, contributions to this scheme were temporarily suspended in 2003 until European earnings tracked above the Group's internal budget targets. As earnings did track above the internal budget targets, the contributions were made during 2003.

In the US the Group operates a defined contribution "401K Plan". The Group does not contribute to this plan.

Directors' contracts

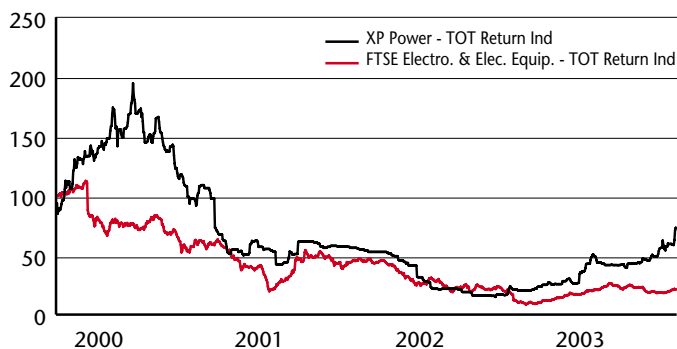
Directors are entitled to one year's notice under their service agreements.

Non-executive directors

All non-executive directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association. The basic fee paid to each non-executive director was £10,000.

Performance graph

The following graph shows the Company's performance measured by its share price compared with the FTSE Electronic and Electrical Equipment Price Index, of which XP Power is a constituent, since its flotation in July 2000.



Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

£	2003	2002
Basic salaries	665,773	600,000
Commissions	–	106,237
Benefits in kind	81,980	58,368
Bonus	17,925	–
Money purchase pension contributions	9,000	9,000
Non-executives fees	30,000	30,000
Total remuneration	804,678	803,605

The commissions paid of £106,237 in 2002 relate to Ed Kramar. The bonus payable of £17,925 in 2003 relates to Steve Robinson.

Directors' emoluments

Name of Director	Salary and fees	Pension	Benefits	Bonus	2003 Total	2002 Total
Executive						
Larry Tracey	87,996	–	1,238	–	89,234	103,750
Paul Christiansen (a)	92,592	–	6,914	–	99,506	38,169
Ed Kramar (b)	–	–	–	–	–	201,024
Mike Laver (a)	92,592	–	6,914	–	99,506	38,805
Duncan Penny	100,000	3,000	18,326	–	121,326	113,515
James Peters	100,000	3,000	18,328	–	121,328	121,146
Frank Rene (a)	92,593	–	12,716	–	105,309	39,826
Steve Robinson	100,000	3,000	17,544	17,925	138,469	117,370
Non-Executive						
Roger Bartlett	10,000	–	–	–	10,000	10,000
John Dyson	10,000	–	–	–	10,000	10,000
Rich Sakakeeny	10,000	–	–	–	10,000	10,000

(a) Appointed on 20 August 2002. Emoluments for 2002 are from the date of appointment to 31 December 2002.

(b) Ed Kramar retired from the Board on 17 April 2002.

Directors' interests in ordinary shares of XP Power plc

	As at 31 December 2003	As at 31 December 2002
Executive		
Larry Tracey(a)	4,284,779	4,284,779
Paul Christiansen	100,000	100,000
Mike Laver (b)	176,000	76,000
Duncan Penny (b)	300,000	110,000
James Peters(a)	3,789,779	3,789,779
Frank Rene (b)	195,000	95,000
Steve Robinson (b)	141,000	91,000
Non-Executive		
Roger Bartlett	34,000	34,000
John Dyson	25,000	25,000
Rich Sakakeeny	25,000	25,000

(a) On 10 February 2004 Larry Tracey and James Peters sold 155,000 and 100,000 shares respectively at a price of 280 pence per share.

(b) Duncan Penny, Mike Laver, Frank Rene and Steve Robinson purchased 150,000, 100,000, 100,000 and 50,000 shares respectively from the Group's ESOP Trust at the market value of 224 pence per share on 29 December 2003.

Directors' Remuneration Report (Continued)

The principal terms relating to these purchases are as follows:

- The trustees of the Group's Employee Benefit Trust offered shares to the directors named above on 22 December 2003 based on the average mid market closing prices in the three preceding working days.
- The payment for the shares is deferred until the shares are sold.
- The directors are not able to sell the shares for a period of 4 years or unless there is a take-over, reconstruction or de-merger of the Group.
- The directors will still be liable for the payment of the shares even if the market value falls below 224p per share.
- The trustees have the right to re-purchase the shares from the directors at the lower of market value or 224p per share if the director leaves the Group within 4 years.

The Group considers that the above arrangement aligns the interests of the directors with those of the shareholders without diluting shareholders as option arrangements would.

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

Executive	Date of grant	Exercise price	Term of option	Number of shares
Mike Laver	24 August 2001	£3.425	(a)	24,000
	21 August 2002	£1.75	(c)	50,000
Duncan Penny	24 August 2001	£1.15	(b)	25,000
	24 August 2001	£3.425	(a)	25,000
Frank Rene	24 August 2001	£3.425	(a)	5,000
	21 August 2002	£1.75	(c)	50,000
Steve Robinson	22 December 2000	£1.15	(b)	25,000
	24 August 2001	£3.425	(a)	25,000

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

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

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

The highest and lowest mid market prices of the shares of XP Power plc during 2003 were 250 and 73.5 pence per share respectively. The mid-market price on 31 December 2003 closed at 221.5 pence per share.

Approval

This report was approved by the by the Board of Directors on 3 February 2004 and signed on its behalf by:



John Dyson – Remuneration Committee Chairman

Statement of Directors' Responsibilities

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

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

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

Approved by the Board of Directors
And signed on behalf of the Board



Duncan Penny – Company Secretary

Independent Auditors' Report to the Members of XP Power plc

We have audited the financial statements of XP Power plc for the year ended 31 December 2003 which comprises the consolidated profit and loss account, the statement of total recognised gains and losses, the combined reconciliation of movement in shareholders' funds and statement of movements on reserves, the balance sheets, the cashflow statement and the related notes 1-24. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion: the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

CARDIFF
22 March 2004