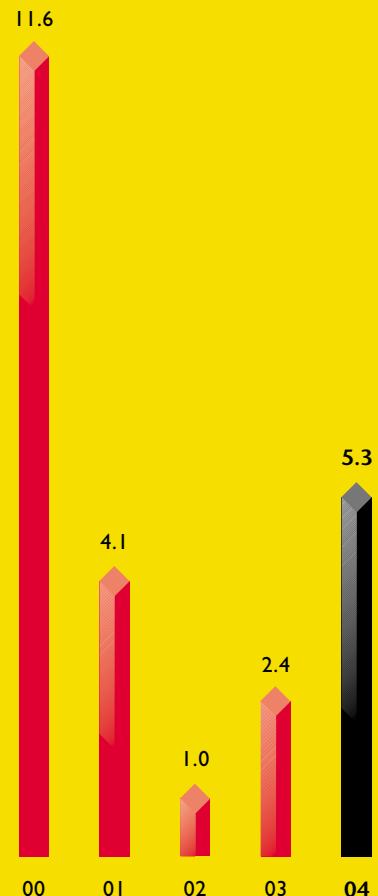


“ The business delivered a **90%** increase in diluted earnings per share ”

Larry Tracey, Executive Chairman

Group Operating Profit

(£m)

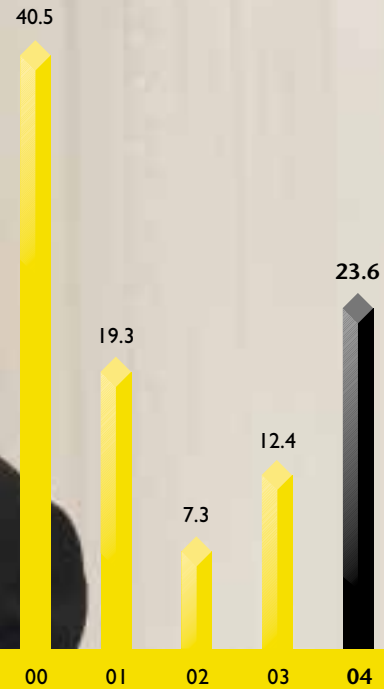


- Diluted earnings per share adjusted for goodwill amortisation and profit on sale of own shares grew by 90% (basic earnings per share grew by 238%, refer to note 8 on page 33)
- Revenue growth of 12% (20% at constant US dollar exchange rates)
- Gross margins improved by a further 2.0% points to 35.5% - the fifth year of successive improvement - driven by a further increase in own brand products in sales mix
- Strong free cash flow (cash flow before acquisitions and disposals, dividend payments and financing)
- Dividend to be increased by 17% to 14p per share

Chairman's Statement

Earnings per Share (Adjusted for Goodwill Amortisation)

Pence per share



Business Performance

XP is moving from strength to strength. The recovery evident in our key markets early in 2004 continued into the second half, producing a strong performance for the year as a whole, with sales, profits and gross margin all advancing significantly ahead of the prior year. The resultant increase in the share price over the year culminated in XP joining the FTSE All Share Index in December 2004.

Overall, the business delivered a 90% increase in diluted earnings per share, adjusted for goodwill amortisation, to 23.6p per share. Basic earnings per share increased to 16.9p from 5.0p in the prior year, an increase of 238% (refer to note 8 on page 33). This has been achieved as a result of our geographic expansion over the last few years and the continued increase in the proportion of our own intellectual property contained in the products we sell.

Dividend

The continued increase in profitability, together with strong cash flow (cash flow before acquisitions and

disposals, dividend payments and financing), has enabled us to increase the dividend payable to shareholders.

We will be proposing a final dividend of 8 pence per share at the Annual General Meeting on 20 April 2005, making the total dividend for 2004 14 pence per share (2003: 12 pence per share), an increase of 17%.

Strategy

As we move into 2005 we will continue to develop the strategy we began to implement in 2000:

- To have the largest and most technical sales force in the industry covering our target geographic markets of Europe and North America
- To focus on our key customers in the communications, defence and avionics, industrial and medical sectors
- To offer the largest array of power supply products from any one source to our customers by offering our own products alongside the products of our key third party partners
- To expand the level of our own intellectual property in our product offering using our various design engineering teams across the world

“ We are expecting our market to continue its growth in 2005 and **XP's position is strong** within our market. Whilst revenue growth is forecast to be skewed towards the second half of the year, improving margins and firm control of costs should enable **earnings to improve** throughout the year ”

Larry Tracey, Executive Chairman

People

Our success is a tribute to the professionalism of our people. We believe that our sales force is the best trained, most technical and the largest in our industry. Our design teams across the globe are producing world class products which are creating real excitement within our customer base. Behind these two teams, our operations people are delivering the backbone of the systems and processes that enable us to deliver genuine value to our customers.

Outlook

The improvement in capital equipment spending in 2004 is forecast by market analysts to continue through 2005, and since this capital equipment incorporates our products, we can expect to benefit from this trend. However, the weakness of the US Dollar could continue to impact our revenues when translated to Sterling.

Our gross margins are expected to continue to improve as our own XP designed products grow as a proportion of our overall business. The benefits of geographic expansion in North America and Europe are also now bearing fruit. These factors should mean that we will grow earnings at a healthy rate in 2005 subject to any external economic shocks.



Larry Tracey – Executive Chairman

Background to the Group and its Products and Markets



04

The Group

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

We segment our customer base into the following industries:

- Communications;
- Defence and Avionics;
- Industrial; and
- Medical.



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

Products

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

The Group has over 5,000 products at its disposal plus access to custom manufacturing capability where necessary. The products range from AC to DC power supplies, DC to DC converters necessary for Distributed Power Architectures, through to Power Protection Products. The Group also provides ancillary products such as filters and fans necessary for meeting Electro Magnetic Compatibility (EMC) legislation and thermal management.

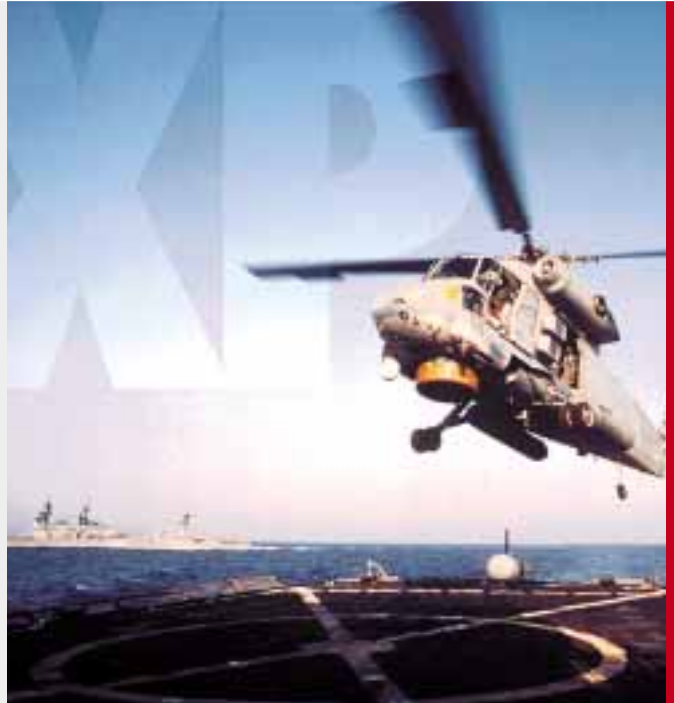
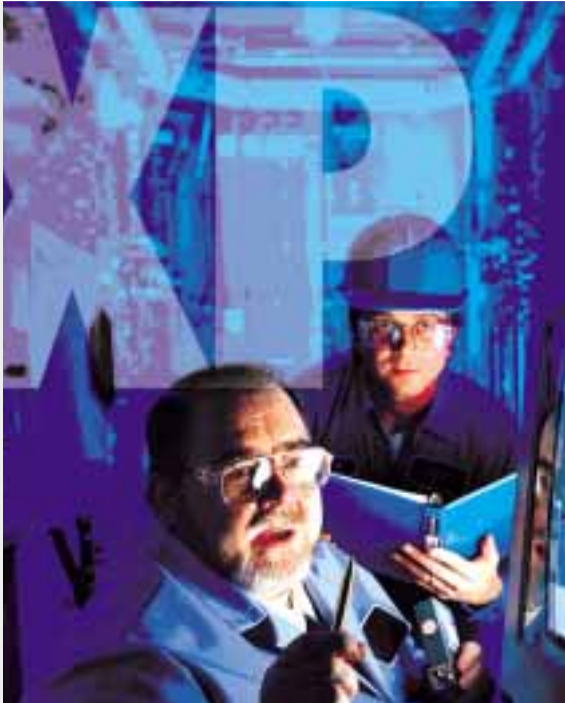
The Market

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



Our Customers and Industry Segmentation

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



Competition

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

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

Product Development

Our model is to design the power supply using one of our design engineering groups around the world and outsource the manufacture of the power supply to one of our partners in the Far East.

Our product range is supplemented by products from key third parties. In the course of time we expect the mix of our business to be approximately 75% our product and 25% third party product.

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



Engineering Services

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



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

Our Mission

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

Industry Split



06



Financial

In the year under review XP continued to develop and expand its portfolio of own brand products and increase its geographic coverage. As a result, we have achieved a further substantial improvement in earnings and strong free cash flow.

Revenues increased 12% to £66.8 million (2003: £59.4 million). This performance was achieved against a backdrop of an average US Dollar to Sterling exchange rate for 2004 of approximately 1.81 which is some 12% weaker than the average rate in 2003. If the same US Dollar to Sterling exchange rates had prevailed in 2004 as they did in 2003, XP would have reported revenues approximately £4.7 million higher and underlying growth in revenues of 20%.

Of the product shipped in 2004, 55% was our own XP brand, up from 49% in the same period a year ago. This increase was the primary factor contributing to a further 2.0% increase in gross margins to 35.5%. This is our fifth successive year of gross margin improvement and we expect to make further improvements in gross margin as a higher proportion of our products contain XP intellectual property.

Adjusted operating expenses (excluding goodwill amortisation of £1.4 million; 2003: £1.5 million) were £17.0 million in the year compared with £16.2 million

in 2003. Product development expenditure increased to £2.3 million, or 3.4% of revenue, from £1.9 million, or 3.2% of revenue, in 2003.

Profit before tax increased to £5.1 million from £2.1 million in the prior year. Profit before tax and goodwill amortisation of £1.4 million (2003: £1.5 million) was up 81% to £6.5 million compared to £3.6 million in 2003. This resulted in diluted earnings per share adjusted for goodwill amortisation (refer to note 8) of 23.6p compared with 12.4p in 2003, an increase of 90%.

Our strong margins allowed us to generate free cash flow (cash flow before acquisitions and disposals, dividend payments and financing) of £3.4 million during 2004. After returning £6.0 million (2003: £3.0 million) to shareholders in the form of dividends and a share buy back, net debt at 31 December 2004 was £10.1 million compared with £6.5 million at 31 December 2003.

Customers and Industry Segmentation

We segment our business into communications, defence and avionics, industrial and medical end user markets. We have senior strategic teams driving these sectors in both North America and Europe, to identify the customers we should be targeting in each of these

“ All industry segments

grew in 2004 ”

Duncan Penny, Chief Executive



sectors, support the sales people to penetrate these accounts and work with the product development organisation to determine what products we should develop. This structure has served us well and should help to drive further growth as we move forward. As our business grows in terms of scale and breadth of product offering, we are increasingly able to add value to the larger customers in the market sectors we serve. We are focusing more resource on winning programs with larger customers during 2005.

In December 2004 we were pleased to announce that XP was the first power supply company to sign a global supply agreement with Premier Farnell plc, the global marketer and distributor of electronic and MRO (Maintenance Repair Operations) specialist products and services.

The three-year agreement will see the Group's power supply products listed exclusively in Premier Farnell's catalogues, expanding XP's market presence significantly and further improving brand awareness.

This partnership with Premier Farnell will allow XP to enhance its ability of focusing directly on its largest

target customers whilst providing a higher level of service to our smaller customers through the catalogue sales channel.

Quality

We remain committed to quality, from design of our product, through to manufacturing and our customer facing processes. Our North American sales organisation gained ISO9001:2000 certification in the summer of 2004. This means all our key sites and activities are now ISO9001:2000 certified.

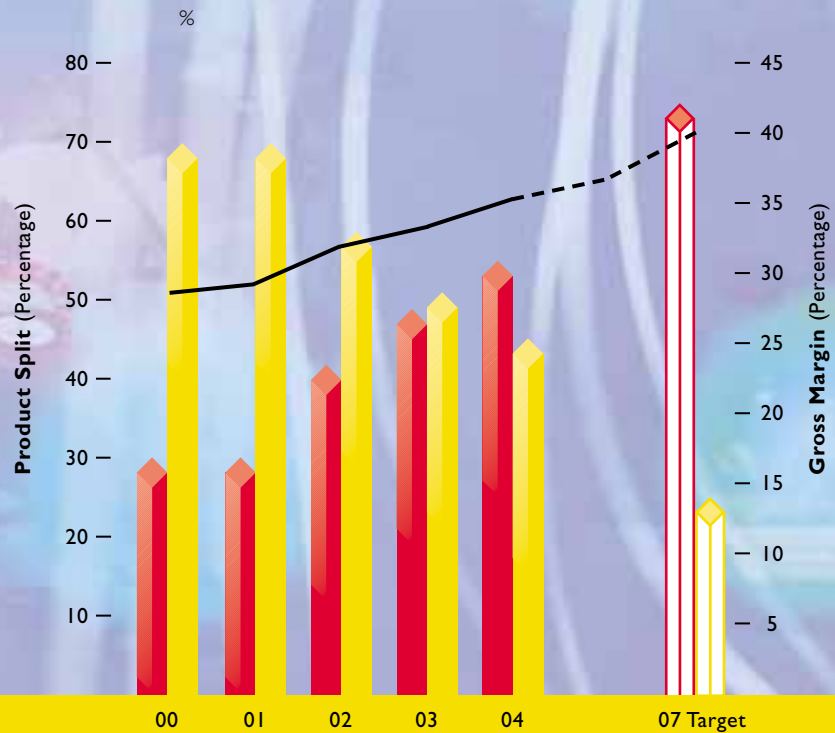
The quality of our product and service was recognised by Siemens Automation and Drives during 2004 when we were awarded best performing supplier.

Partnerships

Partnerships are an important element of our business model. XP focuses on its core competencies of market knowledge, design engineering and technical sales. For high volume, low cost manufacturing we partner with a select number of Far Eastern manufacturers.

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

Margin and Product Split



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

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

Geographic Markets

It is clear that there has been more life in the markets for capital equipment, into which our products are incorporated, during 2004 when compared to 2003. This is particularly the case in North America. However, as well as the improvements in the underlying markets, we consider that we have taken additional market share in 2004.

Revenues from the US business increased by 20% to \$71 million in 2004 from \$59 million in 2003. 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.

Our more mature UK business performed well; revenues increased by 12% to £17.8 million in 2004 from £15.9 million in 2003 and operating profit improved to £3.0 million from £2.6 million in the same period. We consider that we have clearly outpaced the growth in the overall market in the UK. We were particularly successful in adding new customers in the defence and avionics markets and have had success with wireless infrastructure. The industrial sector, however, remains the core of the UK business.

The investment in our sales channel in Continental Europe is now paying off with European revenues growing 30% to £9.4 million in 2004 from £7.2 million in 2003. We believe we are taking market share principally from the small custom manufacturers which operate in these markets. We have considerable cost advantages over these local suppliers and the added advantage of being able to offer a standard or modified standard product which is available much more quickly than the custom designs we often compete with.

Share Buy Back

During May 2004 we purchased 910,000 of our own shares on market at an average price of 377.2 pence

“ We remain on track to **achieve our target**
40 gross margin of
% in 2007 ”

Duncan Penny, Chief Executive

per share. (2003: 470,000 shares were purchased at an average cost of 108.5p per share. These shares were cancelled.) These shares are held in treasury to use for funding the Company's various share option schemes or for other appropriate purposes such as funding small acquisitions. At the year end there were 888,750 shares remaining in treasury.

People

We strive to inspire all of our people to become experts in power to fulfil our aim of delivering genuine value to our customers. The role of our field sales engineers, who interface directly with our customers' engineering teams to design our power supplies into their systems, is crucial and we believe that we have not only the largest direct sales force in our industry sector, but also the best trained and the most technical. We rolled out an extensive technical training program for all sales people during 2004 to ensure we maintain and develop their technical skills.

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

The competence of our management team and dedication of our people was recognised by the Investors In People award in the UK. We will continue to invest in our people, in particular by providing technical and commercial training to continue to ensure they are recognised as experts in power by our customers.

In June this year we were pleased to announce the appointment of Mickey Lynch as Finance Director. Mickey joined XP in April 2001 as Vice President of Finance in North America. Prior to joining the Group, Mickey was Chief Financial Officer of Atari Games.

Prospects

We remain on track to achieve our target gross margin of 40% in 2007 with a product mix of approximately 75% XP intellectual property and 25% from our third party partners. We should also expect further improvements in our operational gearing as our investment in the geographic expansion of our sales channel bears fruit.

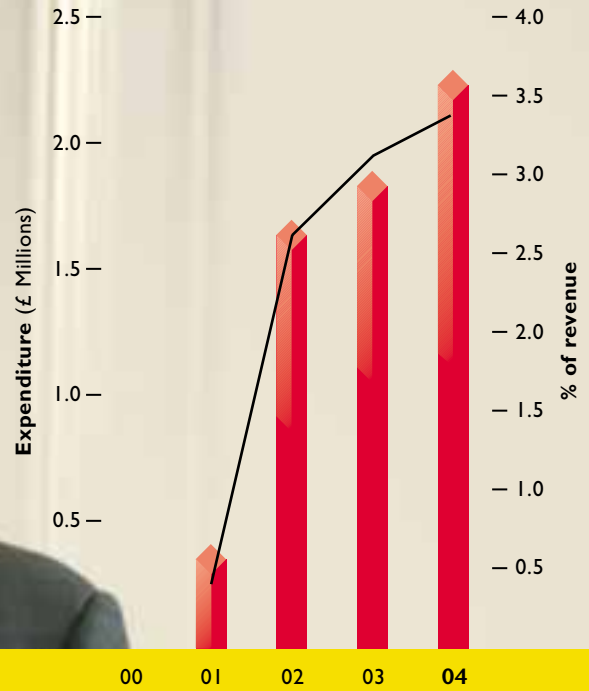


Duncan Penny – Chief Executive

Product Development

◆ Expenditure (£ Millions) — % of revenue

Product Development Expenditure



10

Offering our customers the widest product range in the marketplace is a key component of XP's strategy and product development is vital to the long-term success of our business. We continue to commit more resource to this area in line with our strategy of expanding our own brand product portfolio. Our design engineering team was strengthened in February 2004 by the acquisition of the remaining 80% of the issued share capital of XP Electronics that we did not already own. Acquisition of this business has enabled XP to expand its proprietary product range, added new low volume manufacturing capability to our European operation and expanded our capability to develop new leading edge products.

The XP Electronics design team is now an integrated part of our worldwide product development effort and is focused on designing new standard products that will be manufactured at low cost in the Far East by XP's existing manufacturing partners for volume applications. At the

same time, lower volume production runs and modified standard product will continue to be manufactured in the UK.

XP's Anaheim design team was recognised by Electronic Engineering Times in North America in their Best Development Teams special feature in November 2004 for their development of the ECM40 and ECM60 product families which were launched in 2004.

We believe that this award demonstrates our ability to lead the field in design.



“ Our design teams across the globe are creating
world class products
 which are creating real excitement
 within our customer base. ”

Frank Rene

President - Worldwide Product Development



XP's award winning Anaheim design team

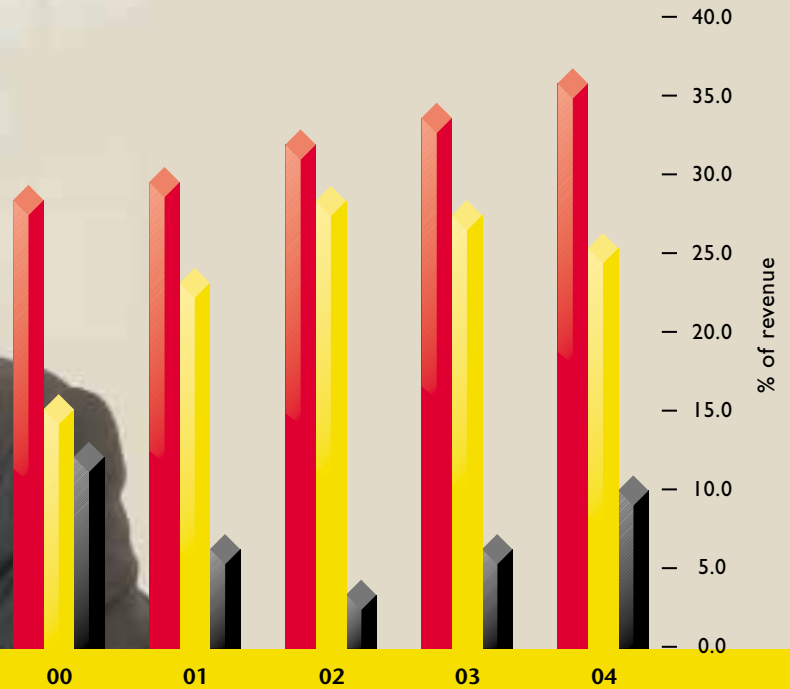
New products allow us to win more of the available business in our sector of the market and to make significantly higher gross margins as we own more of the intellectual property in the product. At the same time as delivering higher gross margins, and therefore earnings to our shareholders, we are delivering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

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.

We expect to spend approximately 3.5% of revenues on product development in 2005.

Profit and loss metrics



12

Cashflow

As a result of our “Virtual Manufacturing” model the Group is not burdened with the high capital cost and fixed overhead costs associated with manufacturing facilities. This benefits the Group by increased free cash flow (cash flow before acquisitions and disposals, dividend payments and financing) that can fund business growth and minimize borrowings.

Our strong operating profit allowed us to generate free cash flow of £3.4 million during 2004 (2003: £4.3 million). Refer to page 28. After returning £6.0 million (2003: £3.0 million) to shareholders in the form of dividends and a share buy back, net debt at 31 December 2004 was £10.1 million compared with £6.5 million at 31 December 2003.

Profit & Loss Account

Revenues increased 12% to £66.8 million from £59.4 million in 2003. During 2004 there has been a significant decline in the value of the US Dollar versus Sterling. Had the 2004 exchange rates been maintained at 2003 levels the Group would have reported additional 2004 revenues of £4.7 million.

Gross margins increased to 35.5% in 2004 from 33.5% in 2003 due to an increasing proportion of own brand sales. Own brand product revenues were £36.7 million or 55% of total revenue in 2004 versus £29.1 million or 49% of total revenue in 2003.

Operating expenses (total overheads less goodwill amortisation of £1.4 million; 2003 £1.5 million) have increased to £17.0 million from £16.2 million in 2003.

Product development expenditure increased to £2.3 million or 3.4% of revenue from £1.9 million or 3.2% of revenue in 2003.

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 continual 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.

During May 2004 we purchased 910,000 of our own shares on market at an average price of 377.2 pence per share. These shares are held in treasury to use for funding the Company’s various share option schemes or for other appropriate purposes such as funding small acquisitions. At the end of the year there were 888,750 shares remaining in treasury.

“ This year’s increased profitability and continued favourable free cashflow has enabled us to **increase the dividend** by

17% to 14p ”

Mickey Lynch, Finance Director

Foreign Exchange & Hedging Policy

As approximately 59% 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.

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

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

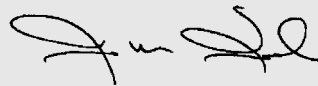
In December 2003, the Group renewed a three-year revolving credit facility for acquisitions of £10.0 million. In December 2004 the Group renewed the annual working capital facility of £10.0 million. Both of these facilities are with the Bank of Scotland and are priced at LIBOR plus 1.5%.

Taxation

The Group’s effective tax rate has remained comparatively stable.

Dividends

Our dividend policy is to pay dividends to our shareholders when commercially able to do so. This year’s increased profitability and continued favourable free cashflow has enabled us to increase the dividend by 17% to 14p.



J. Mickey Lynch – Finance Director

The Board of Directors

Executive Directors



1 Larry Tracey

Executive Chairman (age 57)

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

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

2 James Peters

Deputy Chairman (age 46)

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

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

3 Duncan Penny

Chief Executive (age 42)

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

4 Mickey Lynch

Finance Director (age 52)

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

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

5 Mike Laver

President North American (age 42)

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

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

Non-executive Directors



6 Frank Rene

President Worldwide Product Development (age 41)

Frank 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.

Frank joined the board on 20 August 2002 and is responsible for the Group's worldwide product development and manufacturing operations.

7 Steve Robinson

Managing Director Europe (age 41)

Steve 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 (age 60)

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

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

9 John Dyson

Non-Executive Director (age 56)

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

10 Rich Sakakeeny

Non-Executive Director (age 56)

Rich Sakakeeny 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.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal Activities, Review of Business and Future Prospects

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

The Group continued to expand the resources it deploys on research and development during 2004.

Directors and Their Interests

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

In accordance with the Company's Articles of Association Mike Laver, Duncan Penny and Frank Rene retire by rotation. In addition to this Mickey Lynch retires following Board appointment. They offer themselves for re-election at the Annual General Meeting.

Dividends

An interim dividend of 6p per share was paid on 6 October 2004. The Directors are proposing a final dividend of 8p per share which would be payable to members on the register on 29 April 2005 and would be paid on 17 May 2005. This would make the total dividend for the year 14p (2003: 12p). Refer to note 7.

Substantial Interests

Other than the directors' interests (refer to Remuneration Report), and excluding treasury shares, at 19 February 2005, the Company was aware of the following interests in three per cent or more of the issued ordinary share capital of the Company:

	Number of shares	%
Credit Suisse Asset Management	1,794,306	9.1
Fidelity Investment Limited	1,479,300	7.5
Standard Life	1,485,254	7.5
Aberforth UK Small Companies Fund	1,182,138	6.0

Environmental Policy

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

Payment Terms

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

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

Employment of Disabled Persons

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

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

Employee Involvement

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

Auditors

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

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

Anne Honeyman – Company Secretary

Corporate Governance

Managing Risk

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

Compliance with the Combined Code

Throughout the year ended 31 December 2004 the company has been in compliance with the Code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance except for the following matter:

- Richard Sakakeeny was an executive and part owner of International Power Sources, Inc (now XPiQ, Inc.), which was acquired by the Group in July 2000. Therefore he is not considered to be independent by the Combined Code (B2.2).

Notwithstanding the above departure 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.

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 reviews this on a regular basis.

Board Meetings

There were seven Board Meetings during the year.

One of the meetings was held to approve the transfer of 80% of the share capital of XP Electronics, and was attended by James Peters and Duncan Penny.

The March Board Meeting was attended by all Directors except for Larry Tracey. The other five Board meetings during the year were attended by all the Directors.

Corporate Governance (Continued)

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 Richard 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 2004 and every meeting was attended by all the Audit Committee members.

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

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

the award of audit-related services to the Auditors in excess of £50,000 must first be approved by the Chairman of the Audit Committee, who in his decision to approve will take into account the aggregate of audit-related revenue already earned by the Group Auditor in that year. Audit related services include formalities relating to borrowing, shareholder and other circulars, regulatory reports, work relating to disposals and acquisitions, tax assurance work and advice on accounting policies;

the award of tax consulting services to the Auditors in excess of £100,000 must first be approved by the Chairman of the Audit Committee;

the award of other non-audit related services to the Auditors in excess of £20,000 must first be approved by the Chairman of the Audit Committee;

and the Auditors will be required to make a formal report to the Audit Committee annually on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity.

Nomination Committee

The Nomination Committee consists of Larry Tracey, James Peters and the non-executive directors. It is chaired by Larry Tracey and it reviews and considers the appointment of new directors. Any appointment of a new director is voted on by the whole Board. All Nomination Committee meetings during the year were attended by all the Nomination Committee members.

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.

Directors' Remuneration Report

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, plus Larry Tracey and James Peters. The non-executive directors are independent, except for Richard Sakakeeny through his executive management and ownership of International Power Sources Inc., (now XPiQ, Inc.) which was acquired by the Group in July 2000. The committee is chaired by John Dyson. The committee met four times during 2004 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 Executive Chairman regarding recommended packages for the executive directors. No changes were made in 2004 to the packages recommended to the Committee by the Executive Chairman.

Basic Salary

No changes to basic salaries were made in 2004.

Bonus Payments

Bonus payments are linked to achieving internal annual plans.

Bonuses were paid to all Executive Directors during 2004.

Bonuses of £32,335 were payable to Larry Tracey, James Peters and Duncan Penny. Their basic bonuses were calculated on the Group achieving an adjusted operating profit of £7 million. At £7 million, they would have each received £20,000 but as the actual adjusted profit was 112.3% of budget they received £32,335, an extra £12,335 or £1,000 per percentage point.

A bonus of \$48,502 was payable to Frank Rene. His basic bonus was calculated on the Group achieving an adjusted budgeted operating profit of £7 million. At £7 million, he would have received \$30,000 but as the actual adjusted profit was 112.3% of budget he received \$48,502. Using an average exchange rate of 1.8177 in the year, this equals £26,683.

A bonus of \$51,463 was payable to Mike Laver. His basic bonus was calculated on the US business exceeding an adjusted operating profit of \$8.9 million. For every percentage point that the adjusted operating profit exceeded the budget he earned a \$1,500 bonus. In addition, he also received a discretionary amount of \$6,639 in lieu of medical benefits. The total payable on this basis was \$58,102. Using an average exchange rate of 1.8177 in the year, this equals £31,965.

Directors' Remuneration Report (Continued)

A bonus of \$26,708 was payable to Mickey Lynch. His basic bonus was calculated on the US business exceeding an adjusted operating profit of \$8.9 million. For every percentage point that the adjusted operating profit exceeded the budget he earned a \$1,192 bonus. Taking into account his appointment as Director on 11 June, the total payable for the period from his appointment was \$26,708. Using an average rate since the date of appointment of 1.8232, this equals £14,649.

A bonus of £47,428 was payable to Steve Robinson. He received 5% of £948,565, being the amount by which the European business exceeded its base for profit share.

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 992,500 options have been granted under this scheme with exercise prices ranging from £1.75 to £4.50.

The Group also operates an Employee Benefit Trust, which currently contains 415,751 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 2004 the Group contributed 3% of base salary to this scheme on behalf of Duncan Penny, James Peters and Steve Robinson.

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

Directors' Contracts

The UK executive directors' contracts run for an indefinite term, with the company being able to terminate the contracts without cause giving 12 months notice. When a director is terminated without cause the director is entitled to a termination payment of 12 months basic pay.

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

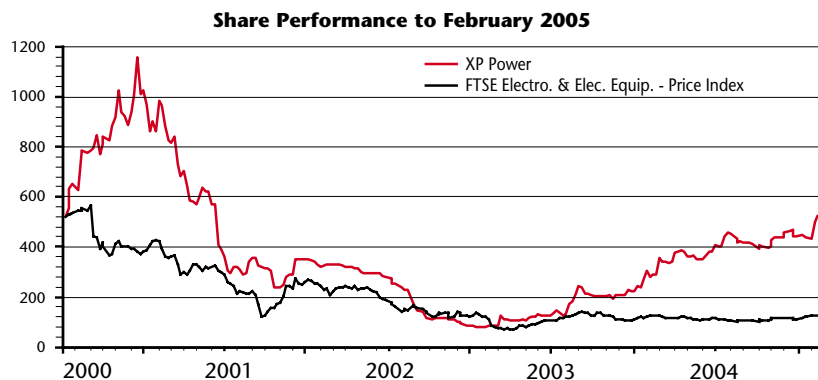
Non-executive directors' contracts run for an initial 12 months period, renewable each year. They are not entitled to any termination payments.

Non-executive Directors

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. Terms and conditions of appointment of non-executive directors are available for inspection. 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:

£	2004	2003
Basic salaries	639,756	665,773
Benefits in kind	91,805	81,980
Bonus	217,730	17,925
Money purchase pension contributions	9,000	9,000
Non-executives fees	30,000	30,000
Total Remuneration	988,291	804,678

The bonus paid of £17,925 in 2003 relates to Steve Robinson.

Directors' Emoluments

Name of Director	Salary and fees £	Pension £	Benefits £	Bonus £	2004 Total £	2003 Total £
Executive						
Larry Tracey	88,000	–	1,448	32,335	121,783	89,234
Paul Christiansen (a)	41,256	–	4,346	–	45,602	99,506
Mike Laver	82,522	–	8,692	31,965	123,179	99,506
Mickey Lynch (b)	45,456	–	4,788	14,649	64,893	–
Duncan Penny	100,000	3,000	20,521	32,335	155,856	121,326
James Peters	100,000	3,000	18,325	32,335	153,660	121,328
Frank Rene	82,522	–	13,974	26,683	123,179	105,319
Steve Robinson	100,000	3,000	19,711	47,428	170,139	138,469
Non-Executive						
Roger Bartlett	10,000	–	–	–	10,000	10,000
John Dyson	10,000	–	–	–	10,000	10,000
Richard Sakakeeny	10,000	–	–	–	10,000	10,000

(a) Resigned 2 July 2004. Emoluments are up to the date of resignation

(b) Appointed 11 June 2004. Emoluments are from date of appointment

Directors' Interests in Ordinary Shares of XP Power plc

	As at 31 December 2004	As at 1 January 2004
Executive		
Larry Tracey (a)	3,729,779	4,284,779
Mike Laver (a)	151,000	176,000
Mickey Lynch (b)	50,000	–
Duncan Penny	300,000	300,000
James Peters (a)	3,405,779	3,789,779
Frank Rene (a)	170,000	195,000
Steve Robinson (a)	125,000	141,000
Non-Executive		
Roger Bartlett	34,000	34,000
John Dyson (a)	15,000	25,000
Richard Sakakeeny (a)	29,000	37,000

(a) Larry Tracey sold 155,000 shares at a price of 280p per share on 10 February 2004 and sold 400,000 shares at a price of 400p on 16 September 2004.

James Peters sold 100,000 shares at a price of 280p per share on 10 February 2004 and sold 280,000 shares at a price of 400p on 16 August 2004. The James Peters Childrens Trust sold 4,000 shares at a price of 340p per share on 29 March 2004.

Directors' Remuneration Report (Continued)

Steve Robinson sold 16,000 shares at a price of 440p per share on 23 December 2004.

John Dyson sold 10,000 shares at a price of 400p on 17 August 2004.

Richard Sakakeeny sold 3,000 shares at a price of 420p on 9 November 2004 and 5,000 shares at a price of 440p per share on 22 December 2004.

Frank Rene sold 25,000 shares at a price of 440p per share on 8 December 2004.

Mike Laver sold 25,000 shares at a price of 330p on 16 March 2004.

Larry Tracey sold 600,000 shares at a price of 520p per share on 8 February 2005. James Peters sold 250,000 shares at a price of 520p per share on 8 February 2005.

The James Peters Childrens Trust sold 3,000 shares at a price of 520p per share on 17 February 2005.

Steve Robinson sold 25,000 shares at a price of 520p on 11 February 2005.

- (b) Mickey Lynch purchased 50,000 shares from the Group's ESOP Trust on 14 June 2004 at the market value of 367.5p per share.

The principal terms relating to this purchase are as follows:

- The Trustees of the Group's Employee Benefit Trust offered shares to the director named above on 14 June 2004 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 director is able to sell 50% of the shares after two years and the remaining 50% after a further two years, unless there is a takeover, reconstruction or de-merger of the Group.
- The director will be liable for the payment of the shares even if the market value falls below 367.5p.
- The trustees have the right to repurchase the remaining shares from the director at the lower of market value or 367.5p per share if the director leaves the Group within 4 years.

The Group considers that the above arrangement aligns the interests of the director 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
Mickey Lynch	24 August 2001	£3.425	(a)	15,000
	21 August 2002	£1.75	(a)	20,000
Duncan Penny	24 August 2001	£1.15	(b)	25,000
	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	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 2004 were 466p and 218p per share respectively. The mid-market price on 31 December 2004 closed at 450p per share.

Steve Robinson exercised 15,000 options at 400p on 29 September 2004 and 10,000 options at 447p on 13 August 2004.

Duncan Penny exercised 25,000 options at 522p on 9 February 2005.

Approval

This report was approved by the Board of Directors on 18 March 2005 and signed on its behalf by:



John Dyson – Remuneration Committee Chairman

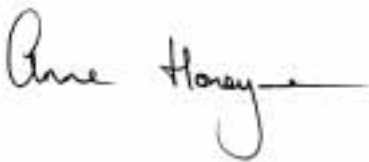
Statement of Directors' Responsibilities

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 Group as at the end of the financial year and of the profit or loss of the Company and Group 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 and Group 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 Group and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for the system of internal control, for safeguarding the assets of the Company and Group 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



Anne Honeyman – 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 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the combined reconciliation of movements in shareholders' funds and statement of movement on reserves, the statement of accounting policies and the related notes numbered 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 nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's 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 the 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 circumstances of the company and the group, 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 2004 and of the profit of the group for the year then ended; and the financial statements and 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 and Touche LLP
Chartered Accountants and Registered Auditors

Cardiff, United Kingdom

18 March 2005