XAAR®

Xaar plc
Interim Report 2017

HIGHLIGHTS

Financial highlights

- Revenue in the first half of the year was in line with the Board's expectations at £44.0 million
- Revenue excluding licensee royalty grew by 5%. Product revenue outside of Ceramics grew by 60%. The revenue from Engineered Printing Solutions (EPS) for the first half of the year was £6.5 million
- Profitability consistent with the first half of 2016; gross margin of 47% (H1 2016: 45%); product gross margin was 43% (H1 2016: 36%); and adjusted operating profit margin of 18% (H1 2016: 19%)
- Net cash at 30 June 2017 of £38.3 million (31 December 2016: £49.3 million), after investment in Thin Film Platform and working capital
- Interim dividend up 3% to 3.4 pence per share (2016: 3.3 pence per share)

Operational and strategic highlights

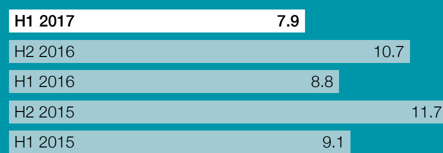
- Announcement of the Joint Development Agreement with Xerox to develop the next generation of Industrial Bulk piezo printheads using the extensive combined resources and IP of both companies. The efficiency gains from this agreement will allow Xaar to redeploy resources to strengthen the go-to-market functions to transform the business to become more customer-centric
- First printhead arising from Xerox collaboration, the Xaar 5501 printhead, generates its first revenues
- Good progress achieved in launching the new Thin Film printhead 1201, with a master distribution agreement signed for two years for +90,000 printheads
- 5601 design frozen, first development kits shipped, capitalisation stopped at the end of July
- Establishing European distribution channel for EPS digital product portfolio

Revenue £m

£44.0m

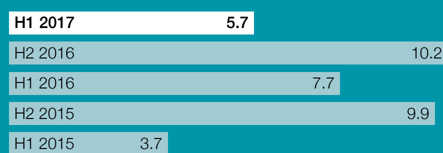
Adjusted profit before tax £m

£7.9m



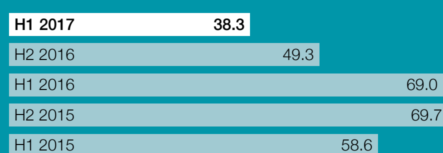
Profit before tax £m

£5.7m



Net cash balance £m

£38.3m



Adjusted measures exclude items from the IFRS results, including share-based payment charges, exchange differences relating to the United States and Swedish operations, unrealised gains/losses on derivative financial instruments, research and development expenditure credit, and restructuring costs, per the reconciliation of adjusted financial measures on page 11. Net cash includes cash and cash equivalents and treasury deposits.

Welcome to Xaar plc

Xaar is a world leader in the development of digital inkjet technology, the manufacture of piezoelectric drop-on-demand industrial printheads and the delivery of product printing solutions.

Read about our performance in 2017 see p3

Find out more about our Directors' responsibilities see p5

Review our financial statements see p6

What's in this report?

Chairman's statement

PROGRESS AND CHANGE

During the first half of 2017 we continued our transformation to a more customer-focused and market-led business, whilst delivering financial results in line with expectations.

Robin Williams Chairman
6 September 2017

Interim dividend

3.4p

(2016: 3.3p per share)

During the first half of 2017 we continued our transformation to a more customer-focused and market-led business, whilst delivering financial results in line with expectations. We reviewed and confirmed our strategic vision to grow annual sales to £220 million by 2020, and announced a partnership with Xerox to jointly develop the next generation Bulk piezo platform.

Dividend

In 2014 we announced a sustainable and progressive dividend policy which takes into account the Group's future prospects, its underlying profitability and the future cash requirements of the business.

The Board has declared a 2017 interim dividend of 3.4 pence, a 3% increase over the 2016 interim dividend, which will be paid on 12 October 2017, with an ex-dividend date of 14 September 2017 to shareholders on the register at close of business on 15 September 2017.

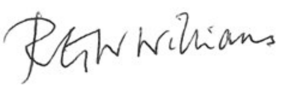
Board

There were two changes to the Board in the first half of the year.

On 2 May 2017 Lily Liu joined the Board as Chief Financial Officer. Lily joined us from the Smiths Group plc, where she held a number of senior financial and management roles. Most recently, from 2014 to 2016, Lily was CFO of the Smiths Detection Division.

On 8 August 2017 it was announced that Ted Wiggans, Chief Operations Officer, plans to retire from the Group on 9 August 2018.

Our financial results for the first half of 2017 were in line with expectations and we remain focussed on delivering our 2020 vision. I want to thank all our employees for their hard work and commitment.



Robin Williams Chairman
6 September 2017

Chief Executive Officer's report

ACHIEVEMENT AND TRANSFORMATION

We are making good progress in transforming Xaar to a more diversified and customer-centric company.

Doug Edwards Chief Executive Officer
6 September 2017

Our 2020 vision

To lead the Digital Inkjet Revolution with annual sales of £220 million by 2020.

We are making good progress in transforming Xaar to a more diversified and customer-centric company. I am particularly pleased with the new product revenue streams we are delivering in Product Printing & Packaging, Graphic Arts, 3D and Advanced Manufacturing. Product revenue in the first half, outside of Ceramics, has grown by 60%. This transformation is not easy so I would like to thank all of our staff for their continued hard work and dedication as we continue to lay the foundations to deliver our 2020 vision.

I am pleased with our progress towards the 2020 vision during the first half of the year. Working together with our manufacturing partner for the Thin Film Xaar 5601, the 5601 design has been frozen, and the first development kits shipped. We launched a new Premier Partnership Programme into the Ceramics market to leverage our advanced High Laydown Technology and diversified product portfolio. We continued with our transformation from an internally-focussed organisation to a market and customer-centric business; the savings arising from increased efficiency in operations and R&D will be redeployed into our go-to-market functions.

Results and business commentary

Revenue for the six months ended 30 June 2017 was £44.0 million (H1 2016: £44.5 million; H2 2016: £51.7 million). Revenue excluding licensee royalties was £40.5 million (H1 2016: £38.4 million; H2 2016: £44.5 million). The revenue contribution from the EPS business was £6.5 million for the first half of 2017, consistent with expectations; revenue from the EPS business has been reported within the Packaging and Product Printing market sector.

Analysing the geographic split of our revenue based on the location of our customers (and not necessarily end users), Asia has increased to 47% (H1 2016: 42%, H2 2016 35%), EMEA reduced to 32% (H1 2016: 51%, H2 2016: 36%) and the Americas increased, relative to the same period in 2016, to 21% (H1 2016: 7%, H2 2016: 29%).

Sales into Graphic Arts in the first half of 2017 were 33% higher than the same period for 2016, with the first set of revenues from the Thin Film printhead realised at £2m. A master distribution agreement was signed for +90,000 printheads over 2 years.

Revenue from Packaging and Product Printing increased by 54% compared to the first six months of 2016; excluding the contribution from the newly acquired EPS business, the revenue from this market declined by 20%. Sub-segments Direct-to-Shape, and Labels provided growth whilst Packaging, and Coding & Marking declined due to the time for the replacement new products to ramp up.

Revenue from the Industrial sector declined by 14% compared to the same period in 2016 due to the performance of the Ceramics business (a 25% decline), partially offset by strong growth in all other Industrial sub-segments. As previously reported, the Ceramics sub-segment has reached maturity with nearly all production capacity now converted to digital technology. Progress within Ceramics includes gaining traction within the replacement market with the Xaar 1003 and the launch of the Premier Partnership Programme. This provides access to new advanced technology and products for our Premier Partners. We have established a position in the Textiles sub-segment with the sales of 5601 development kits and the introduction of the 5501. The 3D and Advanced Manufacturing sub-segments continue to grow and are up 200% against H1 2016, with growth in Advanced Manufacturing being driven by demand for flat panel displays.

Chief Executive Officer's report continued

ACHIEVEMENT AND TRANSFORMATION

Profitability in the first half of 2017 was consistent with the first six months of 2016; gross margin was 47% (H1 2016: 45%, H2 2016: 48%); product gross margin was 43% (H1 2016: 36%, H2 2016: 40%) due to a favourable product mix effect. Adjusted operating margin was 18% (H1 2016: 19%, H2 2016: 20%).

We continue to invest a substantial amount in research and development to deliver our long-term strategy, with expenditure before the capitalisation of development costs at 22% of revenue in H1 2017 (H1 2016: 25%). Gross expenditure (before capitalisation) of R&D was £9.7 million in H1 2017 (H1 2016: £11.2 million). Development expenditure on the Thin Film programme (also known as P4) of £4.7 million was capitalised in H1 2017 (H1 2016: £4.9 million), as required under International Financial Reporting Standards (specifically IAS 38). Amortisation of these costs commenced in August following the successful life testing of the printhead and completion of capitalisation at the end of July. Total costs capitalised to June 2017 (from January 2014) totalled £30.6 million.

Adjusted profit before tax for the period was £7.9 million (H1 2016: £8.8 million). The underlying adjusted profit before tax grew by 90%, adjusting for the effect of foreign exchange movements, the one-off benefit from the licensee royalty payment in H1 2016 and the contribution from the EPS business.

EPS continued to perform as expected, introducing Roto-JET, its new product, in July 2017, with extensive interest received from end user customers.

At 30 June 2017, Xaar's net cash position was £38.3 million (31 December 2016: £49.3 million), reflecting an employment of working capital to support our new channels and product launches.

Strategic development

We deepened our partnership with Xerox and launched the new 5501 printhead. This will initially be targeted at the Textiles market and generated its first revenues in H1. In June we announced a Joint Development Agreement with Xerox to develop the next generation of Industrial Bulk piezo printheads using the extensive combined resources and IP of both companies. The efficiency gains from this agreement will allow Xaar to redeploy resources to strengthen the go-to-market functions and transform the business to become more customer-centric.

The partnership with Ricoh continues to be strong, with good steps achieved on the 1201 printhead. We have signed a master distribution agreement for the 1201 worth in excess of 90,000 units over 2 years.

We continue to make good progress in 3D, having officially opened our Nottingham and Copenhagen centres in H1 and we are developing key strategic OEM partnerships.

We are continuing to grow the EPS business and are establishing a European distribution channel for its digital product portfolio.

Brexit

Brexit provides a number of challenges for Xaar. The greatest challenge continues to be the likely prolonged period of uncertainty concerning EU workers and migration; one in seven of our current workforce has migrated from the EU and the continued recruitment of world-class talent is critical to our success in a technical and specialised industry. Another challenge for us continues to be free trade into the EU; around one third of our sales are to customers located in EU countries and so any actual or perceived barriers to free trade are an obvious area of concern for us. Brexit continues to be an integral part of the Company's ongoing risk management and review process.

Outlook

We have set out our vision to grow annual sales to £220 million by 2020 supported under four strategic pillars: Ceramics, Packaging and Product Printing, Thin Film, and Partnerships and Acquisitions. In the shorter term, despite challenges and low visibility in the Ceramics sector, we are pleased with product revenue growth of 60% outside of Ceramics in the first half and anticipate continued new product growth in the second half of the year.

D. Edwards

Doug Edwards Chief Executive Officer
6 September 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU and gives a true and fair view of the assets, liabilities, financial position and profit of the Group

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R:
- (i) an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and
- (ii) a description of principal risks and uncertainties for the remaining six months of the year

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R:
- (i) related parties transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the Group in that period, and
- (ii) any changes in the related parties transactions described in the Annual Report 2016 that could have a material effect on the financial position or performance of the Group in the current period.

By order of the Board

Doug Edwards
Chief Executive Officer

Lily Liu
Chief Financial Officer and Company Secretary

6 September 2017

Condensed consolidated income statement
for the six months ended 30 June 2017

	Notes	**Six months ended 30 June 2017 (unaudited) £'000**	Six months ended 30 June 2016 (unaudited) £'000	Twelve months ended 31 December 2016 (audited) £'000
Revenue	3	**43,953**	44,516	96,178
Cost of sales		**(23,252)**	(24,617)	(51,511)
Gross profit		**20,701**	19,899	44,667
Research and development expenses		**(4,986)**	(6,268)	(12,211)
Research and development expenditure credit		**492**	326	605
Sales and marketing expenses		**(4,022)**	(3,166)	(7,608)
General and administrative expenses		**(6,063)**	(2,834)	(6,844)
Restructuring costs		**(588)**	(582)	(1,205)
Operating profit		**5,534**	7,375	17,404
Investment income		**118**	281	449
Profit before tax		**5,652**	7,656	17,853
Tax	4	**(1,033)**	(1,035)	(3,052)
Profit for the period attributable to shareholders		**4,619**	6,621	14,801
Earnings per share				
Basic	5	**6.0p**	8.7p	19.4p
Diluted	5	**5.9p**	8.5p	18.9p

Dividends paid in the period amounted to £5,132,000 or 6.7 pence per share 2016 final dividend (six months to 30 June 2016: £4,808,000 or 6.3 pence per share 2015 final dividend; twelve months to 31 December 2016: £7,328,000 or 9.6 pence per share being 6.3 pence per share 2015 final dividend and 3.3 pence per share 2016 interim dividend).

Condensed consolidated statement of comprehensive income
for the six months ended 30 June 2017

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Twelve months ended 31 December 2016 (audited) £'000
Profit for the period attributable to shareholders	**4,619**	6,621	14,801
Exchange differences on retranslation of net investment	**(160)**	284	708
Tax benefit on share option and restructuring gains	**–**	–	434
Other comprehensive income for the period	**(160)**	284	1,142
Total comprehensive income for the period	**4,459**	6,905	15,943

Condensed consolidated statement of financial position
as at 30 June 2017

	As at 30 June 2017 (unaudited) £'000	As at 31 December 2016 (audited) £'000
Non-current assets		
Goodwill	**5,776**	5,776
Other intangible assets	**31,841**	27,363
Property, plant and equipment	**34,629**	36,352
Receivables	**1,248**	1,516
	73,494	71,007
Current assets		
Investments	**–**	1,000
Inventories	**19,849**	13,790
Trade and other receivables	**21,797**	20,340
Current tax asset	**6,345**	3,029
Cash and cash equivalents	**38,327**	49,321
	86,318	87,480
Total assets	**159,812**	158,487
Current liabilities		
Trade and other payables	**(13,605)**	(14,314)
Other financial liabilities	**(74)**	(69)
Provisions	**(803)**	(774)
	(14,482)	(15,157)
Net current assets	**71,836**	72,323
Non-current liabilities		
Deferred tax liabilities	**(3,574)**	(2,686)
Other financial liabilities	**(192)**	(188)
Total non-current liabilities	**(3,766)**	(2,874)
Total liabilities	**(18,248)**	(18,031)
Net assets	**141,564**	140,456
Equity		
Share capital	**7,792**	7,778
Share premium	**28,027**	27,854
Own shares	**(3,642)**	(3,642)
Other reserves	**13,516**	11,891
Translation reserve	**647**	807
Retained earnings	**95,224**	95,768
Equity attributable to shareholders	**141,564**	140,456
Total equity	**141,564**	140,456

Condensed consolidated statement of changes in equity
for the six months ended 30 June 2017

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	7,764	27,585	(3,796)	11,006	99	87,880	130,538
Profit for the period	–	–	–	–	–	6,621	6,621
Exchange differences on retranslation of net investment	–	–	–	–	284	–	284
Total comprehensive income for the period	–	–	–	–	284	6,621	6,905
Issue of share capital	11	207	–	–	–	(2)	216
Own shares sold in the period	–	–	154	–	–	(17)	137
Dividends (note 6)	–	–	–	–	–	(4,808)	(4,808)
Tax on share options	–	–	–	–	–	274	274
Credit to equity for equity-settled share-based payments	–	–	–	654	–	–	654
Balance at 30 June 2016	7,775	27,792	(3,642)	11,660	383	89,948	133,916
Balance at 1 January 2017	**7,778**	**27,854**	**(3,642)**	**11,891**	**807**	**95,768**	**140,456**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**4,619**	**4,619**
Exchange differences on retranslation of net investment	**–**	**–**	**–**	**–**	**(160)**	**–**	**(160)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(160)**	**4,619**	**4,459**
Issue of share capital	**14**	**173**	**–**	**–**	**–**	**–**	**187**
Dividends (note 6)	**–**	**–**	**–**	**–**	**–**	**(5,132)**	**(5,132)**
Tax on share options	**–**	**–**	**–**	**–**	**–**	**(31)**	**(31)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**–**	**1,625**	**–**	**–**	**1,625**
Balance at 30 June 2017	**7,792**	**28,027**	**(3,642)**	**13,516**	**647**	**95,224**	**141,564**

Condensed consolidated cash flow statement
for the six months ended 30 June 2017

	Notes	**Six months ended 30 June 2017 (unaudited) £'000**	Six months ended 30 June 2016 (unaudited) £'000	Twelve months ended 31 December 2016 (audited) £'000
Net cash from operating activities	8	**(245)**	12,134	13,935
Investing activities				
Investment income		**91**	270	471
Acquisition of subsidiary, net of cash acquired		**–**	–	(7,556)
Purchases of property, plant and equipment		**(2,148)**	(5,065)	(10,831)
Proceeds on disposal of property, plant and equipment		**–**	12	16
Redemption of investment		**1,000**	–	–
Expenditure on software		**(18)**	(2)	(85)
Expenditure on capitalised product development		**(4,655)**	(4,902)	(10,222)
Net cash used in investing activities		**(5,730)**	(9,687)	(28,207)
Financing activities				
Dividends paid	6	**(5,132)**	(4,808)	(7,328)
Movement in treasury deposits		**–**	6,948	27,098
Proceeds from the sale of ordinary share capital		**–**	137	137
Proceeds from issue of ordinary share capital		**187**	216	282
Net cash (used in)/from financing activities		**(4,945)**	2,493	20,189
Net (decrease)/increase in cash and cash equivalents		**(10,920)**	4,940	5,917
Effect of foreign exchange rate changes		**(74)**	1,248	755
Cash and cash equivalents at beginning of period		**49,321**	42,649	42,649
Cash and cash equivalents at end of period		**38,327**	48,837	49,321

Cash and cash equivalents (which are presented as a single class of asset on the face of the condensed consolidated statement of financial position) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

Notes to the interim financial information
for the six months ended 30 June 2017

1. Basis of preparation and accounting policies

Basis of preparation

These interim financial statements have been prepared in accordance with the accounting policies set out in the Group's Annual Report and Financial Statements 2016 on pages 81 to 87 and were approved by the Board of Directors on 6 September 2017. The interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The interim financial statements do not include all the information and disclosures in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

The financial information in these interim financial statements for the six months ended 30 June 2017, does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The Group's Annual Report for the year ended 31 December 2016 has been delivered to the Registrar of Companies and the auditor's report on those financial statements was not qualified and did not contain statements made under section 498(2) or (3) of the Companies Act 2006.

The interim financial statements are unaudited but have been reviewed by the auditor Deloitte LLP. The report of the auditor to the Group is set out on page 15.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

Risks and uncertainties

An outline of the key risks and uncertainties faced by the Group is detailed on pages 23 to 25 of the Xaar plc Annual Report and Financial Statements 2016 (available at www.xaar.com). It is anticipated that the risk profile will not significantly change for the remainder of the year. Risk is an inherent part of doing business and the strong cash position of the Group along with the underlying profitability of the core business leads the Directors to believe that the Group is well placed to manage business risks successfully.

Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period not less than 12 months from the date of this report. Accordingly, the going concern basis of preparation has been adopted in preparing the interim financial statements.

2. Reconciliation of adjusted financial measures

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Twelve months ended 31 December 2016 (audited) £'000
Profit before tax	**5,652**	7,656	17,853
Share-based payment charges	**1,801**	692	969
Exchange differences relating to intra-group transactions	**323**	199	60
Restructuring costs	**588**	582	1,205
Research and development expenditure credit	**(492)**	(326)	(605)
Adjusted profit before tax	**7,872**	8,803	19,482
Capitalised research and development expense	**(4,697)**	(4,902)	(10,222)
Adjusted profit before tax excluding the impact of IAS 38	**3,175**	3,901	9,260

Share-based payment charges include an IFRS 2 charge for the period of £1,625,000 (H1 2016: £654,000) and the charge relating to National Insurance on outstanding potential share option gains of £176,000 (H1 2016: £38,000). These costs were included in the general and administrative expenses in the consolidated income statement.

Exchange differences relating to the United States and Swedish operations represent exchange gains or losses recorded in the consolidated income statement as a result of operating in the United States and Sweden. These costs were included in general and administrative expenses in the consolidated income statement.

Restructuring costs of £588,000 in H1 2017 (H1 2016: £582,000) relate to costs incurred and provisions made in relation to a reorganisation and the closure of the manufacturing facility in Sweden in 2016.

The research and development expenditure credit relates to the corporation tax relief receivable relating to qualifying research and development expenditure. This item is shown on the face of the income statement.

Adjusted profit before tax excluding the impact of IAS 38 (capitalisation of development costs) is the measure that is used internally for setting and comparing achievement of the annual bonus target.

	Six months ended 30 June 2017 (unaudited) Pence per share	Six months ended 30 June 2016 (unaudited) Pence per share	Twelve months ended 31 December 2016 (audited) Pence per share
Diluted earnings per share	**5.9p**	8.5p	18.9p
Share-based payment charges	**2.3p**	0.9p	1.2p
Exchange differences relating to intra-group transactions	**0.4p**	0.3p	0.2p
Restructuring costs	**0.8p**	0.7p	1.5p
Tax effect of adjusting items	**(0.3p)**	(0.4p)	(0.6p)
Adjusted diluted earnings per share	**9.1p**	10.0p	21.2p

This reconciliation is provided to enable a better understanding of the Group's results.

Notes to the interim financial information continued
for the six months ended 30 June 2017

3. Business segments

For management reporting purposes, the Group's operations are currently analysed according to the two operating segments of 'product sales, commissions and fees' and 'royalties'. These two operating segments are the basis on which the Group reports its primary segment information and on which decisions are made by the Group's Chief Executive Officer and Board of Directors, and resources allocated. The Group's chief operating decision maker is the Chief Executive Officer.

Segment information is presented below:

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Twelve months ended 31 December 2016 (audited) £'000
Revenue			
Product sales, commissions and fees	**40,461**	38,358	82,863
Royalties	**3,492**	6,158	13,315
Total revenue	**43,953**	44,516	96,178
Result			
Product sales, commissions and fees	**3,843**	1,909	5,058
Royalties	**3,492**	6,158	13,315
Total segment result	**7,335**	8,067	18,373
Net unallocated corporate expense	**(1,801)**	(692)	(969)
Operating profit	**5,534**	7,375	17,404
Investment income	**118**	281	449
Profit before tax	**5,652**	7,656	17,853
Tax	**(1,033)**	(1,035)	(3,052)
Profit for the period attributable to shareholders	**4,619**	6,621	14,801

Unallocated corporate expense relates to administrative activities which cannot be directly attributed to any of the principal product groups, consisting of share-based payment charges.

Assets in the 'product sales, commissions and fees' segment have increased by £13,135,000 over the period and assets in the 'royalties' segment have increased by £184,000 over the period; there have been no other material movements in segment assets during the period.

4. Income tax

The major components of income tax expense in the income statement are as follows:

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Twelve months ended 31 December 2016 (audited) £'000
Current income tax			
Income tax charge	**205**	514	1,730
Deferred income tax			
Relating to origination and reversal of temporary differences	**828**	521	1,322
Income tax expense	**1,033**	1,035	3,052

5. Earnings per ordinary share – basic and diluted

The calculation of basic and diluted earnings per share is based upon the following data:

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Twelve months ended 31 December 2016 (audited) £'000
Earnings			
Earnings for the purposes of earnings per share being net profit attributable to equity holders of the parent	**4,619**	6,621	14,801
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**76,368,152**	76,206,164	76,246,300
Effect of dilutive potential ordinary shares:			
Share options	**1,897,619**	1,686,525	1,994,875
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**78,265,771**	77,892,689	78,241,175

6. Dividends

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Twelve months ended 31 December 2016 (audited) £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2016 of 6.7p (2015: 6.3p) per share	**5,132**	4,808	4,808
Interim dividend for the year ended 31 December 2016 of 3.3p per share	**–**	–	2,520
Total distributions to equity holders in the period	**5,132**	4,808	7,328

The interim dividend of 3.4 pence per share has been approved by the Board and will be paid on 12 October 2017 to shareholders on the register at close of business on 15 September 2017. The interim dividend has not been included as a liability at 30 June 2017.

Notes to the interim financial information continued
for the six months ended 30 June 2017

7. Share capital

During the six months ended 30 June 2017 a total of 143,679 new ordinary shares of 10 pence each were issued under the Company's share option schemes for £187,000.

8. Notes to the cash flow statement

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Twelve months ended 31 December 2016 (audited) £'000
Profit before tax	**5,652**	7,656	17,853
Adjustments for:			
Share-based payments	**1,625**	692	969
Depreciation of property, plant and equipment	**3,842**	3,789	7,851
Amortisation of intangible assets	**192**	395	787
Research and development expenditure credit	**(492)**	(326)	(605)
Investment income	**(112)**	(281)	(449)
Foreign exchange gains	**(245)**	(928)	(956)
Loss/(profit) on disposal of property, plant and equipment	**101**	1	(3)
Increase/(decrease) in provisions	**29**	(1,057)	(2,759)
Operating cash flows before movements in working capital	**10,592**	9,941	22,688
(Increase)/decrease in inventories	**(5,918)**	2,000	2,841
Increase in receivables	**(1,149)**	(365)	(8,910)
Decrease in payables	**(741)**	(155)	(2,381)
Cash generated by operations	**2,784**	11,421	14,238
Income taxes (paid)/refunded	**(3,029)**	713	(303)
Net cash from operating activities	**(245)**	12,134	13,935

9. Date of approval of interim financial statements

The interim financial statements cover the period 1 January 2017 to 30 June 2017 and were approved by the Board on 6 September 2017.

Further copies of the interim financial statements are available from the Company's registered office, 316 Science Park, Cambridge CB4 0XR, and can be accessed on the Xaar plc website, www.xaar.com.

Independent review report to Xaar plc
for the six months ended 30 June 2017

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes 1 to 9. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom

6 September 2017

Notes

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