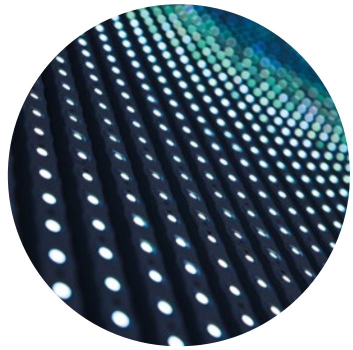
XAAR®

CELEBRATING 25 years OF INKJET INNOVATION

Leading the digital inkjet revolution

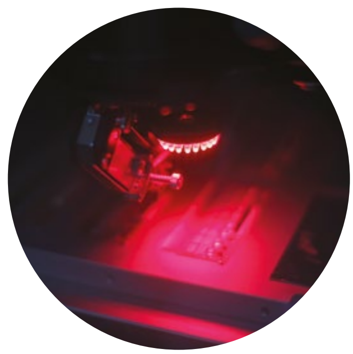
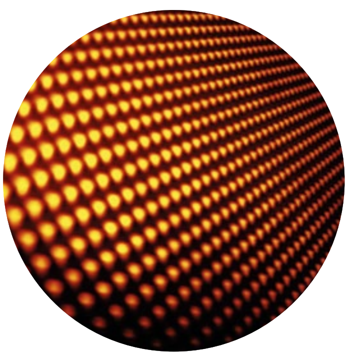
Xaar plc Annual Report and Financial Statements 2015










Welcome to Xaar plc

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

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Read how we have grown over 25 years

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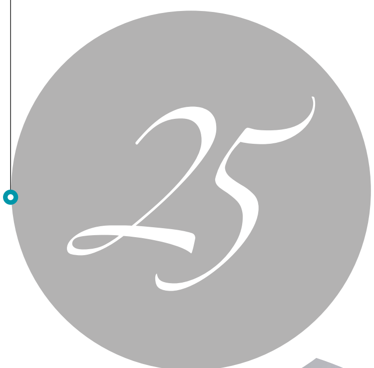

Strategic Report

Governance

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Developing a sustainable business
Read how we help others

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Developing innovative solutions
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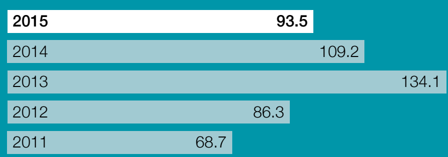
Highlights

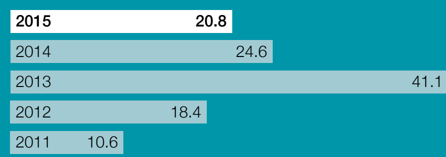
Adjusted revenue £m

£93.5m



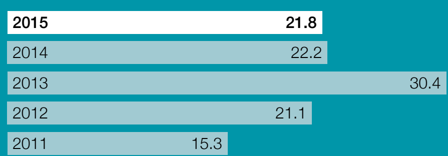
Adjusted profit before tax £m

£20.8m



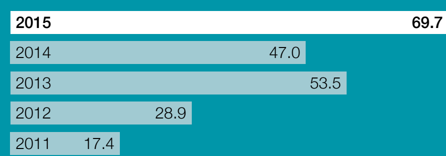
Adjusted operating margin %

21.8%



Net cash balance £m

£69.7m



Adjusted measures exclude items from the IFRS operating profit and profit before tax, such as share-based payment charges, exchange differences relating to Swedish operations, unrealised gains/losses on derivative financial instruments, restructuring costs, R&D expenditure credit, impairment on trade investments, commercial agreement costs, and non-recurring royalty income (also excluded from IFRS revenue and gross profit), per the reconciliation of adjusted financial measures on page 87. Net cash includes cash and cash equivalents, treasury deposits, less obligations under loan and finance lease liabilities.

Financial highlights

- Revenue in 2015 performed in line with expectations, with sales growth in Packaging partially offsetting the anticipated reduction from sales into the ceramic tile market
- Strong profitability was achieved in 2015 despite the lower level of sales; gross margin improved to 47.8% (2014: 44.5%) and adjusted operating margin was maintained at 22%
- Gross research and development (R&D) investment (before capitalisation of development costs relating to the Thin Film programme) increased by 4% to £19.9 million in 2015 (2014: £19.2 million)
- Net cash increased by almost £23 million to £69.7 million (2014: £47.0 million)

Operational and strategic highlights

- We have undertaken a strategic review and completed a number of organisational changes to support the achievement of our new vision: to grow annual revenue to £220 million by 2020
- We will achieve this vision by capitalising on organic growth opportunities, continuing to invest in product development, building partnerships, and pursuing carefully selected acquisitions
- R&D programmes delivered on schedule with a number of products launched or announced in 2015 and a strong pipeline for 2016 and beyond
- The Xaar Print Bar System launched in September 2015 is proving popular, with deliveries against the first customer orders expected in the next few months
- The Thin Film (P4) programme progresses to plan and the Xaar 5601 will launch at drupa, the world's leading trade show for graphic and industrial print, in June 2016

Our business at a glance

Delivering transformational solutions

Who we are

We are a world leader in the development of digital inkjet technology and an award-winning manufacturer of piezoelectric drop-on-demand industrial inkjet printheads.

Employees (2015 average number)
628

Our business model

Xaar is the world's leading supplier of industrial printheads, with 25 years of success in a variety of markets. Our core business is the design, manufacture, marketing and sale of printheads, printhead systems and associated products. Xaar also receives licensee royalty income from its legacy licensing model.

Xaar designs

Xaar invests a substantial proportion of sales (over 20% in 2015) in Research and Development (R&D) to remain a world leader in inkjet technology.

Xaar's innovative products are used in a wide range of applications around the globe, from ceramic tiles to semi-conductors.

Xaar has more than 250 patents and patent applications and continues to add to its Intellectual Property (IP) portfolio.

Our headquarters and R&D activities are based on the prestigious Cambridge Science Park, Cambridge, UK. At 31 December 2015 R&D staff totalled 145, representing 24% of the total workforce.

Xaar manufactures

Xaar manufactures its printheads in Huntingdon, UK and Järfälla, Sweden. The Sweden plant will close in 2016.

Xaar's manufacturing is relatively capital intensive; the Group has invested over £60 million in assets and production facilities in Huntingdon since the plant opened in 2007.

Xaar sells

Xaar sells direct to OEMs around the world through its global sales team. Xaar's highly skilled application engineers offer the highest level of technical support to assist OEMs in the successful design, build, commissioning, and ongoing maintenance of printing systems. Europe, Asia and North America are the primary locations of our current OEM partners.

Xaar markets

Xaar offers a wide range of industrial inkjet printheads and printhead systems which are designed and produced to meet the customer-driven requirements of a range of manufacturing applications. Primary markets include wide-format graphics, ceramic tiles, labels, packaging, coding and marking, 3D printing, advanced manufacturing and decorative laminates.

Our strategy

Our strategy is to drive the development of inkjet technology into selected multiple applications and industries, delivering sustainable profitable growth.

New products and new technology

Read more on page 15

Building the eco-system

Read more on page 16

Converting multiple markets

Read more on page 17

Enhancing our capability

Read more on page 18

Strategy in action	What we did in 2015	Our plans for 2016
We manage our product development programmes across three horizons: short term by delivering updates and improvements; medium term by developing new products or derivatives using existing technologies; and longer term through research and development of novel technologies. Alongside our internal development programmes we seek opportunities to access, through acquisition or partnership, new products and technology from external sources.	Our Thin Film programme progressed to plan in 2015, and we saw the launch of several new products, including: • Xaar 1002 GS12U printhead – perfect for UV applications such as Direct-to-Shape and packaging • Xaar Print Bar System – a new product which incorporates the Xaar 1002 family of high-precision industrial printheads into a standalone printing system	We have an exciting range of bulk piezo product launches planned for 2016, including a new family of printheads for coding and marking applications as announced in December 2015. We expect to be demonstrating our Thin Film technology at drupa from 31 May 2016 to 10 June 2016.
To penetrate any market successfully, an eco-system of technical and commercial partnerships must be formed to drive and support market conversion.	Xaar developed various partnerships and collaborations in 2015. A new ceramic ink partnership with Sinocera Create-Tide in China was announced in May 2015. Collaborations with Lawter and with Guangdong Dowstone Technology Co Ltd were also announced in the year.	We continue to work with the leading OEMs in our target sectors as well as the appropriate fluid suppliers, hardware and software integrators, and substrate suppliers. New partnerships and collaborations are expected to be announced throughout 2016.
The markets and applications that use Xaar's printheads can be diverse but can be grouped to have similar characteristics and general imaging requirements.	In ceramic tile manufacturing, we continue to lead the market with innovative solutions which unlock previously inaccessible opportunities for our partners. Our collaboration with KHS to deliver an innovative solution for Martens brewery in Belgium marks a further step forward in the Direct-to-Shape sector.	We have a number of product launches planned in 2016 for a variety of market applications. The Xaar Print Bar System launched in September 2015 is proving popular, with deliveries against the first customer orders expected in the next few months.
In order to develop new products and new technology successfully, and to sustain or grow sales into multiple end markets, we must constantly develop our capability in terms of our human and other resources, specifically both our R&D and manufacturing capacity and capability, and the structure of our organisation. External opportunities will also be identified and evaluated to support the expansion of our capability.	Under the leadership of our new Chief Executive we reviewed and updated our strategy in 2015. The strategy is more externally focussed than ever; we must understand our markets, our customers and our partners, and apply our internal resources to deliver value-adding solutions which achieve truly transformational benefits.	We look increasingly to access new products and new technology through acquisitions and partnerships. We continue to invest in our already world-class staff to expand our capability, to deliver our strategic plan.

Who we are

Leading the digital inkjet revolution

About Xaar

Xaar is a world leader in the development of digital inkjet technology and a manufacturer of piezoelectric drop-on-demand industrial inkjet printheads, the key component in a digital printing system. Unlike analogue printing, digital printing requires no physical master image to copy from, and hence enables economic short run, variable data printing. The printhead is the device which converts the electronic image data into the physical image on the substrate. To achieve this, Xaar technology is a combination of high speed mixed signal electronics, micro-mechanics, and fluid dynamics.

Our full range of printheads are used in delivering solutions for numerous applications. Our most successful printhead family to date is the Xaar 1002. A typical industrial inkjet machine could be firing up to 300 million drops of ink per second – that's over 1 trillion drops per hour, all controlled within the picolitre range of volume and the micron range of placement accuracy (a picolitre is a millionth of a millionth of a litre, and a micron is a millionth of a metre).

Xaar sells its technology in component form (the printhead) to Original Equipment Manufacturers (OEMs) who produce and sell the complete digital printing solution to the end market. In addition to our close engagement with OEMs we also actively partner and co-develop with fluid suppliers, hardware and software integrators, and substrate suppliers to deliver a robust and attractive total solution to the end user.

Our technology is used all over the world in a wide range of manufacturing applications.

We design and manufacture our printheads in the UK and Sweden (production in Sweden ceasing in 2016), exporting over 95% of our production to customers around the world. We also develop and sell ink systems, electronics, and fluid optimisation services to accelerate inkjet system development and adoption.

Xaar over the past 25 years

1990
Xaar was formed in Cambridge, UK to acquire, develop and commercially exploit a new digital inkjet printing technology arising out of work done by Cambridge Consultants Ltd.

1997
Xaar completed a successful listing on the London Stock Exchange.

2003
Xaar introduced its first full production printhead incorporating its unique, patented greyscale technology. The Xaar 318 is manufactured in Japan by Xaar licensee Toshiba TEC and offers photographic-quality printing with no compromise in speed.

2005
Further greyscale developments led to the launch of the Xaar 760, delivering a choice of binary or greyscale drop sizes to provide the ultimate in flexibility, reliability and speed.

2007
Xaar launched the revolutionary Xaar 1001 printhead with TF Technology™ delivering a significant step forward in inkjet reliability. Xaar is confirmed as a market-leader in the innovation of digital inkjet printing.

2009

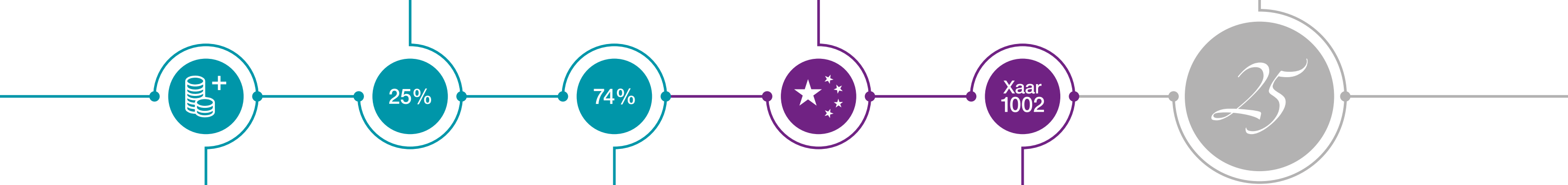
The Xaar Proton was launched to deliver outstanding print quality, superior throughput and exceptional value for a range of applications, including wide-format graphics and coding & marking.

Where we operate

Xaar regional locations
Authorised resellers

Adjusted revenue by region

EMEA
Asia
Americas



2010

£14 million was raised, after expenses, through placing an open offer to fund the £22 million capacity expansion at the Huntingdon facility to meet growing demand for the Xaar 1001 in the ceramics market.

2011

Xaar completed a second consecutive year above 25% sales growth through the adoption of the Xaar 1001 by the ceramics and label printing sectors.

2012

Xaar announced the launch of the Xaar 1001 GS12. Xaar recorded a third consecutive year of revenue growth in excess of 25%, and posted a 74% increase in annual profits. The capacity expansion programme at Huntingdon successfully completed ahead of schedule and below budget.

2013

Ceramics conversion accelerated, driven by adoption of the technology in China. Further capital investment was undertaken to increase capacity by a further 75% by mid-2014 versus the status at the end of 2012.

2014

The Xaar 1002 replaced the Xaar 1001, delivering performance and print quality enhancements. Also launched were the small drop Xaar 1002 AMp, and the Xaar 1002 GS40 which produces intense colours and special effects for ceramics applications.

2015

To mark our 25th anniversary, Xaar organised a programme of charitable fundraising events throughout the year. The Xaar Print Bar System is launched adding single-pass inkjet capability to analogue web and sheet fed presses.

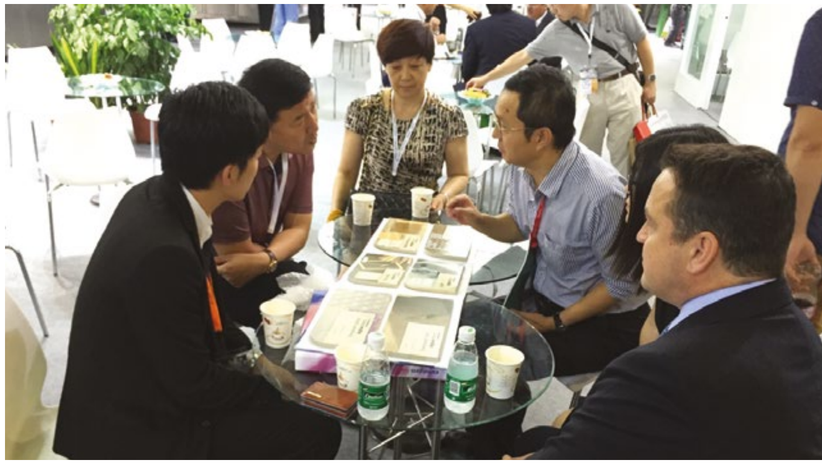
Our people

Introducing our values

In 2015, we introduced our new vision and values.

In order to make our vision a reality, we need to live by a certain set of values every single day.

These values are our guiding principles. They are not just words. They represent what we strive to achieve in everything that we do.



"Collaboration is a behaviour which involves interacting and working together to solve problems."

Namrata Sharma
Marketing Executive

Our values

Trust
We trust each other to deliver on our commitments and do our best for Xaar.

Collaboration
We all work together, and with our partners, to achieve success.

Drive
We are excited about our potential and put energy into everything we do.

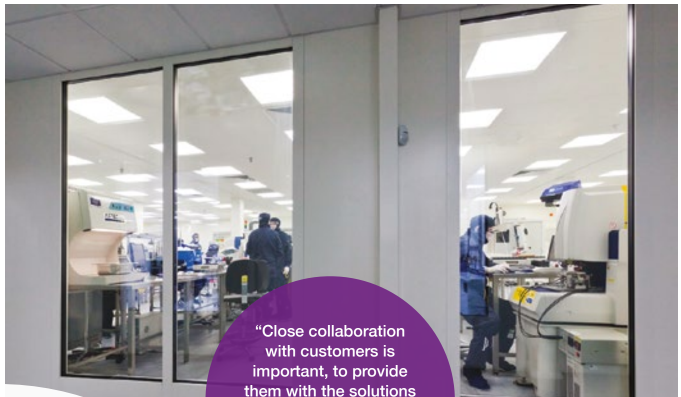
What do our values mean to our people?

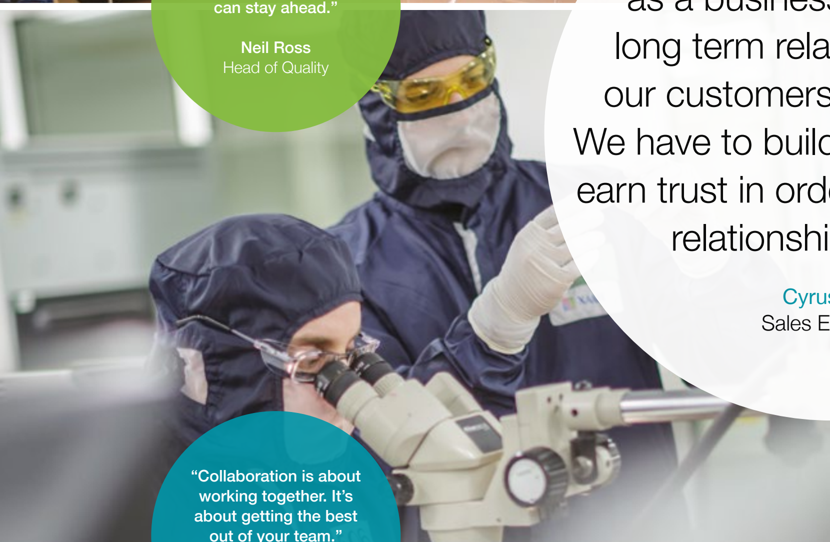
Trust
"Trust is integral to teamwork at Xaar. We rely on all of our colleagues to speak up and be heard."
Ryan McCormick, Product Engineering Manager

Collaboration
"Collaboration is about involving people. People love it when you get them involved – it empowers them, and they give a whole lot more and they are a lot happier in their jobs."
Karen McLelland, Production Manager

Drive
"Drive is about leadership, leading from the front and inspiring people to achieve all of their goals as a team."
Angus Condie, Head of Technology R&D Bulk

Impact of our values





"With trust, we can push technical and personal boundaries so that Xaar can stay ahead."

Neil Ross
Head of Quality

"It is important for us as a business to establish long term relationships with our customers and partners. We have to build and continually earn trust in order to keep these relationships going."

Cyrus Yau
Sales Engineer

"Close collaboration with customers is important, to provide them with the solutions they need for success."

Eric Bresler
Senior Sales Engineer

"It's the people who make Xaar the Company that it is."

Nicola Seal
Sales and Credit Administrator

"Collaboration is about working together. It's about getting the best out of your team."

Katie Reader
Buyer – Stock Purchasing

"Drive is continuous self improvement so that you can improve the Company as a whole."

James Leivers
Systems Administrator

Chairman's report

Stabilisation, change and vision

2015 has been an encouraging period for Xaar, characterised by both stability and by change.

Phil Lawler
Chairman

16 March 2016

For our 25th anniversary year I am pleased to report that Xaar has undergone some important and progressive changes over the past twelve months, helping to deliver a period of financial stability following the challenges of 2014. Our largest market today, ceramic tiles, returned to more consistent and predictable sales levels in 2015 following the ups and downs of 2013 and 2014. This was complemented by strong growth in Packaging and a solid performance across our other applications.

Our new CEO Doug Edwards, who joined in January 2015, has implemented some important changes to our strategy, our culture and our outlook. We are more focussed externally than ever before; understanding our markets, customers and partners is key to achieving our newly established aspirational vision of growing to £220 million of annual sales by 2020. Our intensified external outlook applies to new technology and new products too; we will carefully partner and acquire to complement our own world class product development, to achieve success in leading the digital inkjet revolution.

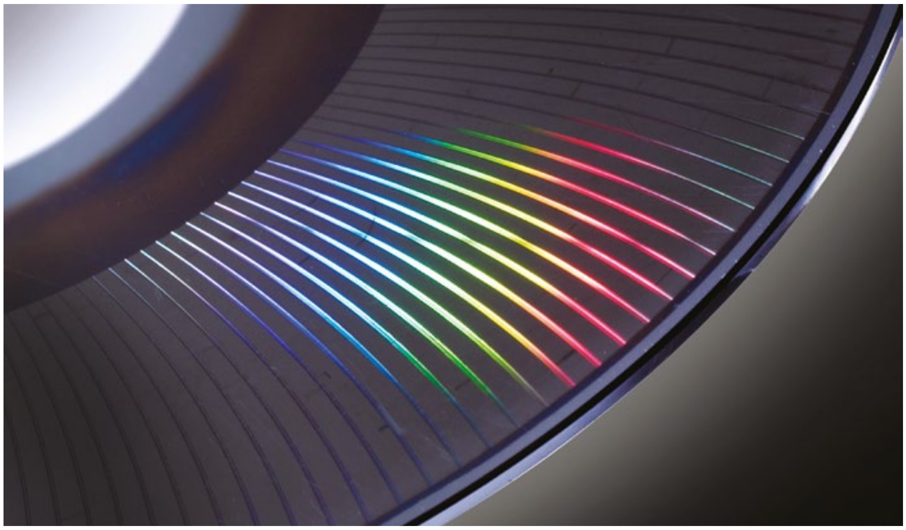
We started 2015 following a difficult period in the second half of 2014 that saw our sales of printheads into ceramic tile manufacturing reduce substantially as growth rates in the Chinese property market slowed. However, our sales into ceramic tiles in 2015 performed in line with our expectations, with improved consistency in monthly sales volumes during the period. The performance in ceramics, when combined with strong growth in the packaging segment and expected performance in other applications, resulted in total revenue for the year of £93.5 million (2014: £109.2 million). Having taken decisive cost reduction action in the fourth quarter of 2014, the financial performance in 2015 was encouraging, with an adjusted operating profit margin of 22%, consistent with overall performance in 2014.

Under Doug's leadership, we have critically reviewed and updated our strategy, and subsequently made a number of important organisational and cultural changes. Our long term opportunities remain substantial and our reinforced external focus, including active pursuit of partnerships and acquisitions, will help us achieve our goals. Our balance sheet remains strong and will help us to exploit inorganic growth opportunities, as we continue to invest in world class products and capitalise on organic growth opportunities. I am particularly excited by our progress in 2015 and our near term product pipeline, including our transformational Thin Film printhead technology (P4) which we'll be demonstrating at drupa in June 2016.

The Group follows the 2014 UK Corporate Governance Code. Board meetings are supported by detailed papers and timely minutes. Attendance by all members remains excellent and I take this opportunity to thank them for their continuing commitment and professionalism. The Board continues to take dedicated days to consider and review the Group's strategy. Detailed market and competitive analysis is undertaken in advance and the future direction and capabilities of the Group are debated in detail. All members of the Board are evaluated annually against specific and relevant performance criteria.

I would like to thank our employees for their hard work and dedication through 2015. There have obviously been some important change across the business, and the support of people getting behind those changes is much appreciated. As previously announced we will be closing our Sweden plant in 2016 following almost 20 years of service as part of Xaar. I would personally like to thank our Swedish colleagues for their dedication and hard work over the entire period.

2015 has been an encouraging year for Xaar, characterised by both stability and by change. Our ambition remains undiminished. Indeed, our renewed external focus, vision and strategy has increased our long term aspirations. We are focussed on executing our strategy to capitalise on the substantial long-term potential. We will continue to invest in R&D and capitalise on organic growth potential while identifying partnership and acquisition opportunities. This will all contribute towards growing Xaar and improving our diversification by market, product and geography. We have a very strong team in place and I thank them all for their continuing efforts.



Finally 2016 will mean that I have completed three terms of three years as Chairman of the Board and in accordance with the Combined Code, will step down at the end of September this year. It has been a privilege to serve in this capacity for one of the leading companies in such a dynamic segment of the global printing industry. During this period at Xaar we have seen many advances, some notable success and some challenges that we have overcome. I remain as excited by the potential as the day I joined.

On that topic I am pleased to confirm that Robin Williams will succeed me as Chairman from 1 October 2016. Robin has acted as the Senior Independent Director since May 2011 and has been chairman of the Audit Committee since 2010 when he joined the Board. Robin is not only very familiar with the Company but has substantial and relevant external experience that will ensure continued appropriate stewardship of the Board and maintenance of Xaar's high standards of corporate governance. I congratulate Robin and wish him every success in his new role. The Company intends to recruit a new independent Non-Executive Director during 2016 in order to achieve the minimum best practice Board structure of having an equal balance of Executive and independent Non-Executive Directors (excluding the Chairman). The anticipated Board structure will therefore be three Executive Directors, three independent Non-Executive Directors and a Chairman.

Board changes

In addition to our CEO change there have been a number of Board changes in 2015 and 2016.

- On 2 March 2015 Jim Brault joined the Board in the role of Chief Human Resources Officer. Following a review of the Board structure, Jim has stepped down from the Board on 16 March 2016. He will continue in his role as Chief Human Resources Officer
- On 27 April 2015 Edmund Creutzmann, Chief Technology Officer, resigned from the Board
- On 13 May 2015 David Cheesman, Non-Executive Director, retired from the Board at the Company AGM
- On 1 August 2015 Margaret Rice-Jones joined the Board as a Non-Executive Director and Chair of the Remuneration Committee, to replace David Cheesman
- On 11 December 2015 Richard Barham, Chief Customer Officer, resigned from the Board
- On 4 January 2016 Chris Morgan joined the Board as a Non-Executive Director

Market overview

Seeking new opportunities

Most things we come into contact with on a daily basis are patterned, decorated, printed or finished in some way. In fact, even after excluding printing in the office or the home, over 3 trillion m² of material is printed, patterned, decorated or finished each year – that's a monthly output equivalent to the surface area of the United Kingdom.

These items can be broadly split into four areas: products, packaging, promotion and publishing. Products include things like ceramic tiles and laminate flooring. Packaging includes labels on bottles and bar codes on boxes. Promotion includes advertising banners and posters. Publishing includes books and newspapers.

Perhaps surprisingly around 97% of production processes used in the manufacture of these items still use traditional analogue technology. Analogue (sometimes referred to as 'fixed image') solutions can be very effective when the same image is replicated many, many times. However, where frequent changes are required or run lengths are shorter, then digital (also known as 'variable image') processes can provide significant cost and inventory reductions whilst improving time-to-market versus analogue techniques.

Over the last 20 years digital imaging technologies, including digital inkjet, have emerged for applying images, patterns or finishes in more efficient, flexible and cost-effective ways. Because of its ability to work with a variety of jetting fluids and substrates, and in difficult environments, inkjet has the unique ability to potentially replace all current printing techniques.

The pace of inkjet's adoption and the rate it displaces existing technologies is driven by some key factors, including cost, speed and image quality, which must be met in order for the adoption to take place. Because of these characteristics the adoption of inkjet has typically occurred through 'waves of conversion' in distinct market segments, as the developing technology meets the individual conversion requirements of particular applications.

Xaar, a world leader in industrial inkjet, has successfully developed digital technology and manufactured and sold inkjet products, predominantly printheads, into a number of sectors. The printhead is the heart of the digital process, depositing fluids, including inks and coatings, in precisely the right quantity and in the right place on the substrate, without even touching the surface.

To date Xaar has driven, and benefited from, 'waves of conversion' in two particular applications: outdoor advertising (including billboards, posters and banners) and ceramic tile decoration, which have both adopted digital inkjet technology. These two applications presently use inkjet to annually produce over 7 billion m², but represent only 0.2% of the 3 trillion m² entire global print production.

Xaar's challenge is to expand its existing digital inkjet printhead technology into new markets and to develop new technology to maximise the opportunity that exists from the conversion of much larger applications to digital inkjet.

Looking forward, the opportunities for digital print continue to accelerate. Industry forecasts project the digital print market to double over the next ten years.

The printhead is the heart of the digital print process.

3%

Xaar, a world leader in inkjet, has successfully developed digital technology and manufactured and sold inkjet products, predominantly printheads, into a number of sectors. To date, only 3% of the commercial and industrial print market has converted to digital printing, including 1% to digital inkjet.

New markets

Xaar's challenge is to expand its existing digital inkjet printhead technology into new markets and to develop new technology to maximise the opportunity that exists from the conversion of much larger applications to digital inkjet.

Industrial revenue	Packaging revenue	Graphic Arts revenue	Royalties revenue
£62.2m (2014: £78.0m)	£15.5m (2014: £13.4m)	£9.6m (2014: £11.4m)	£6.2m (2014: £6.4m)

Business segments

Industrial

The Industrial segment presently includes ceramic tile decoration, decorative laminate, and advanced/additive manufacturing processes.

Ceramic tile production

Ceramics is a 12.1 billion m² market currently and digital conversion was estimated to be approximately 60-70% at the end of 2015. There are c.10,000 production lines around the world, with almost half of these in China. The creative design is the key feature which sells a tile. Xaar's digital inkjet solution provides an end result which is superior in terms of image quality, at a lower cost, plus with the advantages of flexibility, inventory reduction, and larger tile size capability. Tile manufacturing operates in a harsh industrial environment with high reliability/duty cycle requirements; hence any technology deployed needs to be appropriately robust. The market has been moving to digital inkjet decoration over the last ten years with the pace of change accelerating after the launch of the Xaar 1001 which achieved volume sales from 2009 onwards. Today the Xaar 1002 family of printheads with TF Technology™ continue to deliver both quality and cost advantages over traditional analogue methods within a robust architecture suitable to this harsh environment, giving rise to maximum production uptime.

Decorative laminates

Decorative laminates is estimated to be at 7.8 billion m² of annual output with c.1,600 production lines around the world supplying simulated wood materials to the furniture and building industries. Realistic wood finishes or creative design are the key features which sell the board/plank/finished item and the digital quality that is now being demonstrated with Xaar printheads matches the analogue process, thereby offering the opportunity for more economic short run work to be undertaken whilst reducing inventories and improving time to market. Inkjet is the only digital solution which meets the high reliability and high duty cycle requirements needed within this industry. Digital adoption is still at the very early stages in this application, and the rate of adoption is expected to grow over the next few years.

Advanced/additive manufacturing

Applications include demand for the fine coating, patterning and printing of functional fluids onto numerous substrates in numerous industries. Applications are challenging and push inkjet to its known limits and beyond in fields such as nano imprinting, solar cell manufacturing and display screen production. Xaar has been working with multiple partners in laboratories all over the world exploring what may be possible in the future. Technical progress is promising but the commercial implementation of many of these applications is still believed to be some years into the future.

Packaging

The Packaging segment presently includes coding and marking, primary labels, and Direct-to-Shape printing.

Coding and marking

Coding and marking is an application of printing predominantly monochrome bar codes and logos on outer case/secondary packaging of consumer goods. This is an established and stable business based on bulk piezo technology which competes with alternative technologies including laser and thermal inkjet.

Primary label

Primary label printing is estimated to be a market producing over 57 billion m² annually, with only 9% of this market converted to digital printing to date. The change driver is the delivery of lower cost per copy on run lengths up to 100,000 impressions (versus only 50,000 impressions three years ago). There is a large range of substrates and inks in this application which adds complication to the conversion process.

Direct-to-Shape

Direct-to-Shape is a new application where bottles and containers have the image printed directly onto their surface without the need for a label. The solution is aimed at shortening time to market whilst simultaneously reducing inventory and unit costs versus existing methods. This approach also enables mass customised marketing and event targeting.

Graphic Arts

The Graphic Arts segment presently includes Grand/Wide-format graphics.

Grand/Wide-format graphics

Grand/Wide-format graphics (GWFG) includes both internal and external signage and advertising, including billboards, posters and point of sale advertising. It is the most mature industrial inkjet market, active for over 15 years. Xaar's growth to date has been based on its original set of bulk piezo products, which delivered annual growth from 2003 to 2007. To stimulate further material growth for Xaar in this end market new product developments are required to enhance the portfolio.

Chief Executive Officer's report

Looking forward, and outward

After 25 years of success in a number of segments, we look forward to the continued progression of our business towards achieving our 2020 vision.

Doug Edwards
Chief Executive Officer

16 March 2016

Having joined Xaar in January 2015, I believe we have made good progress in the last twelve months in our transition from an internally focussed product company, to an externally focussed market led business. I am convinced of Xaar's significant long term potential, but to capitalise on that potential we need to continue to improve our understanding of our markets and our customers, pursue strategic partnerships and carefully identify acquisition opportunities.

Our overall business performance in 2015 was solid following a difficult 2014. Sales for the year by segment were broadly in-line with our expectations going into the year. This combined with the cost savings made in 2014 and careful yield and cost management during the period, resulted in a good financial performance for 2015, with adjusted operating margin being maintained at 22%. Further detail is provided in the Chief Financial Officer's report.

Strategy

We thoroughly reviewed our strategy in 2015. Our long term opportunity remains unchanged; the conversion of well-established analogue manufacturing techniques to digital inkjet solutions. Our mission also remains the same; Leading the Digital Inkjet Revolution.

The change to our renewed strategy primarily relates to three elements:

1. Transition from an internally focussed product company to a market and customer focussed business
2. Expand our offering beyond the printhead in certain applications
3. Access new products and new technology through partnership and acquisition

To support our strategy we have made a number of organisational changes, including some significant internal cultural and communication changes. With these changes made, we can achieve the vision we have set ourselves to grow annual revenue to £220 million by 2020. The substantial investment in our manufacturing capacity, our commitment to R&D, our product roadmap, our excellent people and our strong cash balance, position the Company well to execute its strategic objectives. After 25 years of success we look forward to achieving our vision over the next five years, and the successful long-term future of Xaar.

Our approach to unlocking new opportunities is to drive the development of inkjet technology into selected multiple applications and industries, delivering sustainable profitable growth. We aim to be the primary enabler of change in our target markets, leading the initial wave of conversion, and then to protect our position through replacement product sales driven by continuous product development. The size of the conversion opportunity, the rate of change, and the key characteristics enabling that change will vary from market to market. OEMs are mostly market specific which means we work with a number of OEM customers in developing inkjet solutions for a discrete market.

Further detail on our strategy and progress made in 2015 is set out in the 'Our strategy in action' section on pages 15 to 18.

Market segments

Industrial

The Industrial segment, which is dominated by sales into ceramic tile manufacturing, remained our largest segment with 66% of total revenue for the year (2014: 71%). Sales into ceramics remained stable during 2015, but caused overall Industrial revenue to decline 20% year on year, following the Chinese slow-down suffered in the second half of 2014. The ceramic tile market is expected to remain our largest sector in 2016, and we continue to see substantial opportunity in the next few years from the conversion to digital inkjet of production lines which have not yet switched. We are excited about the progress of the Xaar 1002 GS40 in the polished tile market, and our new products planned for launch in 2016 will reinforce our market leadership position. Outside of ceramics, in other industrial applications, sales remain modest but great potential exists within areas like decorative laminates, industrial Direct-to-Shape printing and advanced manufacturing.

Packaging

Sales into the Packaging segment increased by 16% in 2015, and represented 17% of revenue (2014: 12%), with all application areas achieving growth. Coding and marking remains an important market for us, and in December we announced a new family of printheads to service this sector. Sales into digital label printing were encouraging, with sales growth of over 30% year on year as our partners made further improvements to their offerings. In the third sub-segment of packaging, Direct-to-Shape printing, the potential for supply chain waste reduction and improved time-to-market for bottles, cans, tins and other primary packaging is substantial. Our partners' developments continue to progress, with commercial products on sale during 2015, but total revenue remained modest.

Graphics

Revenues into the Graphics segment declined as expected as the result of end-of-life processes on certain mature products. New products are planned for launch in 2016.

Product and technology development

Xaar has a long standing commitment to R&D and product development, and this was maintained through 2015 with over 20% of revenue invested.

2015 was a busy year for our product development and delivery teams.

In April 2015 we launched the Xaar 1002 GS12U printhead, which provides market leading quality and functionality for UV applications such as high-build spot varnishes and extra-opaque whites onto labels and Direct-to-Shape packaging. This product is already providing significant advantages to our OEM partners and end customers.

In September 2015 we announced the Xaar Print Bar System, a new product which incorporates the Xaar 1002 family of high-precision industrial printheads into a standalone printing system, adding single-pass inkjet capability to analogue web and sheet-fed presses. The Xaar Print Bar System is versatile, easy to configure and ideal for personalised, variable data, special effects and short-run printing for a range of applications, including labels and packaging. The Xaar Print Bar System is proving popular, with deliveries against the first customer orders expected in the next few months.

In December 2015 we announced a new family of printheads for coding and marking applications. The new family of printheads, the first of which is to be available in late 2016, will be the ideal width for high-resolution coding and marking applications such as printing barcodes, best before dates and other product identification codes onto a range of packaging.

We have an exciting range of bulk piezo product launches planned for 2016.

Our Thin Film programme progressed to plan in 2015, and we expect to be demonstrating our technology at drupa, the world's leading trade show for graphic and industrial print, from 31 May 2016 to 10 June 2016. This major programme aims to open up more of the analogue market to Xaar through a solution which offers a generational shift in performance.

In January 2016 we announced the appointment of Professor Neil Hopkinson to a new role as Director of 3D Printing. Professor Hopkinson is the original inventor of the transformational High Speed Sintering (HSS) technology, a revolutionary technology which uses inkjet printheads and infrared heaters to manufacture products layer by layer from polymer powder materials at much higher speeds than other additive manufacturing processes. Neil and the team will accelerate the success of Xaar's OEM partners in the exciting area of additive manufacturing.

Summary and outlook

I have enjoyed my first year at Xaar and I would like to thank all of our staff for their efforts during 2015. We stabilised our financial performance and I am encouraged by the progress we have made to evolve our strategy, create a market and customer focussed culture, and establish our Xaar values of trust, collaboration and drive. Looking ahead, our market leadership and expanding product portfolio position us well for growth, but based on limited visibility, particularly around China, the Board is currently budgeting for 2016 revenue to be broadly similar to 2015.

I am convinced that our long term potential is enormous, but we will only achieve our goals if we truly understand our markets and our customers, keep our commitment to developing world class products and complement our organic growth with partnerships and carefully selected acquisitions. After 25 years of success in a number of segments, we look forward to the continued progression of our business towards achieving our 2020 vision.

Our mission, vision and strategy

Our mission
Leading the digital inkjet revolution

Our vision
£220 million of annual sales by 2020

Our strategy
To drive the development of inkjet technology into selected multiple applications and industries, delivering sustainable profitable growth.

New products and new technology

We manage our product development programmes across three horizons: short term by delivering updates and improvements; medium term by developing new products or derivatives using existing technologies; and longer term through research and development of leading edge technologies. Alongside our internal development programmes we seek opportunities to access, through acquisition or partnership, new products and technology from external sources.

See page 15

Building the eco-system

To penetrate any market successfully, an eco-system of technical and commercial partnerships must be formed to drive and support market conversion.

See page 16

Converting multiple markets

The markets and applications that use Xaar's printheads can be diverse but can be grouped to have similar characteristics and general imaging requirements.

See page 17

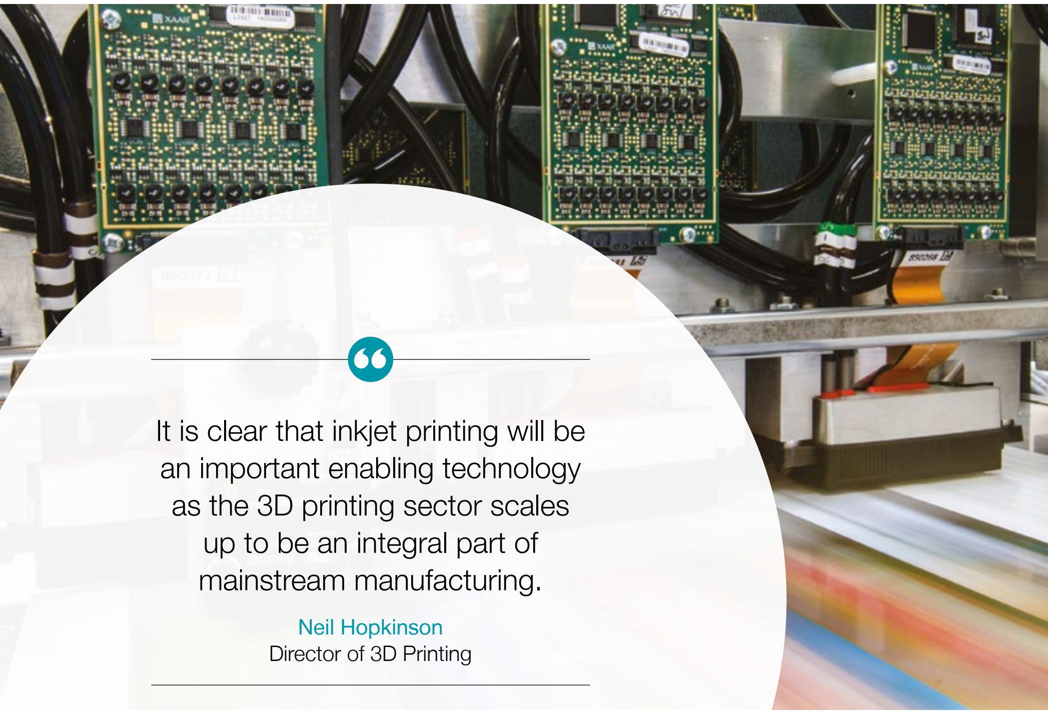
Enhancing our capability

In order to develop new products and new technology successfully, and to sustain or grow sales into multiple end markets, we must constantly develop our capability in terms of our human and other resources, specifically both our R&D and manufacturing capacity and capability, and the structure of our organisation. External opportunities will also be identified and evaluated to support the expansion of our capability.

See page 18

Our strategy in action

New products and new technology



> It is clear that inkjet printing will be an important enabling technology as the 3D printing sector scales up to be an integral part of mainstream manufacturing.
>
> Neil Hopkinson
> Director of 3D Printing

We manage our product development programmes across three horizons: short term by delivering updates and improvements; medium term by developing new products or derivatives using existing technologies; and longer term through research and development of leading edge technologies. Alongside our internal development programmes we seek opportunities to access, through acquisition or partnership, external products and technology.

To create and maintain competitive advantage over the short to medium term, it is critical that we continue to improve existing products as well as developing new products. Over the medium to long term, in order to access a greater proportion of the substantial industrial print market we must continue to develop new technology which can open up opportunities for the application of digital inkjet in established analogue markets.

We develop and maintain the different sets of skills and processes needed to execute the programmes in each of the three horizons successfully, and we balance our portfolio to achieve our short, medium and long term objectives targeted at achieving sustained profitable growth.

Products developed to date use our patented Xaar bulk piezo technology. Our Thin Film piezo technology programme will enable us to target an even wider range of applications in the future, which will significantly increase Xaar's addressable market. Alongside our internal developments we actively seek opportunities to access new products and new technology through acquisition or partnership.

Inkjet is a heavily patented area and managing our intellectual property (IP) is critical to our success, both in terms of protecting our position and avoiding infringing other parties' IP. Xaar has more than 250 patents and patent applications and continues to add to its Intellectual Property (IP) portfolio.

We allocate significant resources to research and development to enable the successful completion of programmes which will generate future sales.

2015 Update

April 2015 – launch of the Xaar 1002 GS12U printhead, perfect for UV applications such as high-build spot varnishes and extra-opaque whites onto labels and Direct-to-Shape packaging.

September 2015 – launch of the Xaar Print Bar System, a new product which incorporates the Xaar 1002 family of high-precision industrial printheads into a standalone printing system, adding single-pass inkjet capability to analogue web and sheet-fed presses. The Xaar Print Bar System is versatile, easy to configure and ideal for personalised, variable data, special effects and short-run printing for a range of applications, including labels and packaging.

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We have an exciting range of bulk piezo product launches planned for 2016. Our Thin Film programme progressed to plan in 2015, and we expect to be demonstrating our technology at drupa, the world's leading trade show for graphic and industrial print, from 31 May 2016 to 10 June 2016. This major programme aims to open up more of the analogue market to Xaar through a solution which offers a generational shift in performance.

Our strategy in action continued

Building the eco-system

> KHS works in synergy with Xaar because of its market leading unique technologies and willingness to adapt according to technical requirements.
>
> Phil Johnson
> Managing Director of KHS subsidiary NMP Systems

To penetrate any market successfully, an eco-system of technical and commercial partnerships must be formed to drive and support market conversion.

Xaar's direct customers are mainly OEMs, who manufacture equipment for patterning, decorating, finishing or printing products in a number of different market sectors. We provide our OEM partners with the know-how and ability to incorporate our innovative range of printheads, printhead systems, systems components and electronics into their equipment to increase the value and functionality of their own products, and minimise the time required to bring products to market.

In addition to our close engagement with OEMs we also actively partner and co-develop with fluid suppliers, hardware and software integrators, and substrate suppliers to deliver a robust and attractive total solution to the end user. We work in partnership with the world's leading ink manufacturers to develop and approve a wide range of inks which are optimised for our printheads and the end application.

Given the complexity of the final integrated solution, it is typical that our partners' development cycles are measured in years rather than months, with successful solutions then benefiting from long commercial lifecycles. To support these developments we deploy sales and technical support staff globally ensuring a local presence in each of the key geographical regions.

2015 Update

May 2015 – announcement of a new ceramic ink partnership with Sinocera Create-Tide in China. The new partnership will focus on delivering inks for the Xaar 1002 GS6 and GS12 printheads and large particle inks and glazes for the Xaar 1002 GS40 for tile manufacturers in China wishing to apply intense colours and special effects to their tiles in line with the latest design trends.

May 2015 – at the Ceramics China 2015 show Xaar showcased a range of ceramic tiles with stunning new special effects and intense colours created in partnership with a number of leading ink suppliers.

August 2015 – the world's first 'Direct Print Powered by KHS™' system using Xaar 1002 printheads is in industrial-scale production and printing directly onto PET beer bottles at Martens Brouwerij in Belgium.

November 2015 – announcement of a collaboration between Xaar and Lawter, along with its parent company Harima Chemicals Group (HCG), to optimise the performance of a line of nanosilver conductive inks for the manufacture of consumer electronics goods.

December 2015 – announcement of collaboration between Xaar and Guangdong Dowstone Technology Co Ltd in China to produce a digital decoration solution for the Chinese polished tile market, allowing tile manufacturers to produce highly polished tiles used in commercial heavy 'traffic' locations such as shopping malls and public buildings.

We continue to work with the leading OEMs in our target sectors as well as the appropriate fluid suppliers, hardware and software integrators, and substrate suppliers in order to deliver a robust and attractive total solution to the end user. We are working with multiple OEM partners through the Thin Film technology programme.

Converting multiple markets

The printhead and ink combination, along with photonic sintering, is unlocking mechanical and electrical designs never thought possible before.

Keith Smith
Director of Sales US
& Advanced Manufacturing

2015 Update

In ceramic tile manufacturing, our largest source of sales today, we continue to lead the market with innovative solutions which unlock previously inaccessible opportunities for our partners. The Xaar 1002 GS40 is a perfect example of this; a product that has enabled our partners to exploit new opportunities in the polished tile market.

We achieved success in a number of areas in packaging in 2015. Labels grew by over 30% as we continued to collaborate with our partners to deliver even better digital solutions. Direct-to-Shape revenue in both packaging and industrial applications remained modest in terms of revenue, but shows ever-greater promise. Our collaboration with KHS to deliver an innovative solution for Martens brewery in Belgium marks a further step forward.

The Xaar Print Bar System launched in September 2015 is proving popular, with deliveries against the first customer orders expected in the next few months.

The markets and applications that use Xaar's printheads can be diverse but can be grouped to have similar characteristics and general imaging requirements.

Xaar's products are designed to provide benefits across multiple applications. This strategy means we can offer solutions across various markets through efficiency in development and implementation. We also continuously enhance product performance which allows our OEMs to take advantage of upgrades with minimal changes at the system level.

The Xaar 1002 range of products, with high resolution greyscale (variable drop size) and TF Technology™ (fluid recirculation), ensures an exceptional quality of print in one single pass of the substrate under the printhead, which maximises productivity and delivers significant quality and cost advantages over traditional analogue methods in ceramics and other industrial applications. Although the Xaar 1002 is the market-leading printhead in the ceramics sector, it is also used for printing primary labels, decorative laminates and packaging.

To date we have focussed on three main sectors: Industrial, which covers ceramics, decorative laminates and advanced/additive manufacturing; Packaging, which includes product labelling, Direct-to-Shape (printing directly onto bottles and containers) and coding and marking (printing bar codes and data); and Graphic Arts, which includes wide-format graphics (typically outdoor advertising, posters and banners), commercial print, and varnishing. The wide-format graphics sector was the first to adopt industrial inkjet and is, therefore, the most mature. The ceramics market has been moving into digital inkjet decoration over the last ten years. However, the pace of change accelerated significantly in 2009 following the launch of the Xaar 1001 in 2007.

Our strategy in action continued

Enhancing our capability

> I am delighted that Xaar has been given the NMI Manufacturing Site of the Year award once more. This is great recognition for the hard work carried out during 2015 by Xaar employees throughout the Company, and particularly in Operations and R&D.
>
> Ted Wiggans
> Chief Operations Officer

2015 Update

Under the leadership of our new Chief Executive we reviewed and updated our strategy in 2015.

To deliver our strategic plan we have reorganised ourselves to create the right structure, with the right people, to support the growth of our business.

The change to our renewed strategy primarily relates to three elements:

1. Transition from an internally focussed product company to a market and customer focussed business
2. Expand our offering beyond the printhead in certain applications
3. Access new products and new technology through partnership and acquisition

We have reorganised our sales, marketing and business development teams to accelerate our understanding and support of our markets and customers.

We have aligned our R&D and manufacturing teams under the leadership of our Chief Operations Officer, Ted Wiggans, to drive collaboration.

We continue to invest in our people, focussing on developing their talent and skills in order to fulfill the potential of the Company.

In order to develop new products and new technology successfully, and to sustain or grow sales into multiple end markets, we must constantly develop our capability in terms of our human and other resources, specifically both our R&D and manufacturing capacity and capability, and the structure of our organisation. External opportunities will also be identified and evaluated to support the expansion of our capability.

The success of our business depends on our people so we recruit only the best. We offer competitive salary and benefits packages as well as share incentive plans and our employees benefit from extensive training and development opportunities. We aim to build long term relationships with all our employees by helping them grow and develop and by making Xaar a great place to work and a great Company to be involved with.

Our state-of-the-art manufacturing facilities are located in Huntingdon, UK (5,000 m²) and Järfälla, Sweden (7,000 m²). Manufacturing is cleanroom based with 24/7 demands for complex facilities requirements including climate control, gases and chemicals. The cleanrooms contain islands of processing automation, with custom-made or specially modified processing and test equipment. Operation is multi-shift and runs with small processing windows and micron scale tolerances. Production involves multiple non-reworkable processing steps, resulting in a highly sensitive cumulative yield; unit cost and throughput are in turn highly dependent upon yield.

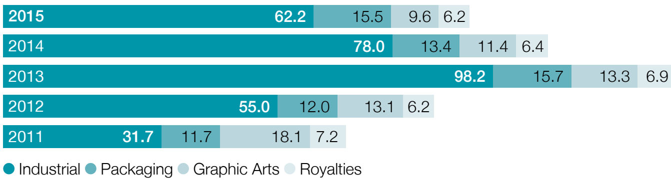
Key performance indicators

Measuring our performance

We measure our performance through key performance indicators (KPIs) that are closely aligned to our strategy.

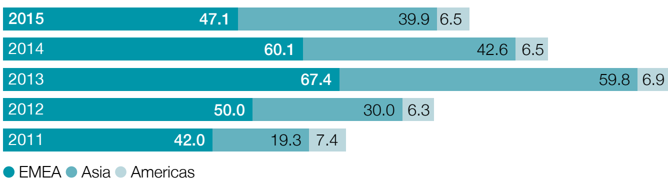
Adjusted revenue by segment

£m



Adjusted revenue by region

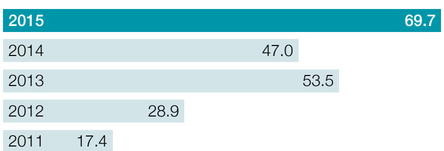
£m



The step-down in Chinese demand for ceramic tiles in H2 2014, reduced sales year on year to both Asian and European OEMs.

Net cash balance

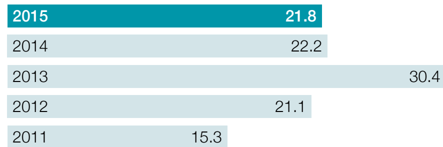
£m



We have consistently maintained a strong cash position.

Adjusted operating margin

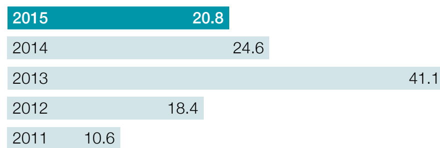
%



Prudent financial management maintained our operating margin at 22%.

Adjusted profit before tax

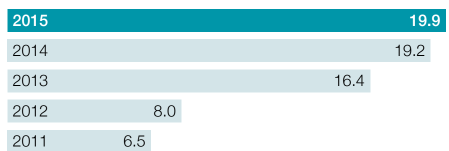
£m



Adjusted profit before tax reduced 15% versus 2014 as a result of the reduction in revenue.

R&D investment

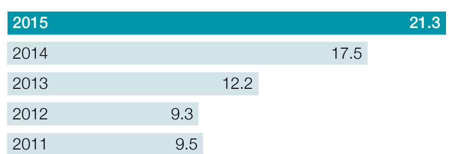
£m



R&D investment is key to our strategy.

R&D investment

% of adjusted revenue



Investment in R&D increased despite the reduction in sales.

Risk management

Prudent risk management

Effective risk management is key to our success against the dynamics of the industry that we operate in and the characteristics of our chosen business model. The printing industry in which we operate is, in general, declining in terms of total output, tends to be capital intensive, is slow to react to change and is resistant to the adoption of new technology. Product lifecycles tend to be long. Our business model is reliant on us first driving the conversion of well-established processes to our technology, then maintaining our market position to maximise sales through both the initial conversion and replacement cycles in order to generate profits to enable us to invest in new technology and open up new applications.

The first approach to managing these risks is to have high quality individuals within the necessary functions that these risks tend to fall into. Other examples of the effective day to day management of these risks include operating multi-functional teams to share knowledge across the business, having regular stage gates in the management of development programmes, and the regular assessment of manufacturing capacity against future potential needs. In addition to day to day processes the Group's risk register is formally reviewed twice per year at senior management and Board level, including the assessment of the performance of risk management during the preceding period.

The Board has applied principle C.2 of the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating, and managing the significant risks the Group faces which has operated throughout the year and up to the date of this report. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance with respect to the preparation of financial information and the safeguarding of assets and against material misstatement or loss.

In compliance with provision C.2.1 of the UK Corporate Governance Code, the Board regularly reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management systems. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considers all significant aspects of internal control arising during the period covered by the report. The Audit Committee assists the Board in discharging its review responsibilities.

In 2014 the rapid and unexpected reduction in sales into the Chinese ceramic tile market in the second half of the year caused the Board to review the control procedures around sales forecasting. Actions were taken in early 2015 to improve the monitoring of macro-economic indicators and data, and the collection, consolidation and review of information from customers, partners, market reports and other sources. Although forecasting reliability improved in 2015 the Board anticipates that forecasting sales will remain challenging, and notes that the impact of the risks around this area for the Group are exacerbated by the high proportion of revenue generated by the ceramics sector.

Following the challenges of 2014 which resulted in a substantial reduction in workforce the Board identified significant risks around the retention and motivation of Xaar's highly skilled workforce. Significant efforts were made in 2015 to improve staff communication, organisation and the alignment of objectives throughout the Company. This included the establishment of a vision to support our mission of leading the digital inkjet revolution, and the definition of the three Xaar values of trust, collaboration and drive.

In 2015 the Board also reviewed Xaar's cyber security arrangements and made a number of improvements to strengthen the Company's resilience in this area.

Key risk areas

The risks around our existing business are set out in more detail on page 21 but the key risk areas can be identified as being associated with the following:

Opportunity identification and selection

Choosing appropriate end applications for conversion at the right time, and defining correctly the market requirements.

Development

Successfully developing products with the characteristics that meet market requirements within the necessary timescale.

Adoption

Working with OEMs and other partners to achieve adoption of the technology in the target application.

Competition

Maximising returns over the long term in the target application through early adoption to achieve a market-leading position and then retention of that position.

Operations

Having the appropriate staff, systems, manufacturing arrangements and other operational structures in place.

Partnerships and acquisitions

Working with the right companies, at the right time and on the right terms to deliver long term value.

Principal risks and uncertainties

- New products and new technology
- Building the eco-system
- Converting multiple markets
- Enhancing our capability

Principal risk and uncertainty	Link to strategy	Impact	Mitigation	Likelihood	Magnitude	Change
Product sales into established applications fail to deliver sustained revenue due to competitor activity (market share loss and/or price reductions), macro-economic factors, market maturity or other changes.	●	Lower than anticipated revenues are achieved resulting in excess production capacity and lower levels of profit.	Competitive pricing policies are employed. The product portfolios and pricing of competitors are constantly monitored. Manufacturing cost reduction programmes are established to ensure that products remain competitive. Close customer relationships are maintained with supply agreements in place where appropriate. New product variants are developed to constantly improve the product portfolio on offer. Macro-economic indicators and data is regularly reviewed to improve forecasting. Information from customers, partners, market reports and other sources is collected, consolidated and reviewed to improve forecasting.	Possible	High	→
Product sales into new applications fail to achieve their targets.	● ● ●	Lower than anticipated revenues are achieved resulting in excess production capacity and lower levels of profit.	Regular reviews of OEM partners are held to ensure that appropriate and extensive market coverage is achieved together with a focus on new equipment manufacture. New products and product variants are developed to meet market requirements. Competitive pricing policies are employed. Manufacturing cost reduction programmes are established to ensure that products remain competitive. Information from customers, partners, market reports and other sources is collected, consolidated and reviewed to improve forecasting.	Possible	Medium	↑
New products fail to achieve their targets through either a failure to identify the appropriate products to meet future market requirements, or the products are identified but are not successfully developed in time or to the required specification.	● ● ●	Longer term revenue and profit is impacted.	Regular, specific and detailed reviews are held to assess current and anticipated market requirements. These reviews include input from customers and other external sources. Product developments are selected on appropriate criteria. Product development activity is properly managed with regular reviews of progress against project plans, and gated milestone reviews. Appropriate resource is applied to product development activity.	Possible	Medium	↑
Manufacturing output fails to meet demand due to supplier issues, an event at one of the manufacturing facilities, delays or problems associated with production equipment, a lack of manufacturing capacity, or for other reasons.	● ●	Demand is not satisfied resulting in lower levels of revenue and profit. Customers may start purchasing (or increase their level of purchasing) with Xaar's competitors, leading to a longer term reduction in market share, revenue and profit.	Detailed sales forecasts are prepared and reviewed regularly to minimise unexpected changes in short term demand. Suppliers are managed carefully. Appropriate sourcing, inspection and inventory holding policies are applied to ensure continuity and consistency of product supply. Appropriate contingency factors are applied to capacity planning. Manufacturing facilities are fitted with the appropriate safety and security systems. Staff are properly trained.	Remote	Medium	↓
Significant and sustained quality problems are identified with products which have been sold or which are held in inventory.	● ● ●	Lower levels of revenue in the short term whilst the issues are resolved. Unexpected costs associated with resolving the issues, which may include product scrap, warranty costs and/or customer compensation. Potentially longer term revenue loss if customers start purchasing (or increase their level of purchasing) from Xaar's competitors.	Standard operating procedures are in place for all products. Staff are properly trained. The quality of supplies is constantly monitored. Quality performance is regularly reviewed by senior management who apply appropriate resources to systematically address recurrent problems. New products are thoroughly tested before launch. Xaar's Swedish and UK manufacturing facilities are ISO 9001 accredited. Customer returns are reviewed quickly using a consistent and thorough investigation process.	Remote	Medium	↓

Chief Financial Officer's report

Stabilising our financial performance

> We maintained an annual adjusted operating margin of 22% despite a 14% reduction in total revenue.

Alex Bevis
Chief Financial Officer and Company Secretary

16 March 2016

Revenue

The Group achieved total revenue for 2015 of £93.5 million (2014: £109.2 million) which is broadly in line with the annual run rate achieved in the second half of 2014. In the ceramic tile manufacturing sector, our biggest source of revenue, sales stabilised during 2015 following the step-down in demand experienced in the second half of 2014. Sales in other applications were consistent with the Board's expectations, with the notable highlight being a 16% growth in revenue into the Packaging segment.

The majority of Xaar's revenue is generated by product sales, commissions and fees (£87.3 million or 93% of total sales in 2015, £102.8 million or 94% of total sales in 2014), with 7% of revenue in 2015 (2014: 6%) derived from licensee royalty income.

Industrial sectors (associated with the production of physical end products) continue to be the largest end application for Xaar's technology, and represented 66% of Group revenue in 2015 at £62.2 million, down from 71% in 2014 (2014: £78.0 million).

In the ceramic tile decoration sector, the development and sale of printing equipment by our OEM partners continues to drive the conversion from analogue rotary systems to superior digital inkjet processes. Sales of new equipment by our OEM partners into China have been more consistent and stable following the step-down in demand experienced in 2014, which was driven by a slow-down in the Chinese property market. Our OEM partners are selling their innovative solutions globally, with South America, Africa, the Middle East and Southeast Asia all being target markets for further digital conversion. Meanwhile the secondary market for our OEMs, in terms of both new replacement equipment and the refurbishment of existing equipment, is becoming more meaningful.

Competition in the ceramic tile decoration printhead market comes from a handful of well-established companies, including some of Xaar's licensees. We continue to lead the market, with innovative solutions like the Xaar 1002 GS40 which is unlocking the conversion opportunity in the polished tile market. We have a number of exciting product launches planned for 2016 to maintain our strong position.

Ceramics accounted for well over 90% of sales in the Industrial sector in 2015. Total sales into other applications reduced slightly (by £0.3 million) versus 2014 but significant potential remains. The application areas include advanced manufacturing, decorative laminates (artificial wood), and product printing (industrial Direct-to-Shape).

Summary of adjusted financials

	2015	2014	2013	2012	2011
Adjusted revenue £m	**£93.5m**	£109.2m	£134.1m	£86.3m	£68.7m
Adjusted gross margin %	**47.8%**	44.5%	52.9%	47.4%	44.2%
Gross research and development expenses £m	**£19.9m**	£19.2m	£16.4m	£8.0m	£6.5m
Research and development % of adjusted revenue	**21.3%**	17.5%	12.2%	9.3%	9.5%
Adjusted operating profit £m	**£20.4m**	£24.2m	£40.7m	£18.2m	£10.5m
Adjusted operating margin %	**21.8%**	22.2%	30.4%	21.1%	15.3%
Adjusted profit before tax £m	**£20.8m**	£24.6m	£41.1m	£18.4m	£10.6m
Adjusted diluted earnings per share	**24.5p**	26.4p	43.2p	20.1p	10.7p
Net cash balance £m	**£69.7m**	£47.0m	£53.5m	£28.9m	£17.4m
Net cash flow £m	**£22.7m**	(£6.5m)	£24.6m	£11.5m	(£4.6m)

Adjusted measures exclude items from the IFRS operating profit and profit before tax, such as share-based payment charges, exchange differences relating to Swedish operations, unrealised gains/losses on derivative financial instruments, restructuring costs, R&D expenditure credit, impairment on trade investments, commercial agreement costs, and non-recurring royalty income (also excluded from IFRS revenue and gross profit), per the reconciliation of adjusted financial measures on page 87. Net cash includes cash and cash equivalents, treasury deposits, less obligations under loan and finance lease liabilities.

Sales into the packaging market grew 16% in the year, and accounted for 17% of revenue in 2015 at £15.5 million (2014: 12%, £13.4 million). The well-established coding and marking sector, which is today serviced by Xaar's original product portfolio based on Platform 1 technology, continues to be an important application area for us, representing over half of our sales into packaging. In December 2015 we announced a new family of printheads to support this segment. In primary labels, sales growth exceeded 30% as our OEM partners delivered digital solutions with improved speed, image resolution and reliability. The exciting Direct-to-Shape area in packaging continues to develop, although sales remained modest at £0.7 million in 2015.

Sales into Xaar's initial end market application, Graphic Arts, reduced to £9.6 million for the year (2014: £11.4 million), representing 10% of total sales. The reduction year on year reflected the planned end-of-life of some older generation products.

As a supplier of technology to OEM partners, our geographic sales split reflects where our products are integrated into the manufacturing equipment, which is not necessarily the end-user location.

In 2015, Europe, Middle East and Africa (EMEA) remained the Company's largest sales region at £47.1 million (2014: £60.1 million), representing 50% of Group sales. The 22% reduction in year on year revenue is mainly the result of falling European OEM sales into the Chinese ceramic market. As noted earlier, we saw a step-down in demand in the second half of 2014 related to the property market in China.

Sales into Asia were also impacted by the slow-down in ceramics. Sales into Asia reduced 6% to £39.9 million (2014: £42.6 million) representing 43% of total revenue.

Total sales to the Americas remained the lowest sector with revenue unchanged at £6.5 million. We see significant potential for growth in that region.

Profitability

We stabilised our financial performance in 2015, maintaining a very respectable annual adjusted operating profit margin of 22% despite a 14% reduction in total annual revenue. This was achieved through the swift action taken in the fourth quarter of 2014 to reduce costs and the hard work and diligence of our staff during 2015 to manage costs, improve product yields and drive efficiency.

Gross profit margin for 2015 improved to 47.8% (2014: 44.5%). In addition to the favourable impact from our focus on costs, yields and efficiencies we also benefited from a higher level of activity in our Sweden plant in the second half of the year, as we increased manufacturing levels in order to complete the production of some of the products manufactured there before the end of 2015. We will be closing the Swedish manufacturing facility in 2016 as the levels of demand for the older generation products which are manufactured in that plant no longer justify the cost of a standalone operation. Total costs associated with restructuring and reorganisation of £6.1 million have been provided for in the 2015 financial statements, with £2.2 million of this cost being non-cash charges related to tangible assets and goodwill.

Gross expenditure on R&D increased by 4% from £19.2 million in 2014 to £19.9 million in 2015. Development expenditure on the Thin Film programme of £8.4 million was capitalised in 2015 (2014: £7.4 million) as required under International Financial Reporting Standards (specifically IAS 38). Sales, marketing and general administrative costs increased marginally to £12.7 million (2014: £12.6 million) on an adjusted basis. We are targeting the completion of the development of the Thin Film technology platform in 2016 and therefore we do not expect to be capitalising development costs associated with this major programme in 2017.

Adjusted profit before tax of £20.8 million was recorded for 2015 (2014: £24.6 million). Profit before tax as reported under IFRS was £13.6 million (2014: £23.1 million). In 2015 the largest reconciling item between the adjusted and IFRS measures was £6.1 million of restructuring charges as noted earlier.

The tax charge on adjusted profit before tax was £1.8 million (2014: £4.4 million), representing an effective tax rate of 8.6% (2014: 17.8%) which compares to the UK corporation tax rate for 2015 of 20%. Xaar benefits from favourable intellectual property and R&D tax incentive schemes in the UK as a result of our continued investment in R&D. The effective tax rate for 2015 was particularly low due to prior year adjustments for improved deductions from the UK's patent box regime, higher than expected capital allowance deductions and other adjusting items. Excluding these prior year adjustments, the adjusted effective tax rate was 12.5% on adjusted profit before tax.

The tax charge on IFRS profit before tax was £1.0 million (2014: £4.4 million) representing an effective tax rate of 7.7% (2014: 19.1%). Excluding the prior year adjustments, the effective tax rate was 13.6% on IFRS profit before tax.

Adjusted profit after tax for 2015 was £19.0 million (2014: £20.2 million).

Adjusted diluted earnings per share was 24.5 pence in 2015 (2014: 26.4 pence).

Financial position

The Group maintains a strong cash position, with £69.7 million of cash and treasury deposits at 31 December 2015 (31 December 2014: £47.0 million). Net cash increased by £22.7 million in 2015, as net working capital reduced and capital expenditure was relatively low compared to prior years. The operating cash inflow, after adding back depreciation but before working capital movements, was £28.9 million. The reduction in net working capital represented a cash inflow of £10.1 million during 2015, with inventory reducing £6.3 million, receivables decreasing £1.5 million and payables increasing £2.4 million (excluding the impact of asset related items). Total cash outflow relating to intangible and tangible assets was £12.3 million in the year, including the £8.4 million of capitalised development expenditure. Dividends accounted for £6.9 million. Cash flows relating to tax were a net inflow of £1.4 million due to overpayments made in 2014.

Dividend

As announced in 2014, the Company employs a progressive and sustainable dividend policy which takes into account the Group's future prospects, its underlying profitability and the future cash requirements of the business. The Board will recommend a final dividend of 6.3 pence for 2015 at the forthcoming Annual General Meeting (AGM), giving a total dividend for the year of 9.45 pence, a 5% increase over 2014 (2014: 9 pence). An interim dividend of 3.15 pence was paid during the year (2014: 3 pence). Subject to approval by shareholders at the AGM the final dividend will be paid on 24 June 2016, with an ex-dividend date of 26 May 2016, to shareholders on the register at close of business on 27 May 2016.

Sustainable and responsible business

Developing a sustainable business

The Group strongly believes that corporate responsibility is integral to business success. The Group is compliant with all relevant regulation and legislation whilst enhancing the working environment for our employees and minimising the environmental impact of our manufacturing processes. There is internal reporting of key metrics throughout the business, and each member of staff is expected to take individual responsibility for their performance and to work together to achieve shared goals.

Social responsibility

- To celebrate Xaar's 25th Anniversary, teams participated in a number of fundraising activities, including the London to Cambridge charity bike ride to raise money for Breast Cancer Now, the Cambridge Chariots of Fire relay race to raise money for the East Anglian Children's Hospice, and Byte Night to raise money for Action for Children.
- Xaar employees raised money during the year for a number of other charities, including taking part in various activities for Comic Relief on Red Nose Day, for Macmillan Cancer Support by hosting a fête, for the Royal British Legion Poppy Appeal and for the East Anglian Children's Hospice.
- Charitable donations were made through the Xaar charitable giving programme, whereby employees nominate and vote for six charities to each receive a £2,000 donation. The chosen charities in 2015 were Alzheimer's Society, Cancer Research UK, Magpas, Action for Children, the Swedish Childhood Cancer Foundation (Barncancerfonden), and the Swedish Cancer Society (Cancerfonden). Xaar also donated £4,000 to the Disasters Emergency Committee for the Nepal Earthquake Appeal.
- Xaar has sponsored a number of employees and their families engaging in events throughout the year, including charity golf days, skydiving and cycling events. In total, the Group made charitable contributions to local and national charities during the year totalling £21,174 (2014: £1,677). No political donations were made in the year (2014: £nil).
- The social club, which is aimed at encouraging staff to have fun and getting to know each other socially, held several events throughout the year including theatre trips, comedy nights, punting in Cambridge, sporting events including a trip to watch cricket, bowling, Duxford air show, wine tasting, meals and nights at the races.
- Xaar continues to sponsor an Imagineering Foundation club at a Huntingdon primary school. The Foundation introduces 8-16 year olds to the fascinating world of engineering and technology through fun, hands-on activities. We are working with year six pupils building engineering-related projects such as a Morse code buzzer, balloon-powered car, aero-glider, magnetic compass and micrometer. The scientific principles are explained and explored through the hands-on activities.
- In 2013 Xaar invested £1 million in bonds to support the Future Business Centre in Cambridge. The centre provides affordable workspace with support and shared services to new social and environmental enterprises.

Human rights

The Group respects all human rights and in conducting its business the Group regards those rights relating to non-discrimination, fair treatment and respect for privacy to be the most relevant and to have the greatest potential impact on its key stakeholder groups of customers, employees and suppliers.

The Board has overall responsibility for ensuring that the Group upholds and promotes respect for human rights. The Group seeks to anticipate, prevent and mitigate any potential negative human rights impacts as well as enhance positive impacts through its policies and procedures and, in particular, through its policies regarding employment, equality and diversity, treating customers fairly and information security. Group policies seek both to ensure that employees comply with the relevant legislation and regulations in place in the UK and other operating locations and to promote good practice. The Group's policies are formulated and kept up to date by the relevant business area, authorised by the Board and communicated to all employees.

The Group undertakes extensive monitoring of the implementation of all of its policies and has not been made aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

Sustainable and responsible business continued

To celebrate Xaar's 25th Anniversary, we participated in a number of activities to mark the occasion.

On Saturday 12 September 2015, over 75 staff members from across Xaar took part in the first Xaar Football Tournament. With family and friends to support them, eight teams completed a series of matches during the fun-filled afternoon.

On Sunday 26 July, 2015 an intrepid team of cyclists took to their bikes for the 60-mile London to Cambridge charity ride, raising over £4,000 for Breast Cancer Now.

On Friday 2 October 2015, 13 Xaar employees joined teams from other local businesses in a sponsored sleep-out under the stars in aid of Action for Children, raising over £5,000.

On Sunday 20 September 2015, three teams from Xaar competed in the annual Cambridge Chariots of Fire relay race. The team raised an amazing £925 for East Anglia's Children's Hospices.

On Saturday 25 September 2015, £1,335 was raised for Macmillan Cancer Support by taking part in a number of activities as part of the Great Xaar Bake Off and a Xaar fête.

£30,000
Total amount of funds raised by Xaar employees and donations made by Xaar (£21,174) to charities supported in 2015.

Based on the closing headcount at 31 December the split of staff by gender was as follows:

	31 December 2015 male/female	31 December 2014 male/female
All employees	483/130	509/134
Directors	6/1	8/0
Senior Managers	48/9	78/20
Employees excluding Directors and Senior Managers	429/120	423/114

Equality and diversity

The Group is committed to providing a working environment in which employees feel valued and respected and are able to contribute to the success of the business. Employees are requested to co-operate with the Group's efforts to ensure that the policy is fully implemented.

The Group's aim is that its employees should be able to work in an environment free from discrimination, harassment and bullying, and that employees, job applicants, customers, retailers, business introducers and suppliers should be treated fairly regardless of:

- Race, colour, nationality (including citizenship), ethnic or national origins
- Gender, gender reassignment, sexual orientation, marital or civil partnership status
- Religious or political beliefs or affiliations
- Disability, impairment or age
- Real or suspected infection with HIV/AIDS
- Membership of a trade union
- Pregnancy and maternity

and that they should not be disadvantaged by unjust or unfair conditions or requirements.

The Group aims to ensure that applications for employment from people with disabilities, and other under-represented groups, are given full and fair consideration and that such people are given the same training, development and job opportunities as other employees. Every effort is also made to retrain and support employees who suffer from disabilities during their employment, including the provision of flexible working to assist their re-entry into the workplace.

Human Resources policies are reviewed regularly to ensure that they are non-discriminatory and promote equality of opportunity. In particular, recruitment, selection, promotion, training and development policies and practices are monitored to ensure that all employees have the opportunity to train and develop according to their abilities.

The Group places considerable value on the involvement of its employees and has continued to keep them informed of the various factors affecting the performance of the Group. This is achieved through written communications shared through the Company intranet and email, and formal and informal meetings. All employees participate in a bonus scheme based on individual performance and Group business targets and, in the UK, have the opportunity to participate in an HMRC approved Share Save Scheme and Share Incentive Plan.

Formal directives and certification

The Group undertakes R&D and manufactures products in both UK and Sweden. The Group complies with all local and European legislation relevant to the respective territories. The Group's manufacturing facilities in Huntingdon and Järfälla are both ISO 9001 and ISO 14001 certified.
It is the Group's policy to maintain this level of certification for its manufacturing facilities and to comply at all times with all relevant environmental and other legislation in the territories in which the Group operates. The Group is compliant with REACH (Registration, Evaluation, Authorisation and restriction of Chemicals), WEEE (Waste Electrical and Electronic Equipment) and RoHS (Restriction of the Use of Certain Hazardous Substances) directives, as required under European legislation.

The Group has a proactive Health and Safety System modelled on OHSAS 18001/HSG65 in Cambridge, Huntingdon and Sweden.

Health, safety and environment

Xaar has manufacturing sites in Huntingdon, UK and Järfälla, Sweden, along with R&D and head office functions in Cambridge, UK, plus sales offices worldwide.

It is always Xaar's intention to conduct business in a manner that protects the public, the environment, and employee safety. Xaar's Environmental and Health & Safety policies provide a framework for setting and reviewing of Occupational Health, Safety and Environmental Objectives. This demonstrates Xaar's commitment to the prevention of injury and ill health and also the continual improvement in Environmental and Occupational Health & Safety Performance. Xaar recognises that the combination of a safe place of work and safe working practices, together with a productive and innovative environment, are critical to the continued success of the Company.

The management of Xaar is committed to achieving and maintaining full compliance with environmental, health and safety legislation. Although certain responsibilities under this policy can be attributed to specific roles within the organisation, and in particular with different levels of management, each and every Xaar employee shares the core basic duty to understand their responsibilities to observe instructions put in place and, where necessary, to draw these to the attention of others.

To achieve our Environmental and Health & Safety policy, Xaar will ensure that the organisation is led by example; systems are in place to engage, train, develop and maintain competent, informed personnel; resources are allocated to enable safety standards to be maintained; employee involvement and open communication are actively encouraged; plant, equipment and facilities are safe and without risk to the health and welfare of all persons who could be affected by their use or maintenance; substances required and used in the workplace are handled and disposed of safely; a comprehensive risk assessment programme is maintained covering all activities and processes, with control measures implemented to minimise risk where applicable; adequate welfare facilities are provided; where accidents or 'near misses' occur, they are reported, investigated and treated as the source of learning for on-going working practices; and that best practice is shared across the Group.

The Group is committed to minimising its impact on the environment through the reduction and recycling of waste and by operating its facilities as efficiently as is practicable. Our printhead technology improves process efficiency and reduces wastage in our end user markets.

Sustainable and responsible business continued

Greenhouse gas emissions statement

Xaar plc has calculated its global greenhouse gas (GHG) emissions statement using an operational control consolidation approach as described in the Greenhouse Gas: Protocol: A Corporate Accounting and Reporting Standard (Revised Edition, 2004), which reflects the Defra Environmental Reporting Guidelines (Revised October 2013).

Scope 1 emissions

Scope 1 emissions occur from sources that are owned or where Xaar plc has operational control. This includes direct emissions from gas combustion in our buildings and fuel used in leased company vehicles. Actual and estimated gas consumption data has been collected from each of the leased properties under the control of the Xaar Group, from data sources including direct meter readings, meter readings from suppliers included on invoices and estimations where required based on available information from property management suppliers and other sources. Actual mileage data has been collected from the leased company vehicle fleet.

Scope 2 emissions

Scope 2 refers to indirect emissions from the consumption of purchased electricity (also including any purchased heat, steam or cooling) from facilities owned or under the operational control of Xaar plc. Actual and estimated data has been collected from each of the leased properties under the control of the Xaar Group, from data sources including direct meter readings, meter readings from suppliers included on invoices and estimations where required based on available information from property management suppliers and other sources. New conversion factors have been used for 2015, per the Defra conversion factors 2015 for overseas electricity generation; this has reduced the scope 2 emissions, due to Sweden having a much lower conversion factor in 2015 compared to 2014.

Assessment parameters

Baseline year	1 January 2013 to 31 December 2013
Consolidation approach	Operational control
Boundary summary	All entities and all facilities under operational control included subject to the materiality threshold applied
Consistency with the financial statements	The only variation is that leased properties deemed to be under operational control have been included in scope 1 and 2 emissions
Materiality threshold	Materiality has been set at Group level at 5%*
Assessment methodology	Greenhouse Gas Protocol and ISO 14064-1 (2006)
Intensity ratio	Emissions per £m turnover excluding royalties

* The total of any excluded emission sources are estimated to be less than 5% of Xaar plc's total reported emissions.

	2015		2014	
GHG emission source	(tCO_2e)	(tCO_2e/£m)	(tCO_2e)	(tCO_2e/£m)
Scope 1	**162**	**2**	162	2
Scope 2	**4,475**	**51**	6,263	61
Statutory total (scope 1 and 2)	**4,637**	**53**	6,425	63

The GHG emissions statement includes emissions data from leased assets that are not included in the rest of the consolidated financial statements, other than in note 31 Operating lease arrangements.

Board approval of the Strategic and Annual Reports

Board approval

The Strategic Report, Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Phil Lawler
Chairman

Doug Edwards
Chief Executive Officer

Alex Bevis
Chief Financial Officer
and Company Secretary

Ted Wiggans
Chief Operations Officer

Robin Williams
Senior Independent Director

Margaret Rice-Jones
Non-Executive Director

Chris Morgan
Non-Executive Director

Board of Directors

Diverse and strong leadership

Phil Lawler
Chairman

Committee membership:
Chairman of the Nomination Committee. A member of the Audit Committee and Remuneration Committee.

Experience:
Phil has extensive experience of high technology industries. He started with co-founding a software business and subsequently spent 18 years until 2002 at Hewlett Packard in various senior positions, most recently as Chairman and Managing Director of Hewlett Packard, UK and Ireland. Since leaving Hewlett Packard, he has held non-executive Chairman roles in a number of IT companies including listed, private equity and venture capital backed.

Current external appointments:
He is currently Non-Executive Chairman of Kalibrate plc, is a Chartered Director and a Fellow of the Institute of Directors.

Doug Edwards
Chief Executive Officer

Committee membership:
Member of the Nomination Committee

Experience:
Doug joined the Company as Chief Executive in January 2015 from Kodak (Eastman Kodak Company) where most recently he was President, Digital Printing and Enterprise and had been a member of the Executive Board since 2006. He started his career in the UK in a variety of technical roles with Ilford Limited, ICI, Zeneca and International Paper before moving to the US 14 years ago with Kodak Polychrome Graphics (a joint venture company between Sun Chemical Corporation and Kodak). Doug holds a BSc in Chemistry and a PhD in Conducting Organic Materials from London University.

Alex Bevis
Chief Financial Officer and Company Secretary

Experience:
Alex joined Xaar in February 2011 after ten years at CSR plc (Cambridge Silicon Radio). He held a variety of key finance roles at CSR, supporting the growth of the business including the IPO in 2004 and multiple acquisitions. He was most recently employed as Vice President of Finance. He qualified as a Chartered Accountant with Deloitte prior to joining CSR in 2000.

Ted Wiggans
Chief Operations Officer

Experience:
Ted joined Xaar in January 2011, with over 30 years' experience in high technology operations. Immediately prior to joining Xaar he was Chief Operating Officer at Cambridge Semiconductor Ltd (CamSemi). Before joining CamSemi in 2006, he was Operations Director at Zetex Semiconductors with overall responsibility for its multi-site, multi-national manufacturing activities and a global team of 500. In addition, he has held senior-level manufacturing, engineering and quality roles with Motorola and Philips.

Current external appointments:
He is a Chartered Engineer and is Chair of the Manufacturing Industries Division Board of the IMechE.

Robin Williams
Senior Independent Director

Committee membership:
Chairman of the Audit Committee. A member of the Remuneration Committee and Nomination Committee.

Experience:
Robin joined Xaar in March 2010. He obtained an Engineering Science degree from Oxford before qualifying as a Chartered Accountant with Peat Marwick Mitchell. He spent ten years as a corporate advisor before co-founding Britton Group plc in 1992. As CEO of Britton, he grew the business to £250 million revenues within six years, before selling to a competitor. He was then an Executive Director of Hepworth plc, with a leading role in the rationalisation and subsequent sale of the group. He has subsequently held various public and private company directorships across a range of industries including business services, healthcare, outsourcing, contracting, and manufacturing.

Current external appointments:
Robin is currently Chairman of NHS Professionals Ltd and NHS Property Services Ltd, and a Non-Executive Director of Nanoco Group plc.

Margaret Rice-Jones
Non-Executive Director

Committee membership:
Chairman of the Remuneration Committee. A member of the Audit Committee and Nomination Committee.

Experience:
Margaret joined Xaar in August 2015. She has over 25 years' experience within innovative technology businesses. She has an engineering background and has operated at Board level in various executive and non-executive roles for the last ten years. Previously, Margaret was CEO of Aircom International, a global software and services company, and Corporate Vice President of Motorola Inc. Margaret has had P&L responsibility for over $1 billion revenue, and has worked with both high growth and a number of business turnaround situations. Margaret has previously served on listed company boards including Psion plc and Abacus Polar plc.

Current external appointments:
Margaret is currently Chairman at Skyscanner plc and Openet Ltd.

Chris Morgan
Non-Executive Director

Committee membership:
Member of the Audit Committee. A member of the Remuneration Committee and Nomination Committee.

Experience:
Chris joined Xaar in January 2016 and brings with him a wealth of expertise in managing complex international technology businesses, having spent 25 years at HP, Inc. He has a strong background in global marketing, sales and general management senior executive roles including global accountability for HP's multibillion dollar graphics/industrial portfolio of digital 2D and 3D printing businesses from 2009-2012. Chris also has extensive experience in Asia and Japan having spent more than a decade in senior APJ leadership roles. He has led strategic investments in key growth markets and has been involved in a number of mergers and acquisitions at both the strategic and operational levels. He recently served as Chief Marketing Officer for Stratasys, Ltd, until June of 2015, where he was responsible for marketing 3D printing and additive manufacturing solutions globally.

Directors' report

Report on the affairs of the Group

The Directors present their Annual Report on the affairs of the Group together with the financial statements and auditor's report for the year ended 31 December 2015. The corporate governance statement set out on pages 37 to 43 forms part of this report.

An indication of likely future developments in the business of the Company and details of research and development activities are included in the Strategic Report. The Group's policies relating to equality, diversity and employee consultation can be found in the 'Sustainable and responsible business' section of the Strategic Report on pages 25 to 27.

Details of the proposed dividend are set out on page 24.

The Greenhouse gas emissions statement can be found on page 28.

Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 25. The Company has one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 32.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles themselves may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Main Board terms of reference, copies of which are available on request, and the corporate governance statement on page 42.

Treasury

The Group's policy enables it to use financial instruments to hedge foreign currency exposures. The main trading currency of the Group is UK pounds. The Group's use of financial instruments and the related risks are discussed further in notes 19, 20 and 23.

At the 2015 AGM held on 13 May 2015, the Company's shareholders granted the Company authority to make one or more market purchases (within the meaning of section 693(4) of the Companies Act 2006) of ordinary shares of 10 pence each in the capital of the Company.

The Company did not purchase any shares for cancellation or to be held as treasury in 2015 or 2014.

Directors and their interests

The Directors who served during the year, and subsequent to the year-end, unless otherwise stated, were as follows:

Phil Lawler – Chairman
(stepping down on 30 September 2016)

Doug Edwards – Chief Executive Officer
(appointed 5 January 2015)

Alex Bevis – Chief Financial Officer and Company Secretary

Ted Wiggans – Chief Operations Officer

Jim Brault – Chief Human Resources Officer
(appointed 2 March 2015, stepped down from the Board 16 March 2016). Jim will continue in his role as Chief Human Resources Officer

Robin Williams – Senior Independent Director
(Chairman from 1 October 2016)

Margaret Rice-Jones – Non-Executive Director
(appointed 1 August 2015)

Chris Morgan – Non-Executive Director
(appointed 4 January 2016)

Ian Dinwoodie – Chief Executive
(retired 27 March 2015)

Edmund Creutzmann – Chief Technical Officer
(resigned 27 April 2015)

David Cheesman – Non-Executive Director
(retired 13 May 2015)

Richard Barham – Chief Customer Officer
(resigned 11 December 2015)

Brief biographical descriptions of the Directors are set out on pages 30 and 31. Full details of their interests in shares of the Company and its subsidiary undertakings are included in the Directors' Remuneration report on pages 44 to 68.

Shareholdings in the Company

The interests of the Directors in the shares of the Company and its subsidiaries (all of which are beneficial) as at 31 December 2015 are as follows:

	Number of ordinary shares of 10p each 31 December 2015	Number of ordinary shares of 10p each 31 December 2014
Doug Edwards	**26,085**	–
Alex Bevis	**57,822**	53,577
Ted Wiggans	**71,239**	9,680
Jim Brault	**721**	–
Phil Lawler	**99,930**	99,930
Robin Williams	**4,000**	1,500
Margaret Rice-Jones	**–**	–

There have been no changes in the Directors' interests in shares of the Company between 31 December 2015 and 16 March 2016. Directors' interests in options over shares in the Company are shown in the Directors' Remuneration report.

Directors' liabilities

The Company has granted an indemnity to all of its Directors against liability in respect of any potential proceedings that may be brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Share capital

As at 31 December 2015 the Company had been notified in accordance with Chapter 5 of the Financial Conduct Authority's (FCA's) Disclosure and Transparency Rules of the following material interests in its share capital:

	Number of ordinary shares held	Percentage of issued share capital
AXA Framlington Investment Managers	**10,685,905**	13.8%
M&G Investment Management	**5,999,138**	7.7%
Legal & General Investment Management	**5,914,532**	7.6%
BlackRock	**4,762,478**	6.1%
Schroder Investment Management	**4,667,262**	6.0%
Baillie Gifford	**3,527,126**	4.6%
Oppenheimer Funds	**3,000,000**	3.9%
Generation Investment Management	**2,846,998**	3.7%
Aberdeen Asset Management	**2,824,075**	3.6%
T Rowe Price Global Investments	**2,401,117**	3.1%

During the period 31 December 2015 to 16 March 2016, the Company received the following notifications pursuant to chapter five of the FCA's Disclosure and Transparency Rules:

On the 15 January 2016, the Company received a notification from AXA Framlington Investment Managers advising that their interests in the total voting rights of the Company were 10,012,977 ordinary shares, being 12.9% of the issued share capital (excluding treasury shares) at the date of notification.

On the 21 January 2016, the Company received a notification from Oppenheimer Funds advising that their interests in the total voting rights of the Company were 3,835,688 ordinary shares, being 5.0% of the issued share capital (excluding treasury shares) at the date of notification.

On the 4 March 2016, the Company received a notification from AXA Framlington Investment Managers advising that their interests in the total voting rights of the Company were 10,098,670 ordinary shares, being 13.02% of the issued share capital (excluding treasury shares) at the date of notification.

Directors' report continued

Report on the affairs of the Group continued

Annual General Meeting

The notice convening the Annual General Meeting is set out on pages 118 to 120. Resolutions 1 to 12 set out in the notice of the meeting deal with the ordinary business to be transacted at the meeting. The special business to be transacted at the meeting is set out in Resolutions 13 to 18.

Re-election of Directors

Resolutions 5 to 11

The Company's Articles of Association require the Directors to retire by rotation at least once every three years, with the number to retire by rotation at each Annual General Meeting being the number nearest to but not exceeding one third of the Board. However, the UK Corporate Governance Code provides that all Directors of FTSE 350 companies should be subject to re-election by their shareholders every year. In accordance with this provision of the UK Corporate Governance Code and in keeping with the Board's aim of following best corporate governance practice, the Board has decided that, as at the previous Annual General Meeting of the Company in 2015, all Directors should retire at each Annual General Meeting offer themselves for re-election.

Directors' Remuneration report

Resolutions 12 and 13

These Resolutions seek shareholder approval for the Directors' Remuneration report, which includes the remuneration policy. The Directors' Remuneration report can be found on pages 44 to 68 (inclusive) of the Annual Report and Financial Statements.

As at the previous Annual General Meeting of the Company in 2015, in accordance with regulations which came into force on 1 October 2013 in this area, the Company is offering shareholders an annual advisory vote on the implementation of the Company's existing remuneration policy, which is set out in the Directors' Remuneration report, and a binding vote on the Company's forward-looking Directors' remuneration policy.

Resolution 12 contains the advisory resolution relating to the Directors' Remuneration report, and Resolution 13 contains the binding resolution in relation to the Directors' remuneration policy.

The Directors' remuneration policy sets out the Company's future policy on Directors' remuneration. If Resolution 13 is approved, the effective date of the remuneration policy will be the date of the AGM (18 May 2016).

Amendment to articles

Resolution 14

It is proposed by Resolution 14, to approve an amendment to article 86 of the Company's articles of association, so as to increase the aggregate fees capable of being paid to directors to an amount not exceeding £300,000 per annum in aggregate from its previous limit of an amount not exceeding £200,000 per annum.

Approve LTIP rule changes

Resolution 15

It is proposed by Resolution 15, to approve proposed amendments to the 2007 Xaar plc Long Term Incentive Plan rules: to increase the limit on the market value of the shares that may be granted under performance share award to an employee in a financial year from 100% to 175% of base salary in such financial year, and to give the Remuneration Committee the ability to flex the weighting of EPS and TSR measures in performance conditions applicable to awards in the event of early vesting as a result of a change of control.

Authority to purchase own shares

Resolution 16

It is proposed by Resolution 16, by Special Resolution, to authorise the Company generally and unconditionally to purchase its own shares at a price of not less than the par value of the shares and not more than the higher of:

(i) 5% above the average of the middle market quotations of the shares as derived from the London Stock Exchange Daily Official List for the five dealing days immediately preceding the day on which the purchase is made; and
(ii) the amount stipulated by article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of any expenses payable by the Company).

The authority will be for a maximum of 14.9% of the Company's issued share capital and will expire at the earlier of the next Annual General Meeting of the Company or within 15 months from the date of the passing of this resolution. The Directors currently have no intention to exercise the authority and will only purchase shares if it is in the best interests of shareholders as a whole.

The total number of options to subscribe for ordinary shares outstanding at 31 December 2015 (including options awarded under LTIP which may be satisfied by subscription of new shares) was 2,761,447. This represents 4% of the issued ordinary share capital at that date. If Xaar plc was to buy back the maximum number of ordinary shares permitted pursuant to the passing of this resolution, then the total number of options to subscribe for ordinary shares outstanding at 31 December 2015 would represent 4% of the reduced issued ordinary share capital.

Power to issue securities

Resolution 17

Under the Companies Act 2006 the Directors of the Company may only allot shares (whether for cash or otherwise) with the authority of shareholders given at a general meeting of the Company. In accordance with institutional guidelines, under Resolution 17, to be proposed as an Ordinary Resolution, authority is sought to allot shares:

(i) in relation to a pre-emptive rights issue only, up to an aggregate nominal amount of £5,179,388.40, which represented two thirds of the Company's ordinary share capital as at 16 March 2016; and
(ii) in any other case, up to an aggregate nominal amount of £2,589,694.30, which represented one third of the Company's ordinary share capital as at 16 March 2016.

The Directors do not currently have an intention to exercise the authority.

Resolution 18
This resolution, to be proposed as a Special Resolution, will give the Directors power to allot shares:

(i) up to an aggregate nominal amount of £5,110,391.50 (representing approximately 66% of the Company's issued share capital) on an offer to existing shareholders on a pre-emptive basis (subject to any adjustments, such as for fractional entitlements and overseas shareholders, as the Directors see fit); and
(ii) for cash up to a maximum aggregate nominal value of £388,454.10, representing 5% of the ordinary share capital of the Company as at 16 March 2016, otherwise than in connection with an offer to existing shareholders.

The Directors do not currently have an intention to exercise any power given to them by shareholders to allot shares for cash on a non pre-emptive basis and, in any event, the Directors do not intend to allot any shares for cash on a non pre-emptive basis if such allotment would exceed the limits established by the guidance published by the investment committees of the ABI and the NAPF.

The authorities contained in Resolutions 17 and 18 will expire no later than 15 months after the passing of those resolutions.

Additional information for shareholders

The following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK law.

The structure of the Company's issued share capital is shown in note 25.

Details of ordinary shares held in trust owned by the Company can be found in note 27.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

The Directors are authorised to issue and allot shares and to undertake purchases of the Company's shares. Appropriate resolutions to renew these authorities are proposed to be passed at the AGM as detailed above and notice of which is on pages 118 to 120.

Ordinary shares

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote for every ordinary share held and, on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the AGM on pages 118 to 120 specifies deadlines for exercising voting rights either by proxy notice or present in person or by proxy in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are made available at the AGM and are published on the Company's website after the meeting. No person holds securities carrying special rights with regard to control of the Company.

Restrictions

There are no restrictions on the transfer of ordinary shares in the Company other than:

- Certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws and market requirements relating to close periods)
- Pursuant to the Listing Rules of the FCA whereby all employees of the Company require the approval of the Company to deal in the Company's securities

The Company's Articles of Association may only be amended by a Special Resolution at a general meeting of the shareholders. Directors are reappointed by Ordinary Resolution at a general meeting of the shareholders.

Appointment of Directors

The Board can appoint a Director but anyone so appointed must be elected by an Ordinary Resolution at the next general meeting. All Directors are required to submit themselves for reappointment every year at the AGM.

Significant interests

Directors' interests in the share capital of the Company are shown in the table on page 33. Major interests (i.e. those greater than 3%) of which the Company has been notified are shown on page 33.

Company share schemes

The Xaar plc ESOP Trust holds 1.8% of the issued share capital of the Company in trust for the benefit of employees of the Group and their dependants. The voting rights in relation to these shares are exercised by the Trustees.

Change of control

The Company is not party to any agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid. Depending on the achievement of performance conditions, share-based payment arrangements may vest on change of control but this is subject to the approval and exercise of the discretion of the Remuneration Committee.

Report on the affairs of the Group continued

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 14 to 18. Notes 19, 20 and 23 include a description of the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources and through a diverse customer base is exposed not only to the Western economies but also to China, India and Latin America. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, based on the Group's forecasts and projections for the next three years, taking account of reasonably possible changes in trading performance. For this reason, we continue to adopt the going concern basis in preparing the financial statements.

Viability statement

Taking account of the Company's current financial position, and operating performance, principal risks and uncertainties included on pages 20 to 21, the Directors have assessed the prospects of the Company, and confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for the next three years.

The Directors' assessment has been made with reference to strategic planning, based on the key areas documented in the Strategic report on pages 14 to 18. The Directors have considered the current financial position, and operating performance, principal risks and uncertainties of the Company, and the potential impact these risks and uncertainties, could have on the business model and future performance over the period assessed.

The Corporate Strategy Committee meets at least twice a year, and reviews and updates the strategic plan for the Company, taking into consideration assumptions concerning existing and future products and technology, customer engagements, business relationships and partnership opportunities. The strategic plan for the Company is approved by, and performance against the plan is regularly reviewed by, the Executive Committee.

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming AGM.

Directors' statement as to disclosure of information to auditor

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 32.

Having made enquiries of fellow Directors, each of these Directors confirm that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditor is unaware
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approval

The Director's report was approved by the Board on 16 March 2016 and is signed on its behalf by:

Alex Bevis
Chief Financial Officer and Company Secretary

Governance

Corporate governance statement

The Company is committed to the principles of corporate governance contained in the 2014 UK Corporate Governance Code which was issued in 2014 by the Financial Reporting Council ('the Code') for which the Board is accountable to shareholders.

Statement of compliance with the Code

Throughout the year ended 31 December 2015 the Company has followed the provisions set out in the Code.

During 2015, the Company did not comply with provision B.1.2 of the Code relating to the composition of the Board. Following the appointment of Chris Morgan on 4 January 2016 and Jim Brault stepping down from the Board on 16 March 2016, the Board is comprised of three executive roles and four non-executive roles, including the Chairman, thus now complying with provision B.1.2 of the Code. The previous weighting towards executive roles reflected the need for operational focus at the most senior level in the Company to achieve success in Xaar's highly demanding end markets.

The Board confirms that the 2015 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the performance, strategy, and business model of the Company, in accordance with C.1.1 of the Code.

Statement about applying the principles of the Code

The Company has applied the principles of the Code, including both the Main Principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the Main Principles have been applied is set out below and, in connection with Directors' remuneration, in the Directors' Remuneration report.

Board of Directors

Following the appointment of Chris Morgan on 4 January 2016 and Jim Brault stepping down from the Board on 16 March 2016, the Board of Directors comprises the Chairman, three Executive Directors and three Non-Executive Directors. Brief biographical details of all members of the Board are set out on pages 30 and 31.

The Board considers Robin Williams, Margaret Rice-Jones and Chris Morgan to be independent within the meaning of the Code, in compliance with Code provision B.1.1. To be considered as independent each Non-Executive Director is sufficiently separate to management and free from any business or other relationships which could affect their judgement, impartiality or objectivity.

The Board is responsible for the formulation of strategy; the monitoring of financial and non-financial performance and the approval of major transactions; financial statements; other formal communications with shareholders; and operating and capital expenditure budgets. Comprehensive Board papers, dealing with all aspects of the business, are distributed by the Company Secretary typically one week in advance of each Board meeting. The Board met ten times during 2015.

The Non-Executive Directors attend the Board meetings, and form the Audit, Remuneration and Nomination Committees. They are responsible for scrutinising the performance of management and determining appropriate levels of remuneration of Executive Directors, and have a key role in appointing and, where required, removing Executive Directors.

There exists a clear division of responsibilities between the Chairman and the Chief Executive. The Chairman's primary role includes ensuring that the Board functions properly, that it meets its obligations and responsibilities, and that its organisation and mechanisms are in place and are working effectively. The Chief Executive's primary role is to provide overall leadership and vision in developing, with the Board, the strategic direction of the Company. Additionally, the Chief Executive is responsible for the management of the overall business to ensure that strategic and business plans are effectively implemented, the results are monitored and reported to the Board, and financial and operational objectives are attained.

The Board delegates management of the business to the Executive Committee, headed by the Chief Executive Officer. The Executive Committee meets weekly and is responsible for implementing Group strategy, monitoring business performance, preparing the operating and capital expenditure budgets for recommendation to the Board, and ensuring efficient management of the Group.

The committee has formally identified Ted Wiggans as Director responsible for health and safety and Alex Bevis as Director responsible for risk assessment.

Governance continued

Corporate governance statement continued

Summary of Board meeting attendance in 2015

Ten Board meetings were held in 2015.

Name	Meetings attended
Phil Lawler	10 (10)
Robin Williams	10 (10)
Margaret Rice-Jones	5 (5)
Doug Edwards	10 (10)
Alex Bevis	10 (10)
Ted Wiggans	10 (10)
Jim Brault	9 (9)
David Cheesman	4 (4)
Ian Dinwoodie	2 (2)
Edmund Creutzmann	2 (3)
Richard Barham	10 (10)

Figures in brackets denote the maximum number of meetings that could have been attended.

Board committees

Summary of committee membership:

Name	Audit Committee	Remuneration Committee	Nomination Committee
Phil Lawler	Yes	Yes	Chairman
Robin Williams	Chairman	Yes	Yes
Margaret Rice-Jones	Yes	Chairman	Yes
Doug Edwards	No	No	Yes

Summary of committee meeting attendance in 2015:

Name	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held	4	4	5
Phil Lawler	4 (4)	4 (4)	5 (5)
Robin Williams	4 (4)	2 (2)	5 (5)
Margaret Rice-Jones	2 (2)	3 (3)	3 (3)
David Cheesman	2 (2)	1 (1)	2 (2)
Doug Edwards	N/A	N/A	5 (5)

Figures in brackets denote the maximum number of meetings that could have been attended.

Conflicts of interest

Following the changes made to the Company's Articles of Association to incorporate the provisions of section 175 of the Companies Act 2006 which gave Boards the statutory power to authorise conflicts of interest, any potential conflict of interest is approved by the Board in advance of any action or appointment that could result in a conflict of interest arising. Each member of the Board is familiar with the procedure to follow in relation to conflicts of interest and the process is operated efficiently.

Performance evaluation

The Board's policy for individual Executive Director performance reviews is for a formal and rigorous appraisal process based on performance by the individual Director against specific targets. Individual Director performance is reviewed at least annually. The Senior Independent Director, in consultation with the other Non-Executive Directors and taking into account the views of the other Directors, appraises the performance of the Chairman. The Executive Directors, in consultation with the Chairman, appraise the performance of the Non-Executive Directors.

When new Directors are appointed, they receive a complete and specifically bespoke induction and training, aimed at introducing and familiarising them to the management team, the Group's activities and processes, and to give them the knowledge required to effectively execute their role.

The Board reviewed both its own performance and the performance of the Board committees once during the year through a questionnaire issued to all members of the Board. The results were reviewed by the Board as a whole and it was concluded that individual Board members are satisfied that the Board works well and operates effectively in an environment where there is constructive challenge from the Non-Executive Directors. They are also satisfied with the contribution made by their colleagues and that Board committees operate properly and effectively. It is the Board's intention to review its own performance, and that of its committees, at least once a year.

Group structure

The Group has three main locations. The head office functions, R&D, EMEA sales, marketing, human resources and enterprise solutions are based in Cambridge, UK. The Group also has two manufacturing facilities: one in Huntingdon, UK and the other in Järfälla, Sweden, which is due to close in 2016. The Group also has representatives in other global locations including India, Hong Kong and the USA.

Refer to page 2 for the Xaar business model.

Dialogue with institutional shareholders

The Directors seek to build on a mutual understanding of objectives between the Group and its institutional shareholders by meeting at least twice per year, following interim and annual results, to provide an update on trading and obtain feedback. Additionally, the Group has hosted institutional investors at Cambridge and its Huntingdon facility during the year.

The Group's financial public relations advisors and lead brokers give all investors and potential investors who have met with the Group's investor relations team, the opportunity to provide feedback on the meetings. Additionally, the Chief Executive Officer and Chief Financial Officer provide feedback to the Board at the meeting following shareholder meetings to ensure that the Board, and in particular the Non-Executive Directors, possess an understanding of the views of the Company's major shareholders. Both the Chairman and the Senior Independent Director are available to meet with shareholders as required.

Shareholders can access up-to-date Company information from the Investor Relations section of the Xaar website at www.xaar.com.

Constructive use of the Annual General Meeting
The Board uses the AGM to communicate with investors and to encourage their participation.

Risk management and internal control

The Group's policies relating to risk management and internal control can be found in the 'Risk management' section of the Strategic Report on pages 20 to 21.

Whistle-blowing, and anti-bribery and corruption policies

The Company conducts its business with the highest standards of integrity and honesty at all times and expects its employees to maintain the same standards in everything they do. Employees are therefore required to report any wrongdoing by Xaar or its members of staff that falls short of these principles. The whistle-blowing, and anti-bribery and corruption policies are available and communicated to all employees via the Company intranet, and all employees confirm in writing that they have read and comply with the whistle-blowing and anti-bribery and corruption policies. All reported incidences of actual or suspected bribery or corruption will be promptly and thoroughly investigated and dealt with appropriately. The purpose of the anti-bribery and corruption policy is to protect Xaar and its employees from breaches of anti-bribery and corruption laws. Xaar does not tolerate any employee or third party being involved in any level of bribery or corruption. Xaar is committed to complying with applicable anti-bribery and corruption laws in all countries in which it conducts business.

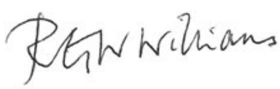
Approval

The Corporate governance statement was approved by the Board on 16 March 2016 and is signed on its behalf by:

Alex Bevis
Chief Financial Officer and Company Secretary

Governance continued

Corporate governance statement continued



Robin Williams
Chairman of the Audit Committee

Audit Committee

Governance

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Company. The Chairman of the committee, Robin Williams, is deemed by the Board to have recent and relevant financial experience as he is a qualified Chartered Accountant, and has ten years' experience of advising public companies followed by a further ten years as CEO or Executive Director at the centre of substantial public companies either overseeing or working closely with CFOs and Financial Controllers.

The Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The written terms of reference of the committee are available on request from the Company Secretary.

Please see the tables on page 38 for details of the Audit Committee members in the year and the number of Audit Committee meetings attended. The committee meetings are also attended, by invitation, by the Group Chief Executive Officer, the Chief Financial Officer and other senior financial management as appropriate, as well as by the external auditor for specific parts of the meeting.

Responsibilities

The Audit Committee's primary responsibilities are:

- To monitor the integrity of the financial statements and announcements and review significant financial reporting judgements contained therein, as well as financial and accounting policies and practices
- To keep under review the adequacy and effectiveness of internal controls
- To review procedures, systems and controls for whistle blowing, fraud detection and bribery prevention
- To review, approve and monitor internal audit activities
- To monitor and review the Group's external auditor's independence, objectivity and effectiveness
- To make recommendations to the Board on the appointment, remuneration and terms of engagement of the external auditor

The Audit Committee is not responsible for the identification of key risks or the review of the adequacy of arrangements to mitigate those risks, which remains the responsibility of the main Board. The Audit Committee is required to report its findings to the Board at least annually, identifying any matters on which it considers that action or improvement is needed, to make recommendations on the steps to be taken, and to ensure that the required actions are taken.

Significant issues

The Audit Committee has a set agenda for each of its regular meetings, which is then augmented by specific matters concerning the Company and in assessing the appropriateness of the financial statements. Key areas of focus during the year included:

Royalty audits

The results of completed royalty audits were discussed by the Audit Committee. The actions relating to the outcomes of completed audits and the on-going royalty audits were agreed.

Process and system audits

KPMG were engaged to perform process reviews and internal audit procedures over specifically targeted areas. The Audit Committee reviewed potential and actual issues encountered, and the results of the completed audits in the year. Planned procedures to be undertaken going forward were proposed and agreed by the Audit Committee.

Tax areas

The Audit Committee considered the tax related areas and projects that impact the Group, including capital allowances, patent box, R&D expenditure credit and OECD developments. Updates and progress in these areas were discussed by the Audit Committee. The requirements of each area were reviewed, planned and actions agreed and taken.

Significant issues considered

Significant issues that have been considered by the Audit Committee include revenue recognition, provisions, inventory valuation, the restructure and closure of the Swedish facility and capitalisation of development costs. These are also areas of focus for the external auditor, who report on these matters to the Audit Committee.

Key activities

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference, which were last updated in 2013. The Chairman of the Audit Committee will be available at the AGM to answer any questions about the work of the committee. The Audit Committee has performed actions to discharge its responsibilities during 2015, and its effectiveness was reviewed as part of the overall annual Board effectiveness review. The committee has carried out the activities described as follows:

Financial statements and reports

- Reviewed the Annual Report and financial statements, the half-yearly financial report and as part of this review the Audit Committee received a report from the external auditor on their audit and review performed
- Reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and financial statements

Internal controls and compliance

- Reviewed fraud detection and the systems and controls for the prevention of bribery

Internal audit

- Agreed a schedule of the internally and externally resourced internal audit activities, and reviewed the results of internal audit activities performed
- Reviewed the internal financial controls and risk management systems
- Reviewed the results of system processes reviews completed in the year

External audit

- Reviewed and agreed the scope of the audit work to be undertaken by the auditor, and reviewed non-audit services provided and the level of this compared with the audit services provided
- Agreed the fees to be paid to the external auditor relating to their services rendered for the annual audit and interim review
- Reviewed audit work performed on significant risk areas, including those areas identified and discussed by the external auditor in their report, and ensured the independence and objectivity of the external auditor

External auditor

Deloitte LLP have been the Company's auditor since 2009 and there has been no tender held for audit services during that time. The committee considers that the auditor's knowledge of the Group's business and systems gained through experience has contributed to the effectiveness of the audit process. The committee intends the Company to continue to comply fully with the FRC Audit Committees Guidance regarding the frequency of audit tender. Under the standard rotation process, a new audit engagement partner was appointed from 2014.

The Audit Committee has noted that there are no contractual obligations to restrict the choice of external auditor and has considered the likelihood of a withdrawal of the auditor from the market. The committee meets with the Company's auditor at least twice a year. The Chief Executive Officer and Chief Financial Officer, and other relevant managers as required, attend by invitation, except for a period of each meeting where the committee members may meet with the auditor without any member of the Group management present.

The committee is required to assess the qualifications, expertise, resources, and independence of the external auditor, and the objectivity and effectiveness of the audit process. The committee reviews the type of work, effectiveness of, and level of fees charged by the auditor on an annual basis and recommends to the Board the appointment, reappointment, term, remuneration, and terms of engagement of the external auditor. Auditor objectivity and independence is safeguarded by the committee monitoring fees paid to the auditor in respect of both audit and non-audit work, and approving all additional work performed by the external auditor. Non-audit services include remuneration services, tax and audit advisory.

Note 7 to the consolidated financial statements includes disclosures of the auditor's remuneration for the year, including an analysis of audit services, audit related services, and other non-audit services under those headings prescribed by law. The committee monitors the level of non-audit fees in relation to the audit fee for its bearing on external auditor independence.

The independence and objectivity of the auditor is regularly considered by the committee taking into consideration relevant UK professional and regulatory requirements. The committee receives an annual statement from the auditor detailing their independence policies and safeguards and confirming their independence, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditor. Under the standard rotation process, a new audit engagement partner was appointed from 2014.

The committee considers the effectiveness of the external audit and the Group's relationship with the external auditor, Deloitte LLP, on an on-going basis, and have conducted a review of the effectiveness of the annual audit. This review consisted of considering a number of key points together with the senior financial management of the Group, without the external auditor present, and then discussing the evaluation with the auditor. The committee was able to conclude, on the basis of this exercise and its experience over the year, that the external audit process remained effective.

A further review will be carried out following the completion of audit procedures on all Group companies and reported on in next year's Annual Report.

Governance continued

Corporate governance statement continued

Phil Lawler
Chairman of the
Nomination Committee

Nomination Committee

Governance

The Nomination Committee is appointed by the Board from the Non-Executive Directors of the Company and the Chief Executive Officer. The Chairman of the committee is Phil Lawler. The committee meets as required. The written terms of reference of the committee are available on request from the Company Secretary.

Responsibilities

The Nomination Committee's primary responsibilities are:

- Reviewing the size, structure, skills, knowledge and composition of the Board
- Formulating plans for succession for both Executive and Non-Executive Directors
- Making recommendations to the Board on the appointment of new Executive and Non-Executive Directors and their reappointment following retirement by rotation

Boardroom diversity

Recruitment of Board candidates is conducted, and appointments made, on merit and suitability against objective selection criteria with consideration of, amongst other things, the benefits of diversity on the Board, including gender. The Board has not set a diversity quota, however the Board encourages applications for roles being recruited from women subject to the selection criteria being met. Following the appointment of Margaret Rice-Jones to the Board in 2015, the gender ratio is 14% female versus 86% male.

Key issues and activities

The process adopted by the committee to identify a candidate for a specific vacancy is, in the first instance, to determine whether any individuals known to the committee would be suitable for the role. If no candidates can be identified through this process then an external search consultancy will be approached.

Shortlisted candidates are interviewed by members of the committee and other Executive and Non-Executive Directors as the committee deems appropriate. Once a suitable candidate has been identified, the Chairman of the committee will recommend to the Board that the Company make a formal offer of employment to the candidate.

During the year, the Nominations Committee has been engaged in recruiting two new Non-Executive Directors to join the Board; Margaret Rice-Jones joined the Board during the year on 1 August 2015 and the appointment of |Chris Morgan to the Board on 4 January 2016.

All Directors are required to submit themselves for reappointment every year at the AGM.

The Company intends to recruit a new independent Non-Executive Director during 2016 in order to achieve the minimum best practice Board structure of having an equal balance of Executive and independent Non-Executive Directors (excluding the Chairman). The anticipated Board structure will therefore be three Executive Directors, three independent Non-Executive Directors and a Chairman.

Margaret Rice-Jones
Chairman of the
Remuneration Committee

Remuneration Committee

Governance

The Remuneration Committee is appointed by the Board from the Non-Executive Directors of the Company. The Chairman of the committee is Margaret Rice-Jones, who took over as Chairman following Dave Cheesman's retirement from the Board in May 2015. The Chief Executive Officer and Chief Human Resources Officer attend meetings by invitation, except when their own remuneration package is being discussed. The written terms of reference of the committee are available on request from the Company Secretary.

Responsibilities

The Remuneration Committee's primary responsibilities are:

- To make recommendations to the Board on the Group's policy for executive remuneration, and review the on-going appropriateness and relevance of the policy
- To review the design of all share incentive plans and oversee any major changes in employee benefit structures
- To monitor the level and structure of remuneration for Senior Managers
- To determine the individual remuneration packages on behalf of the Board for the Executive Directors of the Group

Key issues and activities

The committee has access to professional advice, both inside and outside the Company, in the furtherance of its duties. The committee has received guidance on best practice for Directors' remuneration from Deloitte LLP, PwC LLP and Mercer Limited during the year, and has reviewed and approved executive remuneration, equity budgets, share incentive schemes and grants, and bonus schemes.

In early 2015 the Remuneration Committee undertook a review of the operation of the current performance targets for the Long Term Incentive Plan (LTIP). The main principle applied by the Committee in its review was that the LTIP should be aligned with Company strategy, and that the incentive targets should be challenging but achievable.

As a result of the review the Committee, after consultation with shareholders, made some changes to the LTIP which were applied to grants made in 2015. For 2016 grants the Committee is proposing some additional changes which are summarised in the Directors' Remuneration report. The proposed changes will not affect the outstanding LTIP grants which are due to mature in 2016, 2017 and 2018.

The Directors' Remuneration report sets out in more detail the committee's policies and practices on executive remuneration.

Governance continued

Directors' Remuneration report

This report has been prepared in accordance with the regulations on Directors' remuneration disclosure. The report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the Principles relating to Directors' remuneration in the UK Corporate Governance Code.

This report is presented in two sections: the annual report on remuneration and the Directors' remuneration policy. The annual report on remuneration provides details of the amounts earned in respect of the year ended 31 December 2015 and how the Directors' remuneration policy, which sets out the forward-looking remuneration policy, will be operated for the year commencing 1 January 2016. The annual report on remuneration is subject to an advisory vote at the 2016 AGM. The Directors' remuneration policy was approved in May 2014 and in the normal course of events would not be subject to a further shareholder approval until May 2017, however due to certain changes being proposed, the policy and the revised 2007 Xaar plc LTIP rules, will both be subject to votes at the 2016 AGM before a full revision in 2017, with changes discussed as follows and in the policy (pages 58 to 62).

Statement from the Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present the 2015 Remuneration report, my first as Chairman of the Committee since joining the Board in August 2015. This covers our policy on pay, benefits and incentives for the Directors and the amounts earned for the year ended 31 December 2015.

The Committee's goal is to attract and retain management of the highest capability and to achieve this we offer competitive packages comparable to those offered by companies similar to Xaar in terms of size and complexity. We aim to provide incentives that reward near and longer term performance, are considerate to the climate for salary restraint, and take into account the views of our shareholders.

Remuneration for 2015

For the 2014 Annual Report, the Committee noted that 2014 had been a very challenging year for Xaar with the step-down in demand in the Chinese ceramics market. This meant that for 2014 no awards were earned in terms of annual bonuses and therefore opportunities to invest in bonus matching LTIP shares. No salary increases have been paid to any of the Directors for 2015. Annualised compounded EPS growth above RPI growth over the three year performance period ending 31 December 2015 was a decline of 8% and the LTIPs awarded on 2 April 2013 and 15 May 2013, will not vest in 2016. Certain changes, namely the introduction of Cumulative EPS and TSR as a performance measure, were introduced for the 2015 LTIP awards to ensure alignment between shareholders and Directors in delivery of the growth strategy for the business outlined by the incoming CEO Doug Edwards who joined the Board on 5 January 2015.

Cumulative EPS

The Company's historic EPS has been relatively volatile year on year, which produces potentially unintended results when using an annual average growth measure. Vesting can be dependent on timing and volatility rather than consistent performance. By measuring EPS as a cumulative amount delivered over the three-year performance period, the Committee is able to reward consistent sustainable performance by measuring the absolute EPS delivered over this period, rather than rewarding the change of EPS in year three versus the base year, which may not reflect consistent performance but may reward volatility in earnings.

The calculation of EPS will exclude amounts accounted for under International Accounting Standard 38, specifically capitalisation or amortisation of development expenditure. It is considered that excluding this accounting impact results in a fairer measure of the Company's profitability.

The re-introduction of TSR

The LTIP performance metrics proposed are a blend of EPS and relative TSR (weighted two thirds and one third respectively). The reintroduction of the relative TSR measure ensures that the Company's performance is in part measured by performance relative to the market.

Annual Bonus payments

The bonus payments outlined on page 48 reflect both the delivery against company targets and the progress made by each Director against their specific individual objectives which determined the personal performance multiplier (in the range of 0-1.33). The profit measure used for bonus target is adjusted profit before tax excluding any impact of IAS 38 (capitalisation of development costs). Adjusted profit before tax excluding IAS 38 at £12.45 million was above the minimum threshold at which level payments against financial targets were triggered for Executive Directors. The Company performance component provided a 58% payment against the maximum bonus opportunity for each individual as a result of the on target bonus being set at £11.5 million. The Committee undertook a rigorous review of the achievement against financial and individual objectives to ensure the level of bonus payment was appropriate and fair given the overall business performance. A bonus was awarded to the outgoing CEO, Ian Dinwoodie, as part of his final compensation based on his pro-rata salary and a personal multiplier of 1.0. The highest bonus payment was made to Doug Edwards of 63.8% of salary at 31 December 2015 reflecting strong progress in the development of the five year strategy for the Company and the new product pipeline and personal performance multiplier of 1.1.

Leading remuneration decisions for 2016

The Committee recognises that a significant shortfall exists in certain Executive and Non-Executive Director base salaries compared to companies of a similar size and complexity. Strong leadership is essential as the business now seeks to bring a set of new products to market in 2016 and grow in emerging and highly innovative market areas such as 3D printing and Direct-to-Shape. The US market is also an increasingly important market for the Company both in terms of where we compete for talent and where we are seeking to strengthen our presence in the market. We are aware that the incentive opportunities offered by our competitors in the US are significantly higher and would often comprise a combination of both time based restricted stock and performance based stock awards. Against this background, the Committee is mindful of the risks posed by uncompetitive executive remuneration in trying to operate an effective recruitment and retention strategy in a highly competitive global market for technology leaders. The 2013 plan to incrementally increase salary scales over a three-year period was deferred in 2015 and will now recommence with the same goals to realign against a current set of relevant benchmarks for Executive Directors provided to the Committee by Mercer and for Non-Executive Directors from data published by Deloitte and New Bridge Street. It would be our intention to realign salaries over the next two years subject to the continued performance of the Company and relevant individuals. The date for the annual review of Directors' salaries has been re-set to 1 July of each year in line with the annual review for the rest of the Company (see page 55). No annual rises have been provided for Directors since January 2014. During 2015, Ted Wiggans' role was significantly expanded and his current package, implemented on 1 January 2016 reflects this increased responsibility for the R&D and Engineering functions and will not be further adjusted during 2016.

The Remuneration Committee has undertaken a review of the operation of the LTIP awards, in light of concerns that these are not achieving the policy objective: to provide an overall package that offers retentive and motivating arrangements for Executive Directors which drive and reward the achievement of longer term objectives, and which are closely aligned to shareholder interests.

The main principle applied by the Committee in its review was that the LTIP should be aligned with Company strategy, and that the incentive targets should be challenging but achievable. Based on current outlook the probability of LTIPs vesting in 2017 is very low.

The Committee wishes to simplify the long term incentive arrangements by removing the bonus matching plan for the 2016 bonus cycle for Executive Directors, balanced with increasing the maximum long term incentive plan (LTIP) awards for the CEO and CFO for 2016 from 100% of salary to 175% of salary and 150% of salary respectively. The proposed changes to the LTIP which are intended to apply to awards from 2016 onwards are summarised below. The proposed changes will not affect the outstanding LTIP grants that are due to vest in 2016, 2017 and 2018.

LTIP feature	2015	2016 Proposal
Maximum Award Level	• A maximum of 100% of base salary p.a.	• A maximum of 175% of base salary p.a.
Performance Measures	• EPS and TSR measures	• No change
Weighting of Performance Measures	• Two thirds cumulative adjusted EPS • One third TSR relative to FTSE TechMARK All Share Index	• No change
EPS Performance Period	• Three-year performance period • Absolute cumulative EPS performance over the performance period	• No change
EPS Calculation	• Adjust to exclude the capitalisation or amortisation of development costs under IAS 38	• No change
EPS Targets	• Maximum 74 pence • Threshold 38 pence	• Maximum 56 pence • Threshold 38 pence
EPS Vesting	• Maximum – 100% • Threshold – 25% • Straight line vesting between threshold and maximum	• No change
Relative TSR Vesting	• Upper quartile – 100% • Median – 25% • Below Median – 0% • Straight line vesting between median and upper quartile	• No change
Rule provisions	• Malus • Clawback	• Malus • Clawback • Underpin

UK Corporate Governance Code

The Committee has also considered the guidance in relation to the introduction of malus, clawback and other clauses into incentive arrangements, minimum shareholding requirements, and holding periods in light of the UK Corporate Governance Code. Malus and clawback provisions are already in place, and an underpin provision will be introduced for the 2016 grants onwards. The Committee is happy that the minimum shareholding requirements are appropriate for a company of the size of Xaar. In addition, the Committee had decided that additional holding periods post vesting would not be appropriate given the current issues set out above with the LTIP; but will review this at the point of determining each grant.

We remain committed to reporting openly the details of our Director pay arrangements and to consulting with shareholders on any changes as required and we are providing further disclosure around our bonus targets this year. We will continue to maintain a dialogue with investors regarding our disclosures to ensure we clearly communicate our arrangements as far as possible without it impacting our commerciality.

Margaret Rice-Jones
Chairman of the Remuneration Committee

16 March 2016

Governance continued

Directors' Remuneration report continued

Annual report on remuneration

This part of the report sets out the actual payments made by the Company to its Directors with respect to the year ended 31 December 2015.

The Remuneration Committee's policy is to attract and retain individuals of the highest calibre by offering remuneration competitive with comparable publicly listed companies, and to drive Company performance by providing arrangements which fairly and responsibly reward individuals for their contribution to the success of the Group. Performance related bonuses and equity-based remuneration represent a substantial proportion of Executive Directors' potential remuneration.

Single figure table

The aggregate remuneration provided to Directors who have served as Directors in the year ended 31 December 2015 is set out below, along with the aggregate remuneration provided to such Directors for the financial year ended 31 December 2014.

Director	Salary/fees[a] £'000	Benefits[b] £'000	Bonus[c] £'000	Long term incentives[d] £'000	Pension[e] £'000	Total remuneration £'000
Year ended 31 December 2015						
Executive						
Doug Edwards[1]	298	43	190	10	30	571
Jim Brault[2]	141	35	90	10	14	290
Alex Bevis	169	21	98	–	17	305
Ted Wiggans	183	21	111	–	18	333
Ian Dinwoodie[3]	130	10	–	–	10	150
Richard Barham[4]	174	20	–	–	18	212
Edmund Creutzmann[5]	57	15	–	–	6	78
Non-Executive						
Phil Lawler (Chairman)	90	–	–	–	–	90
Margaret Rice-Jones[6]	18	–	–	–	–	18
David Cheesman[7]	18	–	–	–	–	18
Robin Williams	42	–	–	–	–	42
Year ended 31 December 2014						
Executive						
Ian Dinwoodie	260	34	–	239	29	562
Alex Bevis	169	20	–	296	17	502
Ted Wiggans	183	21	–	181	18	403
Richard Barham	183	21	–	186	18	408
Edmund Creutzmann[5]	131	15	–	–	13	159
Ramon Borrell[8]	37	5	–	n/a[8]	4	46
Non-Executive						
Phil Lawler (Chairman)	90	–	–	–	–	90
David Cheesman[7]	39	–	–	–	–	39
Robin Williams	42	–	–	–	–	42

1 Doug Edwards joined on 5 January 2015.
2 Jim Brault joined on 2 March 2015 and ceased as Director on 16 March 2016 but continues to be employed by the Group.
3 Ian Dinwoodie ceased as Director on 27 March 2015 but continued to be employed until 30 June 2015.
4 Richard Barham ceased as Director on 11 December 2015.
5 Edmund Creutzmann ceased as Director on 27 April 2015.
6 Margaret Rice-Jones joined the Board on 1 August 2015.
7 David Cheesman ceased as Non-Executive Director on 13 May 2015.
8 Ramon Borrell ceased as Director on 1 April 2014 but continues to be employed by the Group.

The figures in the single figure table on the left are derived from the following:

(a) Salary/fees	The amount of base salary/fees received in the year.
(b) Benefits	This is the taxable value of benefits and the flexible benefits allowance received in the year. This includes any relocation allowance claimed in 2015 and the cost of providing company paid accommodation and associated employee PAYE and NI.
(c) Bonus	The value of the bonus earned in respect of the year, including any part of the bonus invested into bonus investment shares for a period of three years. Performance against the targets which applied for the financial year is provided on page 49.
(d) Long term incentives	The value of performance related incentives vesting in respect of the financial year (including any Matching Share Awards granted under the LTIP) and the value of SAYE options and Matching Shares under the HMRC approved Share Incentive Plan (SIP) granted based on the fair value of the options/shares at grant. The performance condition for the Performance Share Awards and Matching Share Awards granted under the LTIP on 2 April 2013 was EPS growth against RPI over the three-year performance period ending 31 December 2015. For the year ended 31 December 2015, the Company's annualised, compounded EPS growth above RPI growth over the three year performance period commencing 1 January 2013 and ending 31 December 2015 was a decline of 8% which did not exceed the 4% minimum threshold required for 35% vesting, and therefore none of the Performance Share Awards and Matching Share Awards in respect of the year ending 31 December 2015 will vest. For the year ended 31 December 2014 comparative figures, 100% of the Performance Share plan Awards and Matching Share Awards in respect of the performance period commencing 1 January 2012 and ending 31 December 2014 vested. Also included in the long term incentives figure are: SAYE options granted in the year, valued at the accounting value on date of grant. There were no Matching Share Awards granted under the SIP scheme during the year.
(e) Pension	The value of the employer contribution to the defined contribution pension plan (or the value of a salary supplement paid in lieu of a contribution to this pension plan).

Individual elements of remuneration

Base salary and fees

Base salaries for Executive Directors were reviewed by the Remuneration Committee prior to the beginning of each year and when an individual changes position or responsibility. From 2016, the annual review will be effective from 1 July. In deciding appropriate levels, the Remuneration Committee considers the role, responsibility, and experience of the individual, corporate and individual performance, market conditions, and the range of salary increases awarded across the Group.

The Directors did not receive a salary increase for 2015.

The remuneration policy for the Non-Executive Directors is reviewed periodically. The fees for the Non-Executive Directors were not increased during 2015.

Governance continued

Directors' Remuneration report continued

Individual elements of remuneration continued

Benefits

Benefits principally comprise a car allowance, private medical insurance and basic levels of other insurances (such as Income protection cover). In addition, Executive Directors are provided with an allowance of 5% of base salary which they can apply to a range of benefits such as life insurance, critical illness insurance etc.

Pension

The Company operates a self-administered, defined contribution, HMRC approved pension scheme. All current Executive Directors participate in this scheme. In appropriate circumstances, Executive Directors may take a salary supplement instead of contributions into a pension plan. This salary supplement does not form part of salary for the purposes of calculating any other entitlement under the policy. Non-Executive Directors do not receive pension contributions.

Annual bonus

For the year ended 31 December 2015 the annual bonus was based on performance against a Group profit target, which was achieved for 2015.

Group profit is defined as Group adjusted profit before tax excluding any impact of IAS 38 (capitalisation of development costs, which for 2015 was £12.45 million.

Executive Director	Salary (for 2015)	Achievement against profit target	Achievement against performance target (range 0 – 1.33)	Resulting bonus
Doug Edwards	£298,077	58%	1.1	£190,173
Jim Brault	£140,833	58%	1.1	£89,851
Alex Bevis	£169,000	58%	1.0	£98,020
Ted Wiggans	£183,000	58%	1.05	£111,447

The Board considers the Group profit target to be a matter that is commercially sensitive. The Board believes that the advance disclosure of this commercially sensitive information could negatively impact the Company's competitive position by providing our competitors with insight into our business plans, expectations and, in the case of individual performance, our strategic actions resulting in significant risk to future profitability and shareholder value. It will however disclose targets retrospectively. For 2015 adjusted profit before tax at £12.45 million was above the minimum threshold at which level payments against financial targets were triggered for Executive Directors. The Company performance component provided a 58% payment against the maximum bonus opportunity for each individual as a result of the on target bonus being set at £11.5 million, and threshold performance being set at £6.5 million.

Executive Directors may choose to invest the bonus earned relating to 2015 (on a post-tax basis) in bonus investment shares, in return for participation in the bonus matching element of the LTIP. This will not be open for the 2016 bonus cycle. Additionally Directors may opt to invest in the Company SIP.

Value earned from long term incentive awards

The LTIP was approved by shareholders in April 2007 and comprises two elements: Performance Share Awards and Matching Share Awards.

- Performance Share Awards: subject to the achievement of performance conditions
- Matching Share Awards: as described above, Executive Directors may choose to invest the bonus earned (on a post-tax basis) in bonus investment shares. Matching Share Awards are granted subject to the achievement of performance conditions on a one for one basis (based on the pre-tax) value of the bonus used to acquired bonus investment shares (subject to an overall maximum of 50% of salary)

Performance Share Awards and Matching Share Awards granted to Executive Directors on 2 April 2013 and 15 May 2013 were based on growth in EPS against RPI as shown below:

Annualised, compounded growth in EPS:	% of LTIP awards vesting
RPI + 4% p.a.	35% vests
RPI + 10% p.a.	100% vests

Straight-line vesting applies for performance between these levels.

Performance against targets

Annualised compounded basic adjusted EPS, excluding any impact of IAS 38, growth above RPI growth over the three year performance period commencing 1 January 2013 and ending 31 December 2015	(8%)
% of 2013 LTIP award due to vest in April and May 2016	0%

Long term incentives awarded during the financial year

The table below outlines awards made under the LTIP to Executive Directors in 2015:

		Award basis	Performance condition	Number of shares	Face value of the award £'000	Vesting at EPS threshold / TSR Median	Performance period	Vesting date
2 April 2015	Doug Edwards	Performance Share plan Awards: 100% of base salary	EPS	48,870	200	25% of award	1 January 2015 to 31 December 2017	2 April 2018
			TSR	24,435	100			2 April 2018
2 April 2015	Alex Bevis		EPS	27,530	113			2 April 2018
			TSR	13,765	56			2 April 2018
2 April 2015	Ted Wiggans		EPS	29,811	122			2 April 2018
			TSR	14,905	61			2 April 2018
2 April 2015	Jim Brault		EPS	27,530	113			2 April 2018
			TSR	13,765	56			2 April 2018
2 April 2015	Richard Barham[1]		EPS	29,811	122			2 April 2018
			TSR	14,905	61			2 April 2018
2 April 2015	Edmund Creutzmann[2]		EPS	28,507	117			2 April 2018
			TSR	14,254	58			2 April 2018

1 Richard Barham ceased as Director on 11 December 2015.
2 Edmund Creutzmann ceased as Director on 27 April 2015.

The share price used to calculate the face value of the award was £4.085 for the 2 April 2015 award, being the mid-market price on the day prior to award date.

The performance conditions for these LTIP awards are described in full on page 109.

Directors’ Remuneration report continued

Shareholding guidelines and total shareholdings of Directors

With effect from 14 May 2014, the date of the AGM, the Remuneration Committee introduced a shareholding guideline of 1x salary. Executive Directors will have until the later of the fifth anniversary of appointment or the fifth anniversary of introduction of the policy to build this level of shareholding. The extent to which each Executive Director has met the shareholding guideline is shown in the table below:

						Unvested		
	Shareholding guidelines	Current shareholdings (% of salary)	Type	Owned outright	Vested	Subject to performance conditions	Not subject to performance conditions	Total as at 31 December 2015
Executive Directors								
Doug Edwards	100% of salary	26,085 (37%)	Shares	26,085	–	–	–	26,085
			LTIP options	–	–	73,305	–	73,305
			SAYE options	–	–	–	4,316	4,316
			Matching SIP	–	–	–	–	–
Alex Bevis	100% of salary	57,332 (142%)	Shares	57,332	–	–	–	57,332
			LTIP options	–	60,417	119,961[2]	–	180,378
			SAYE options	–	–	–	5,325	5,325
			Matching SIP	–	–	–	490	490
Ted Wiggans	100% of salary	70,749 (129%)	Shares	70,749	–	–	–	70,749
			LTIP options	–	–	115,762[2]	–	115,762
			SAYE options	–	–	–	5,325	5,325
			Matching SIP	–	–	–	490	490
Jim Brault[1]	100% of salary	721 (2%)	Shares	721	–	–	–	721
			LTIP options	–	–	41,295	–	41,295
			SAYE options	–	–	–	4,316	4,316
			Matching SIP	–	–	–	–	–
Non-Executive Directors								
Phil Lawler (Chairman)	–	–	Shares	99,930	–	–	–	99,930
Margaret Rice-Jones	–	–	Shares	–	–	–	–	–
Robin Williams	–	–	Shares	4,000	–	–	–	4,000

1 Jim Brault has ceased as Director on 16 March 2016.
2 These figures include the 2013 LTIP Awards that will lapse in full in 2016.

There have been no changes in the Directors’ holdings in the share capital of the Company, as set out in the table above, between 31 December 2015 and 16 March 2016.

Outstanding Directors' share awards

The awards held by Executive Directors of the Company under the LTIP are shown below:

LTIP

The outstanding awards granted to each Executive Director of the Company under the Xaar plc 2007 LTIP are as follows. All options under the LTIP are nil-cost options such that no exercise price is payable. The performance conditions for these LTIP awards are described in full in note 32.

Name	As at 1 January 2015	Granted during the year	Exercised during the year	As at 31 December 2015	Grant date	Share price at date of grant	Earliest date of exercise	Expiry date
Doug Edwards	–	73,305	–	73,305	2 April 2015	£4.09	2 April 2018	2 April 2025
	–	73,305	–	73,305				
Alex Bevis	13,556	–	(13,556)	–	11 April 2011	£2.29	11 April 2014	11 April 2021
	60,417	–	–	60,417	2 April 2012	£2.36	2 April 2015	2 April 2022
	45,860*	–	(45,860)	–	1 May 2012	£2.28	1 May 2015	1 May 2022
	35,529	–	–	35,529	2 April 2013	£4.20	2 April 2016	2 April 2023
	15,641*	–	–	15,641*	15 May 2013	£6.14	15 May 2016	15 May 2023
	18,798	–	–	18,798	2 April 2014	£8.96	2 April 2017	2 April 2024
	8,698*	–	–	8,698*	12 May 2014	£7.52	12 May 2017	12 May 2024
	–	41,295	–	41,295	2 April 2015	£4.09	2 April 2018	2 April 2025
	198,499	41,295	(59,416)	180,378				
Ted Wiggans	43,556	–	(43,556)	–	11 April 2011	£2.29	11 April 2014	11 April 2021
	64,583	–	(64,583)	–	2 April 2012	£2.36	2 April 2015	2 April 2022
	38,118	–	–	38,118	2 April 2013	£4.20	2 April 2016	2 April 2023
	3,773*	–	–	3,773*	15 May 2013	£6.14	15 May 2016	15 May 2023
	20,355	–	–	20,355	2 April 2014	£8.96	2 April 2017	2 April 2024
	8,800*	–	–	8,800*	12 May 2014	£7.52	12 May 2017	12 May 2024
	–	44,716	–	44,716	2 April 2015	£4.09	2 April 2018	2 April 2025
	179,185	44,716	(108,139)	115,762				
Jim Brault	–	41,295	–	41,295	2 April 2015	£4.09	2 April 2018	2 April 2025
	–	41,295	–	41,295				

* LTIPs granted as part of the bonus matching scheme.

Governance continued

Directors' Remuneration report continued

All employee share plans

The Executive Directors may participate in the Company's all employee share plans, the Xaar plc 2007 SAYE Scheme (SAYE Scheme) and the Xaar SIP, on the same basis as other employees.

The SAYE Scheme provides an opportunity to save a set monthly amount (up to £500) over three years towards the exercise of a discounted share option, which is granted at the start of the three years.

The SIP provides an opportunity for employees to buy shares from their pre-tax remuneration up to the limit permitted by the relevant tax legislation (currently £1,800 per year) and are awarded additional shares for free on a matching basis; the Company currently operates the plan on the basis of a 1:1 match but may award Matching Shares up to the maximum ratio permitted by the relevant tax legislation (currently a 2:1 ratio).

Options and awards under these plans are not subject to performance conditions.

The outstanding awards granted to each Executive Director under the SAYE Scheme are as follows:

Name	As at 1 January 2015	Granted during the year	Exercised during the year	As at 31 December 2015	Grant date	Exercise price	Earliest date of exercise	Expiry date
Alex Bevis	4,245	–	(4,245)	–	1 November 2011	£2.12	1 November 2014	1 May 2015
	5,325	–	–	5,325	1 November 2014	£3.38	1 November 2017	1 May 2018
Ted Wiggans	4,245	–	(4,245)	–	1 November 2011	£2.12	1 November 2014	1 May 2015
	5,325	–	–	5,325	1 November 2014	£3.38	1 November 2017	1 May 2018
Doug Edwards	–	4,316	–	4,316	1 November 2015	£4.17	1 November 2018	1 May 2019
Jim Brault	–	4,316	–	4,316	1 November 2015	£4.17	1 November 2018	1 May 2019

The outstanding awards granted to each Executive Director under the SIP are as follows:

Name	Total number of matching shares as at 1 January 2015 and 31 December 2015
Alex Bevis	490
Ted Wiggans	490

Payments for loss of office made during the year

Edmund Creutzmann left in April 2015 by reason of mutual agreement. In accordance with his contract, Edmund received £202,500 in lieu of 12 months' salary, car allowance and pension contribution. The Remuneration Committee exercised discretion and determined that he would be treated as a 'good leaver' under the terms of the LTIP and Sharesave schemes.

Richard Barham's contract was terminated by reason of redundancy on 11 December 2015. He received his contractual notice payments totalling £211,300 in lieu of 12 months' salary, car allowance and pension contribution. Richard received a redundancy payment of £15,793 plus an additional payment of £70,000 for loss of employment. In line with the rules of the schemes, Richard will be treated as a 'good leaver' for the LTIP, SIP and Sharesave schemes.

Ian Dinwoodie retired from the Board in March 2015, he continued to be paid as an employee until his official termination date of 30 June 2015. During the period between March and June, he received £75,191 which constituted salary, benefits and pension. He will receive a bonus amount of £75,400 in relation to his time served in 2015. As a retiree, in line with the rules of the schemes, Ian will be treated as a 'good leaver' for the LTIP scheme.

Performance graph and table

The graph on this page shows the Company's performance measured by total shareholder return (TSR), compared with the performance of the FTSE TechMARK All Share Index, which the Remuneration Committee considers to be the most appropriate index for comparison because they illustrate the Company's TSR performance against a broad equity market index of similar UK companies.

Total shareholder return

This graph shows the value, by 31 December 2015, of £100 invested in Xaar plc on 31 December 2008 compared with the value of £100 invested in the FTSE TechMARK All Share Index.

The table below shows details of the total remuneration, annual bonus (as a percentage of maximum opportunity) and LTIP vesting percentage for the CEO over the last seven financial years.

	Total remuneration	Annual bonus as a % of maximum opportunity	LTIP as a % of maximum opportunity
Year ended 31 December 2015	571	48%	0%
Year ended 31 December 2014	562	0%	100%
Year ended 31 December 2013	1,379	83%	100%
Year ended 31 December 2012	649	53%	100%
Year ended 31 December 2011	1,244	100%	100%
Year ended 31 December 2010	504	80%	32%
Year ended 31 December 2009	229	0%	0%

Directors' Remuneration report continued

CEO pay increase in relation to all employees

The table below sets out in relation to salary, taxable benefits and annual bonus the increase between the pay for the year ended 31 December 2014 and the pay for the year ended 31 December 2015 for CEO (noting that Doug Edwards replaced Ian Dinwoodie as CEO on 4 January 2015) compared with the average increase between the same periods for the wider workforce. For the purposes of the table below, the wider workforce has been defined as the UK employees of the Group. This comparator group was chosen because it is the most relevant sub-set of employees and can be used consistently.

Element of remuneration	CEO	Wider workforce average
Salary – % change	15%	5%
Benefits – % change	8%	5%
Annual bonus – absolute % of salary paid	64%	13%

A new CEO joined in 2015, the change reflects the new salary. No bonus was paid in 2015 relating to 2014 performance.

Spend on pay

The table below sets out the Group's distributions to shareholders by way of dividends and total Group-wide expenditure on pay for all employees (including employer social security, pension contributions and share-based payments), as reported in the audited financial statements for the financial year ended 31 December 2015.

	2015 £,000	2014 £'000	Change %
Dividends paid to shareholders	6,925	6,377	9
Group-wide expenditure on pay for all employees	30,302	34,618	(12)

Implementation of Directors' remuneration policy for the financial year commencing 1 January 2016

Information on how the Company intends to implement the policy for the financial year commencing 1 January 2016 is set out below.

We are not changing the annual bonus opportunity but we wish to simplify the long term incentive arrangements by removing the bonus matching LTIP plan from the 2016 bonus cycle balanced with increasing the maximum LTIP awards for the CEO to 175% of salary and for the CFO to 150%. The current LTIP plan expires in April 2017, therefore the Committee intends to commence a wider review of the remuneration policy during 2016.

Basic salary and fees

Our approach on base salary continues to be to provide a fixed remuneration component which reflects the experience and capabilities of the individual in the role, the demonstrated performance of the individual in the role, and which is competitive in the markets in which we operate.

Although the Remuneration Committee resolved in 2013 to move base salaries progressively over a three-year period, this had been delayed for one year. Therefore there was no base salary increases for the Executive Directors with effect from 1 January 2015. The Remuneration Committee has reassessed the intended increases in 2016 and considers it to be appropriate to increase base salaries in 2016. During 2015, Ted Wiggans' role was significantly expanded and his current package, implemented on 1 January 2016 reflects this increased responsibility for the R&D and Engineering functions and will not be further adjusted during 2016. In 2016 the proposed base salary increase for Alex Bevis (CFO) is 15% from £169,000 to £194,350 with effect from 1 July 2016, and it is intended that a further 10% increase to £213,785 will apply from 1 July 2017. These changes still result in a position that is modest in respect of the current benchmark groups after the two year period. This phased approach (as opposed to awarding the whole increase in one year) has the benefit that it recognises the challenges of the current executive remuneration environment and allows the committee to reassess the intended increases in 2017 and consider whether it remains appropriate at that time. In this regard, the intended increase in 2017 would not be rewarded automatically and would be subject to the sustained and continued performance of the business and of the individual. In 2016 the proposed base salary increase for Doug Edwards (CEO) is 5% from £300,000 to £315,000 with effect from 1 July 2016 which is in line with the upper end of the range of increases awarded for the wider workforce as a consequence of his strong performance.

The proposed base salary increases for the Executive Directors are shown below:

Year Ended 31 December 2015	Increase effective from	2015	2016	% increase
Doug Edwards	1 July 2016	£300,000	£315,000	5.0%
Alex Bevis	1 July 2016	£169,000	£194,350	15.0%
Ted Wiggans	1 January 2016	£183,000	£230,000	25.7%

The plan to move the Non-Executive Directors' fees towards the lower end of the market competitive range over the next three years had also been delayed by one year, therefore there was no increase in fees for Non-Executive Directors for 2015. The Remuneration Committee has reassessed the intended increases in 2016 and considers it to be appropriate to increase fees in 2016. The proposed fee increases for the Non-Executive Directors are shown below:

Year Ended 31 December 2015	Increase effective from	2015	2016	% increase
Phil Lawler	1 July 2016	£90,000	£97,000	7.8%
Robin Williams	1 July 2016	£42,000	£46,000	9.5%
Margaret Rice-Jones	1 July 2016	£42,000	£45,000	7.1%

Changes for Robin Williams and Margaret Rice-Jones reflect their additional responsibilities as Audit Committee Chairman and Senior-Independent Director, and Remuneration Committee Chairman respectively.

Chris Morgan joined the Board as a Non-Executive Director from 4 January 2016. The fees for the newly appointed Non-Executive Directors is as follows:

- Chris Morgan £42,000 per annum

Directors' Remuneration report continued

Annual bonus

The Remuneration Committee has reviewed the performance metrics and targets for the annual bonus to ensure that they remain appropriately stretching in the current environment and continue to be aligned with the business strategy. No changes to the quantum, performance conditions or performance targets are proposed.

The Board considers the Group profit target for 2016 to be a matter that is commercially sensitive and should therefore remain confidential to the Company. It provides our competitors with insight into our business plans, expectations and, in the case of individual performance, our strategic actions. However, the Remuneration Committee will disclose on a retrospective basis how the Company's performance relates to any annual bonus payments made.

Long term incentives

Changes to the performance conditions and performance targets are proposed for LTIP awards granted from 2016, as described on pages 48 and 49. The ability to grant awards under the current LTIP rules (which also include the provisions which govern the Matching Share Awards) expires in April 2017. The Remuneration Committee intends to review the structure of the package and operation of the incentive arrangements and will seek shareholder approval for any new plans prior to this date.

In the meantime, in line with best practice, the Remuneration Committee introduced a 1x salary shareholding guideline for Executive Directors and a malus provision in relation to LTIP awards, in 2014, and a clawback provision in 2015. In 2016, the Remuneration Committee will introduce an underpin provision for future awards under the long term incentive plan, to allow the committee to consider that the extent of vesting is justified by the underlying progress of the Company's business over the Performance Period.

Consideration by the Directors of matters relating to Directors' remuneration

Membership

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the UK Corporate Governance Code. The terms of reference of the Remuneration Committee can be obtained by contacting the Company Secretary.

The Remuneration Committee was chaired by David Cheesman until June 2015 and is currently chaired by Margaret Rice-Jones. The other members during the year ended 31 December 2015 were Phil Lawler and Robin Williams. All members of the Remuneration Committee are considered independent within the meaning of the UK Corporate Governance Code. Chris Morgan joined the committee on 4 January 2016.

The principal function of the Remuneration Committee is to determine, on behalf of the Board, the specific remuneration and other benefits of Executive Directors, including pension contributions, bonus arrangements, long term incentives and service contracts. The fees paid to the Non-Executive Directors are determined by the Chief Executive Officer and the Chairman. The fees paid to the Chairman are determined by the Chief Executive Officer and the Non-Executive Directors.

Additionally, the Remuneration Committee makes recommendations to the Board on the framework of Executive Director remuneration as well as principal Company-wide compensation programmes.

The members of the Remuneration Committee have no personal financial interest, other than as shareholders, in the matters to be decided, no actual or potential conflicts of interest arising from other directorships and no day to day operational responsibility within the Company. Executive Directors are entitled to accept appointments outside the Group providing that the Chairman's permission is sought.

Consideration by the Directors of matters relating to Directors' remuneration continued

Advisors to the Remuneration Committee

The Remuneration Committee is assisted in its work by Xaar's human resources department including the Chief Human Resources Officer. The Chief Executive Officer is consulted on the remuneration of those who report directly to him and also of other senior executives. No Executive Director or employee is present or takes part in discussions in respect of matters relating directly to their own remuneration.

During the year, the Remuneration Committee was assisted in its work by the following external consultants:

Advisor	Details of appointment	Services provided by the advisor	Fees paid by the Company for advice to the Remuneration Committee and basis of charge	Other services provided to the Company in the year ended 31 December 2015
PricewaterhouseCoopers LLP (PwC)	Appointed by the Board in 2013	Advice regarding changes to the LTIP for 2015 onwards	£4,100	Corporate tax advice
Deloitte LLP (Deloitte)	Appointed by the Remuneration Committee in 2015	Advice in relation to Directors' remuneration reporting	£820	External auditor and certain other services (see page 91 of the Annual Report)
Mercer Limited	Appointed by the Remuneration Committee in 2015	Executive remuneration benchmarking	£7,500	

The Remuneration Committee took into account the Remuneration Consultants Group's Code of Conduct when reviewing Deloitte's role as external auditor. As Deloitte are external auditor to the Company, Deloitte's advice to the Remuneration Committee is governed by certain guidelines and safeguards.

The Remuneration Committee is satisfied that the remuneration advice provided by PwC, Deloitte and Mercer is objective and independent.

Shareholder voting

The Company remains committed to on-going shareholder dialogue and takes an active interest in voting outcomes. The following table sets out actual voting in respect of the resolution to approve the Directors' Remuneration report for the year ended 31 December 2014.

Number of votes	For (including discretion)	Against	Withheld
Directors' Remuneration report for the year ended 31 December 2014	58,946,078 (99.52%)	285,720 (0.48%)	253,512

Directors' remuneration policy

This part of the report sets out the Company's Directors' remuneration policy, which, subject to shareholder approval at the 2016 AGM, shall take binding effect from 18 May 2016. The policy is determined by the Remuneration Committee.

The Directors' remuneration policy is not audited.

Governance continued

Directors' Remuneration report continued

Policy table for Executive Directors

The table below describes each of the elements of the remuneration package for the Executive Directors:

Alignment with strategy/purpose	Operation
Base salary Core element of fixed remuneration that provides the basis to recruit and retain talent necessary to deliver the business strategy.	Normally reviewed annually, any increases generally apply from 1 January or 1 July (but may be reviewed more frequently if required). When determining base salary levels, consideration is given to the following: • Role, responsibility and experience of the individual • Corporate and individual performance • Market conditions including typical pay levels for comparable roles in companies of a similar size and complexity • The range of salary increases awarded across the Group
Benefits Provide a market-competitive benefits package to recruit and retain Directors of the calibre required for the business. Participation in the Company's Share Incentive Plan (SIP) and Share Save Scheme (SAYE) encourages share ownership and alignment with the wider workforce.	Executive Directors receive base benefits including car allowance (or company car), private medical insurance, and basic levels of other insurances (such as critical illness cover). All UK staff, including Executive Directors, are also provided with a benefit allowance which they can apply to a range of benefits, including pension contributions. In some circumstances, and subject to Remuneration Committee approval, the allowance may be paid in cash rather than utilised to purchase benefits. The SIP and SAYE are HMRC approved share plans for all employees facilitating the acquisition of shares in the Company at a discount. Other benefits may be provided based on individual circumstances, such as, but not limited to: housing or relocation allowances, travel allowance or other expatriate benefits.
Retirement benefits Provide market competitive post-employment benefits to recruit and retain Directors of the calibre required for the business.	Executive Directors are eligible to participate in the defined contribution pension scheme (or such other pension plan as may be deemed appropriate). In appropriate circumstances, Executive Directors may take a salary supplement instead of contributions into a pension plan.
Annual bonus Rewards performance against annual targets which support the strategic direction of the Company. The majority of staff participate in the same scheme.	Targets are set annually and any pay-out is determined by the Remuneration Committee after the period-end, based on performance against those targets. The Remuneration Committee has discretion to vary the bonus pay-out should any formulaic output not produce a fair result for either the Executive Director or the Company, taking account of the Remuneration Committee's assessment of overall business performance. The annual bonus is delivered in cash. Additionally Directors may opt to invest in the Company SIP (refer to note 32 for details).

Maximum opportunity	Performance measures
No maximum salary opportunity has been set out in this policy report to avoid setting expectations for Executive Directors and employees. The base salaries effective as at 1 July 2016, are shown on page 58. The Remuneration Committee has resolved to move base salaries progressively to a level which is market competitive (in general, positioned towards the lower end of the market range) taking account of individual factors such as: • Increase in scope and responsibility • A new Executive Director being moved to market positioning over time • Alignment to market level	Not applicable.
Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits Executive Directors receive, the value of benefits is set at a level which the Remuneration Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances. The flexible benefits allowance is currently up to 5% of base salary. The Remuneration Committee has the authority to review and amend this rate as appropriate. Individuals have the choice to invest all or part of this amount in their pension scheme, in addition to the benefits outlined in the 'Retirement benefits' section of this table. SAYE and SIP limits as permitted in accordance with the relevant tax legislation.	Not applicable.
10% of base salary for the Executive Directors. The Remuneration Committee has the authority to review and amend this rate as appropriate.	Not applicable.
Overall maximum annual bonus 133% of salary, which is calculated using the following performance components: **Financial performance:** The Company profit performance element has a direct relationship with adjusted profit before tax, excluding any impact of IAS 38. The pay-out has the following parameters: • For threshold performance: 20% of salary • On-target performance: 50% of salary • Maximum: 100% of salary **Individual performance:** The bonus is then subject to a multiplier in the range of 0-1.33 which is applied to reflect individual performance, where 1.0 is used for 'on-target' individual performance.	Stretching performance targets are set each year reflecting the business priorities that underpin Group strategy. 133% of salary can be earned based on achieving the maximum financial performance target and the maximum individual performance assessment.

Governance continued

Directors' Remuneration report continued

Policy table for Executive Directors continued

Alignment with strategy/purpose	Operation
Long Term Incentive Plan Drive and reward the achievement of longer term objectives aligned closely to shareholders' interests. Retain key executives over a longer term measurement period. Provide alignment with shareholders' interests. Supports retention and promotes share ownership. Malus and clawback provisions apply to enable the Company to mitigate risk.	The LTIP was approved by shareholders in April 2007. Performance Share Awards: are usually made on an annual basis and will vest subject to the achievement of performance conditions. For LTIP awards of conditional shares, restricted stock or nil cost options can be made with vesting dependent on the achievement of performance conditions, normally over a three year performance period. Vested LTIP options must be exercised within ten years of the date of grant. Under the rules of the LTIP, the Remuneration Committee has discretion to satisfy vested LTIP awards in cash. On the vesting/exercise of an LTIP award, the Remuneration Committee has the discretion to decide that executives can receive an amount (in cash or shares) equal to the dividends paid or payable between the date of grant and the vesting of an award on the number of shares which have vested. Awards may vest early on a change of control (or other relevant event) subject to the satisfaction of the performance conditions (as determined by the Remuneration Committee) and pro-rating for the LTIP was approved by shareholders in April 2007. In 'good leaver' circumstances the Remuneration Committee has the discretion to allow all or part of unvested awards to be retained by the individual. For awards granted on or after 1 January 2014, the Remuneration Committee has the right to reduce any LTIP awards which have not yet vested (i.e. a malus provision) if an act or omission contributes to a material misstatement of the Group's financial statements or results in material loss or reputational damage for the Company. For awards granted on or after 1 January 2015, the Remuneration Committee has the right to recover cash or shares which have been paid or transferred (i.e. a clawback provision) if an act or omission contributes to a material misstatement of the Group's financial statements or results in material loss or reputational damage for the Company, for a period up to two years following determination of the vesting outcome. For awards granted on or after 1 January 2016, the Remuneration Committee has the right to underpin vesting and to flex the weighting of the performance measures between EPS and TSR in the event of early vesting as a result of change of control. The Remuneration Committee may at its discretion structure awards as Approved Long Term Incentive Plan ('ALTIP') awards. ALTIP awards enable the participant and Company to benefit from HMRC approved option tax treatment in respect of part of the award, without increasing the pre-tax value delivered to participants. ALTIP awards may be structured either as an approved option for the part of the award up to the HMRC limit (currently £30,000) with an unapproved option for the balance and a 'linked award' to fund the exercise price of the approved option, or as an approved option and an LTIP award, with the vesting of the LTIP award scaled back to take account of any gain made on the exercise of the approved option. Other than to enable the grant of ALTIP awards, the Company will not grant awards to Executive Directors under the Executive Share Option Plan.

Maximum opportunity	Performance measures
Maximum Performance Share Award: 175% of salary. For the LTIP, for threshold performance, 25% of award will vest. Straight-line vesting applies between threshold and maximum vesting. These limits do not include the value of shares subject to any approved option granted as part of an ALTIP award.	Stretching performance targets are set each year reflecting the business priorities that underpin longer term Group strategy.

Governance continued

Directors' Remuneration report continued

Chairman and Non-Executive Directors

The table below sets out an overview of the remuneration of Non-Executive Directors.

Alignment with strategy/purpose	Approach of the Company
Chairman and Non-Executive Directors' fees Provide an appropriate reward to attract and retain Directors of the calibre required for the business.	The remuneration of the Chairman of the Board is set by the Remuneration Committee and the Chief Executive Officer. Fees are set at a level which reflects the skills, knowledge, and experience of the individual, whilst taking into account appropriate market data. The fee is set as a fixed annual fee and may be paid wholly or partly in cash or Company shares. The Chairman and the Chief Executive Officer are responsible for deciding Non-Executive Directors' fees. Fees are set taking into account several factors, including the size and complexity of the business, fees paid to Non-Executive Directors of UK listed companies of a similar size and complexity, and the expected time commitment and contribution for the role. The fees are set as a fixed annual fee and may be paid wholly or partly in cash or Company shares. Overall fees paid to Directors will remain within the limit stated in our Articles of Association. This is currently £200,000, however a special resolution is being proposed at the AGM to amend the articles to increase this limit to £300,000. Non-Executive Directors do not participate in any incentive scheme. Directors may be eligible to benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate.

Explanation of performance metrics chosen

The annual bonus is assessed against financial targets which are determined by the Remuneration Committee, typically Group adjusted profit before tax excluding any impact of IAS 38. This incentivises Executive Directors to focus on delivering the key financial goals of the Company. The annual bonus multiplier reflects individual performance which is aligned to delivering the overall business strategy and to encourage behaviours which facilitate profitable growth and the future development of the business. These targets therefore ensure that the interests of the Executive Directors are aligned with those of the shareholders.

For the LTIP, long term performance measures are chosen by the Remuneration Committee to provide a robust and transparent basis on which to measure Xaar's performance over the longer term and to provide alignment with Xaar's business strategy. EPS and TSR are deemed to be the key measure of success of the execution of our long term strategy.

The Remuneration Committee retains the discretion to adjust the performance targets and measures where it considers it appropriate to do so (for example, to reflect changes in the structure of the business and to assess performance on a fair and consistent basis from year to year), and has exercised its discretion in this area as described on pages 48 and 49. The changes described in relation to performance targets and measures will relate to LTIP grants made from 2016.

Awards may be adjusted in the event of a variation of capital in accordance with the scheme rules.

Pay policy for other employees

The Company values its wider workforce and aims to provide a remuneration package that is market competitive, complies with any statutory requirements, and is applied fairly and equitably across the wider employee population.

Where remuneration is not determined by statutory regulation, the key principles of the compensation philosophy are as follows:

- We remunerate people in a manner that allows for stability of the business and the opportunity for sustainable long term growth
- We seek to remunerate fairly and consistently for each role with due regard to the marketplace, internal consistency and the Company's ability to pay
- The Company operates HMRC approved SIP and SAYE and invites all employees to participate, therefore encouraging wider workforce share ownership

Illustrations of application of remuneration policy

The charts overleaf set out an illustration of the remuneration policy, as subject to approval at the 2016 AGM, in line with the policy above and include base salary, pension, benefits and incentives. The charts provide an illustration of the proportion of total remuneration made up of each component of the policy and the value of each component.

For these purposes base salary reflects the salary at 1 January 2016 and any anticipated increases in July 2016. Bonus is based on anticipated base salary as at 31 December 2016. Benefits are calculated as 12% of average salary for 2016. Pension is based on the policy set out in the policy table. LTIP awards are based on a base salary level pre 1 July 2016, and are calculated as set out in the policy on pages 60 to 61. There are no matching LTIP awards included in the scenarios.

Three scenarios have been illustrated for each Executive Director.

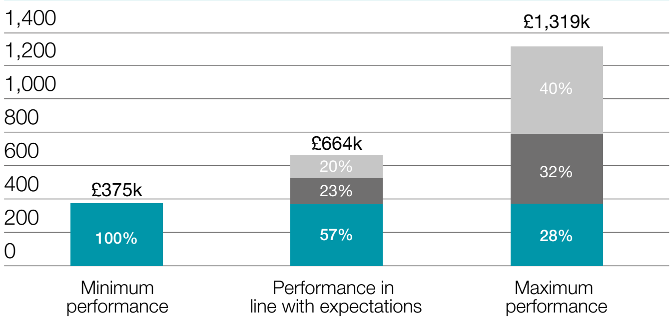
Minimum performance	• No bonus pay-out • No vesting under the LTIP
Performance in line with expectations	• 50% of salary pay-out under the annual bonus • Shares equivalent to 25% of awards vesting under the LTIP
Maximum performance	• 133% of salary pay-out under the annual bonus • Shares equivalent to 100% of awards vesting under the LTIP

Governance continued

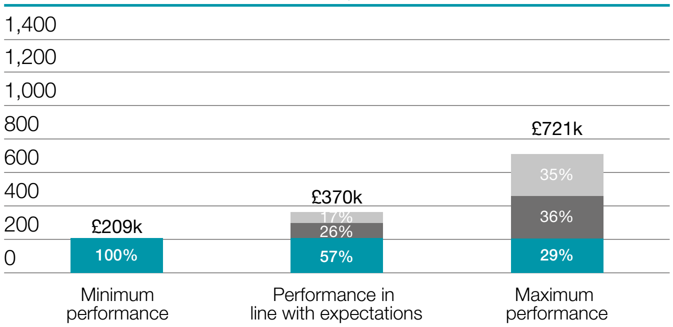
Directors' Remuneration report continued

As required by the regulations, the scenarios do not include any share price growth assumptions or take into account any dividends that may be paid.

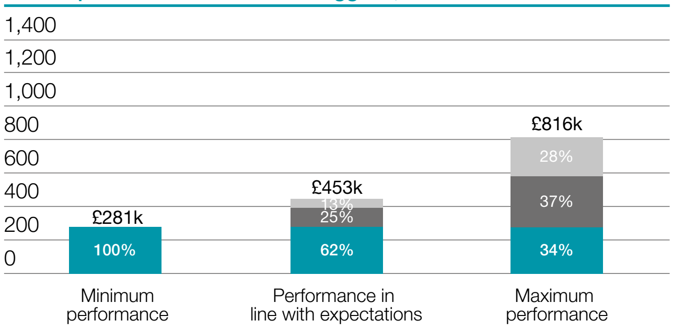
Chief Executive – Doug Edwards, total remuneration £'000



Chief Financial Officer – Alex Bevis, total remuneration £'000



Chief Operations Officer – Ted Wiggans, total remuneration £'000



■ Base salary, benefits and pension. ■ Annual bonus.

■ LTIP Award (Performance share awards only).

Approach to recruitment remuneration

When appointing a new Executive Director, whether with an internal or external candidate, the Remuneration Committee will typically seek to use the policy detailed in the table on pages 58 to 61 to determine the Executive Director's on-going remuneration package.

To facilitate the appointment of candidates of the appropriate calibre required to implement the Group's strategy, the Remuneration Committee also retains the discretion to include any other remuneration component or award which is outside the policy. The Remuneration Committee does not intend to use this discretion to make a non-performance related incentive payment (for example, a 'golden hello'). In determining appropriate remuneration, the Remuneration Committee will take into consideration all relevant factors (including the quantum and nature of remuneration) to ensure that the arrangements are in the best interests of the Company and its shareholders. This may, for example, include (but is not limited to) the following circumstances:

- An interim appointment being made to fill an Executive Director role on a short term basis
- Exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short term basis
- An Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long term incentive award for that year as there would not be sufficient time to assess performance. The quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis
- The executive received benefits at his previous employer which the Remuneration Committee considers it appropriate to offer

The Remuneration Committee may also alter the performance measures, performance period and vesting period of the annual bonus or long term incentive, subject to the rules of the scheme, if the Remuneration Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained.

In determining appropriate remuneration arrangements on hiring a new Executive Director, the Remuneration Committee will take into account relevant factors such as the calibre of the individual, local market practice, the existing remuneration arrangements for other executives and the business circumstances. It will seek to ensure that arrangements are in the best interests of both the Company and its shareholders and seek not to pay more than is appropriate.

The Remuneration Committee may make an award or payment to 'buy-out' remuneration arrangements forfeited on leaving a previous employer. In doing so the Remuneration Committee will take account of relevant factors regarding the forfeited arrangements which may include the form of any forfeited awards (e.g. cash or shares), any performance conditions attached to these awards (and the likelihood of meeting those conditions), and the time over which they would have vested. It will generally seek to structure buy-out awards and payments on a comparable basis to remuneration arrangements forfeited. These awards or payments are excluded from the maximum level of variable pay referred to below; however, the Remuneration Committee's intention is that the value awarded or paid would be no higher than the expected value of the forfeited arrangements.

Appropriate costs and support will be covered if the recruitment requires the relocation of the individual. All buy-out awards and payments will normally be liable to forfeiture or 'clawback' on early departure. For Executive Directors, early departure is typically defined as being within the first two years of employment although the Remuneration Committee has the ability to amend this definition in appropriate circumstances.

The maximum level of variable pay which may be awarded to new Executive Directors, excluding buy-out arrangements, would normally be in line with the maximum level of variable pay that may be awarded under the annual bonus plan and LTIP, but in any event the Remuneration Committee would not make an award of annual variable pay above 308% of salary. The Remuneration Committee may determine that such awards will be forfeited if performance or continued employment conditions are not met and it is deemed appropriate to do so.

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans. If necessary, and subject to the limits referred to above, in order to facilitate the awards mentioned above, the committee may rely on exemption 9.4.2. of the Listing Rules which allows for the grant of awards to facilitate, in exceptional circumstances, the recruitment of a Director.

Where a position is fulfilled internally, any on-going remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.

Fees payable to a newly-appointed Chairman or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Governance continued

Directors' Remuneration report continued

Service contracts

Executive Directors

It is the Group's policy that Executive Directors should have contracts with an indefinite term, providing for one year's notice.

	Date of contract[1]	Date of appointment	Notice from the Company	Notice from Director
Doug Edwards	5 January 2015	5 January 2015	12 months	12 months
Alex Bevis	12 December 2013	14 February 2011	12 months	12 months
Ted Wiggans	4 December 2013	10 January 2011	12 months	12 months

1 The dates of contract above refer to the dates of the latest service agreements for each of the Directors.

Non-Executive Directors

All Non-Executive Directors are appointed for an initial three-year term with provision for two further three-year terms, subject to satisfactory performance.

	Date of letter of appointment	Date of appointment	Unexpired term of contract on 31 December 2015
Phil Lawler (Chairman)	17 May 2007	1 June 2007	5 months
Margaret Rice-Jones	3 June 2015	1 August 2015	31 months
Chris Morgan	2 December 2015	4 January 2016	36 months
Robin Williams	3 March 2010	1 March 2010	2 months

As per his Chairman's Statement, Phil Lawler has completed his three terms of three years as Chairman and will step down from the Board at the end of September 2016.

All Directors offer themselves for annual re-election at each AGM in accordance with the UK Corporate Governance Code. Letters of appointment are available for inspection at the registered office address of the Company.

Payments for loss of office

The principles on which the determination of payments for loss of office will be approached is set out on page 67. Where the Remuneration Committee retains discretion, as outlined below, it will be used to provide flexibility in certain situations, taking into account the particular circumstance of the Director's departure and recent performance of the Company.

Executive Directors

	Policy
Notice period on termination by employing company	12 months. The committee has the discretion to determine what proportion of the notice period will be utilised in active service.
Termination payment	Severance payments are limited to no more than one year's salary plus benefits in kind (including company car or car allowance and private health insurance) and pension contributions (which may include salary supplements). Benefits provided in connection with termination of employment may also include, but are not limited to, outplacement and legal fees.
Vesting of incentives for leavers	The Remuneration Committee has the discretion to determine appropriate bonus amounts taking into consideration the circumstances in which an Executive Director leaves. Typically for 'good leavers' bonus amounts will be determined by reference to the applicable performance targets, pro-rated for time served in relation to the performance period and paid at the usual time. The Remuneration Committee may decide to pay a good leaver's bonus earlier than the usual time in appropriate circumstances. 'Good leavers' typically include leavers due to death, illness, injury, disability, redundancy, retirement with the consent of the Company, or any other reason as determined by the Remuneration Committee. The vesting of share-based awards is governed by the rules of the relevant incentive plan, as approved by shareholders. Under the LTIP, the provisions for good leavers provide that awards will vest at the end of the normal vesting period, subject to the satisfaction of the performance conditions. However, the Remuneration Committee has the discretion to accelerate vesting to the date of cessation of employment. If accelerated to the date of cessation of employment, the Remuneration Committee will determine the extent to which the performance conditions are considered satisfied. In either case, the extent to which an award vests will be subject to pro-rating for time (although the Remuneration Committee has discretion not to apply time pro-rating). In circumstances other than good leavers, awards will lapse. Where a buy-out award is to be made under Listing Rule 9.4.2 then the leaver provisions would be determined at the time of the award. Payments may be made under the Company's SAYE and SIP which are governed by HMRC approved plan rules and which cover certain leaver provisions.

Governance continued

Directors' Remuneration report continued

Non-Executive Directors

Under the terms of their engagement, the notice period to be given by the Non-Executive Directors on the Company is six months and the Company is obliged to give the same length of notice. Discretion is retained to terminate with or without due notice or paying any payment in lieu of notice dependent on what is considered to be in the best interests of the Company in the particular circumstances.

Statement of consideration of employment conditions elsewhere in the Company

Salary, benefits and performance related reward provided to employees is taken into account when setting policy for Executive Directors' remuneration (although employees are not formally consulted in relation to the setting of the policy). This includes consideration of:

- Salary increases for the general employee population
- Company-wide benefit (including pension) offerings
- Overall spend and participation levels in the annual bonus and LTIP
- Relevant ad-hoc information

Existing contractual arrangements

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out below where the terms of the payment were agreed:

(i) before the policy came into effect, or
(ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes 'payments' includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

The Remuneration Committee may make minor changes to this policy, which do not have a material advantage to Directors, to aid in its operation or implementation without seeking shareholder approval but taking into account the interests of shareholders.

Statement of consideration of shareholder views

In the interests of ensuring on-going and transparent dialogue with shareholders, the Remuneration Committee consulted major shareholders on changes to base salaries and the LTIP awards quantum for 2016 awards. There were no other significant changes to the Directors' remuneration policy proposed for 2016.

Approval

This Report was approved by the Board on 16 March 2016 and signed on its behalf by:

Margaret Rice-Jones
Remuneration Committee Chair

Directors' Responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under Company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgments and accounting estimates that are reasonable and prudent
- State whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- Make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

D. Edwards

Doug Edwards
Chief Executive Officer

Alex Bevis
Chief Financial Officer and Company Secretary

16 March 2016

Financial Statements

Independent auditor's report to the members of Xaar plc

Opinion on financial statements of Xaar plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 34, and the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 3 to the financial statements and the directors' statement in the Directors' report on the longer-term viability of the Group.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 20 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 20 to 21 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 3 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 36 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

As part of the audit of the Group, in addition to substantive tests, we also test the design and implementation of internal controls over financial reporting in each of the significant risk areas.

The Audit Committee has requested that while not required under International Standards on Auditing (UK and Ireland), we include in our report any significant key observations in respect of these assessed risks of material misstatement.

Risk	Our response and findings
Inventory valuation Management performs a detailed review of the standard costing of the raw materials, work-in-progress and finished goods recorded in inventory by reference to variance reports produced as part of the month end control processes. This is done to ensure that the absorption of costs accurately reflects the activity of the Group at a normal level of production. We consider there to be a significant risk with respect to the valuation of inventory owing to the judgmental nature of determining the costs used in the inventory standard costing model. The accounting policy is disclosed in note 3 to the financial statements. The values of inventories are £13.5m as at the year-end (2014: £19.8m). Details of inventory values are disclosed in note 18 to the financial statements.	**Our response** Our audit procedures included, amongst others, critically assessing whether the Group's standard costing valuation methodology is determined in accordance with International Accounting Standard 2 (IAS 2). This has included testing the controls designed and implemented in relation to the inventory standard costing system, such as the review of variance reports, and the data generated by that system. Our IT specialists audited the treatment of variances within the inventory and financial reporting systems. We challenged the assumptions used in the derivation of the cost absorption rates through performing independent recalculation based on actual costs for the year and production output. Our testing assessed the accuracy and completeness of costs absorbed into inventory. We also assessed reasonableness of the normal level of production. We tested the completeness and accuracy of the year-end inventory valuation, assessing whether standard costs have been applied appropriately to items of raw materials, work-in-progress and finished goods. **Key observations** We found that the management assumptions and estimates were appropriate and applied consistently. Our testing has not identified any material issues with regards to the standard costing methodology or inventory valuation, monitoring and recording processes.
Revenue recognition The Group accounts for revenue on printheads and system components at the point of despatch as this is the point at which the risks and rewards of the products held as stock are transferred to the customer. The Group has no significant distribution/consignment agreements in place with third parties. We consider there to be a significant risk with respect to the accounting for commercial sales agreements with Xaar's significant customers, owing to the degree of judgment and estimation involved in accounting for commercial sales agreements and the associated revenue in line with IFRSs and the Group's accounting policy. This is also the fraud risk we have identified with respect to revenue recognition. The accounting policy is disclosed in note 3 to the financial statements.	**Our response** When auditing revenue streams we considered the Group's revenue recognition policy, per International Accounting Standard 18 'Revenue' (IAS 18), to assess whether the revenue recognition policy is compliant and whether the policy has been applied consistently through the year. We performed testing over all commercial sales agreements that Xaar has with its major customers by reviewing the terms and conditions of sales, assessing the accounting treatment and reconciling to amounts recognised in the financial statements; also assessing compliance with IAS 18. We performed retrospective review of prior period accounting estimates in relation to commercial sales agreements to assess the accuracy of management estimates. We tested a sample of journals to establish whether there were any unusual items. **Key observations** We noted no material instances of inappropriate revenue recognition arising in our testing.

Financial Statements continued

Independent auditor's report to the members of Xaar plc continued

Risk	Our response and findings

Capitalisation of internally generated intangible assets

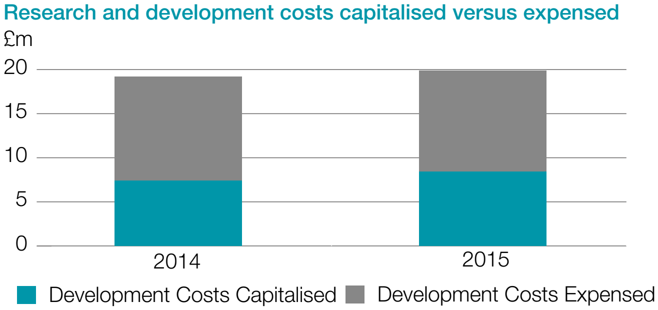
The Group incurred £19.9m on research and development costs in the year ended 31 December 2015 (2014: £19.2m), representing an increase of 4% from 2014.

Xaar management has concluded that the only development project meeting the capitalisation criteria in IAS 38 "Intangible Assets" (IAS 38) is the work in relation to the P4 platform and therefore £8.4m development costs have been capitalised during the year (2014: £7.4m). Because of the judgments and the complexity of the criteria applied, we consider there to be a significant risk in relation to development costs being incorrectly capitalised. There is also a significant risk in relation to the recoverability of capitalised development costs from likely future economic benefits.

The accounting policy is disclosed in note 3 to the financial statements. The carrying values of the capitalised development costs are disclosed in note 14 to the financial statements.

Our response We challenged management's accounting treatment of development costs by testing a sample of research and development project costs to ensure they are accurate and appropriately classified. We discussed the P4 platform project with the Research and Development Directors and Chief Technical Officer, in order for us to assess whether the project has reached the development phase and therefore require capitalisation. For the P4 platform project we made an assessment of the technical feasibility and likelihood of future economic benefit by reference to product test stage classifications and agreements entered into with partners.

Research and development costs capitalised versus expensed



We obtained revenue and contribution forecast for the capitalised development project and closely examined management estimates included in the forecast with references to industry statistics and historic performance of the Group's other products. Net present value of the forecast contribution was also compared to the carrying value of the capitalised development costs.

Key observations Based on the audit procedures performed, we believe that management has appropriately applied the principles of IAS 38 and the internally generated intangible asset is recoverable.

Provisions and recoverability of property, plant and equipment in relation to termination of operations

The Board have announced a planned closure of the Group's manufacturing facility in Sweden during 2016. XaarJet AB manufactures some of Xaar's legacy printheads.

We consider there to be a risk in relation to completeness of provisions associated with restructuring and discontinued operations (e.g. onerous lease, redundancy cost).

We considered there to be an indication of impairment of the fixed assets held by the Swedish subsidiary XaarJet AB. We therefore identified there to be a significant risk that the carrying value of the fixed assets held by the Swedish subsidiary XaarJet AB may not be recoverable, and that any possible impairment may not be accounted for or disclosed appropriately in the financial statements.

The accounting policy is disclosed in note 3 to the financial statements. Provisions held in relation to termination of the Group's manufacturing facility in Sweden are £3.2m (2014: £nil). The details are disclosed in note 24 to the financial statements.

Our response We reviewed the minutes of the Board meetings to evidence discussions on this matter. We held discussions with key management personnel (internal and external to finance), internal and external legal counsels in this regard. We challenged management's assumptions and judgments in relation to each element of the provision by agreeing these to independent audit evidence (e.g. staff contracts and lease agreements).

We compared the carrying value of the fixed assets held by the Swedish subsidiary XaarJet AB to their value in use. We reviewed the remaining useful economic lives assigned to the fixed assets for depreciation calculation to ensure they are consistent with the planned closure timetable.

Key observations The evidence that we obtained from our audit procedures supported the completeness of the provisions required in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets'. We also agreed with the Directors' conclusion that the carrying value of the tangible fixed assets in XaarJet AB is not impaired.

In 2014 our report included recoverability of the Group's property, plant and equipment (PP&E) as a risk due to the downturn in the performance of the Group. This risk is not included in our 2015 report after considering the current year performance in the Group. Instead our risk in relation to recoverability of PP&E is specific to the XaarJet AB's manufacturing facility as discussed above.

In 2014 our report included warranty provision as a risk due to the judgemental nature of the provision calculations which are estimated with reference to known product issues. This risk is not included in our 2015 report, because we have not identified any significant product issues which have arisen during the year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 40.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £1.0m (2014: £1.6m), which represents 5% (2014: 5%) of normalised pre-tax profit. We used the normalised pre-tax profit as our materiality basis, because it represents a key performance measure for the Group and it receives focus from shareholders and analysts. The reduction in normalised pre-tax profit this year is mainly due to the anticipated softening of demand in ceramic tile printing in China, with a consequential reduction to income and profit. Pre-tax profit has been normalised by excluding costs incurred in the year in relation to the planned closure of the Group's manufacturing facility in Sweden. The planned closure of the Group's manufacturing facility in Sweden is not a recurring event and does not represent the underlying core business. Provision and recoverability of property, plant and equipment in relation to the planned closure has been identified as an audit risk and discussed above. There was no normalisation adjustment in the 2014 pre-tax profit for the purpose of our materiality determination.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £19,000 (2014: £23,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at the UK headquarters in Cambridge. Five entities were subject to a full audit: Xaar plc, XaarJet Ltd and Xaar Technology Ltd were audited directly by the Group audit team; XaarJet AB and Xaar Group AB were audited by the component audit team based in Stockholm, Sweden. Three entities (Xaar America Inc., XaarJet (Overseas) Ltd and Xaar Digital Ltd) were subject to specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those components. The same components were subject to audits or specified audit procedures in 2014.

The eight entities subject either to a full audit or specified audit procedures account for 100% (2014: 100%) of the Group's net assets, 100% (2014: 100%) of the Group's revenue and 97% (2014: 100%) of the Group's profit before tax. Our audit work for each entity was executed at levels of materiality applicable to each individual entity which were lower than Group materiality. The component materiality ranges between £0.5m to £0.9m (2014: £0.06m to £1.06m).

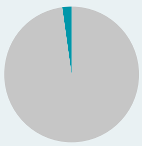
Financial Statements continued

Independent auditor's report to the members of Xaar plc continued

An overview of the scope of our audit continued

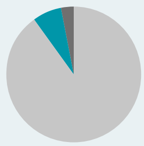
At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. As the Group auditor, we planned the work conducted by the component auditor, reviewed their work and attended an audit planning conference call, status update and close meetings.

Revenue %



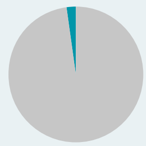
Full audit scope	98%
Specified audit procedures	2%

Profit before tax %



Full audit scope	90%
Specified audit procedures	7%
Scoped out	3%

Net assets %



Full audit scope	98%
Specified audit procedures	2%

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate governance statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.
Respective responsibilities of Directors and auditor	As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, and independent partner reviews. This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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.
Scope of the audit of the financial statements	An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Paul Schofield FCA
(Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

16 March 2016

Financial Statements continued

Consolidated income statement

for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Revenue	5	**93,472**	109,150
Cost of sales		**(48,782)**	(60,548)
Gross profit		**44,690**	48,602
Research and development expenses		**(11,548)**	(11,797)
Research and development expenditure credit		**818**	234
Sales and marketing expenses		**(5,440)**	(5,551)
General and administrative expenses		**(9,254)**	(7,900)
Restructuring costs		**(6,120)**	(872)
Operating profit		**13,146**	22,716
Investment income	9	**426**	394
Profit before tax		**13,572**	23,110
Tax	10	**(1,043)**	(4,418)
Profit for the year attributable to shareholders	7	**12,529**	18,692
Earnings per share			
Basic	12	**16.6p**	25.0p
Diluted	12	**16.1p**	24.4p

Dividends paid in the year amounted to £6,925,000 (2014: £6,377,000). Further disclosures are given in note 11.

All activities relate to continuing operations.

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Profit for the year attributable to shareholders		**12,529**	18,692
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of net investment	28	**(27)**	(224)
Other comprehensive income for the year		**(27)**	(224)
Total comprehensive income for the year		**12,502**	18,468

Consolidated statement of financial position

as at 31 December 2015

	Notes	2015 £'000	2014 £'000
Non-current assets			
Goodwill	13	**–**	720
Other intangible assets	14	**17,795**	10,077
Property, plant and equipment	15	**31,255**	38,539
Investments	17	**–**	1,000
		49,050	50,336
Current assets			
Investments	17	**1,000**	–
Inventories	18	**13,458**	19,795
Trade and other receivables	19	**11,947**	13,452
Current tax asset	19	**2,805**	2,909
Treasury deposits	19	**27,098**	21,000
Cash and cash equivalents	19	**42,649**	25,963
		98,957	83,119
Total assets		**148,007**	133,455
Current liabilities			
Trade and other payables	22	**(12,405)**	(9,888)
Other financial liabilities	23	**(68)**	(57)
Provisions	24	**(3,533)**	(425)
		(16,006)	(10,370)
Net current assets		**82,951**	72,749
Non-current liabilities			
Deferred tax liabilities	21	**(1,222)**	(617)
Other financial liabilities	23	**(241)**	(308)
Total non-current liabilities		**(1,463)**	(925)
Total liabilities		**(17,469)**	(11,295)
Net assets		**130,538**	122,160
Equity			
Share capital	25	**7,764**	7,664
Share premium	26	**27,585**	26,345
Own shares	27	**(3,796)**	(3,796)
Other reserves	29	**11,006**	9,716
Translation reserve	28	**99**	126
Retained earnings	29	**87,880**	82,105
Equity attributable to shareholders		**130,538**	122,160
Total equity		**130,538**	122,160

The financial statements of Xaar plc, registered number 3320972, were approved by the Board of Directors and authorised for issue on 16 March 2016.

They were signed on its behalf by:

Doug Edwards
Chief Executive Officer

Alex Bevis
Chief Financial Officer and Company Secretary

Financial Statements continued

Consolidated statement of changes in equity

for the year ended 31 December 2015

	Notes	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2014		7,589	25,484	(4,066)	8,610	350	72,075	110,042
Profit for the year		–	–	–	–	–	18,692	18,692
Exchange differences on retranslation of net investment		–	–	–	–	(224)	–	(224)
Total comprehensive income for the period		–	–	–	–	(224)	18,692	18,468
Issue of share capital		75	861	–	–	–	(28)	908
Own shares sold in the period		–	–	270	–	–	(9)	261
Dividends	11	–	–	–	–	–	(6,377)	(6,377)
Tax on share option gains		–	–	–	–	–	(2,248)	(2,248)
Credit to equity for equity-settled share-based payments		–	–	–	1,106	–	–	1,106
Balance at 1 January 2015		**7,664**	**26,345**	**(3,796)**	**9,716**	**126**	**82,105**	**122,160**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**12,529**	**12,529**
Exchange differences on retranslation of net investment		**–**	**–**	**–**	**–**	**(27)**	**–**	**(27)**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**(27)**	**12,529**	**12,502**
Issue of share capital		**100**	**1,240**	**–**	**–**	**–**	**(40)**	**1,300**
Dividends	11	**–**	**–**	**–**	**–**	**–**	**(6,925)**	**(6,925)**
Tax on share option gains		**–**	**–**	**–**	**–**	**–**	**211**	**211**
Credit to equity for equity-settled share-based payments		**–**	**–**	**–**	**1,290**	**–**	**–**	**1,290**
Balance at 31 December 2015		**7,764**	**27,585**	**(3,796)**	**11,006**	**99**	**87,880**	**130,538**

Consolidated cash flow statement

for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Net cash from operating activities	30	**40,384**	18,397
Investing activities			
Investment income		**531**	427
Purchases of property, plant and equipment		**(3,764)**	(12,483)
Proceeds on disposal of property, plant and equipment		**46**	2
Expenditure on software		**(187)**	(217)
Expenditure on capitalised product development		**(8,365)**	(7,357)
Net cash used in investing activities		**(11,739)**	(19,628)
Financing activities			
Dividends paid		**(6,925)**	(6,377)
Treasury deposits		**(6,098)**	1,000
Proceeds from the sale of ordinary share capital		**–**	261
Proceeds from issue of ordinary share capital		**1,300**	908
Net cash used in financing activities		**(11,723)**	(4,208)
Net increase/(decrease) in cash and cash equivalents		**16,922**	(5,439)
Effect of foreign exchange rate changes on cash balances		**(236)**	(83)
Cash and cash equivalents at beginning of year		**25,963**	31,485
Cash and cash equivalents at end of year		**42,649**	25,963

Cash and cash equivalents (which are presented as a single class of asset on the face of the 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.

Financial Statements continued

Notes to the consolidated financial statements

for the year ended 31 December 2015

1. General information

Xaar plc ('the Company') is incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activity is set out in the Strategic Report starting on page 2.

2. Key sources of estimation uncertainty and critical accounting judgements

The key assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Asset valuations

Throughout the year, management considers the carrying value of both receivables and inventory balances. Provisions against both balances are made on the basis of past losses, current trading patterns and anticipated future events.

Provisions

Management regularly consider the potential liabilities which may arise from product warranty claims, commercial disputes, restructuring or other activities which may result in future losses or charges. Management create and maintain appropriate financial provisions based on specific known issues and underlying historical experience.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value-in-use' of the cash-generating units to which the goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was £nil (2014: £720,000). Further details are given in note 13.

Capitalisation of development costs

As described in note 3, the Group capitalises development expenditure as an intangible assets where the criteria under IAS 38 'Intangible assets' is met. In 2015, development expenditure incurred relating to Platform 4 was capitalised, amounting to £8,365,000 (2014: £7,357,000). The development project is on-going and therefore amortisation is yet to commence.

Useful life of property, plant and equipment in Sweden

As described in note 3, the Group depreciates property, plant and equipment over the useful life of the asset. In 2015 the useful life of the property, plant and equipment in the Swedish facility was reviewed and was revised to reflect the planned closure of the facility.

3. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted for use in the European Union. Therefore the Group financial statements have been prepared in accordance with Article 4 of the EU IAS regulation.

The financial information has been prepared on the basis of all applicable IFRS, including all International Accounting Standards ('IAS'), Standing Interpretations Committee ('SIC') interpretations and International Financial Reporting Interpretations Committee ('IFRIC') interpretations issued by the International Accounting Standards Board ('IASB') that are applicable to the financial period, as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The Group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company ('its subsidiaries') made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Foreign exchange gains and losses arising on the retranslation of trading balances with subsidiaries with different functional currencies are reported in the income statement.

3. Significant accounting policies continued

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report. Notes 19, 20 and 23 include a description of the Group's objectives; policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources and through a diverse customer base is exposed not only to the Western economies but also China, India and Latin America. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, based on the Group's forecasts and projections for the next four years, taking account of reasonably possible changes in trading performance. For this reason, we continue to adopt the going concern basis in preparing the financial statements.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method.

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

Goodwill

Goodwill arising on consolidation is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of the cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes, but gross of any tax withheld.

Sales of goods are recognised when all of the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods
- The Company retains neither a continuing managerial involvement to the degree normally associated with ownership, nor effective control over goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the entity
- The costs incurred, or to be incurred, in respect of the transaction can be measured reliably

For sales of goods to a distributor with consignment stock arrangements, revenue is recognised at the point of sale by the distributor which is when the risks and rewards of ownership of inventory have transferred.

Development fees gained from joint development agreements are treated as income over the periods necessary to match them with the related costs.

Funding received for internally generated intangible assets is recognised on a straight-line basis to match the amortisation period of the related intangible fixed asset.

Royalties are recognised on an accruals basis in accordance with the actual revenue trend in the most recent quarterly statements received from each licensee.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

3. Significant accounting policies continued

Revenue recognition continued

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which the economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Exchange differences arising on the settlement of monetary assets and liabilities, and on the retranslation of monetary assets and liabilities, are included in the income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward contracts (see page 80 for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Exchange differences arising are recognised in other comprehensive income and taken to the translation reserve. Exchange differences on the translation of net investments are taken to the translation reserve of the applicable entity.

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

Government and EU grants

Government and EU grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grant will be received.

Government and EU grants relating to research and development are treated as income over the periods necessary to match them with the related costs.

Operating profit

Operating profit is stated after charging restructuring costs but before investment income and finance costs.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax, including UK corporation tax and foreign tax.

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

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

3. Significant accounting policies continued

Taxation continued

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

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

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

To the extent that the Group receives a tax deduction relating to share-based payment transactions, deferred tax is provided at the appropriate tax rate on the difference in value between the market price of the underlying equity as at the date of the financial statements and the exercise price of the outstanding share options. As a result, the deferred tax impact of share options will not be derived directly from the expense reported in the consolidated income statement. The amount by which the deductible difference exceeds the cumulative charge to the consolidated income statement is recorded in the consolidated statement of comprehensive income.

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

Property, plant and equipment

All property, plant and equipment is shown at original historical cost less accumulated depreciation and any recognised impairment loss.

Assets in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other assets in the same class, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, less their residual values, other than assets in the course of construction, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold property improvements	ten years or, where shorter, over the term of the relevant lease
Plant and machinery	three to eight years
Furniture, fittings and equipment	three to five years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

In accordance with IAS 38 ‘Intangible assets’ where a project has entered the development phase and is sufficiently self-contained that the expected future economic benefits can be traced directly to the assets developed within the project, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and the cost of the asset can be measured reliably, the development costs related to the project will be capitalised as an intangible asset.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets

Costs incurred in maintaining the patent and trademark portfolio are written off to the income statement as incurred.

Payments in respect of software, external product development costs and licence rights acquired are capitalised at cost and amortised on a straight-line basis over their estimated useful lives.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

3. Significant accounting policies continued

Impairment of tangible and intangible assets excluding goodwill

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first in, first out (FIFO) cost formula, by applying the standard cost methodology, with costs including direct materials, direct labour costs and an attributable proportion of manufacturing overheads based on normal levels of activity that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where applicable.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned and are initially measured at fair value, equating to cost, including transaction costs. Investments are classified as available for sale, and on the basis that the investments have no active market and their fair values cannot be reliably determined using valuation techniques, the investments are carried at cost.

If there is objective evidence that an impairment loss on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Bonds with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using effective interest method less any impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash within a period of up to three months post balance sheet and are subject to an insignificant risk of changes in value.

Treasury deposits

Treasury deposits comprise demand deposits that are convertible to a known amount of cash with an original maturity of between three months and twelve months and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out within the policy on derivative financial instruments and hedge accounting on page 85.

3. Significant accounting policies continued

Interest-bearing loans and borrowings

Interest-bearing loans and bank overdrafts are measured initially at fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are measured at original cost.

Equity instruments

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

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates and liquidity risk.

The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecast transactions.

The Group's interest rate risk arises mainly from its funds invested in short term bank deposits. To mitigate these risks, limits have been set by the Board in relation to maturity period and maximum deposits with any one institution.

In order to mitigate the Group's liquidity risks, the Group can choose to fund significant fixed asset purchases by finance leases repayable over a period of three to five years dependent on the individual asset being financed and interest-bearing loans.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provides written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated as hedges of future cash flows and deemed to be effective are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted where the effect of the time value of money is material.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it, and the plan has reached a stage where the decision is unlikely to be reversed. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Financial Statements continued

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

3. Significant accounting policies continued

Provisions continued

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised in the month of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

Share-based payments

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

The Group issues equity-settled share-based payments to certain employees. These payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

The fair value of options issued under the Group's Long Term Incentive Plan is measured using a stochastic (Monte Carlo binomial) model for grants made between 2007 and 2009 inclusive. The fair value of all other equity-settled share-based payments is measured using the Black-Scholes pricing model. The expected life used in these models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

SAYE share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in accelerated recognition of the expenses that would have arisen over the remainder of the original vesting period.

Own shares

Own shares are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own shares.

New standards and interpretations

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 11 (amendments)	Accounting for Acquisitions of Interests in Joint Operations
IAS 1 (amendments)	Disclosure Initiative
IAS 16 and IAS 38 (amendments)	Clarification of acceptable Methods of Depreciation and Amortisation
IAS 27 (amendments)	Equity Method in Separate Financial Statements
Annual Improvements to IFRSs (amendments)	

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

4. Reconciliation of adjusted financial measures

	2015 £'000	2014 £'000
Profit before tax	**13,572**	23,110
Share-based payment charges	**1,498**	242
Exchange differences relating to the Swedish operations	**447**	614
Loss on derivative financial instruments	**–**	6
Restructuring costs	**6,120**	872
Research and development expenditure credit	**(818)**	(234)
Adjusted profit before tax	**20,819**	24,610
Adjusted profit before tax excluding the impact of IAS 38	**12,454**	17,253

4. Reconciliation of adjusted financial measures continued

Share-based payment charges include the IFRS 2 charge for the period of £1,290,000, per note 32 (2014: £1,106,000) and the credit relating to National Insurance on the outstanding potential share option gains of £208,000 (2014: charge of £864,000). These costs were included in the general and administrative expenses in the Consolidated income statement.

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

Loss on derivative financial instruments relates to gains and losses made on forward contracts in 2014. These costs were included in the general and administrative expenses in the Consolidated income statement.

Restructuring costs of £6,120,000 in 2015 relate to costs incurred and provisions made in relation to a reorganisation and the planned closure of the manufacturing facility in Sweden in 2016. In 2014 restructuring costs of £872,000 were incurred in relation to a reduction made to the global work force in 2014. This item is shown on the face of the Consolidated income statement.

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.

	2015 Pence per share	2014 Pence per share
Diluted earnings per share	**16.1p**	24.4p
Share-based payment charges	**1.9p**	0.3p
Exchange differences relating to the Swedish operations	**0.6p**	0.8p
Restructuring costs	**7.9p**	1.1p
Tax effect of adjusting items	**(2.0p)**	(0.2p)
Adjusted diluted earnings per share	**24.5p**	26.4p

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

5. Revenue

An analysis of the Group's revenue is as follows:

	Notes	**2015 £'000**	2014 £'000
Product sales, commissions and fees		**87,271**	102,804
Royalties		**6,201**	6,346
		93,472	109,150
Investment income	9	**426**	394
		93,898	109,544

Financial Statements continued

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

6. Business and geographical segments

Products and services from which reportable segments derive their revenues.

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:

Year ended 31 December 2015	Product sales, commissions and fees £'000	Royalties £'000	Unallocated £'000	Consolidated £'000
Revenue				
Total segment revenue	**87,271**	**6,201**	**–**	**93,472**
Result				
Adjusted profit before tax	**14,192**	**6,201**	**426**	**20,819**
Share-based payment charges	**–**	**–**	**(1,498)**	**(1,498)**
Exchange differences relating to the Swedish operations	**(447)**	**–**	**–**	**(447)**
Restructuring costs	**(6,120)**	**–**	**–**	**(6,120)**
Research and development expenditure credit	**818**	**–**	**–**	**818**
Profit/(loss) before tax	**8,443**	**6,201**	**(1,072)**	**13,572**

Investment income is not allocated to reportable segments for the purposes of reporting to the Group's Chief Executive Officer and Board of Directors.

Share-based payment charges include the IFRS 2 charge for the period and the charge relating to National Insurance on the outstanding potential share option gains.

Year ended 31 December 2014	Product sales, commissions and fees £'000	Royalties £'000	Unallocated £'000	Consolidated £'000
Revenue				
Total segment revenue	102,804	6,346	–	109,150
Result				
Adjusted profit before tax	17,870	6,346	394	24,610
Share-based payment charges	–	–	(242)	(242)
Exchange differences relating to the Swedish operations	(614)	–	–	(614)
Loss on derivative financial instruments	–	–	(6)	(6)
Restructuring costs	(872)	–	–	(872)
Research and development expenditure credit	234	–	–	234
Profit before tax	16,618	6,346	146	23,110

6. Business and geographical segments continued

Segment assets

	2015 £'000	2014 £'000
Product sales, commissions and fees	**75,902**	83,719
Royalties	**1,358**	1,773
Total segment assets	**77,260**	85,492
Investments	**1,000**	1,000
Treasury deposits	**27,098**	21,000
Cash and cash equivalents	**42,649**	25,963
Total assets	**148,007**	133,455

Assets are allocated to the segment which has responsibility for their control.

No information is provided for segment liabilities as this measure is not provided to the chief operating decision maker.

Other segment information

Year ended 31 December 2015	Notes	Product sales, commissions and fees £'000	Royalties £'000	Unallocated £'000	Consolidated £'000
Depreciation and amortisation	14, 15	**10,981**	**–**	**–**	**10,981**
Share-based payment charges		**–**	**–**	**1,498**	**1,498**
Capital expenditure	14, 15	**11,674**	**–**	**–**	**11,674**

Year ended 31 December 2014	Notes	Product sales, commissions and fees £'000	Royalties £'000	Unallocated £'000	Consolidated £'000
Depreciation and amortisation	14, 15	10,721	–	–	10,721
Share-based payment charges		–	–	242	242
Capital expenditure	14, 15	18,048	–	–	18,048

Revenues from major products and services

	2015 £'000	2014 £'000
Product sales, commissions and fees	**87,271**	102,804
Royalties	**6,201**	6,346
Consolidated revenue (excluding investment income)	**93,472**	109,150

Financial Statements continued

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

6. Business and geographical segments continued

Geographical information

The Group operates in three principal geographical areas: EMEA, Asia and the Americas. Revenues are attributed to geographical areas on the basis of the customers' operating location. The Group's revenue from external customers and information about its segments (non-current assets excluding deferred tax assets and other financial assets) by geographical location is detailed below:

	Revenue from external customers	
	2015 £'000	2014 £'000
EMEA	**47,113**	60,088
Asia		
– China	**31,346**	34,317
– Japan	**6,611**	6,637
– Other	**1,935**	1,611
The Americas (including USA)	**6,467**	6,497
	93,472	109,150

Non-current assets, being property, plant and equipment, goodwill, other intangible assets, investments and the deferred tax asset, are attributed to the location where they are situated.

	Non-current assets	
	2015 £'000	2014 £'000
EMEA	**48,994**	50,265
Asia	**50**	67
The Americas (including USA)	**6**	4
	49,050	50,336

Information about major customers

Included in revenues arising from product sales, commissions and fees are revenues of approximately £9.1 million (10% of revenues) (2014: £11.4 million, 10% of revenues) which arose from sales to the Group's largest customer. In the year ended 31 December 2015 revenues of approximately £7.8 million (8% of revenues) (2014: £11.2 million, 10% of revenues) were included in the product sales, commissions and fees which arose from sales to the Group's second largest customer. In 2015, the largest customer was the only customer to exceed 10% of revenue in the period (2014: the largest and second largest customers exceeded 10% of revenue in the period). Revenue from the top five customers represents 41% of revenues (2014: 47%).

7. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	2015 £'000	2014 £'000
Net foreign exchange losses (including exchange differences relating to the Swedish operations)	**749**	1,052
Research and development expenses (net of capitalised development costs)*	**11,548**	11,797
Grants towards research and development including the research and development expenditure credit	**(878)**	(349)
Depreciation of property, plant and equipment	**10,147**	9,836
Amortisation capitalised development costs (included in research and development expenses)	**493**	492
Amortisation software (included in general and administrative expenses)	**341**	393
Loss on disposal of property, plant and equipment	**75**	189
Cost of inventories recognised as expense	**48,782**	60,548
Impairment of other financial assets	**(90)**	(70)
Total fees payable to the Company's auditor and its associates	**165**	182

*Total spend on research and development in 2015, including capitalised development costs included in note 14, was £19,913,000 (2014: £19,154,000).

7. Profit for the year continued

	2015 £'000	2014 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**22**	22
Fees payable to the Company's auditor and its associates for other services to the Group		
The audit of the Company's subsidiaries	**107**	106
Total audit fees	**129**	128
– Interim review	**25**	24
– Taxation compliance services	**5**	6
– Recruitment and remuneration services	**1**	17
– Audit advisory	**–**	7
– Other services	**5**	–
Total non-audit fees	**36**	54
Total fees payable to the Company's auditor and its associates	**165**	182

The Audit Committee has considered the independence of the auditor in relation to non-audit services throughout the year. A description of the work of the Audit Committee is set out in the Corporate governance statement on pages 40 to 41 and includes an explanation of how the auditor's objectivity and independence is safeguarded when non-audit services are provided by the auditor.

8. Staff costs

The average monthly number of persons employed by the Group including Executive Directors was as follows:

	2015 Number	2014 Number
Research and development	**130**	168
Sales and marketing	**51**	62
Manufacturing and engineering	**382**	491
Business support	**65**	64
	628	785

Their aggregate remuneration comprised:

	Notes	2015 £'000	2014 £'000
Wages and salaries		**24,169**	28,981
Social security costs		**3,046**	3,753
Pension costs	33	**1,589**	1,642
Share-based payments		**1,498**	242
		30,302	34,618

Share-based payment charges include the IFRS 2 charge for the period and the charge relating to National Insurance on the outstanding potential share option gains.

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9. Investment income

	2015 £'000	2014 £'000
Interest receivable on cash and bank balances, and treasury deposits	**423**	389
Interest receivable on held-to-maturity investments	**3**	5
	426	394

10. Tax

	Notes	2015 £'000	2014 £'000
Current tax – UK		**1,151**	3,191
Current tax – overseas		**385**	278
		1,536	3,469
Amounts over provided in previous years		**(972)**	(545)
Total current income tax		**564**	2,924
Deferred tax – origination and reversal		**316**	1,195
Adjustment in respect of prior years		**163**	299
Total deferred tax charge	21	**479**	1,494
Total tax expense for the year		**1,043**	4,418

The blended standard rate of tax for the year, based on the UK standard rate of corporation tax, is 20.25% (2014: 21.49%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The Finance (No. 2) Act 2015, which provides for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017, was substantively enacted on 18 November 2015. The Finance (No. 2) Act 2015, also provides for a reduction in the main rate of corporation tax to 18% effective from 1 April 2020, substantively enacted on 18 November 2015. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

10. Tax continued

The charge for the year can be reconciled to the profit per the income statement as follows:

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	**13,572**	23,110
Tax on ordinary activities at a blended standard rate of 20.25% (2014: 21.49%)	**2,748**	4,967
Effect of:		
Expenses not deductible for tax purposes	**319**	486
Effect of different tax rates of subsidiaries operating overseas	**33**	111
Enhanced tax deduction for patent box	**(1,174)**	(820)
Effect of change in UK corporation tax rate	**(74)**	(80)
Prior period adjustments	**(809)**	(246)
Total tax expense for the year	**1,043**	4,418

The effective tax rate for the year is 8% (2014: 19%). Excluding the prior year adjustments, the effective tax rate would be 14%. The prior year adjustments relate primarily to improved deductions from the patent box scheme and higher than expected capital allowances.

11. Dividends

	2015 £'000	2014 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2014 of 6.0p (2013: 5.5p) per share	**4,535**	4,124
Interim dividend for the year ended 31 December 2015 of 3.15p (2014: 3.0p) per share	**2,390**	2,253
Total distributions to equity holders in the year	**6,925**	6,377
Proposed final dividend for the year ended 31 December 2015 of 6.3p (2014: 6.0p) per share	**4,891**	4,599

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

12. Earnings per ordinary share – basic and diluted

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

	2015 £'000	2014 £'000
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**12,529**	18,962
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**75,572,550**	74,863,310
Effect of dilutive potential ordinary shares:		
Share options	**2,215,736**	1,629,537
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**77,788,286**	76,492,847

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for the year ended 31 December 2015

12. Earnings per ordinary share – basic and diluted continued

	2015 Pence per share	2014 Pence per share
Basic	**16.6p**	25.0p
Diluted	**16.1p**	24.4p

The weighted average number of ordinary shares for the purposes of basic earnings per share is calculated after the exclusion of ordinary shares in Xaar plc held by Xaar Trustee Ltd, the Xaar plc ESOP trust and the matching shares held in trust for the Share Incentive Plan.

For 2015, there were share options granted over 35,678 shares that had not been included in the diluted earnings per share calculation because they were anti-dilutive at the period end (2014: nil shares).

The performance conditions for LTIP awards over 724,608 shares (2014: 688,038 shares) have not been met in the current financial period or are not expected to be met in future financial periods, and therefore the dilutive effect of those shares have not been included in the diluted earnings per share calculation.

Adjusted earnings per share

This adjusted earnings per share information is considered to provide a fairer representation of the Group's trading performance year on year, as it removes items which, in the Board's opinion, do not reflect the underlying performance of the Group.

The calculation of adjusted EPS excluding share-based payment charges, exchange differences relating to the Swedish operations, the gain or loss on derivative financial instruments, and restructuring costs, is based on earnings of:

	2015 £'000	2014 £'000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**12,529**	18,692
Share-based payment charges	**1,498**	242
Exchange differences relating to the Swedish operations	**447**	614
Loss/(gain) on derivative financial instruments	**–**	6
Restructuring costs	**6,120**	872
Tax effect of adjusting items	**(1,570)**	(197)
Adjusted profit after tax	**19,024**	20,229
Adjusted profit after tax excluding the net of tax impact of IAS 38*	**12,839**	12,872

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

Adjusted earnings per share is earnings per share excluding the items adjusted for as detailed above:

	2015 Pence per share	2014 Pence per share
Adjusted basic	**25.2p**	27.0p
Adjusted diluted	**24.5p**	26.4p
Adjusted basic excluding the impact of IAS 38*	**17.0p**	17.2p

Adjusted EPS is considered to provide a fairer representation of the Group's trading performance year on year.

* Adjusted profit after tax excluding the net of tax impact of IAS 38 and adjusted basic EPS excluding the impact of IAS 38 (capitalisation of development costs) are the measures deemed most appropriate by the Remuneration Committee to determine the achievement of the performance conditions for the LTIP awards that are subject to the EPS performance conditions.

13. Goodwill

The carrying amount of goodwill at 31 December 2015 was £nil (2014: £720,000).

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

Printheads and related products (a single CGU)	2015 £'000	2014 £'000
Balance at the beginning of the year	**720**	720
Impairment in the year	**(720)**	–
Balance at the end of the year	**–**	720

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Having performed impairment testing, following the announcement and actions taken related to the planned closure of the manufacturing facility in Sweden in 2016, the goodwill balance has been impaired in full (2014: no impairment was identified and therefore no impairment loss was recognised).

The recoverable amount of the CGU is determined from a value-in-use calculation. The key assumptions to which the value-in-use calculation is most sensitive are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period.

The Group prepares cash flow forecasts derived from the most recent financial forecasts reviewed by management for the next three years and these have been used in the value-in-use calculation. The discount rate applied to the cash flow projections is 9% (2014: 10%) and reflects management's estimate of return on capital employed.

Sensitivity analysis has been completed on each key assumption in isolation and this indicates that reasonable changes in key assumptions on which we have based our determination of the recoverable amount would not cause the carrying amount of goodwill to exceed its recoverable amount.

14. Other intangible assets

	Capitalised development costs £'000	Licences acquired £'000	Software £'000	Total £'000
Cost				
At 1 January 2014	9,493	533	2,721	12,747
Additions	7,357	–	218	7,575
Disposals	(2,321)	–	(2)	(2,323)
At 1 January 2015	14,529	533	2,937	17,999
Additions	8,365	–	197	8,562
Transfers	–	–	(10)	(10)
At 31 December 2015	**22,894**	**533**	**3,124**	**26,551**
Amortisation				
At 1 January 2014	6,779	533	2,048	9,360
Charge for the year	492	–	393	885
Disposals	(2,321)	–	(2)	(2,323)
At 1 January 2015	4,950	533	2,439	7,922
Charge for the year	493	–	341	834
At 31 December 2015	**5,443**	**533**	**2,780**	**8,756**
Carrying amount				
At 31 December 2014	9,579	–	498	10,077
At 31 December 2015	**17,451**	**–**	**344**	**17,795**

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14. Other intangible assets continued

Capitalised development costs relate to platform technology development and other associated product development. Where these assets have commenced amortisation, the amortisation periods are five to ten years.

The amortisation period for software is three to five years.

Licences acquired are amortised over their estimated useful lives which is on average ten years.

At 31 December 2015 the Group had entered into contractual commitments for the acquisition of software amounting to £nil (2014: £29,000).

15. Property, plant and equipment

	Leasehold property £'000	Plant and machinery £'000	Furniture, fittings and equipment £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1 January 2014	10,633	50,584	3,614	9,263	74,094
Additions	1,922	7,751	421	379	10,473
Transfers	1,277	5,942	151	(7,370)	–
Exchange movements	(262)	(1,115)	(49)	(2)	(1,428)
Disposals	–	(411)	(11)	–	(422)
At 1 January 2015	13,570	62,751	4,126	2,270	82,717
Additions	303	2,752	29	28	3,112
Transfers	(145)	717	(14)	(548)	10
Exchange movements	(54)	(229)	(10)	(11)	(304)
Disposals	(40)	(947)	(21)	–	(1,007)
At 31 December 2015	**13,634**	**65,044**	**4,110**	**1,739**	**84,527**
Depreciation					
At 1 January 2014	4,515	28,902	2,225	–	35,642
Charge for the year	1,555	7,535	746	–	9,836
Exchange movements	(175)	(848)	(46)	–	(1,069)
Disposals	–	(222)	(9)	–	(231)
At 1 January 2015	5,895	35,367	2,916	–	44,178
Charge for the year	1,854	7,932	361	–	10,147
Exchange movements	(40)	(119)	(9)	–	(168)
Disposals	–	(863)	(22)	–	(885)
At 31 December 2015	**7,709**	**42,317**	**3,246**	**–**	**53,272**
Carrying amount					
At 31 December 2014	7,675	27,384	1,210	2,270	38,539
At 31 December 2015	**5,925**	**22,727**	**864**	**1,739**	**31,255**

As at 31 December 2015 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2,471,000 (2014: £517,000).

16. Subsidiaries

A list of the investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest, is given in note 10 to the Company's separate financial statements.

17. Investments

	2015 £'000	2014 £'000
Held-to-maturity investments		
At the beginning and the end of the year	**1,000**	1,000

Held-to-maturity investments represent investment in bonds returning interest at 3% per annum, which mature on 22 November 2018.

There is an option to receive any or all of the bonds on the 3rd (21 November 2016) or 4th (21 November 2017) anniversary of the issue without penalty upon giving six months' notice to or from bondholders. Therefore, for the year ended 31 December 2015, the investment is included in current assets.

18. Inventories

	2015 £'000	2014 £'000
Raw materials and consumables	**3,122**	4,818
Work in progress	**1,285**	1,342
Finished goods	**9,051**	13,635
	13,458	19,795

19. Other financial assets

The fair value of all financial assets and financial liabilities approximates their carrying value.

Trade and other receivables

	2015 £'000	2014 £'000
Amount receivable for the sale of goods	**6,985**	8,092
Allowance for doubtful debts	**(342)**	(432)
	6,643	7,660
Other debtors	**3,967**	4,001
Prepayments	**1,337**	1,791
	11,947	13,452
Current tax asset	**2,805**	2,909

No amounts are expected to be settled in more than 12 months.

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for the year ended 31 December 2015

19. Other financial assets continued
Trade receivables
The average credit period taken on sales of goods is 26 days (2014: 26 days). No interest is charged on the receivables for the period agreed in the Requirements Contract or, if not specified or applicable, the first 30 days from the date of the invoice. Thereafter, the Group reserves the right to charge interest at a daily rate of the greater of either 3% per annum above the base rate of Barclays Bank plc from time to time, or the maximum rate of interest allowable under the Late Payment of Commercial Debts (Interest) Act 1998, on all sums outstanding until payment in full is received. The Group has provided fully for all receivables over 120 days because historical experience is such that receivables that are past due beyond 120 days are generally not recoverable. Trade receivables between 30 days and 120 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

The maximum exposure to credit risk is the carrying amount of the financial assets as disclosed on page 97. Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Credit limits are reviewed at least once per year. Letters of credit may be used. Credit insurance has typically been taken out over the most significant customers. Of the trade receivables balance at the end of the year, seven customers each represented greater than 5% of the total receivables balance, totalling £4.4 million (2014: £5.0 million). The total due from these customers represents 31% (2014: 29%) of the Group's revenue; there are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivables balance are debtors with a carrying amount of £1.1 million (2014: £1.4 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. Of these amounts, the Group is in possession of letters of credit to the value of £1,576,000 (2014: £1,565,000) which had not reached maturity as at the reporting date. The Group does not hold any other collateral over these balances. The average age of these receivables is 31 days (2014: 63 days).

Ageing of past due but not impaired receivables:

	2015 £'000	2014 £'000
1–30 days overdue	**762**	1,011
30–60 days overdue	**324**	230
60–90 days overdue	**–**	16
90–120 days overdue	**–**	19
Over 120 days overdue	**2**	76
Total	**1,088**	1,352

Movement in the allowance for doubtful debts:

	2015 £'000	2014 £'000
Balance at the beginning of the year	**432**	502
Impairment losses reversed	**(90)**	(70)
Balance at the end of the year	**342**	432

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

19. Other financial assets continued

Trade receivables continued

Ageing of impaired trade receivables:

	2015 £'000	2014 £'000
Current	**160**	94
1–30 days overdue	**129**	4
30–60 days overdue	**33**	2
60–90 days overdue	**–**	–
90–120 days overdue	**4**	–
Over 120 days overdue	**16**	332
Total	**342**	432

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Treasury deposits

Treasury deposits comprise bank deposits with an original maturity of between three months and twelve months. The carrying amount of these assets approximates their fair value.

	2015 £'000	2014 £'000
Treasury deposits	**27,098**	21,000

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

The analysis of cash and short term bank deposits is as follows:

	2015 £'000	2014 £'000
Cash	**42,649**	25,963

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

20. Financial instruments

Categories of financial instruments

Financial assets of £13,415,000 (2014: £14,570,000) are categorised as loans and receivables. Financial liabilities of £16,247,000 (2014: £10,679,000) are categorised as measured at amortised cost. Derivative financial assets and liabilities are derived from quoted prices (unaudited) in active markets for identical assets and liabilities.

Financial risk management objectives

The Group's policy is to manage the Group's financial risk, secure cost effective funding for the Group's operations and to minimise the adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group.

The Group finances its activities with a combination of bank loans, finance leases, cash and fixed term deposits and forward contracts as deemed appropriate. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Group's operating activities. The Group also enters into derivative transactions – forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. It is Group policy that no trading in derivatives shall be undertaken.

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20. Financial instruments continued

Financial risk management objectives continued

Financial instruments give rise to foreign currency, interest rate, credit and liquidity risk. The Group's management of its exposure to credit risk is discussed in note 19 and to liquidity risk is discussed in note 23.

Interest rate risk

The Group's policy is to manage its cost of borrowing using fixed rate debt. Whilst fixed rate interest-bearing debt is not exposed to cash flow interest rate risk, there is no opportunity for the Group to enjoy a reduction in borrowing costs in markets where rates are falling. In addition, the fair value risk inherent in fixed rate borrowing means that the Group is exposed to unplanned costs should debt be restructured or repaid early as part of the liquidity management process.

The sensitivity analysis prepared below relates to cash balances, since borrowings are at fixed rates of interest. The closing cash and cash equivalents, and treasury deposits balance at the year end have been used as the basis for the calculations. A 2% increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 2% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2015 would increase by £1.4 million or decrease by £0.4 million (2014: increase by £0.9 million/decrease by £0.4 million). This is mainly attributable to the Group's exposure to interest rates on its cash balances. There would be no effect on equity reserves.

Foreign currency risk

The Group receives approximately 7% of its revenues in US Dollars and 14% of its revenue in Euros, which are partially naturally hedged by supplies in these currencies, but the remainder requires conversion into Sterling in order to fund the remaining costs of the UK offices. The Group has a manufacturing facility in Sweden which necessitates the need for the Group to convert Sterling into Swedish Kronor in order to fund the running costs of this manufacturing facility. The Group may enter into a variety of derivative financial instruments to manage its exposure to foreign currency risk, including forward contracts.

The Group is mainly exposed to foreign currency risk resulting from transactions in US Dollars, Euros and Swedish Kronor. The following table demonstrates the Group's sensitivity to a 10% increase and decrease in the Sterling exchange rate against the relevant foreign currencies on the Group's profit before tax and equity (due to changes in the fair value of monetary assets, liabilities and forward currency contracts). 10% represents management's assessment of the reasonably possible movement in exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes inter company balances within the Group where the denomination of the balance is in a currency other than the functional currency of the debtor or the creditor. A positive number below indicates an increase in profit or equity.

	Euro currency impact		US Dollar currency impact		Swedish Kronor currency impact	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Effect of a 10% increase in relevant exchange rate on:						
Profit or loss	**(88)**	(725)	**(181)**	(410)	**(3)**	(35)
Other equity	**–**	–	**29**	11	**207**	179
Effect of a 10% decrease in relevant exchange rate on:						
Profit or loss	**108**	886	**221**	501	**3**	43
Other equity	**–**	–	**(37)**	(13)	**(254)**	(219)

Forward foreign exchange contracts

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

At 31 December 2015, the Group had no open currency derivative assets or liabilities (2014: £nil).

As at 31 December 2015 the Group held no outstanding forward contracts.

20. Financial instruments continued

Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business, maximise shareholder value and provide flexibility for value enhancing investments. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions or as a result of corporate strategy. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In addition, any potential value enhancing investments may be funded through additional debt instruments. No changes were made in the objectives, policies or processes during the current or prior year, except for the proposed increase in final dividend for 2014, as detailed in note 11 on page 93.

The Group monitors capital using a gearing ratio, which is determined as the proportion of debt to equity. Debt is defined as long and short term borrowings. Equity includes all capital and reserves of the Group attributable to the equity holders of the parent. The Group's policy for its existing business is to use debt where appropriate, whilst maintaining the gearing ratio at a level under 10%.

The gearing ratio at the year-end is as follows:

	2015 £'000	2014 £'000
Net debt	**–**	–
Equity	**130,538**	122,160
Gearing ratio	**0%**	0%

The Group is not subject to externally imposed capital requirements.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across different industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

21. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation £'000	Share-based payment £'000	Untaxed reserves £'000	Tax losses £'000	Other temporary difference £'000	Total £'000
At 1 January 2014	(20)	(3,984)	230	–	(206)	(3,980)
Charge/(credit) to income	1,276	142	(16)	–	92	1,494
Credit to equity	–	3,103	–	–	–	3,103
At 1 January 2015	1,256	(739)	214	–	(114)	617
Charge/(credit) to income	974	135	87	(591)	(126)	479
Charge to equity	–	126	–	–	–	126
At 31 December 2015	**2,230**	**(478)**	**301**	**(591)**	**(240)**	**1,222**

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21. Deferred tax continued

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2015 £'000	2014 £'000
Deferred tax liabilities	**1,222**	617

As at 31 December 2015, the Group has unused capital losses of £1.1 million (2014: nil) available for offset against future gains. No deferred tax asset has been recognised in respect of these capital losses as it is not considered probable that there will be future chargeable gains available. These losses may be carried forward indefinitely.

22. Trade and other payables

	2015 £'000	2014 £'000
Trade payables and accruals	**12,405**	9,888

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit taken for trade purchases is 13 days (2014: 16 days).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

23. Other financial liabilities

Other financial liabilities consist of lease incentives.

The borrowings are repayable as follows:

	2015 £'000	2014 £'000
Within one year	**68**	57
In the second year	**68**	68
In the third to fifth years inclusive	**104**	151
Over five years	**69**	89
	309	365
Less: amount due for settlement within twelve months (shown under current liabilities)	**(68)**	(57)
Amount due for settlement after twelve months	**241**	308

The amounts included above are not considered to be materially different from the present value of their carrying amounts.

Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets throughout the Group. Investment is carefully controlled, with authorisation limits operating up to Group Board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate fund raising.

In its funding strategy, the Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans, finance leases and hire purchase contracts. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continually monitoring cash flows and matching the maturity profiles of financial assets and liabilities.

The Group is inherently a net generator of cash at the operating level. Excess cash used in managing liquidity is only invested in financial instruments exposed to insignificant risk of changes in market value, being placed on interest-bearing deposit with maturities no more than 12 months allowed per the policy. Short term flexibility is achieved by overdraft facilities.

24. Provisions

	Warranty and commercial agreements £'000	Restructuring £'000	Total £'000
At 1 January 2014	1,074	–	1,074
Additional provision in the year	297	499	796
Utilisation of provision	(603)	(492)	(1,095)
Release of provision	(350)	–	(350)
At 1 January 2015	418	7	425
Additional provision in the year	432	3,981	4,413
Utilisation of provision	(203)	(759)	(962)
Release of provision	(343)	–	(343)
At 31 December 2015	**304**	**3,229**	**3,533**

The warranty and commercial agreements provision represents management's best estimate of the Group's liability related to claims against product warranties or commercial sales agreements. The timing of the utilisation of this provision is uncertain.

The restructuring provision for 2014 relates to costs for the reduction made to the global work force in 2014, and in 2015 relates to the planned closure of the manufacturing facility in Sweden in 2016.

25. Share capital

	2015 £'000	2014 £'000
Issued and fully paid:		
77,635,374 (2014: 76,642,309) ordinary shares of 10.0p each	**7,764**	7,664

The movement during the year on the Company's issued and fully paid shares was as follows:

	2015 Number	2014 Number	**2015 £'000**	2014 £'000
At beginning of year	**76,642,309**	75,894,829	**7,664**	7,589
Exercise of share options	**993,065**	747,480	**100**	75
At end of year	**77,635,374**	76,642,309	**7,764**	7,664

The Company has one class of ordinary shares which carry no right to fixed income.

Financial Statements continued

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

25. Share capital continued

Scheme	Date of grant	Number of shares under option as at 31 December 2015	Number of shares under option as at 31 December 2014	Subscription price per share
Xaar plc 2004 Share Option Plan	13.04.05	**–**	5,000	208.5p
	15.09.05	**–**	17,144	274.0p
	21.08.08	**1,000**	1,000	108.25p
	22.11.10	**29,375**	39,175	211.0p
	01.06.11	**127,841**	212,591	250.0p
	27.10.11	**2,000**	20,000	243.0p
	01.05.12	**205,000**	410,000	226.5p
	18.10.12	**–**	15,000	249.75p
		365,216	719,910	
Xaar plc Share Save Scheme	01.11.11	**–**	39,935	212.0p
	01.11.12	**35,232**	245,587	185.0p
	01.11.13	**28,446**	45,618	616.0p
	01.11.14	**541,989**	678,919	338.0p
	01.11.15	**247,219**	–	417.0p
		852,886	1,010,059	
Xaar plc Share Incentive Plan	17.04.13	**19,677**	24,887	0.0p
	16.04.14	**21,875**	29,085	0.0p
		41,552	53,972	
Total share options outstanding at 31 December		**1,259,654**	1,783,941	

Options granted under the Xaar plc 2004 Share Option Plan are ordinarily exercisable within three to ten years after the date of the grant. The maximum value of approved options, under the Xaar plc 2004 Share Option Plan, which may be granted to individual employees is £30,000.

Options under the Xaar plc Share Save Scheme are ordinarily exercisable between 36 and 42 months after the date of the grant.

Awards under the Xaar plc Share Incentive Plan are ordinarily exercisable between three and five years after the date of the grant.

25. Share capital continued

Long Term Incentive Plan

Performance Share Awards outstanding under the Xaar plc 2007 Long Term Incentive Plan are as follows:

Date of grant	Number of shares under option as at 31 December 2015	Number of shares under option as at 31 December 2014
11.04.11	**–**	57,112
03.05.11	**20,981**	33,740
02.04.12	**120,834**	370,110
01.05.12	**99,108**	183,784
02.04.13	**393,423**	416,106
15.05.13	**63,131**	63,500
02.04.14	**198,136**	243,869
12.05.14	**34,798**	38,265
02.04.15	**562,950**	–
28.09.15	**37,896**	–
07.12.15	**12,088**	–
	1,543,345	1,406,486

All awards under this scheme are exercisable within three to ten years after the date of grant.

26. Share premium account

	£'000
Balance at 1 January 2014	25,484
Premium arising on issue of equity shares	861
Balance at 1 January 2015	26,345
Premium arising on issue of equity shares	1,240
Balance at 31 December 2015	**27,585**

27. Own shares

	£'000
Balance at 1 January and 31 December 2015	**(3,796)**

Of this balance, £20,000 (2014: £20,000) represents 91,250 ordinary shares in Xaar plc held in trust by Xaar Trustee Ltd. Xaar Trustee Ltd was formed in 1995 to act as Trustee to the Employee Benefit Trust established in 1995 to hold shares for the benefit of the employees of the Company and the Group. There has been no movement in the number of shares held in trust by Xaar Trustee Ltd during the year.

The remaining balance of £3,776,000 (2014: £3,776,000) represents the cost of 1,373,703 (2014: 1,373,703) shares in Xaar plc purchased in the market at market value and held by the Xaar plc ESOP trust to satisfy options granted under the Company's share option schemes.

The market value of own shares as at 31 December 2015 was £6,153,000 (2014: £5,647,000).

Financial Statements continued

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

28. Translation reserve

	£'000
Balance at 1 January 2014	350
Exchange differences on retranslation of net investment	(224)
Balance at 1 January 2015	126
Exchange differences on retranslation of net investment	(27)
Balance at 31 December 2015	**99**

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being Sterling, are recognised directly in the translation reserve.

29. Retained earnings and other reserves

	Notes	Merger reserve £'000	Share-based payments £'000	Other reserves £'000	Total other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2014		1,105	7,020	485	8,610	72,075	80,685
Net profit for the year		–	–	–	–	18,692	18,692
Share issue related to LTIP awards		–	–	–	–	(28)	(28)
Own shares sold in the period		–	–	–	–	(9)	(9)
Dividends paid	11	–	–	–	–	(6,377)	(6,377)
Tax taken directly to equity		–	–	–	–	(2,248)	(2,248)
Movement in valuation of share options		–	1,106	–	1,106	–	1,106
Balance at 1 January 2015		1,105	8,126	485	9,716	82,105	91,821
Net profit for the year		–	–	–	–	12,529	12,529
Share issue related to LTIP awards		–	–	–	–	(40)	(40)
Dividends paid	11	–	–	–	–	(6,925)	(6,925)
Tax taken directly to equity		–	–	–	–	211	211
Movement in valuation of share options		–	1,290	–	1,290	–	1,290
Balance at 31 December 2015		**1,105**	**9,416**	**485**	**11,006**	**87,880**	**98,886**

The merger reserve and other reserves are not distributable. The merger reserve represents the share premium account in Xaar Technology Limited. The share-based payment reserve represents the cumulative charge made under IFRS 2 in relation to share options and LTIP awards. Other reserves represent the non-distributable portion of the dividend received in Xaar plc from Xaar Digital Limited.

30. Notes to the cash flow statement

	2015 £'000	2014 £'000
Profit before tax	**13,572**	23,110
Adjustments for:		
Share-based payments	**1,498**	242
Depreciation of property, plant and equipment	**10,147**	9,836
Amortisation of intangible assets	**834**	885
Impairment of goodwill	**720**	–
Research and development expenditure credit	**(818)**	(234)
Investment income	**(426)**	(394)
Foreign exchange losses	**149**	331
Losses on forward contracts	**–**	6
Loss on disposal of property, plant and equipment	**75**	189
Increase/(decrease) in provisions	**3,108**	(650)
Operating cash flows before movements in working capital	**28,859**	33,321
Decrease/(increase) in inventories	**6,274**	(4,725)
Decrease in receivables	**1,469**	2,002
Increase/(decrease) in payables	**2,405**	(6,556)
Cash generated by operations	**39,007**	24,042
Income taxes received/(paid)	**1,377**	(5,645)
Net cash from operating activities	**40,384**	18,397

31. Operating lease arrangements

	2015 £'000	2014 £'000
Minimum lease payments under operating leases recognised as an expense in the year:		
Fixtures, fittings and equipment	**59**	69
Land and buildings	**2,192**	2,194
	2,251	2,263

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Fixtures, fittings and equipment		Land and buildings	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Within one year	**50**	53	**2,041**	1,807
In the second to fifth years inclusive	**27**	40	**3,050**	4,002
After five years	**–**	–	**1,278**	1,409
	77	93	**6,369**	7,218

The operating leases in respect of fixtures, fittings and equipment extend over a period of up to six years.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

32. Share-based payments

Equity-settled share option scheme

The Company's share option schemes are open to all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The standard vesting period is three years.

An option granted under the Xaar plc 2004 Share Option Plan before 2011 will be exercisable over shares with a market value at the date of grant not exceeding a person's annual salary if at the third anniversary of grant the EPS growth of the Company since grant has exceeded the growth in the Retail Prices Index (RPI) over the same period by at least 12%. To the extent that an option relates to shares with a market value as at the date of grant in excess of a person's annual salary, the option will be exercisable over all of the excess shares if EPS growth over this period has exceeded RPI growth by at least 15%. For EPS performance between these two points, options will be exercisable over the excess shares on a sliding scale. In addition, options can only be exercised if EPS is at least 5.5 pence for the financial year preceding the third anniversary of grant. Performance may be retested once only from the date of grant to the fourth or fifth anniversary of grant (at the discretion of the Remuneration Committee), but the original EPS growth targets will be increased from 12/15% to 16/20% and 20/25% respectively. The 5.5 pence target will apply for the final financial year in the extended period.

An option granted under the Xaar plc 2004 Share Option Plan from 2011 onwards will be exercisable over shares with a market value at the date of grant not exceeding a person's annual salary, if at the third anniversary of grant, Xaar plc has achieved positive adjusted profit before tax as shown in the consolidated income statement in the Company's Annual Report and financial statements for any of the three years ending during the vesting period. One-third of the shares subject to the option granted rounded to the nearest whole share, will vest based on the performance condition being met per year for each of the three years ending in the vesting period. If the adjusted profit before tax as shown in the consolidated income statement in Xaar plc's Annual Report and financial statements for any relevant year is restated before the option becomes exercisable, the restated figure shall, unless the Remuneration Committee determines otherwise, be applied in determining whether the above targets are met. In addition, options shall only become exercisable in respect of any shares if the committee in its absolute discretion determines that the overall financial performance of Xaar plc over the performance period is satisfactory.

The Xaar 2007 Share Save Scheme provides an opportunity to all UK employees to save a set monthly amount (up to £250 pre 2014, up to £500 from 2014) over three years towards the exercise of a discounted share option, which is granted at the start of the three years.

The Xaar Share Incentive Plan provides an opportunity for all UK employees to buy shares from their pre-tax remuneration up to the limit permitted by the relevant tax legislation (£1,500 per year for the awards made in 2013 and 2014) and are awarded additional shares for free on a matching basis; the Company currently operates the plan on the basis of a 1:1 match but may award matching shares up to the maximum ratio permitted by the relevant tax legislation (currently a 2:1 ratio).

Options and awards under the Xaar 2007 Share Save Scheme and Xaar Share Incentive Plan are not subject to performance conditions.

If the options remain unexercised after a period of ten years from the date of grant, or 42 months in the case of the Share Save Scheme, or five years in the case of the Share Incentive Plan (being the contractual lives), the options expire. Save as permitted in the share option scheme rules, options lapse on an employee leaving the Group.

Details of the share options outstanding during the year are as follows:

	2015		2014	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	**1,783,941**	**2.70**	1,795,232	2.60
Granted during the year	**248,945**	**4.17**	787,522	3.25
Lapsed during the year	**(171,252)**	**3.42**	(333,537)	4.53
Exercised during the year	**(601,980)**	**2.16**	(465,276)	1.95
Outstanding at the end of the year	**1,259,654**	**3.14**	1,783,941	2.70
Exercisable at the end of the year	**400,448**	**2.29**	334,845	2.41

The weighted average share price at the date of exercise for share options exercised during the period was £4.61 (2014: £7.77). The options outstanding at 31 December 2015 had a weighted average remaining contractual life of four years (2014: four years). In 2015, options were granted on 1 November. The aggregate of the estimated fair values of the options granted on those dates is £0.57 million. In 2014, options were granted on 16 April and 1 November. The aggregate of the estimated fair values of the options granted on those dates is £1.67 million.

32. Share-based payments continued

Equity-settled share option scheme continued

The inputs into the Black-Scholes model are as follows:

	2015	2014
Weighted average share price	**£5.21**	£4.39
Weighted average exercise price	**£4.17**	£3.25
Weighted average expected volatility	**55%**	55%
Expected life	**3 years**	3 years
Risk-free rate	**0.64%**	0.72%
Weighted average expected dividends	**0.63%**	0.73%

Expected volatility was determined by calculating the historical volatility of the Group's share price over periods ranging from the previous one to three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Long Term Incentive Plan

The Company's Long Term Incentive Plan is open to all employees of the Group. As at 31 December 2015 all unvested LTIP share awards granted before 2015 are subject to the achievement of EPS performance conditions, the number of shares that vest will depend on the EPS growth of the Company for the three financial years of the Company commencing on 1 January of the year of grant, as follows:

(1) None of the Awards will vest if the Company's EPS growth does not exceed growth in the Retail Prices Index (RPI) by at least 4% compound p.a.
(2) 35% of the Awards will vest if the Company's EPS growth exceeds growth in the RPI by at least 4% compound p.a.
(3) All of the Awards will vest if the Company's EPS growth exceeds growth in the RPI by at least 10% compound p.a.
(4) Awards will vest on a straight-line basis for EPS growth in excess of growth in the RPI of between 4% and 10% compound p.a.

LTIP share awards granted in 2015 are subject to the achievement of different performance conditions depending on the level of the employee, the number of shares that vest will depend on for the three financial years of the Company commencing on 1 January of the year of grant, and are subject to one, two or three of the conditions as set out below:

(1) Absolute cumulative EPS performance over the period, whereby 25% of the Awards will vest if the threshold target is achieved, below threshold 0% will vest and up to a maximum of 100% if the maximum EPS target or higher is achieved.
(2) TSR relative to FTSE TechMARK All Share Index, whereby 25% of the Awards will vest if the median rank in the comparator group is achieved, below median 0% will vest and up to a maximum of 100% if the upper quartile or higher is achieved.
(3) Achievement of positive adjusted profit before tax as shown in the consolidated income statement in the Company's Annual Report and financial statements for any of the three years ending during the vesting period. One third of the shares subject to the option granted rounded to the nearest whole share, will vest based on the performance condition being met per year for each of the three years ending in the vesting period. If the adjusted profit before tax as shown in the consolidated income statement in Xaar plc's Annual Report and Financial Statements for any relevant year is restated before the option becomes exercisable, the restated figure shall, unless the Remuneration Committee determines otherwise, be applied in determining whether the above targets are met.

In addition, options shall only become exercisable in respect of any shares if the committee in its absolute discretion determines that the overall financial performance of Xaar plc over the performance period is satisfactory. All awards that will vest will be calculated on a straight-line basis.

All awards made under this scheme are exercisable within three to ten years after the date of grant. Save as permitted in the Long Term Incentive Plan rules, awards lapse on an employee leaving the Group.

Key individuals are invited to participate in a bonus matching scheme where matching LTIP share awards are granted when the employee invests their bonus in Xaar shares and retains ownership of these shares for the duration of the LTIP share award vesting period. The matching share award is a 1:1 match on the pre-tax value of the bonus used to acquire bonus investment shares. Matching LTIP share awards are subject to the same performance criteria as all other LTIP awards.

Financial Statements continued

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

32. Share-based payments continued

Long Term Incentive Plan continued

	2015	2014
Awards outstanding at start of year	**1,406,486**	1,441,820
Granted during the year	**717,000**	282,134
Lapsed during the year	**(180,628)**	(34,309)
Exercised during the year	**(399,513)**	(283,159)
Awards outstanding at end of year	**1,543,345**	1,406,486
Exercisable at the end of the year	**240,923**	90,852

In 2015, Performance Share Awards were made on 2 April, 28 September and 7 December. The aggregate of the estimated fair values of grants made on those dates is £2.9 million. In 2014, Performance Share Awards were made on 2 April and 12 May. The aggregate of the estimated fair values of grants made on those dates is £2.5 million.

The estimated fair values for 2010 grants onwards were calculated using the Black-Scholes model, whereas the estimated fair value of 2009 grants were calculated using a stochastic (Monte-Carlo binomial) model. The inputs into the Black-Scholes model are as follows:

	2015	2014
Weighted average exercise price	**£nil**	£nil
Weighted average expected volatility	**56%**	43%
Weighted average expected life	**7 years**	7 years
Weighted average expected dividend yield	**0.54%**	0.26%

The Group recognised total expenses of £1,290,000 and £1,106,000 related to all equity-settled share-based payment transactions in 2015 and 2014, respectively.

33. Retirement benefit schemes

Defined contribution schemes

The UK-based employees of the Group's UK companies have the option to be members of a defined contribution pension scheme managed by a third party pension provider. For each employee who is a member of the scheme the Company will contribute a fixed percentage of each employee's salary to the scheme. The only obligation of the Group with respect to this scheme is to make the specified contributions.

The employees of the Group's subsidiaries in Sweden are members of a state managed retirement benefit scheme operated by the Government of Sweden. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the income statement in respect of these schemes during 2015 was £1,589,000 (2014: £1,642,000). As at 31 December 2015 contributions of £164,000 (2014: £140,000) due in respect of the current reporting period had not been paid over to the schemes.

34. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration report on page 50.

	2015 £'000	2014 £'000
Short term employee benefits	**2,557**	1,252
Post-employment benefits	**114**	98
Share-based payments	**364**	71
	3,035	1,421

Company balance sheet

as at 31 December 2015

	Notes	2015 £'000	2014 £'000
Fixed assets			
Investments in subsidiaries	3	**4,445**	4,445
Held-to maturity investments	3	**–**	1,000
		4,445	5,445
Current assets			
Held-to maturity investments	3	**1,000**	–
Debtors – due within one year	4	**92,082**	82,791
Debtors – due after one year	4	**127**	213
Treasury deposits		**27,122**	16,000
Cash at bank and in hand		**1**	21
		120,332	99,025
Creditors: amounts falling due within one year	5	**(58,749)**	(32,640)
Net current assets		**61,583**	66,385
Total assets less current liabilities		**66,028**	71,830
Net assets		**66,028**	71,830
Capital and reserves			
Called up share capital	7	**7,764**	7,664
Share premium account	7	**27,585**	26,345
Other reserves		**25,333**	25,333
Own shares		**(3,776)**	(3,776)
Share-based payment reserve		**2,393**	2,173
Profit and loss account		**6,729**	14,091
Equity shareholders' funds		**66,028**	71,830

The financial statements of Xaar plc, registered number 3320972, were approved by the Board of Directors and authorised for issue on 16 March 2016. They were and signed on its behalf by:

Doug Edwards
Chief Executive Officer

Alex Bevis
Chief Financial Officer and Company Secretary

16 March 2016

Financial Statements continued

Company statement of changes in equity

for the year ended 31 December 2015

	Notes	Called up share capital £'000	Share premium account £'000	Other reserves £'000	Own shares £'000	Share-based payments £'000	Profit and loss account £'000	Total £'000
At 1 January 2014 as previously stated		7,589	25,484	25,333	(4,046)	2,047	8,462	64,869
Effect of restatement due to change in accounting framework (see note 10)		–	–	–	–	–	919	919
At 1 January 2014 as restated		7,589	25,484	25,333	(4,046)	2,047	9,381	65,788
New shares issued		75	861	–	–	–	(28)	908
Own shares sold in the period		–	–	–	270	–	(9)	261
Dividends paid	6	–	–	–	–	–	(6,377)	(6,377)
Deferred tax on share based payments		–	–	–	–	–	(647)	(647)
Profit for the financial year		–	–	–	–	–	11,771	11,771
Credit to equity for share-based payments		–	–	–	–	126	–	126
At 1 January 2015		7,664	26,345	25,333	(3,776)	2,173	14,091	71,830
New shares issued		100	1,240	–	–	–	(40)	1,300
Dividends paid	6	–	–	–	–	–	(6,925)	(6,925)
Deferred tax on share based payments		–	–	–	–	–	(38)	(38)
Loss for the financial year		–	–	–	–	–	(359)	(359)
Credit to equity for share-based payments		–	–	–	–	220	–	220
At 31 December 2015		**7,764**	**27,585**	**25,333**	**(3,776)**	**2,393**	**6,729**	**66,028**

The share premium account and other reserves are non-distributable.

Notes to the Company financial statements

for the year ended 31 December 2015

1. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015 the Company has decided to adopt FRS 101 and has undergone transition from reporting under UK GAAP to FRS 101 as issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. This transition is not considered to have had a material effect on the financial statements. The results of Xaar plc are included in the consolidated financial statements of Xaar plc.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements of Xaar plc.

The financial statements have been prepared under the historical cost convention except for the re measurement of certain financial instruments to fair value.

The principal accounting policies adopted are the same as those set out In note 3 of the consolidated financial statements except as noted below. They have all been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Bonds with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments and are measured at amortised cost using effective interest method less any impairment.

2. Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. Xaar plc reported a loss for the financial year ended 31 December 2015 of £359,000 (2014: profit of £11,771,000, which includes a dividend received from XaarJet Limited of £20,500,000).

The average number of employees throughout 2015 was 35 (2014: 35). Staff costs amounted to £2.5 million (2015: £1.4 million). Information about the remuneration of Directors is provided in the audited part of the Directors' Remuneration report on page 43 of the consolidated financial statements. For the remuneration of key management personnel of the Company see note 34 of the consolidated financial statements.

The audit fee for the audit of the Company's annual financial statements in 2015 was £22,000 (2014: £22,000).

3. Fixed asset investments

	2015 £'000	2014 £'000
Subsidiary undertakings		
At beginning of the year	**4,445**	12,445
Additions in the year	**–**	936
Impairment loss in the year	**–**	(8,936)
At end of the year	**4,445**	4,445
Held-to-maturity investments		
At beginning and end of the year	**1,000**	1,000

The investment held in Xaar Group AB was fully impaired in 2014.

Financial Statements continued

Notes to the Company financial statements continued

for the year ended 31 December 2015

3. Fixed asset investments continued

The recoverable amount of each investment is determined from a value-in-use calculation. The key assumptions to which the value-in-use calculation is most sensitive are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period.

The Company prepares cash flow forecasts derived from the most recent financial forecasts reviewed by management for the next three years and these have been used in the value-in-use calculation. The discount rate applied to the cash flow projections is 9% (2014: 10%) and reflects management's estimate of return on capital employed.

Held-to-maturity investments represent investment in bonds returning interest at 3% per annum, which mature on 22 November 2018. There is an option to receive any or all of the bonds on the 3rd (21 November 2016) or 4th (21 November 2017) anniversary of the issue without penalty upon giving six months' notice to or from bondholders. Therefore, for the year ended 31 December 2015, the investment is included in current assets.

4. Debtors

	2015 £'000	2014 £'000
Amounts receivable within one year		
Amounts owed by Group undertakings	**92,055**	82,659
Prepayments and accrued income	**27**	132
	92,082	82,791
Amounts receivable after more than one year		
Deferred tax asset	**127**	213
	92,209	83,004

The deferred tax asset recognised relates to share-based payments as at 31 December 2015 and 31 December 2014. The Finance (No. 2) Act 2015, which provides for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017, and a reduction in the main rate of corporation tax to 18% effective from 1 April 2020, was substantively enacted on 18 November 2015. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

5. Creditors

	2015 £'000	2014 £'000
Amounts falling due within one year		
Amounts owed to Group undertakings	**58,490**	32,275
Accruals	**259**	365
	58,749	32,640

For additional disclosures relating to financial liabilities, see note 23 to the consolidated financial statements.

6. Dividends

	2015 £'000	2014 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2014 of 6.0p (2013: 5.5p) per share	**4,535**	4,124
Interim dividend for the year ended 31 December 2015 of 3.15p (2014: 3.0p) per share	**2,390**	2,253
Total distributions to equity holders in the period	**6,925**	6,377
Proposed final dividend for the year ended 31 December 2015 of 6.3p (2014: 6.0p) per share	**4,891**	4,599

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

7. Share capital and share premium account

Full details of movements in share capital and the share option schemes, and share premium are given in notes 25 and 26 to the consolidated financial statements.

8. Share-based payments

Equity-settled share option scheme

The Company's share option schemes are open to all employees of the Company. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. The vesting criteria of these options are disclosed in note 32 to the consolidated financial statements. If the options remain unexercised after a period of ten years from the date of grant, 42 months in the case of the Share Save Scheme, or five years in the case of the Share Incentive Plan, the options expire. Save as permitted in the share option scheme rules, options lapse on an employee leaving the Company.

The weighted average share price at the date of exercise for share options exercised during the period was £4.58 (2014: £8.20). The options outstanding at 31 December 2015 had a weighted average remaining contractual life of five years (2014: five years), and a range of exercise prices between 0 pence and 616 pence (2014: 0 pence and 616 pence).

The performance conditions relating to the above share options and the exercise prices of options outstanding at the year-end are given in note 32 to the consolidated financial statements.

Long Term Incentive Plan

The Company's Long Term Incentive Plan is open to all employees of the Company. Vesting of Performance Share Awards made under this scheme is conditional upon the achievement of performance conditions. Full details of the performance conditions are shown in note 32 of the consolidated financial statements. All awards made under this scheme are exercisable within three to ten years after the date of grant. Save as permitted in the Long Term Incentive Plan rules, awards lapse on an employee leaving the Company.

9. Subsidiary undertakings

The following entities are wholly owned subsidiary undertakings of the Company:

Name	Country of incorporation	Principal activity	Issued and fully paid up share capital	Proportion of ordinary share capital held by the Company
Xaar Technology Limited	England	Research and development	4,445,322 ordinary shares of £1 each	100%
XaarJet Limited	England	Manufacturing, research and development and sales and marketing	2 ordinary shares of £1 each	100%
XaarJet (Overseas) Limited	England	Sales and marketing	1 ordinary £1 share	100%
Xaar Trustee Limited[1]	England	Trustee	2 ordinary shares of £1 each	100%
Xaar Digital Limited	England	Treasury	1 ordinary £1 share	100%
Xaar Group AB	Sweden	Holding company	1,137,000 ordinary shares of SEK 0.09 each	100%
XaarJet AB[2]	Sweden	Manufacturing	1,000 ordinary shares of SEK 100 each	100%
Xaar Americas Inc.	USA	Sales and marketing	10,000 shares of common stock US$1 each	100%

1 Xaar Trustee Limited shares are held by Xaar Technology Limited.
2 XaarJet AB shares are held by Xaar Group AB.

10. Transition to FRS 101 and IFRSs

For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

Financial Statements continued

Notes to the Company financial statements continued

for the year ended 31 December 2015

10. Transition to FRS 101 and IFRSs continued

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1 'First time adoption of International Financial Reporting Standards'.

Exemptions Applied

IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRSs as effective for December 2013 year ends retrospectively. The Company has taken advantage of the following exemptions:

IFRS 2 Share based payment has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005. This is treatment is consistent with the transitional provisions taken when the Company adopted FRS 20, the UK equivalent standard.

The July 2015 amendments to FRS 101 have been early adopted in relation to the exemption from presenting a statement of financial position and related notes as at the date of transition.

Restatement of equity from UK GAAP to FRS 101

	Notes	31 December 2013 as previously stated £'000	31 December 2013 effect of transition £'000	31 December 2013 FRS 101 (as restated) £'000	31 December 2014 as previously stated £'000	31 December 2014 effect of transition £'000	31 December 2014 FRS 101 (as restated) £'000
Fixed assets							
Investments in subsidiaries		12,445	–	12,445	4,445	–	4,445
Held-to-maturity investments		1,000	–	1,000	1,000	–	1,000
		13,445	–	13,445	5,445	–	5,445
Current assets							
Debtors – due within one year		65,886	–	65,886	82,791	–	82,791
Debtors – due after one year	1	173	919	1,092	135	78	213
Treasury deposits	2	–	21,000	21,000	–	16,000	16,000
Cash at bank and in hand	2	21,018	(21,000)	18	16,021	(16,000)	21
		87,077	919	87,996	98,947	78	99,025
Creditors: amounts falling due within one year		(35,653)	–	(35,653)	(32,640)	–	(32,640)
Net current assets		51,424	919	52,343	66,307	78	66,385
Total assets less current liabilities		64,869	919	65,788	71,752	78	71,830
Net assets		64,869	919	65,788	71,752	78	71,830
Capital and reserves		**64,869**	**919**	**65,788**	**71,752**	**78**	**71,830**

1. Deferred tax

Because IFRSs defines deferred tax in relation to temporary differences between carrying values and their related tax bases, rather than timing differences in the income statement, adjustments are required to recognise items for which no deferred tax was recognised under UK GAAP. As such, an increase to the deferred tax asset relating to share based payments has been recognised.

2. Treasury deposits

IAS 7 defines cash equivalents as held for the purpose of meeting short-term cash commitments rather than for investment or other purposes, and for an investment to qualify as a cash equivalent it must be readily convertible. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity from the date of acquisition. Treasury deposits comprise bank deposits with an original maturity of between three months and twelve months, therefore have been reclassified on the face of the balance sheet.

Five year record

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Summarised consolidated results					
Results					
Adjusted revenue	**93,472**	109,150	134,134	86,304	68,706
Adjusted gross profit	**44,690**	48,602	71,020	40,948	30,379
Adjusted profit before tax	**20,819**	24,610	41,118	18,386	10,566
Adjusted profit after tax	**19,024**	20,229	33,102	14,964	7,922
Adjusted diluted earnings per share	**24.5p**	26.4p	43.2p	20.1p	10.7p
Adjusted basic earnings per share excluding the impact of IAS 38	**17.0p**	17.2p	44.9p	20.7p	11.2p
Dividends pence per share	**9.45p**	9.0p	8.0p	4.0p	3.0p
Assets employed					
Net cash*	**69,747**	46,963	53,485	28,853	17,403

* Net cash is made up of cash and cash equivalents, treasury deposits less borrowings.

Financial Statements continued

Notice of the Annual General Meeting

Notice is hereby given that the nineteenth Annual General Meeting ('AGM') of Xaar plc (the 'Company') will be held at 296 Science Park, Cambridge, CB4 0WD on Wednesday 18 May 2016 at 9:30 am for the following purposes:

Ordinary business

To consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive the Company's annual financial statements for the financial year ended 31 December 2015.
2. To reappoint Deloitte LLP as auditor to hold office from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which financial statements are laid.
3. To authorise the Directors to determine the remuneration of the auditors.
4. To declare a final dividend for the financial year ended 31 December 2015 of 6.3 pence per ordinary share.
5. To re-elect Alex Bevis as a Director.
6. To re-elect Doug Edwards as a Director.
7. To re-elect Phil Lawler as a Director.
8. To re-elect Ted Wiggans as a Director.
9. To re-elect Robin Williams as a Director.
10. To re-elect Margaret Rice-Jones as a Director.
11. To re-elect Chris Morgan as a Director.
12. To approve the Directors' Remuneration report (excluding the Directors' remuneration policy set out on pages 58 to 62 of the Annual Report) for the year ended 31 December 2015.

Special business

To consider and, if thought fit, pass the following resolutions which will be proposed in the case of Resolutions 16 and 18 as Special Resolutions and in the case of Resolutions 13, 14, 15 and 17 as Ordinary Resolutions:

13. To approve the Directors' Remuneration policy, the full text of which is contained in the Directors remuneration report for the year ended 31 December 2015, as set out on pages 58 to 62 of the Annual Report, which will take effect at the conclusion of this meeting.
14. To approve an amendment to article 86 of the Company's articles of association, so as to increase the aggregate fees capable of being paid to directors to an amount not exceeding £300,000 per annum in aggregate from its previous limit of an amount not exceeding £200,000 per annum.
15. To approve proposed amendments to the 2007 Xaar plc Long Term Incentive Plan rules: to increase the limit on the market value of the shares that may be granted under performance share award to an employee in a financial year from 100% to 175% of base salary in such financial year, and to give the Remuneration Committee the ability to flex the weighting of EPS and TSR measures in performance conditions applicable to awards in the event of early vesting as a result of a change of control, as set out in the amended rules available for inspection.
16. That the Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the 'Act') to make one or more market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10p in the capital of the Company (ordinary shares) provided that:
    - The maximum aggregate number of ordinary shares authorised to be purchased is 11,575,933 (representing 14.9% of the issued ordinary share capital)
    - The minimum price (excluding expenses) which may be paid for an ordinary share is the par value of the shares
    - The maximum price (excluding expenses) which may be paid for an ordinary share is an amount equal to the higher of (i) 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased, and (ii) the amount stipulated by article 5(1) of the Buy-back and Stabilisation Regulation 2003
    - This authority shall expire at the conclusion of the next Annual General Meeting of the Company, or, if earlier, at the close of business on 18 August 2017 unless renewed before that time
    - The Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract
17. That, in substitution for all existing authorities including the authority conferred on the Directors by Article 4 (B) of the Company's Articles of Association, in accordance with section 551 of the Act the Directors be and they are generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (within the meaning of section 560 of the Act), or grant rights to subscribe for, or convert any security into, shares in the Company:

    (a) up to an aggregate nominal amount of £5,179,388.40 (such amount to be reduced by the nominal amount of any equity securities allotted pursuant to the authority in Resolution 17(b)) in connection with a rights issue (as defined in the Listing Rules issued by the Financial Conduct Authority pursuant to Part VI of the Financial Services and Markets Act 2000), to holders of equity securities, in proportion to their respective entitlements to such equity securities, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

Special business continued

17. (b) otherwise up to an aggregate nominal amount of £2,589,694.30 (such amount to be reduced by the nominal amount of any equity securities allotted pursuant to the authority in Resolution 17(a)),

    provided that this authority shall expire on the conclusion of the Company's Annual General Meeting in 2017, or, if earlier, at the close of business on 18 August 2017, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot such equity securities in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

18. Subject to the passing of Resolution 17 of the notice of meeting, that, in substitution for all existing authorities, including the authority conferred on the Directors by Article 4(c) of the Company's Articles of Association:
    (a) the Directors be and they are empowered pursuant to section 570 of the Act to allot equity securities pursuant to the authority conferred by Resolution 17(a) as if section 561 of the Act did not apply to any such allotment, provided that this authority shall be limited to the allotment of equity securities in connection with a rights issue (as defined in the Listing Rules issued by the Financial Conduct Authority pursuant to Part VI of the Financial Services and Markets Act 2000) but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and
    (b) the Directors be and they are empowered pursuant to section 570 of the Act to allot equity securities for cash pursuant to the authority conferred by Resolution 17(b) as if section 561 of the Act did not apply to any such allotment, provided that this authority shall be limited to the allotment of equity securities (otherwise than in connection with any rights issue (as defined in the Listing Rules issued by the Financial Conduct Authority pursuant to Part VI of the Financial Services and Markets Act 2000)) having an aggregate nominal value of up to £388,454.10,

    provided that this authority shall expire on the conclusion of the Company's Annual General Meeting in 2017, or, if earlier, at the close of business on 18 August 2017, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

By order of the Board

Alex Bevis
Company Secretary

16 March 2016

Notes

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a show of hands or on a poll, vote instead of him. Where more than one proxy is appointed, each proxy must be appointed to exercise the rights attached to a different share or shares held by the appointing shareholder. The proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the office of the Company's registrars not less than 48 hours before the time for holding the meeting or adjourned meeting. A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude ordinary shareholders from attending and voting in person.
3. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
4. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
5. In accordance with Regulation 41 of the Uncertified Securities Regulations 2001, the Company specifies that only those members entered on the register of members of the Company as at 9:30 am on 16 May 2016 (or in the event the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 9:30 am on 16 May 2016 (or in the event the meeting is adjourned, on the register of members less than 48 hours before the time of any adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Financial Statements continued

Notice of the Annual General Meeting continued

Notes continued

6. A copy of the Xaar plc 2007 Long Term Incentive Plan, including the proposed amendments, are available for inspection at the Company's registered office from the date of this Notice until the commencement of the meeting. Copies of Directors' service agreements, the terms of appointment of Non-Executive Directors, the register of Directors' interests kept by the Company under section 808 of the Companies Act 2006, the Xaar plc 2004 Share Option Plan, the Xaar plc 2007 Share Save Plan, the Xaar plc 2007 Long Term Incentive Plan, including the proposed amendments, and the Xaar Share Incentive Plan will be available 15 minutes prior to the commencement of the meeting and will remain open and accessible during the continuance of the meeting to any person attending the meeting.
7. Biographical details of all Directors offering themselves for re-appointment are set out on pages 30 and 31 of the Annual Report and Financial Statements.
8. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
9. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that: (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to in the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (i) above.
10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
11. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 9:30 am on 16 May 2016. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
12. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
13. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
14. As at 7:00 am on 16 March 2016 (the date of publication of this Notice), the Company's issued share capital comprised 77,690,827 ordinary shares of 10p each. Each ordinary share carries the right to one vote at a general meeting of the Company, except for the shares held in trust for the Xaar Share Incentive Plan totalling 87,639 shares and, therefore, the total number of voting rights in the Company as 7:00 am on 16 March 2016 is 77,603,188.
15. Any member attending the meeting has the right to ask questions. The Company must answer any such question relating to the business being dealt with at the meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
16. A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found at www.xaar.com.

Advisors

Registered office
316 Science Park
Cambridge CB4 0XR

Registered number
3320972

Company Secretary
Alex Bevis

Brokers
Jefferies International Limited
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

N+1 Singer
One Bartholomew Lane
London EC2N 2AX

Registered auditor
Deloitte LLP
City House
126–130 Hills Road
Cambridge CB2 1RY

Solicitors
Mills & Reeve LLP
Botanic House
100 Hills Road
Cambridge CB2 1PH

Bankers
Barclays Bank plc
9–11 St Andrews Street
Cambridge CB2 3AA

HSBC Bank plc
Vitrum
St John's Innovation Park
Cowley Road
Cambridge CB4 0DS

Registrars
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

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Xaar plc
316 Science Park
Cambridge CB4 0XR

T +44 (0) 1223 423663
F +44 (0) 1223 423590
E info@xaar.com
www.xaar.com