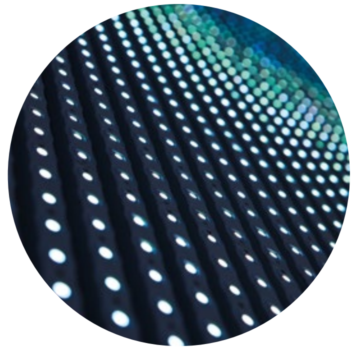
XAAR®
CELEBRATING 25 years OF INKJET INNOVATION

Leading the digital inkjet revolution

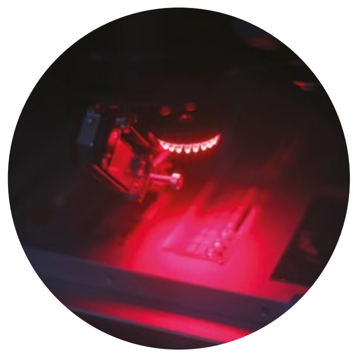
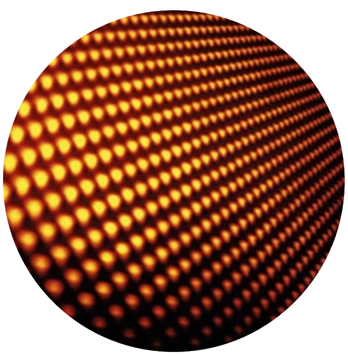
Xaar plc Interim Report 2016









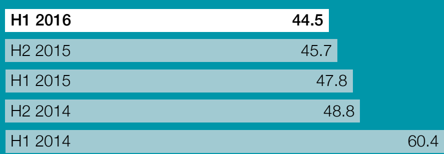

Welcome to Xaar plc

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

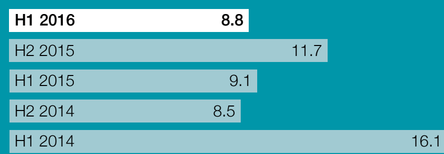
Inside this report

Highlights

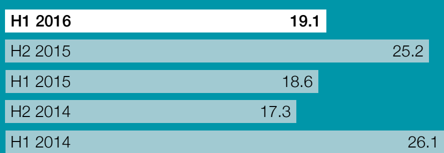
Revenue £m
£44.5m



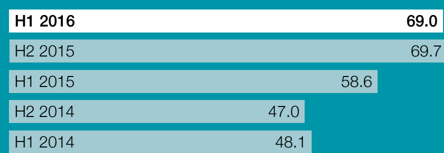
Adjusted profit before tax £m
£8.8m



Adjusted operating margin %
19.1%



Net cash balance £m
£69.0m



Adjusted measures exclude items from the IFRS results, including share-based payment charges, exchange differences relating to Swedish operations, unrealised gains/losses on derivative financial instruments, research and development expenditure credit, and restructuring costs, per the reconciliation of adjusted financial measures on page 10. Net cash includes cash and cash equivalents and treasury deposits.

Financial highlights

- Revenue in the first half of the year in-line with the Board's expectations at £44.5 million
- Sales by application were consistent with the second half of 2015 (£45.7 million) after allowing for the expected impact of Chinese New Year
- Profitability consistent with the first half of 2015; gross margin of 45% (H1 2015: 45%) and adjusted operating profit margin of 19% (H1 2015: 19%)
- Net cash on 30 June 2016 of £69.0 million (31 December 2015: £69.7 million), before the acquisition of Engineered Printing Solutions on 1 July 2016
- Interim dividend up 5% to 3.3 pence per share (2015: 3.15 pence per share)

Operational and strategic highlights

- Announcement of Xaar's strategic vision to achieve £220 million of annual sales by 2020
- The new Xaar 1003 family of printheads, launched in March 2016, sets a new benchmark for industrial inkjet printing
- The new Thin Film piezo Silicon MEMS 5601 (also known as P4) family of printheads launched at drupa in June 2016 with over 60 demonstrations to potential customers
- Announcement of a strategic partnership with the global technology company Ricoh, to capitalise on each company's considerable expertise in Thin Film piezo printhead development. Launch of the Xaar 1201 GS2p5, the first product which has benefited from this partnership
- Acquisition of Engineered Printing Solutions ("EPS") on 1 July 2016, a leading provider of product printing equipment in North America; Xaar's first acquisition as part of the Company's strategic vision
- The planned closure of the Swedish plant remains on track; all manufacturing completed by 30 June 2016

Chairman's statement

Strategic vision, focus and delivery

During the first half of 2016 we continued our transition to a more externally focused and market led business, whilst delivering financial results in-line with expectations.

Phil Lawler
Chairman

24 August 2016

During the first half of 2016 we continued our transition to a more externally focused and market led business, whilst delivering financial results in-line with expectations. We announced our strategic vision to grow annual sales to £220 million by 2020, successfully launched major new products, announced a strategic partnership with Ricoh and completed our first acquisition, whilst continuing to run an efficient manufacturing operation in Huntingdon and closing our Swedish facility. I would like to thank all of our staff for their continued hard work and dedication as we work together towards our 2020 vision.

Results and business commentary

Revenue for the six months ended 30 June 2016 was £44.5 million (H1 2015: £47.8 million; H2 2015: £45.7 million). Product sales were £38.4 million (H1 2015: £45.0 million; H2 2015: £42.3 million) with the remaining £6.1 million made up of licensee royalty revenue (H1 2015: £2.8 million; H2 2015: £3.4 million) which included a one-off contractual payment arrangement in H1 2016.

The geographic split of our revenue based on the location of our customers (and not necessarily end users) was consistent with the first six months of last year, with EMEA accounting for 51%, Asia 42% and the Americas 7%.

Analysing revenue by market segment, the share from Industrial reduced to 59% (H1 2015: 70%), Packaging and Product Printing increased to 19% (H1 2015: 15%), Graphic Arts was slightly lower at 8% (H1 2015: 9%), and licensee royalty revenue was higher at 14% (H1 2015: 6%) due to the one-off contractual payment arrangement referred to above.

Ceramic tile printing continues to provide the majority of the revenue within the Industrial segment. Although sales volumes into this application have been broadly consistent over the last 18 months, this is an increasingly competitive global market and pricing has inevitably come under pressure. We remain the market leader, with the Xaar 1003 printhead launched earlier this year proving to be popular.

Our portfolio will be significantly strengthened with a new product which will launch at Tecnargilla, a leading technology exhibition for the ceramics industry, in the last week of September.

Revenue from Packaging and Product Printing increased by 18% compared to the first six months of 2015. All sub-segments provided growth, including coding and marking, labels, and direct-to-shape. The majority of revenue from the newly acquired EPS business, which will contribute to Group sales from 1 July 2016, is expected to fall into this segment.

As expected, sales into Graphic Arts in the first half of 2016 were lower than the same period for 2015. The reduction relates to both product maturity and the phasing of sales related to the planned closure of the Swedish manufacturing facility. In June we launched the Xaar 1201, a new product targeted at the wide-format graphics sector, which is expected to contribute to revenue this year.

Profitability in the first half of 2016 was consistent with the first six months of 2015; gross margin was 45% and adjusted operating margin was 19%.

We continue to invest a substantial amount in research and development to deliver our long term strategy; 25% of revenue in H1 2016 before capitalisation of development costs. Gross expenditure (before capitalisation) on R&D was £11.2 million in H1 2016 (H1 2015: £10.2 million). Development expenditure on the Thin Film programme (also known as P4) of £4.9 million was capitalised in H1 2016 (H1 2015: £3.9 million) as required under International Financial Reporting Standards (specifically IAS 38). Costs capitalised to date (from January 2014) total £20.6 million. As noted in March 2016, we are targeting the completion of the development of the Thin Film technology platform in 2016. As we transition from technology development to multiple product developments at the end of this year we do not expect to be capitalising the ongoing development costs associated with this major programme in 2017.

In June 2016 at drupa, the world's largest industrial printing exhibition, we were delighted to announce two products which resulted from our significant investment in Thin Film technology.

The first product announced was the Xaar 5601, a family of printheads utilising Thin Film piezo silicon MEMS technology and targeted at a range of applications, which was demonstrated at the exhibition with over 60 successful demonstrations to potential customers.

The second product announced, the Xaar 1201 GS2p5, is the first product arising from a strategic partnership with the global technology company Ricoh, to capitalise on each company's considerable expertise in Thin Film piezo printhead development. Xucheng, a Xaar OEM based in China, has already launched a wide-format graphics printer incorporating this new printhead.

Adjusted profit before tax for the period was £8.8 million (H1 2015: £9.1 million). Profit before tax as reported under IFRS was £7.7 million (H1 2015: £3.7 million). The main reconciling items between the two measures of profit are restructuring costs (H1 2016: £0.6 million, H1 2015: £4.8 million) and share related charges (H1 2016: £0.7 million, H1 2015: £0.8 million). The restructuring costs relate to acquisition related expenses and the closure of our Swedish manufacturing facility, which we announced in H1 2015. We have now successfully completed the final production quantities of all products manufactured in Sweden and the facility will close before the end of this year. Sufficient inventory has been built to satisfy current demand for legacy products and to support customers progressing onto new Xaar products.

On 1 July 2016 Xaar completed the acquisition of Engineered Printing Solutions ("EPS"), a leading provider of product printing equipment in North America. This is our first acquisition as part of the Company's strategic vision to achieve £220 million of annual sales by 2020.

EPS has built a successful business through supplying customised and bespoke printing solutions to a wide variety of market sectors including promotional, packaging, medical, automotive, apparel, appliances, sports equipment and toys. One of its focuses has been to develop flexible and cost effective digital inkjet solutions. The expertise of EPS will allow Xaar to accelerate the adoption of inkjet in the product print market and provide a strategic platform for expanding Xaar's footprint in North America. The integration capabilities EPS brings to Xaar will enable us to provide greater support to our existing and new OEM partners.

In 2015 EPS generated a 5% operating profit margin on $14 million of revenue. Initial consideration for the acquisition was $11 million with deferred consideration of $7.5 million based on revenue and profit performance over a 3 year period.

At 30 June 2016, before the acquisition of EPS, Xaar's net cash position was £69.0 million (31 December 2015: £69.7 million).

EU referendum

The result of the EU referendum provides a number of challenges and opportunities for Xaar. The greatest challenge is the likely prolonged period of uncertainty concerning EU workers and migration; one in seven of our current workforce have migrated from the EU and the continued recruitment of world-class talent is critical to our success in a technical and specialised industry. Another challenge for us is free trade into the EU; around half of our sales are to customers located in EU countries and so any actual or perceived barriers to free trade are an obvious area of concern for us. On the positive side, the recent devaluation of sterling provides a significant competitive benefit to us since over 95% of our production is exported world-wide, with the majority being denominated in sterling.

Outlook

We have set out our vision to grow annual sales to £220 million by 2020 supported by four strategic pillars: ceramics, packaging and product printing, Thin Film, and partnerships and acquisitions. In the shorter term, despite increased competition in the ceramic tile sector, the Board anticipates revenue growth in the second half of 2016 compared to the first six months of year, before the addition of the newly acquired EPS business which contributes from 1 July 2016.

Dividend

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

The Board has declared a 2016 interim dividend of 3.3 pence, a 5% increase over the 2015 interim dividend, which will be paid on 30 September 2016, with an ex-dividend date of 1 September 2016 to shareholders on the register at close of business on 2 September 2016.

Board

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

On 4 January 2016 Chris Morgan joined the Board as a Non-Executive Director. Chris brings with him a wealth of expertise in managing complex international technology businesses, having spent 25 years at HP, Inc.

On 16 March 2016 Jim Brault stepped down from the Board following a review of the Board structure. Jim continues in his role as Chief Human Resources Officer.

On 1 June 2016 Andrew Herbert joined the Board as a Non-Executive Director. Andrew has extensive experience in the global digital printing industry following a 30 year career with Domino Printing Sciences plc, working both in the UK and the US.

In September 2016 I will retire from the Board, having completed three terms of three years as Chairman. 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.

As confirmed in March 2016, 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.

Directors' responsibilities statement

We confirm that to the best of our knowledge:

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

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

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R:
   (i) related parties transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the Group in that period, and
   (ii) any changes in the related parties transactions described in the Annual Report 2015 that could have a material effect on the financial position or performance of the Group in the current period.

By order of the Board

Doug Edwards
Chief Executive Officer

Alex Bevis
Chief Financial Officer and Company Secretary

24 August 2016

Condensed consolidated income statement

for the six months ended 30 June 2016

	Notes	**Six months ended 30 June 2016 (unaudited) £'000**	Six months ended 30 June 2015 (unaudited) £'000	Twelve months ended 31 December 2015 (audited) £'000
Revenue	3	**44,516**	47,810	93,472
Cost of sales		**(24,617)**	(26,311)	(48,782)
Gross profit		**19,899**	21,499	44,690
Research and development expenses		**(6,268)**	(6,348)	(11,548)
Research and development expenditure credit		**326**	620	818
Sales and marketing expenses		**(3,166)**	(2,533)	(5,440)
General and administrative expenses		**(2,834)**	(4,882)	(9,254)
Restructuring costs		**(582)**	(4,783)	(6,120)
Operating profit		**7,375**	3,573	13,146
Investment income		**281**	171	426
Profit before tax		**7,656**	3,744	13,572
Tax	4	**(1,035)**	(25)	(1,043)
Profit for the period attributable to shareholders		**6,621**	3,719	12,529
Earnings per share				
Basic	5	**8.7p**	4.9p	16.6p
Diluted	5	**8.5p**	4.8p	16.1p

Dividends paid in the period amounted to £4,808,000 or 6.3 pence per share 2015 final dividend (six months to 30 June 2015: £4,535,000 or 6.0 pence per share 2014 final dividend; twelve months to 31 December 2015: £6,925,000 or 9.15 pence per share being 6.0 pence per share 2014 final dividend and 3.15 pence per share 2015 interim dividend).

Condensed consolidated statement of comprehensive income

for the six months ended 30 June 2016

	Six months ended 30 June 2016 (unaudited) £'000	Six months ended 30 June 2015 (unaudited) £'000	Twelve months ended 31 December 2015 (audited) £'000
Profit for the period attributable to shareholders	**6,621**	3,719	12,529
Exchange differences on retranslation of net investment	**284**	(126)	(27)
Other comprehensive income for the period	**284**	(126)	(27)
Total comprehensive income for the period	**6,905**	3,593	12,502

Condensed consolidated statement of financial position

as at 30 June 2016

	As at 30 June 2016 (unaudited) £'000	As at 31 December 2015 (audited) £'000
Non-current assets		
Other intangible assets	**22,277**	17,795
Property, plant and equipment	**33,208**	31,255
	55,485	49,050
Current assets		
Investments	**1,000**	1,000
Inventories	**11,515**	13,458
Trade and other receivables	**12,260**	11,947
Current tax asset	**2,518**	2,805
Treasury deposits	**20,150**	27,098
Cash and cash equivalents	**48,837**	42,649
	96,280	98,957
Total assets	**151,765**	148,007
Current liabilities		
Trade and other payables	**(13,599)**	(12,405)
Other financial liabilities	**(68)**	(68)
Provisions	**(2,476)**	(3,533)
	(16,143)	(16,006)
Net current assets	**80,137**	82,951
Non-current liabilities		
Deferred tax liabilities	**(1,499)**	(1,222)
Other financial liabilities	**(207)**	(241)
Total non-current liabilities	**(1,706)**	(1,463)
Total liabilities	**(17,849)**	(17,469)
Net assets	**133,916**	130,538
Equity		
Share capital	**7,775**	7,764
Share premium	**27,792**	27,585
Own shares	**(3,642)**	(3,796)
Other reserves	**11,660**	11,006
Translation reserve	**383**	99
Retained earnings	**89,948**	87,880
Equity attributable to shareholders	**133,916**	130,538
Total equity	**133,916**	130,538

Condensed consolidated statement of changes in equity

for the six months ended 30 June 2016

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2015	7,664	26,345	(3,796)	9,716	126	82,105	122,160
Profit for the period	–	–	–	–	–	3,719	3,719
Exchange differences on retranslation of net investment	–	–	–	–	(126)	–	(126)
Total comprehensive income for the period	–	–	–	–	(126)	3,719	3,593
Issue of share capital	49	606	–	–	–	(21)	634
Dividends (note 6)	–	–	–	–	–	(4,535)	(4,535)
Tax on share options	–	–	–	–	–	255	255
Credit to equity for equity-settled share-based payments	–	–	–	692	–	–	692
Balance at 30 June 2015	7,713	26,951	(3,796)	10,408	–	81,523	122,799
Balance at 1 January 2016	**7,764**	**27,585**	**(3,796)**	**11,006**	**99**	**87,880**	**130,538**
Profit for the period	–	–	–	–	–	6,621	**6,621**
Exchange differences on retranslation of net investment	–	–	–	–	284	–	**284**
Total comprehensive income for the period	–	–	–	–	**284**	**6,621**	**6,905**
Issue of share capital	11	207	–	–	–	(2)	**216**
Own shares sold in the period	–	–	154	–	–	(17)	**137**
Dividends (note 6)	–	–	–	–	–	(4,808)	**(4,808)**
Tax on share options	–	–	–	–	–	274	**274**
Credit to equity for equity-settled share-based payments	–	–	–	654	–	–	**654**
Balance at 30 June 2016	**7,775**	**27,792**	**(3,642)**	**11,660**	**383**	**89,948**	**133,916**

Condensed consolidated cash flow statement

for the six months ended 30 June 2016

	Notes	**Six months ended 30 June 2016 (unaudited) £'000**	Six months ended 30 June 2015 (unaudited) £'000	Twelve months ended 31 December 2015 (audited) £'000
Net cash from operating activities	8	**12,134**	21,032	40,384
Investing activities				
Investment income		**270**	232	531
Purchases of property, plant and equipment		**(5,065)**	(1,375)	(3,764)
Proceeds on disposal of property, plant and equipment		**12**	46	46
Expenditure on software		**(2)**	(107)	(187)
Expenditure on capitalised product development		**(4,902)**	(3,894)	(8,365)
Net cash used in investing activities		**(9,687)**	(5,098)	(11,739)
Financing activities				
Dividends paid	6	**(4,808)**	(4,535)	(6,925)
Movement in treasury deposits		**6,948**	(23)	(6,098)
Proceeds from the sale of ordinary share capital		**137**	–	–
Proceeds from issue of ordinary share capital		**216**	634	1,300
Net cash from/(used in) financing activities		**2,493**	(3,924)	(11,723)
Net increase in cash and cash equivalents		**4,940**	12,010	16,922
Effect of foreign exchange rate changes		**1,248**	(391)	(236)
Cash and cash equivalents at beginning of period		**42,649**	25,963	25,963
Cash and cash equivalents at end of period		**48,837**	37,582	42,649

Cash and cash equivalents (which are presented as a single class of asset on the face of the condensed consolidated statement of financial position) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

Notes to the interim financial information

for the six months ended 30 June 2016

1. Basis of preparation and accounting policies

Basis of preparation

These interim financial statements have been prepared in accordance with the accounting policies set out in the Group's Annual Report and Financial Statements 2015 on pages 80 to 86 and were approved by the Board of Directors on 24 August 2016. The interim financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The interim financial statements do not include all the information and disclosures in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

The financial information in these interim financial statements for the six months ended 30 June 2016, does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The Group's Annual Report for the year ended 31 December 2015 has been delivered to the Registrar of Companies and the auditor's report on those financial statements was not qualified and did not contain statements made under section 498(2) or (3) of the Companies Act 2006.

The interim financial statements are unaudited but have been reviewed by the auditor Deloitte LLP. The report of the auditor to the Group is set out on page 16.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

Risks and uncertainties

An outline of the key risks and uncertainties faced by the Group is detailed on pages 20 and 21 of the Xaar plc Annual Report and Financial Statements 2015 (available at www.xaar.com). It is anticipated that the risk profile will not significantly change for the remainder of the year. Risk is an inherent part of doing business and the strong cash position of the Group along with the underlying profitability of the core business leads the Directors to believe that the Group is well placed to manage business risks successfully.

Going concern

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

Notes to the interim financial information continued

for the six months ended 30 June 2016

2. Reconciliation of adjusted financial measures

	Six months ended 30 June 2016 (unaudited) £'000	Six months ended 30 June 2015 (unaudited) £'000	Twelve months ended 31 December 2015 (audited) £'000
Profit before tax	**7,656**	3,744	13,572
Share-based payment charges	**692**	838	1,498
Exchange differences relating to the Swedish operations	**199**	310	447
Restructuring costs	**582**	4,783	6,120
Research and development expenditure credit	**(326)**	(620)	(818)
Adjusted profit before tax	**8,803**	9,055	20,819

Share-based payment charges include an IFRS 2 charge for the period of £654,000 (H1 2015: £692,000) and the charge relating to National Insurance on outstanding potential share option gains of £38,000 (H1 2015: £146,000).

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.

Restructuring costs of £582,000 in H1 2016 (H1 2015: £4,783,000) relate to costs incurred and provisions made in relation to a reorganisation and the planned closure of the manufacturing facility in Sweden in 2016, and acquisition related expenses.

The research and development expenditure credit relates to the corporation tax relief receivable relating to qualifying research and development expenditure.

	Six months ended 30 June 2016 (unaudited) Pence per share	Six months ended 30 June 2015 (unaudited) Pence per share	Twelve months ended 31 December 2015 (audited) Pence per share
Diluted earnings per share	**8.5p**	4.8p	16.1p
Share-based payment charges	**0.9p**	1.1p	1.9p
Exchange differences relating to the Swedish operations	**0.3p**	0.4p	0.6p
Restructuring costs	**0.7p**	6.2p	7.9p
Tax effect of adjusting items	**(0.4p)**	(1.5p)	(2.0p)
Adjusted diluted earnings per share	**10.0p**	11.0p	24.5p

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

3. Business segments

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

Segment information is presented below:

	Six months ended 30 June 2016 (unaudited) £'000	Six months ended 30 June 2015 (unaudited) £'000	Twelve months ended 31 December 2015 (audited) £'000
Revenue			
Product sales, commissions and fees	**38,358**	44,960	87,271
Royalties	**6,158**	2,850	6,201
Total revenue	**44,516**	47,810	93,472
Result			
Product sales, commissions and fees	**1,909**	1,561	8,443
Royalties	**6,158**	2,850	6,201
Total segment result	**8,067**	4,411	14,644
Net unallocated corporate expense	**(692)**	(838)	(1,498)
Operating profit	**7,375**	3,573	13,146
Investment income	**281**	171	426
Profit before tax	**7,656**	3,744	13,572
Tax	**(1,035)**	(25)	(1,043)
Profit for the period attributable to shareholders	**6,621**	3,719	12,529

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

Assets in the 'product sales, commissions and fees' segment have decreased by £4,676,000 over the period and assets in the 'royalties' segment have decreased by £158,000 over the period; there have been no other material movements in segment assets during the period.

Notes to the interim financial information continued

for the six months ended 30 June 2016

4. Income tax

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

	Six months ended 30 June 2016 (unaudited) £'000	Six months ended 30 June 2015 (unaudited) £'000	Twelve months ended 31 December 2015 (audited) £'000
Current income tax			
Income tax charge/(credit)	**514**	(448)	564
Deferred income tax			
Relating to origination and reversal of temporary differences	**521**	473	479
Income tax expense	**1,035**	25	1,043

5. Earnings per ordinary share – basic and diluted

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

	Six months ended 30 June 2016 (unaudited) £'000	Six months ended 30 June 2015 (unaudited) £'000	Twelve months ended 31 December 2015 (audited) £'000
Earnings			
Earnings for the purposes of earnings per share being net profit attributable to equity holders of the parent	**6,621**	3,719	12,529
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**76,206,164**	75,313,623	75,572,550
Effect of dilutive potential ordinary shares:			
Share options	**1,686,525**	1,441,516	2,215,736
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**77,892,689**	76,755,139	77,788,286

6. Dividends

	Six months ended 30 June 2016 (unaudited) £'000	Six months ended 30 June 2015 (unaudited) £'000	Twelve months ended 31 December 2015 (audited) £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2015 of 6.3p (2014: 6.0p) per share	**4,808**	4,535	4,535
Interim dividend for the year ended 31 December 2015 of 3.15p	**–**	–	2,390
Total distributions to equity holders in the period	**4,808**	4,535	6,925

The interim dividend of 3.3 pence per share has been approved by the Board and will be paid on 30 September 2016 to shareholders on the register at close of business on 2 September 2016. The interim dividend has not been included as a liability at 30 June 2016.

7. Share capital

During the six months ended 30 June 2016 a total of 112,506 new ordinary shares of 10 pence each were issued under the Company's share option schemes for £219,200.

8. Notes to the cash flow statement

	Six months ended 30 June 2016 (unaudited) £'000	Six months ended 30 June 2015 (unaudited) £'000	Twelve months ended 31 December 2015 (audited) £'000
Profit before tax	**7,656**	3,744	13,572
Adjustments for:			
Share-based payments	**692**	838	1,498
Depreciation of property, plant and equipment	**3,789**	5,421	10,147
Amortisation of intangible assets	**395**	425	834
Impairment of goodwill	**–**	720	720
Research and development expenditure credit	**(326)**	(620)	(818)
Investment income	**(281)**	(171)	(426)
Foreign exchange (gains)/losses	**(928)**	383	149
Loss on disposal of property, plant and equipment	**1**	16	75
(Decrease)/increase in provisions	**(1,057)**	3,110	3,108
Operating cash flows before movements in working capital	**9,941**	13,866	28,859
Decrease in inventories	**2,000**	4,998	6,274
(Increase)/decrease in receivables	**(365)**	381	1,469
(Decrease)/increase in payables	**(155)**	1,112	2,405
Cash generated by operations	**11,421**	20,357	39,007
Income taxes refunded	**713**	675	1,377
Net cash from operating activities	**12,134**	21,032	40,384

Notes to the interim financial information continued

for the six months ended 30 June 2016

9. Acquisition of subsidiary

On 1 July 2016, the Group obtained control of Engineered Printing Solutions ("EPS") by acquiring 100% of its issued share capital. EPS, founded in 1985 as Pad Print Machinery of Vermont Inc, is a leading provider of product printing equipment in North America. EPS was acquired as part of the Company's strategic vision to achieve £220 million of annual sales by 2020.

Recognised amounts of identifiable assets acquired and liabilities assumed	£'000
Other intangible assets	182
Property, plant and equipment	1,136
Inventories	2,876
Trade and other receivables	939
Cash and cash equivalents	207
Trade and other payables	(2,335)
Current tax liability	(236)
Current financial liabilities	(501)
Deferred tax liability	(45)
Non-current financial liabilities	(243)
Total identifiable assets	**1,980**
Goodwill	6,133
Total consideration	**8,113**
Satisfied by:	
Cash	8,113
Total consideration transferred	**8,113**
Net cash outflow arising on acquisition	
Cash consideration	8,113
Less: cash and cash equivalents acquired	(207)
Total net cash outflow arising on acquisition	**7,906**

9. Acquisition of subsidiary continued

As at 24 August 2016, final acquisition accounting adjustments are yet to be made, these figures are provisional and therefore subject to change. Full and final acquisition accounting disclosures will be included in the annual report on this basis.

The fair value of the trade and other receivables includes trade receivables with a fair value of £674,000 and a gross contractual value of £712,000. The best estimate at acquisition date of the contractual cash flows not to be collected was £38,000.

The goodwill of £6,133,000 arising from the acquisition represents those characteristics and valuable attributes of the acquired business that cannot be quantified and attributed to separately identifiable assets in accounting terms. This goodwill is underpinned by a number of elements, the most significant of which is the well-established, skilled and experienced workforce, led by the founder Julian Joffe, which will allow Xaar to accelerate the adoption of inkjet in the product print market and provide a strategic platform for expanding Xaar's footprint in North America. None of the goodwill recognised is expected to be deductible for income tax purposes.

In addition to the total consideration, deferred consideration is due for the 3 year period between 1 July 2016 and 30 June 2019 based on revenue and profit performance over that time. The potential undiscounted amount of all future payments that the Company could be required to make under the deferred consideration arrangement is between $nil and $7,500,000.

Acquisition related costs (included in restructuring costs in the consolidated income statement for the period ended 30 June 2016) amounted to £387,000.

10. Date of approval of interim financial statements

The interim financial statements cover the period 1 January 2016 to 30 June 2016 and were approved by the Board on 24 August 2016.

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

Independent review report to Xaar plc

for the six months ended 30 June 2016

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes 1 to 10. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

24 August 2016

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CELEBRATING 25 years OF INKJET INNOVATION

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