XAAR®

Xaar plc
annual report and accounts 2010

Xaar plc is the world-leading independent supplier of industrial inkjet printheads.

We offer the widest product range to deliver industrial strength inkjet performance, which in turn provides our customers with the flexibility and choice required to address a diversity of applications.

Visit us online
View our website **www.xaar.com**

Review of the year

Highlights

- Return to profitable growth in 2010 reflects strong demand for Xaar's industrial inkjet technology and demonstrates its clear economic benefits to end users.
- Orders for Platform 3 ("P3") products, particularly from the ceramics industry, were higher than anticipated and beyond existing production capacity.
- A capital investment programme, to substantially increase Platform 3 production capacity at Huntingdon, is underway. First new capacity is expected to start in H2 2011 with fully expanded capacity available in H2 2012; Järfälla Sweden facility to remain open.
- £13.9m net of fees raised through placing and open offer to fund capacity increase at Huntingdon facility.

£54.7m
Turnover

2.5p
Total dividend

£5.6m*
Adjusted profit before tax

*A reconciliation of adjusted profit before tax is set out on page 36.

What we do

Graphics – Grand-Format

Xaar technology is today the most widely adopted technology within the grand-format graphics market. It is used all over the world to produce high performance display graphics including outdoor and indoor signage, and point-of-sale displays.

Industrial – Ceramics

The ceramic tile industry is experiencing a digital revolution. Ceramic tile producers are adopting innovative inkjet technology from Xaar to provide multiple features and benefits to their customers, including unrivalled creativity and on-demand printing.

Packaging – Coding & Marking

Xaar's extensive range of printheads allows for simple integration into a range of printing systems for coding and marking applications. These offer precise print capabilities directly onto carton board, replacing the need to pre-print cases or labels.

Industry focus – Ceramics
turn to page 05

Packaging – Labels

The integration of Xaar's technology into these high quality digital printers for packaging and label applications is a growth area. Xaar's unique combination of 'greyscale' and its TF Technology™ is ideal for high quality, single-pass printing: fine details, excellent graphics and readable barcode and text can be reproduced reliably and consistently.

Review of the year
Chairman's statement

"Having demonstrated, during 2010, that we have the products and opportunity to achieve substantial growth in revenue and profits, we now have in place the management team and other resources to execute our strategy."

Phil Lawler
Chairman

Summary of Chairman's statement

- Increased P3 production capacity at our Huntingdon facility through a major capital investment programme
- Ordinary share placing and open offer concluded on 11 November 2010, raising £13.9m (net of expenses)
- Final dividend of 1.5p is recommended, maintaining the total dividend for the year at 2.5p (2009: 2.5p)

INTRODUCTION

I am pleased to report on a year of significant progress with results that reflect a continuing improvement in the underlying performance of the business and its longer term growth potential.

The considerable success of our Platform 3 ("P3") technology resulted in demand outstripping our capacity; we are addressing this through further capital investment following a successful share placing and open offer in October 2010.

In the meantime, the group is profitable and cash generative with the rate of revenue and earnings growth, both from product sales and royalties, increasing during the second half of the year.

BUSINESS TRENDS

The scope for industrial ink-jet continues to increase and our focus on selected segments is bearing fruit. However, the global print industry will always be governed by the general economic climate and our success is based on being able to demonstrate that Xaar's industrial inkjet technology delivers clear economic benefits to the end user.

This has been particularly evident in our P3 markets where, specifically, the ceramics industry has found that Xaar's patented TF Technology™ is particularly suited to tile decoration and delivers significant advantage to ceramic tile manufacturers. Consequently, P3 has become disruptive in this application which has resulted in a substantial increase in demand.

We are also seeing increasing demand for P3 from the primary label printing market and, whilst the size of the opportunity is unlikely to be of the same magnitude as ceramics, it remains a very important sector and a critical first step into the packaging market.

In order to capitalise on this demand, we decided to increase P3 production capacity at our Huntingdon facility through a major capital investment programme. This is being partly funded by the new ordinary share placing and open offer announced on 21 October 2010 and successfully concluded on 11 November 2010, raising £13.9m (net of expenses). The first tranche of new plant and machinery has been ordered and the programme is currently on plan.

However, as previously reported, printhead production is complex and some manufacturing equipment is custom-built for Xaar. Consequently critical lead times are long and printhead production cannot be increased as soon as we would like.

In the short term shift patterns have been implemented to maximise output from the existing installed capacity, and we have halted the previously announced closure of our Swedish factory. This has enabled us to allocate all available space at Huntingdon for P3 production. The rapid adoption of P3 is improving the mix of revenues geographically, by product range and by end market.

We are developing other applications for P3 although full commercialisation will depend on sufficient capacity being available to deliver the overall level of product required.

Platform 2 ("P2") revenues are stable although, with P2 being superseded by P3, the business has become less significant.

Overall, P1 revenue has remained steady with sales growth in EMEA being offset by a decrease in China. Continuing growth in sales by licensees of printheads using Xaar technology, is reflected in increased royalties. Recently, a number of wide-format printer OEMs have announced the adoption of the *Proton 60*, Xaar's latest addition to the P1 family. We are maintaining our focus on the development and introduction of new P1 products through a dedicated team rather than diverting resources.

We are now starting to see the benefits of the process improvements relating to the design, manufacture and market implementation of new products, introduced during the year and which form part of a rolling programme of process improvement across the business.

RESULTS AND DIVIDEND

Revenues and profit for the year were ahead of our expectations, with demand for P3 taking off and royalty income increasing. We continue to manage costs very carefully and pay close attention to cash flow. Based on the continuing cash generation of the business the board has decided to recommend a final dividend of 1.5p which, together with the 1.0p interim dividend paid already, maintains the total dividend for the year at 2.5p (2009: 2.5p). Whilst the dividend per share remains flat when compared to 2009, the total dividend paid will increase following the issue of additional shares in the placing and open offer.

BOARD

As previously announced, after three years as Manufacturing Director, Greg Lockett resigned from the board on 31 January 2011 and continues to be employed in an operational management role with the company. We thank Greg for his diligence and on going support.

On the same date Ted Wiggans, a Chartered Engineer, joined the board as Operations Director from Cambridge Semiconductor Ltd where he was Chief Operating Officer.

Additionally after ten years at Xaar Andrew Taylor, Finance Director announced his intention to resign from the board and he will leave the company on 31 March 2011. We thank Andrew for all his efforts and contribution to Xaar's progress.

On the same date, Alex Bevis, a Chartered Accountant, will be appointed as Finance Director. Alex joined Xaar on 14 February 2011 directly from CSR plc (Cambridge Silicon Radio) where he has spent ten years, most recently as Vice President of Finance.

ACCOUNTS RESTATEMENT

We have concluded that we should treat the relationship with JSS, our distributor of P1 products in China, as that of re-seller, such that we book sales only when JSS sell on to their customers, and inventory held by JSS is treated as on consignment. This has the consequence of a restatement of the 2009 accounts, as set out in the financial review.

OUTLOOK

Our confidence and perseverance with P3 has been justified and, once production capacity has been increased, we expect this platform to have a long and successful life with further potential being realised from P3 through a number of product enhancements.

Whilst we are not planning for significant P1 growth, it is clear that the market continues to be strong and we expect, through new product releases, to remain a significant supplier into the graphic arts sector.

Our strategy to drive the development of Xaar technology into selected multiple applications and industries, whilst delivering sustainable, profitable growth, was re-affirmed at a strategic review early in 2011. Consequently we plan to continue to innovate, focusing on carefully selected market segments and products whilst enhancing business performance and visibility.

We continue to spend a significant proportion of revenue on R&D and, as a market leader, we are planning to be at the forefront of product development.

In short, having demonstrated during 2010 that we have the products and opportunity to achieve substantial growth in revenue and profits, we now have in place the management team and other resources to execute our strategy. Consequently, we are confident that we are well placed to achieve significant further success in 2011 and beyond.

PHIL LAWLER
CHAIRMAN
21 MARCH 2011

Review of the year

Our past year at a glance

Xaar expands manufacturing capacity

In 2010 Xaar decided to invest over £22m in order to expand its Huntingdon facility and more than double staff at that location to meet the increase in demand for the Xaar 1001.

The expansion, which commenced in October 2010 will enable a significant increase in Xaar's printhead production capacity and includes the installation of a significant quantity of capital equipment and supporting process facilities. Printhead manufacture is a highly precise process and Xaar's state-of-the-art printhead manufacturing lines in EMEA are among the most innovative in the world today.

"I am delighted that we now have the resources in place to enable the expansion of Xaar's manufacturing capacity such that the company can take advantage of the increasing demand for its Platform 3 product," says Ian Dinwoodie, Xaar Chief Executive.

2010 was a positive year for Xaar, which included developing relationships with key players in the ceramic industry and the launch of new Xaar-enabled printers in China.

You can read more in-depth news stories by visiting our website
www.xaar.com/news.aspx

February 2010

China: innovative printers feature next generation Xaar *Proton* printheads

- Xaar launches the Xaar ***Proton*** 60 following on from the success of the Xaar ***Proton*** 35.
- The new printhead variant is launched in association with two leading manufacturers, Shanghai Wit-Color Digital Science & Technology Co. Ltd and Chiting Digital Technology.

March 2010

Xaar signs up two new ceramic ink partners: Colorobbia and Ferro

- Colorobbia specialises in the production and distribution of material and technologies for traditional and advanced industrial ceramic industries.
- Ferro is a major global supplier of technology-based performance materials for manufacturers and is a worldwide leader of frits, glazes, pigments and inks in the ceramic tile decoration market.

"Xaar inkjet has changed the world of ceramic decoration."
JOSE-ANTONIO COMITRE, FERRO

"The Xaar 1001 printhead handles ceramic inks very well and ensures consistent high-resolution quality."
MARCO TOCCACELI, MARKETING MANAGER, COLOROBBIA ITALIA

"Through Xaar technology we are able to offer new innovative products and new solutions to our customers, delivering significant improvements in aesthetics."
ESMALGLASS-ITACA GRUPO

Industry focus: Xaar 1001 drives the ceramics digital revolution

The ceramic tile industry is experiencing a digital revolution and Xaar is right at the centre of it. Over the course of 2010 we continued to work closely with the leading equipment suppliers as well as the major ceramic ink manufacturers to transform the ceramic tile industry with market-leading digital inkjet printers. We formed partnerships with two more leading ink manufacturers, Ferro and Colorobbia Italia, who joined Esmalglass-Itaca Grupo and Chimigraf-Fritta.

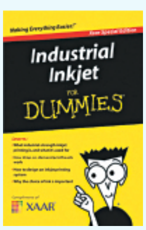
The Xaar 1001 printhead is the industry's printhead of choice, largely due to its TF Technology™, a unique patented design of re-circulating ink through the printhead which delivers unrivalled reliability in challenging production environments. The ability to produce greyscale (variable) dots gives users the ability to select fine drops for smooth tones, contrasting shades and sharp lines, whilst the larger drops provide high ink coverage, to intensify colour density and saturation. The result is a stunning replication of natural materials, making the printed tile indistinguishable from the natural stone.

Digital imaging and inkjet delivers a completely new application by using variable data to provide new levels of flexibility and creativity. Inkjet printed tiles now incorporate unique features that enhance the appeal of the ceramic tile. Designers have unlimited freedom of creativity with the ability to produce life-like patterns. Designs have no limit on the repeat of the pattern, even the edges of the tile can be printed. Inkjet printing allows users to print on textured and embossed surfaces, enabling a greater number of designs in textured patterns. Tiles and borders can be printed with the same process and identical matching patterns and colour. The ability to customise and personalise designs to produce cost effective small quantities of ceramic tiles will open up new markets and opportunities for the industry.

June 2010

Xaar launches Industrial Inkjet for Dummies

- Xaar announced that anyone totally confused by inkjet can register to receive a free copy of Industrial Inkjet for Dummies.



October 2010

Xaar technology leads the way at Labelexpo Americas 2010

- A significant number of Xaar OEMs were showing their latest printer systems (many using the Xaar 1001) including Atlantic Zeiser, DICE Graphic Technologies, EFI Jetrion and INX International Ink Co.

December 2010

Gold sponsorship for the third year helps raise awareness of inkjet to the next generation of the print industry

- PrintIT! is a major industry-backed programme designed to teach Year 9 and Year 10 pupils about the world of printing and related industries.
- Xaar sponsored PrintIT! for the third year, aiming to increase inkjet awareness and inspire the inkjet innovators of the future.

Review of the year

Global presence and technology
at a glance

Xaar is active on a global level.
With its headquarters in the UK and manufacturing facilities in the UK and Sweden, the company also has offices in China, India, USA, Brazil and Korea.

Key
- Head office UK
- Manufacturing facility UK
- Manufacturing facility Sweden
- Offices

Americas

£7.5m
Revenue

Recent news
- INX International installed the first cylindrical can and bottle printers using the Xaar 1001 at US customer sites, allowing short-run customised decoration of metal cans and water bottles.
- At year end, Videojet launched new versions of three Xaar-based Large Character Marking printers for secondary packaging.
- Xaar and LAM distributor SID Signs delivered training sessions for technicians working with Chinese wide-format graphics machines with Xaar printheads, highlighting the need for careful maintenance and qualified inks to improve end-users' experience.

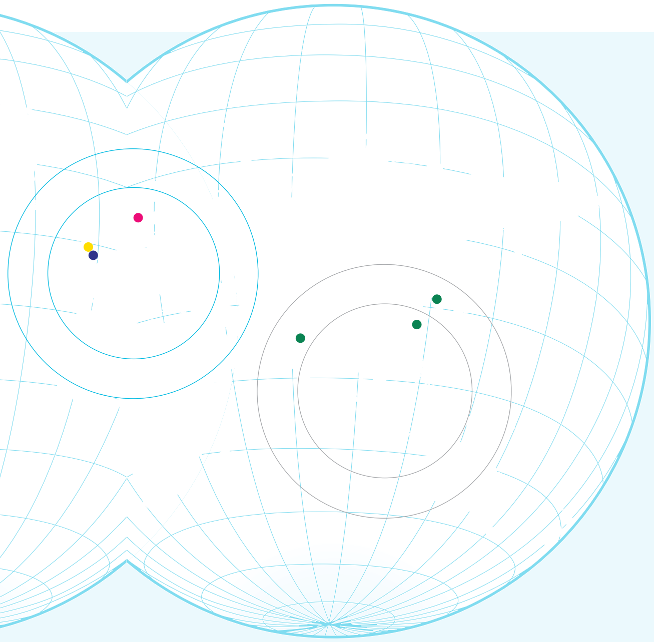
Xaar offers a wide range of industrial strength inkjet printheads which in turn provides the flexibility and choice required to address a diversity of applications.

Learn more
View further info on the Xaar ***Proton*** and Xaar 1001 over the next few pages

Platform 1 Technology

Market-leading binary printheads used by industrial printers for high coverage printing applications.

Products
- Xaar 126
- Xaar 128
- Xaar 500
- Xaar ***Electron***
- Xaar ***Proton*** (product shown)

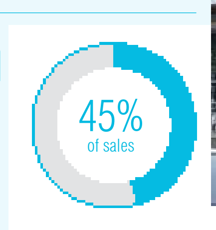


EMEA

Recent news

- Over 90% growth in regional sales with contribution from all Xaar platforms and products.
- The dramatic growth in the ceramics sector dominated new sales in 2010.
- There was also an increasing uptake of Xaar technology in a range of other sectors including label, decorative laminates, security and ID, graphics and product printing.

£24.9m
Revenue

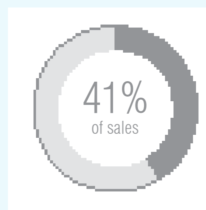


Asia

Recent news

- Xaar OEM partners, Wit-Color and Chiting, launch new Xaar ***Proton*** 60-enabled printers.
- Xaar China strengthened its team to provide first line training support to OEMs in the region.
- Interest in jetting functional fluids has grown steadily with a number of development projects centred on the Xaar 1001.

£22.3m
Revenue



Platform 2 Technology

Printheads featuring a unique, Xaar-patented, multi-pulse greyscale technology.

Products

Xaar 318 series
Xaar 760 (product shown)

Platform 3 Technology

Benefits from Hybrid Side-Shooter™ architecture with TF Technology™.

Products

Xaar 1001 (product shown)

Review of operations

> "Platform 3 ("P3") demand increased significantly during the year with the scale and rate of uptake being substantially higher than anticipated."

Ian Dinwoodie
Chief Executive

Summary of operations

- Increase in P3 business and improved levels of royalty income combined with Platform 1 business has led to an overall sales and profitability improvement
- P3 has made very significant progress during the year, both in primary label printing and ceramic tile decoration
- New product stabilisation programmes are now completing, and the focus is shifting to development of new variants of both P1 and P3

INTRODUCTION

I am pleased to report on a year of progress and change. Platform 3 ("P3") demand increased significantly during the year with the scale and rate of uptake being substantially higher than anticipated. As a consequence, demand for P3 products outstripped our capacity to supply.

This sudden shift required a set of immediate actions to be put into place, including the reversal of the decision to close the Järfälla manufacturing plant in Sweden, and to increase significantly P3 production capacity in the Huntingdon plant. This expansion is being funded through a combination of equity and lease financing.

The delivery lead-times for the processing equipment required means that this capacity will not start to come on line until the second half of 2011, with fully expanded capacity becoming available from the second half of 2012.

In the meantime, costs of manufacturing reduced during 2010 leading to a positive progression in gross margin in the second half. The increase in P3 business and improved levels of royalty income combined with Platform 1 ("P1") business remaining at 2009 levels, has led to an overall sales and profitability improvement over the previous year.

BUSINESS REVIEW

Total revenue for 2010 of £54.7m (2009: £41.5m) is made up of product sales: £47.2m (2009: £36.1m), representing 86% of turnover (2009: 87%); royalties: £7.0m (2009: £4.7m), representing 13% of turnover (2009: 11%); and development fees: £0.5m (2009: £0.7m). This 32% growth in total revenue is made up of 31% growth in product sales, 49% growth in royalties and 29% decline in development fees.

Adjusted gross margin increased steadily during the year with H1 at 41% and H2 at 43%. This reflects higher sales resulting in improved operational gearing, and a reduction, as expected, in the costs associated with new product stabilisation. For the full year adjusted gross margin increased slightly to 42% (2009: 40%).

P3 has made very significant progress during the year, both in primary label printing and ceramic tile decoration.

The P3 performance and advantages demonstrated in the ceramic tile decoration application have caused the transition to digital print to be much faster than expected, with demand for our P3 product rapidly increasing as the year progressed. This transition is presently constrained by our capacity to supply; the significant planned production capacity increases over the next 18 months will enable the desired rate of change from analogue to digital print to be realised. The potential for growth in other applications remains but our ability to access these markets will be constrained until sufficient capacity is in place.

As expected, P1 sales in 2010 were equal to those in 2009 as the wide-format advertising market matures. Stable and reliable revenues from this market remain important to Xaar hence the need to support our customers and continue to offer new products and variants to protect this business.

Licensee royalties increased strongly based on a combination of higher sales and a more financially favourable mix of product.

COMMERCIAL REVIEW

GEOGRAPHIC

As a supplier of technology to OEM partners, our geographic sales split reflects where our products are integrated into the final product and not necessarily the end user location.

For the first time in the company's history, the EMEA region has become our largest at £24.9m (2009: £12.8m) representing 94% growth over the previous year and predominantly reflects P3 applications moving into volume. P1 business in EMEA also grew in the year although this is primarily the result of a change of distribution routes that previously ran through Asia. Overall P1 business worldwide was flat on 2009.

Asia generated 41% of sales which at £22.3m is a 2% increase on 2009. Included within this figure is a significant increase in royalty income which is offset by the reduction in product sales following changes in distribution routes noted above. Licensee royalties increased strongly through a combination of higher sales and a more financially favourable mix of product. Asia continues to be an important P1 market for Xaar, mainly with sales into the wide-format graphics market. The potential for P3 in Asia is expected to grow once applications have matured and production capacity is available to support that growth.

Total sales to the Americas grew 9% to £7.5m (2009: £6.8m) representing 14% of sales. The growth has come primarily from P3 adoption with primary label applications in North America whilst P1 business has remained broadly stable with coding and marking applications in North America and wide-format graphics applications in South America.

> "For the first time in the company's history, the EMEA region has become our largest market with 45% of total sales."

Xaar 1001

Xaar 1001 – Advanced technology for single pass printing

Combining the most advanced printhead design and manufacturing processes means the Xaar 1001 delivers high-quality drop formation and placement accuracy with outstanding operational durability. Its side-shooter architecture and TF Technology™ system provides exceptional operational latitude for a wide range of fluids and suspensions.

- Features Xaar's unique TF Technology™
- Robust and reliable
- Highest print quality

Read more
www.xaar.com/xaar1001.aspx

Review of the year

Review of operations
continued

135%
Increase of sales into the industrial markets

£11.8m
Sales into the packaging market

COMMERCIAL REVIEW CONTINUED

END MARKETS

Sales into the graphic arts market were 3% up from 2009 but, as other markets have grown, the graphic arts market now represents only 39% of total sales (2009: 50%). Sales were £21.4m (2009: £20.7m). This market will continue to be an important core market for Xaar, specifically in the areas of large format advertising and signage printing. Whilst P3 may generate some graphic arts business, it is expected that this market will continue to be dominated by P1 products. Our efforts to bring new P1 products and variants to market will continue to support customers and protect our position.

Sales into the packaging market grew by 25% with the total for the year of £11.8m (2009: £9.4m) representing 22% of total sales. P1 products into coding and marking applications were stable with the growth in this sector coming from P3 products for primary label printing. As mentioned in my previous report, the label application has been technically challenging. However, as anticipated, significant progress has been made during the year. The success we are now achieving in the primary label space is prompting interest and activity in other areas of the package printing market.

Sales into industrial markets have more than doubled to £14.1m (2009: £6.0m) and now account for 26% of sales. Rapid adoption of P3 technology in the ceramic tile printing sector has been the primary driving force in this area. Sales have been constrained by capacity during the second half of 2010, a situation which will continue until the second half of 2011 when we expect additional capacity to come on stream. Development of further industrial applications has continued with multiple partners but will be constrained until product availability is improved following the capacity expansion.

OPERATIONS REVIEW

The plan to relocate all manufacturing capacity from Sweden to the UK was halted during the year as the demand for P3 grew significantly. Following a thorough review, it was concluded that the financial benefit of expanding P3 significantly outweighed the cost savings of the planned manufacturing plant consolidation, and hence the plant in Järfälla, Sweden, would be required for the foreseeable future and, therefore, the relocation programme was cancelled. This change allows all available space in the Huntingdon plant to be dedicated to P3 expansion. As announced during the year, the company will invest £22.2m in significant expansion of P3 capacity to respond to the demand created.

This expansion will involve: the clean-room originally built for the Sweden relocation to be allocated to P3; construction of a third full clean-room at the Huntingdon site; over

Xaar *Proton*

Xaar *Proton* – Delivers high productivity

The Xaar ***Proton*** is a premium quality, wide-swathe (54mm), binary printhead that delivers high productivity and brings significant benefits to the high-volume wide-format graphics markets. Featuring the latest "chevron" piezo actuator combined with the innovative nozzle processing methods from the revolutionary Xaar 1001, this printhead delivers excellent and consistent print performance, enabling users to print high quality without compromising on speed.

- Available in 35 and 60 picolitre versions
- Designed specifically to meet end user requirements
- Uptake is growing with key OEMs in China developing Xaar ***Proton***-enabled printers

Read more
www.xaar.com/xaar-proton.aspx

"The priority for 2011 is to execute the first stage of the P3 capacity expansion plan and, therefore, to increase P3 product availability in the second half of the year."

100 processing asset additions; the recruitment of close to 200 people; and a very significant installation and process qualification effort. The plan is well underway and additional capacity is due to start to come on stream in the second half of 2011 with the full capacity available by the second half of 2012.

Although a little later than anticipated, costs started to fall during the year, allowing gross margin to progress from 39% in the first half to 43% in the second half of the year. Further progression in gross margin is not expected before additional production capacity comes on line as overheads are planned to rise in advance of realising the benefit of the incremental output.

R&D spend in the year was £4.7m (2009: £4.6m), representing 9% (2009: 11%) of sales.

New product stabilisation programmes are now completing, and the focus is shifting to development of new variants of both P1 and P3. Early stage research of Platform 4 ("P4") has commenced, however technical and commercial feasibility is not expected to be proven until 2013 at the earliest.

PRIORITIES FOR THE FUTURE

The priority for 2011 is to execute the first stage of the P3 capacity expansion plan and, therefore, to increase P3 product availability in the second half of the year. This, combined with a stable P1 business, is expected to deliver further progression of both sales and margins during the latter stages of 2011. As stated previously, the anticipated P3 growth also brings a better balance to the business, both geographically and by end market and application.

PEOPLE

I would like to thank all our staff for their efforts during the year, especially our Swedish employees who have had to endure some significant uncertainty and changes of circumstance. Overall it is pleasing to see the benefits starting to appear from all the effort applied over the past couple of difficult years.

IAN DINWOODIE
CHIEF EXECUTIVE
21 MARCH 2011

Financial review

"Trading in 2010 was significantly improved over recent years with second half revenue up 50% to £30.9m."

Andrew Taylor
Finance Director

Summary of financial review

- Increased demand for the company's Platform 3 ("P3") product in primary label printing and ceramic tile decoration applications
- The strong demand for P3 was the prime driver of growth in printhead and related product sales to £47.2m for the year (2009: £36.1m), an increase of 31%
- Group raised £15.0m (£13.9m net of expenses) through a placing and open offer

TRADING

Trading in 2010 was significantly improved over recent years with first half revenue up 14% to £23.8m (H1 2009: £20.9m), second half revenue up 50% to £30.9m (H2 2009: £20.6m) and full year revenue up 32% to £54.7m (2009: £41.5m). The acceleration in growth is also reflected in revenues for the first half of 2010 being 16% up on the second half of 2009 and, for the second half of 2010, being up 30% on the first half of the year.

This growth is predominantly a result of increased demand for the company's Platform 3 ("P3") product in primary label printing and ceramic tile decoration applications. The strong demand for P3 was the prime driver of growth in printhead and related product sales to £47.2m for the year (2009: £36.1m), an increase of 31%. Licence fees and royalties have increased by 49% to £7.0m (2009: £4.7m), a result of both an increase in licensee product sales and a more favourable product mix within those sales, and the absolute level being supported by the continuing strength of the Japanese Yen. Development fees remain immaterial at £0.5m (2009: £0.7m).

Adjusted gross margin for the full year improved over 2009 to 42% (2009: 40%). Adjusted gross margins for the second half of 2010 increased to 43% (H1 2010: 41%, H2 2009: 39%), as the operational gearing effect of increased production volume, through a relatively fixed cost base, began to have a positive financial impact.

Adjusted operating expenditure was £17.3m (2009: £14.8m), including amortisation of capitalised R&D of £0.9m (2009: £1.4m). The increase over 2009 is predominantly second half driven as the business begins the process of scaling up its infrastructure and support functions to deliver the P3 expansion plan, described in further detail in the Review of Operations.

Exceptional items in the year of £0.1m (2009: £2.8m) include share-based payment charges of £1.3m (2009: credit £0.8m), the net release of the provision for restructuring costs associated with the closure of the Swedish plant of £1.1m (2009: charge £2.7m), exceptional commercial agreement costs of £0.5m (2009: £nil) and the foreign exchange differences on intra-group transactions of £0.5m (2009: loss £0.2m).

Adjusted profit before tax for the year increased by 167% to £5.6m (2009: £2.1m). Adjusted profit before tax is stated before exceptional items and is the measure used by management for underlying profitability of the company. Profit before tax for the year was £5.4m (2009: loss of £0.7m).

PRIOR PERIOD RESTATEMENT

The relationship with JSS, the company's distributor of P1 products in China, is such that the board feels it is appropriate to recognise revenue only when JSS sell on to their customers. The effect of this change in the accounts is to defer revenue into future periods, resulting in a reduction in receivables, an increase in inventory, and a reduction in profit equal to the gross profit attributable to the deferred revenue. This restatement applies to the closing balance sheets for 2008 and 2009, and the income statement for 2009. The effect on the 2010 accounts compared to the previous method is largely neutral; an increase in gross profit in 2010 from the timing of revenues is offset against higher stock provisioning against the resulting increased inventory level at 31 December 2010.

Cumulatively up to 31 December 2009 total revenue recognised on shipment rather than resale was approximately £2.0m with an associated gross profit of £1.1m. In the period up to and including 2008 approximately £1.5m of revenue was recognised along with profit of approximately £0.6m. The balance of approximately £0.5m of revenue and £0.5m of gross profit was recognised in 2009. Accordingly, the 2009 figures for revenue and profit have been re-stated, along with the receivables and inventory figures in the 2008 and 2009 balance sheets. Further detail is provided in note 4 of the financial statements.

Following the review, the company has changed its systems for tracking products shipped to identify the point at which they are sold on to customers, for revenue recognition at this point.

The board believes that this is an issue which applies to JSS only and has no material impact on the company's underlying financial performance in 2010 or the current year.

RESTRUCTURING

The decision to halt the relocation of manufacturing capacity from Sweden to the UK, and to keep the Swedish facility open, has resulted in the net release of £1.1m of provision for the costs of the closure, booked originally as an exceptional item in 2009.

"Adjusted profit before tax for the year increased by 167% to £5.6m (2009: £2.1m)."

Financial review
continued

"The board will recommend a final dividend for the year of 1.5p."

FUND RAISING AND CAPACITY EXPANSION

In November 2010, the group raised £15.0m (£13.9m net of expenses) through a placing and open offer. A further £7.0m of debt finance is available through an asset leasing facility with the group's existing bank. This cash and debt facility will be used to fund £20.9m of the proposed £22.2m capital investment required to deliver the P3 expansion plan. The remaining £1.3m will be funded through operational cash flow. During the year £1.6m was paid as deposits for long lead time items and the commencement of the construction of the new clean room.

CASH AND CAPITAL EXPENDITURE

Net cash at the end of the year was £22.0m (2009: £11.1m) after the net proceeds of the placing and open offer of £13.9m (2009: £nil), dividend payments of £1.5m (2009: £1.5m) and capital expenditure (tangible and intangible) of £6.8m (2009: £5.2m). The level of capital expenditure has remained consistent with 2009, but the focus has moved in the year away from the purchase of assets for the relocation of Swedish production capacity to the UK, to the purchase of new assets and infrastructure for the P3 expansion programme. The only debt outstanding at 31 December 2010 was £1.3m (2009: £0.4m) relating to the financing of capital equipment. The group continues to manage its resources prudently, resulting in gross cash at 31 December 2009 of £23.3m (2009: £11.5m).

DIVIDEND

The board will recommend a final dividend of 1.5p for 2010 at the forthcoming Annual General Meeting, giving a total dividend for the year of 2.5p (2009: 2.5p). An interim dividend of 1.0p was paid during the year (2009: 1.0p). Subject to approval by shareholders at the Annual General Meeting, the final dividend will be paid on 24 June 2011 to shareholders on the register on 3 June 2011.

FOREIGN CURRENCY

The group's foreign exchange exposure is broadly consistent with prior years, but reflects an increase in sales to euro denominated customers. 60% (2009: 69%) of product revenues were invoiced in sterling, 15% (2009: 18%) in US dollars and 25% (2009: 13%) in euros. Purchases were 57% (2009: 52%) in sterling, 20% (2009: 20%) in Swedish kronor, 7% (2009: 12%) in US dollars and 10% (2009: 11%) in euros. The group's exposure to the Swedish kronor will now continue as the Swedish manufacturing facility will now remain operational. The increase in euro revenues is a direct result of the growth in P3 sales with the main customers for ceramic tile decoration markets being based in EMEA.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 9.30am on 17 May 2011.

"The acceleration in growth is also reflected in revenues for the first half of 2010 being 16% up on the second half of 2009 and, for the second half of 2010, being up 30% on the first half of the year."

RISKS AND UNCERTAINTIES

Risk is an inherent part of doing business. The group has a process for identifying, evaluating and managing the risks faced by the business and has identified the following factors as principal potential risks to the successful operation of the business:

- if our initiatives to grow the business are not effective, financial performance of the group could be adversely affected;
- if we are unable to satisfy customer demand through inability to supply due to capacity constraints or any other reason, both short term group revenues and longer term financial performance could be adversely affected;
- if there is insufficient demand for our products to substantially utilise installed production capacity, financial performance could be adversely affected;
- if we cannot effectively anticipate technology trends and develop new products to respond to changing customer preferences, this could adversely affect group revenues;
- if we cannot enforce the intellectual property rights on which our business depends or if third parties claim that we infringe their intellectual property rights our revenue and profit may be adversely impacted;
- if we cannot attract, retain and motivate key employees the performance of our business could be adversely affected;
- if our IT infrastructure does not perform as required our revenues and profit could be adversely impacted;
- if we are unable to effectively complete, integrate and manage any acquisitions, disposals or other significant transactions this could adversely affect the group's business performance and revenues and profit;
- changes to the economic and political environment in both our major markets and the regions where we manufacture could adversely affect our business and financial performance;
- failure to effectively manage our working capital could adversely affect our cash flow;
- failure to manage our relationships with third party suppliers for raw materials could adversely affect our ability to maintain consistent supply of finished goods;
- failure to manage our relationships with third party suppliers for capital production equipment could adversely affect our ability to maintain consistent supply of finished goods;
- competition from direct competitors or third party technologies could impact our market share and pricing;
- failure to effectively manage our distribution of products could damage customer confidence and adversely affect our revenues and profits;
- when goods are sold internationally we are subject to movements in foreign exchange rates that may adversely affect our revenues;
- if our reputation is damaged through product quality or other issues our ability to generate sales may be harmed;
- natural disaster affecting our manufacturing locations or our customers' locations could adversely affect our future revenue and profit; and
- loss or damage to key production equipment as a result of moving production capacity between or within sites may affect our ability to manufacture product.

KEY PERFORMANCE INDICATORS

The principal measures management uses to monitor the performance of the group are as follows:

Revenue by business and geographical segment: sales revenue measured against budget on a monthly basis;

Gross margin: gross margin measured against budget on a monthly basis;

Operating expenditure: operating expenditure measured against budget on a monthly basis;

Adjusted PBT: adjusted profits before tax is a measure of profit before tax, share option costs and exceptional items. This is measured monthly against budget; and

Cash: cash is measured weekly with a full cash flow reviewed monthly against target.

ANDREW TAYLOR
FINANCE DIRECTOR
21 MARCH 2011

Governance

Board of directors

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1. PHIL LAWLER
CHAIRMAN
Aged 62 – 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 been chairman of a number of technology companies including several private companies where he has been introduced by private equity and venture capital investors. Between 2003 and 2005 he was non-executive chairman of Densitron Technologies plc. He is a Chartered Director.

2. IAN DINWOODIE
CHIEF EXECUTIVE
Aged 50 – joined Xaar in September 2001 as Group Operations Director and was appointed Chief Executive in July 2003. With almost 30 years' experience in high-technology operations, he has held a variety of roles in engineering, quality assurance and manufacturing within the semiconductor, electronics and electronic imaging industries. Immediately prior to joining Xaar, he held the position of director of manufacturing for Fujifilm Electronic Imaging Ltd.

3. ANDREW TAYLOR
FINANCE DIRECTOR AND COMPANY SECRETARY
Aged 41 – joined Xaar in April 2001 as Financial Controller, was appointed Company Secretary in December 2003 and Deputy Finance Director in February 2007. He qualified as a Chartered Accountant with Ernst & Young in London prior to joining BAE Systems where he held a number of finance roles in their head office. He has 10 years of experience working in finance, ten of which have been at Xaar. He was appointed to the board as Finance Director on 31 March 2008 and will resign from the board on 31 March 2011.

4. PHIL EAVES
SALES AND MARKETING DIRECTOR
Aged 57 – was previously marketing manager, Europe at Dainippon Screen, a world leader in electronic equipment for the graphic arts, flat panel display, printed circuit board and semiconductor markets. He brings over 20 years of sales and marketing expertise across many sectors of imaging and printing industries and has held senior management positions at Scitex, Crosfield and Xeikon.

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5. RAMON BORRELL
RESEARCH AND DEVELOPMENT DIRECTOR
Aged 47 – joined Xaar in August 2007. He was previously programme manager and technology strategy director in the large format printing division of Hewlett Packard, where he spent 13 years in Barcelona, Spain, all of them in R&D. He was trained as a mechanical engineer and has a Master's in Automotive Business and Technology and an Executive Certificate from MIT Sloan. Ramon was vice president and secretary of the board of directors of the Imaging Science and Technology Society from 2005 to 2010.

6. ALEX BEVIS
DIRECTOR
Aged 35 – joined Xaar in February 2011 after 10 years at CSR plc (Cambridge Silicon Radio). He held a variety of key finance roles during his ten years 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. Alex will be appointed Finance Director and Company Secretary on 31 March 2011.

7. TED WIGGANS
OPERATIONS DIRECTOR
Aged 55 – 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. He is a Chartered Engineer.

8. ROB ECKELMANN
NON-EXECUTIVE DIRECTOR
Aged 54 – started his career with the US Government's International Trade Administration, where he was involved in the global trade policy for the science and electronics sector. In 1988 he joined Intel Corporation, starting in the office of then president Andy Grove, before moving to Asia to launch Intel's business into China, India, and the ASEAN region. He later became Intel VP and general manager for Europe, Middle East and Africa. Mr. Eckelmann holds several European non-executive directorships including Wolfson Microelectronics plc. Rob will retire from the board at the forthcoming AGM.

9. ROBIN WILLIAMS
NON-EXECUTIVE DIRECTOR
Aged 53 – joined Xaar in March 2010. He obtained an engineering degree from Oxford before qualifying as a Chartered Accountant with Peat Marwick Mitchell and then moving into corporate finance. He spent ten years with County Bank, UBS Philips & Drew and Salomon Brothers before co-founding Britton Group plc. As CEO of Britton, he grew the business to £250m 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, outsourcing, contracting and manufacturing. Robin is currently chairman of Killby & Gayford Group Ltd and NHS Professionals Ltd, and a non-executive director of Maxima Holdings plc, AH Worth & Company Ltd and Baronsmead VCT 4 plc.

Governance

Corporate social responsibility

The group continued with the development of its formal corporate responsibility initiative, launched during 2008 to co-ordinate existing activity and ensure monitoring of key metrics across its manufacturing and other operations. The aim of this initiative is to ensure 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. Internal reporting of key metrics has begun and is cascaded through the business.

FORMAL DIRECTIVES AND CERTIFICATION

The group manufactures products in both Sweden and England and undertakes research and development in England. The group complies with all local and European legislation relevant to the respective territories. The group's manufacturing facilities in Stockholm and Huntingdon are both ISO9001 and ISO14001 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 also compliant with REACH (Registration, Evaluation and Authorisation of Chemicals) and is continuing to work towards OHSAS18001 in both Huntingdon and Sweden.

With regard to the WEEE (Waste Electrical and Electronic Equipment) and RoHS (Restriction of the Use of Certain Hazardous Substances) directives, the group understands the environmental aims of these directives and, although Xaar's product portfolio is not directly covered by these directives, will ensure its products comply wherever practicable and allow our OEM customers to fulfil these environmental policies more readily.

EMPLOYEE WELFARE

Xaar encompasses research, design, development, manufacturing, marketing and the sale of state-of-the-art inkjet technology products, requiring Xaar employees to work in a variety of locations across the world.

It is our intention to conduct business in a matter that protects the public, the environment and employee safety. Our Health & Safety policy provides a framework for setting and reviewing of Occupational Health & Safety Objectives. This demonstrates our commitment to the prevention of injury and ill health and also the continual improvement in Occupational Health & Safety Performance. We recognise 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 full compliance with 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 its Health & Safety Policy, the company will ensure that:

- the organisation is led by example;
- systems are in place to engage, train, develop and maintain competent and informed personnel;
- resources are allocated to enable safety standards to be maintained;
- employee involvement and open communication are 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 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 ongoing working practices; and
- best practice is shared across the group.

SOCIAL RESPONSIBILITY

- Four teams were entered into the BBC Children in Need fun run around Cambridge Science Park in November 2010.
- A team was entered into the annual 'Chariots of Fire' charity relay race around Cambridge colleges.
- Four senior executives (Ian Dinwoodie, Ramon Borrell, Mike Read and Josh Solanki) slept rough for one night in Cambridge as part of Byte Night to raise funds for Action for Children.
- The company donated £10,000 in January 2010 to the Haiti earthquake appeal.
- As an alternative to sending Christmas cards, the company made a donation to the East Anglian Children's Hospice and sent ecards instead.

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 2010. The corporate governance statement set out on pages 24 to 27 forms part of this report.

PRINCIPAL ACTIVITY
The principal activity of the group continues to be the development and commercial exploitation of a patented inkjet printing technology. A detailed review of the group's operations during the year and of its plans for the future together with the principal risks and uncertainties facing the group is given in the Chairman's statement, the review of operations and the financial review. Xaar plc is a holding company for the group's subsidiaries. The subsidiary undertakings of the group are listed in note 10 to the company balance sheet.

BUSINESS REVIEW
The group is required by the Companies Act to include a business review in this report. The information that fulfils the requirements of the business review can be found on pages 8 to 15 which are incorporated in this report by reference.

RESULTS AND DIVIDENDS
Revenue for the year was £54.7m (2009: £41.5m) and comprised the sale of printheads and related products, development fees and licence fees and royalties. The profit after tax for the year was £4.0m (2009: £0.1m). The directors recommend the payment of a final dividend of 1.5p per ordinary share (2009: 1.5p), giving a total dividend of 2.5p per ordinary share (2009: 2.5p) for the full year. If approved at the forthcoming Annual General Meeting, the final dividend will be paid on 24 June 2011 to shareholders on the register at close of business on 3 June 2011.

RESEARCH AND DEVELOPMENT
£4.7m (2009: £4.6m) was spent on R&D in the year. R&D focused on both the development of existing products and technologies and researching new technologies for future inkjet projects.

TREASURY
The group's policy enables it to use financial instruments to hedge sufficient amounts of sterling inflows into Swedish kronor where appropriate in order to fund running costs of the group's manufacturing facility in Sweden. The group also hedges its US dollar inflows where appropriate to purchase sterling, the main trading currency of the group. The group's use of financial instruments and the related risks are discussed further in notes 20, 21 and 25.

At the 2010 Annual General Meeting held on 19 May 2010, 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 10p each in the capital of the company. The company did not purchase any shares for cancellation or to be held as Treasury in 2010 or 2009.

DISABLED EMPLOYEES AND EMPLOYEE INVOLVEMENT
The group recognises that its competitive advantage depends upon the quality and engagement of the people it employs. To support this, its employment policies, including its commitment to equal opportunity, are designed to attract, retain and motivate high calibre employees regardless of sex, race, religion, age or disability. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. It is the policy of the group that the training, career development and promotion of disabled employees should, as far as possible, be identical to that of other employees.

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 formal and informal meetings. All employees participate in a bonus scheme based on group business targets and, in the UK, have the opportunity to participate in an HMRC approved Share Save Scheme.

DIRECTORS AND THEIR INTERESTS
The directors who served during the year were as follows:

Ian Dinwoodie
Andrew Taylor
Phil Eaves
Ramon Borrell
Greg Lockett (resigned following the end of the year on 10 January 2011)
Phil Lawler
John Scott (resigned 19 May 2010)
Rob Eckelmann (retires from the board 17 May 2011)
Robin Williams (appointed 5 March 2010)

Brief biographical descriptions of the directors are set out on pages 16 and 17. Full details of their interests in shares of the company and its subsidiary undertakings are included in the directors' remuneration report on pages 28 to 32.

Directors' report

Report on the affairs of the group continued

DIRECTORS AND THEIR INTERESTS CONTINUED

The interests of the directors in the shares of the company and its subsidiaries (all of which are beneficial) as at 31 December 2010 are as follows:

SHAREHOLDINGS IN THE COMPANY

	Number of ordinary shares of 10p each 31 December 2010	Number of ordinary shares of 10p each 31 December 2009
Ian Dinwoodie	**197,327**	188,727
Andrew Taylor	**15,116**	13,272
Phil Eaves	**22,249**	172,249
Ramon Borrell	**95,330**	77,698
Greg Lockett	**1,722**	1,722
Phil Lawler	**101,430**	89,052
Robin Williams	**—**	64,500
Rob Eckelmann	**—**	—

There have been no changes in the directors' interests in shares of the company between 31 December 2010 and 21 March 2011. Directors' interests in options over shares in the company are shown in the directors' remuneration report.

In accordance with the company's Articles of Association, at the Annual General Meeting referred to in more detail on pages 78 to 80, Phil Lawler and Ramon Borrell will retire from the board by rotation and offer themselves for re-election. In addition, Ted Wiggans (appointed 10 January 2011) and Alex Bevis (appointed 14 February 2011) were appointed as directors subsequent to the last Annual General Meeting and are therefore standing for election for the first time.

DIRECTORS' LIABILITIES

The company has granted an indemnity to one or more 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 1 March 2011 the company had been notified in accordance with the Financial Services Association's Disclosure and Transparency Rules of the following material interests in its share capital:

	Number of ordinary shares held	Percentage of issued share capital
Blackrock Investment Management	10,663,477	14.7%
Legal and General Investment Management	10,466,306	14.5%
AXA Framlington Investment Managers	8,487,794	11.7%
M&G Investment Management	5,504,271	7.6%
Artemis Investment Management	4,877,285	6.7%
Cazenove Capital Management	3,595,617	5.0%
Aviva Investors	2,208,225	3.1%

ANNUAL GENERAL MEETING

The notice convening the Annual General Meeting is set out on pages 78 to 80. Resolutions 1 to 7 set out in the notice of the meeting deal with the ordinary business to be transacted at the meeting. Resolution 4 is explained further below. The special business at the meeting (Resolutions 8 to 10) is explained on page 78 (in relation to Resolution 8) and on the following page (in relation to Resolution 11).

RE-ELECTION OF PHIL LAWLER AS A DIRECTOR

RESOLUTION 4

In line with provision B.7.2 of the UK Corporate Governance Code, the board has considered the re-appointment of Mr Lawler in light of Mr Lawler's performance and commitment to the role. The board has concluded that, following a formal performance review, Mr Lawler's performance continues to be effective and he continues to demonstrate commitment to the role. The board therefore supports Mr Lawler's re-election to the board.

AUTHORITY TO PURCHASE OWN SHARES

RESOLUTION 9

It is proposed by Resolution 9, 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 5% above the average of the middle market quotations of the shares as derived from the Daily Official List of the London Stock Exchange for the five dealing days immediately preceding the day on which the purchase is made. 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 2010 was 3,172,569. 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 2010 would represent 5% of the reduced issued ordinary share capital.

POWER TO ISSUE SECURITIES

RESOLUTION 10

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. Under Resolution 10, to be proposed as an Ordinary Resolution, authority is sought to allot shares up to an aggregate nominal amount of £2,412,180.80, which represented one third of the company's ordinary share capital as at 21 March 2011 and is an amount within the maximum amount permitted under institutional guidelines. The directors do not currently have an intention to exercise the authority.

RESOLUTION 11

This Resolution, to be proposed as a Special Resolution, will give the directors power to allot shares for cash on a non-pre-emptive basis up to a maximum aggregate nominal value of £361,827, representing 5% of the ordinary share capital of the company as at 21 March 2011.

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 10 and 11 will expire no later than 15 months after the passing of those Resolutions.

CHARITABLE CONTRIBUTIONS

The group made charitable contributions to both children's and local charities, and the Haiti earthquake appeal, during the year totalling £13,398 (2009: £1,033). No political donations were made in the year (2009: £nil).

SUPPLIER PAYMENT POLICY

The group's and the company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction and ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Trade creditor days of the group at 31 December 2010 were 42 days (2009: 28 days).

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 27 to the accounts.

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 Annual General Meeting as detailed above and notice of which is on pages 78 to 80.

Directors' report
Report on the affairs of the group continued

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 Annual General Meeting on pages 78 to 80 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 Annual General Meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each Resolution are made available at the Annual General Meeting 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); and
- pursuant to the Listing Rules of the Financial Services Authority whereby certain 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. Any director who has held office for more than three years since their last appointment must offer themselves up for re-election at the Annual General Meeting.

SIGNIFICANT INTERESTS
Directors' interests in the share capital of the company are shown in the table on page 20. Major interests (i.e. those greater than 3%) of which the company has been notified are shown on page 20.

COMPANY SHARE SCHEMES
The Xaar plc ESOP Trust holds 2.2% 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.

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 review of operations on pages 8 to 11. Notes 20, 21 and 25 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 continuing 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. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

AUDITOR
Deloitte LLP has expressed their willingness to continue in office as auditor and a Resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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 pages 16 and 17.

Having made enquiries of fellow directors and the company's auditor, 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; and
- 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.

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO DTR 4

The directors confirm that, to the best of their 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; and
- the management report, which is incorporated into the directors' 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.

By order of the board

ANDREW TAYLOR
COMPANY SECRETARY
21 MARCH 2011

REGISTERED NUMBER: 3320972

SCIENCE PARK
CAMBRIDGE
CB4 0XR

Corporate governance statement

The company is committed to the principles of corporate governance contained in the UK Corporate Governance Code which is appended to the Listing Rules of the Financial Services Authority (the 2008 FRC Code) and for which the board is accountable to shareholders.

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the year ended 31 December 2010 the company has been in compliance with the provisions set out in section 1 of the 2008 FRC code.

STATEMENT ABOUT APPLYING THE PRINCIPLES OF GOOD GOVERNANCE

The company has applied the Principles of Good Governance set out in section 1 of the 2008 FRC Code, including both the Main Principles and the Supporting Principles, by complying with the 2008 FRC Code as reported above. Further explanation of how the Main Principles and Supporting Principles have been applied is set out below and, in connection with directors' remuneration, in the directors' remuneration report.

BOARD OF DIRECTORS

The board of directors comprises the Chairman, six executive directors and two non-executive directors. Brief biographical details of all members of the board are set out on pages 16 and 17. Greg Lockett (Manufacturing Director) resigned from the board on 10 January 2011 and was replaced that day by Ted Wiggans (Operations Director). Andrew Taylor (Finance Director) will resign from the board on 31 March 2011 and will be replaced as Finance Director by Alex Bevis. Rob Eckelmann will retire from the board at the forthcoming Annual General Meeting after six years as a non-executive director and will be replaced as Senior Independent Director by Robin Williams. The recruitment of a successor for Mr Eckelmann is underway, however there may be a period between Mr Ecklemann leaving and his successor being appointed where the company will have only one independent non-executive director rather than the two required by the 2008 FRC code.

The board considers Rob Eckelmann and Robin Williams to be independent within the meaning of the 2008 FRC Code.

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 one week in advance of each board meeting. The board met ten times during 2010.

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 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 (Ian Dinwoodie) and consisting of the four other executive directors (Andrew Taylor (who will be replaced by Alex Bevis on 31 March 2011), Phil Eaves, Ramon Borrell and Greg Lockett (who was replaced by Ted Wiggans on 10 January 2011)), the Director of Marketing (Mark Alexander) and the Director of Quality (Mike Read). Ted Wiggans and Alex Bevis joined the executive committee immediately on their joining the company.

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.

SUMMARY OF BOARD MEETING ATTENDANCE IN 2010

Ten board meetings were held in 2010.

Name	Meetings attended
Phil Lawler	10 (10)
John Scott	3 (3)
Rob Eckelmann	10 (10)
Robin Williams	9 (9)
Ian Dinwoodie	10 (10)
Andrew Taylor	10 (10)
Phil Eaves	7 (10)
Ramon Borrell	10 (10)
Greg Lockett	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	No	Yes	Yes
John Scott[1]	Chairman	Yes	Yes
Robin Williams[1]	Chairman	Yes	Yes
Rob Eckelmann	Yes	Chairman	Chairman
Ian Dinwoodie	No	No	Yes

[1] Robin Williams replaced John Scott as Chairman of the audit committee and member of the remuneration and nomination committees at the 2010 Annual General Meeting.

SUMMARY OF COMMITTEE MEETING ATTENDANCE IN 2010

Name	Audit committee	Remuneration committee	Nomination committee
Number of meetings held	4	2	2
Phil Lawler	N/A	2(2)	2(2)
John Scott	1(1)	N/A	N/A
Robin Williams	3(3)	2(2)	2(2)
Rob Eckelmann	4(4)	2(2)	2(2)
Ian Dinwoodie	N/A	N/A	2(2)

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.

AUDIT COMMITTEE

The audit committee's role includes the examination and review of, on behalf of the board, internal financial controls, financial and accounting policies and practices, the form and content of financial reports and statements and the financial judgements therein, and the work of the external auditor. The committee ensures that arrangements are in place for staff of the group to raise, confidentially or publicly, concerns about any possible improprieties and ensure that arrangements are in place for the proportionate and independent investigation of such matters and appropriate follow up action. The written terms of reference of the committee are available on request from the Company Secretary.

The committee meets with the company's auditor at least twice a year. The Chairman of the company, Chief Executive and Finance Director attend by invitation, except for a period of each meeting where the committee members and Chairman of the company meet with the auditor without any member of the group management present.

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, has ten years' city experience with County Bank, UBS Phillips and Drew and Salomon Brothers, and is currently chairman of the audit committee for Maxima Holdings plc.

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 auditor in advance.

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.

The committee reviews the need for an internal audit function on an annual basis and has concluded that, due to the current size and structure of the group and the level of control exercised by the executive committee, an internal audit function is neither necessary nor cost effective at this time.

The committee has formally identified Ted Wiggans as director responsible for health and safety and Andrew Taylor as director responsible for risk assessment. On Andrew Taylor's resignation from the board Alex Bevis will be responsible for risk assessment.

Corporate governance statement
continued

BOARD COMMITTEES CONTINUED

REMUNERATION COMMITTEE

The remuneration committee makes recommendations to the board on the group's policy for executive remuneration and determines the individual remuneration packages on behalf of the board for the executive directors of the group. The Chief Executive attends meetings by invitation, except when the Chief Executive's own remuneration package is being discussed.

The committee has access to professional advice, both inside and outside the company, in the furtherance of its duties. The committee has received information on best practice and market rates for directors' remuneration from Deloitte LLP during the year. The directors' remuneration report sets out in more detail the committee's policies and practices on executive remuneration. The written terms of reference of the committee are available on request from the Company Secretary.

NOMINATION COMMITTEE

The nomination committee is responsible for reviewing the size and composition of the board, for making recommendations to the board on the appointment of new executive and non-executive directors and their reappointment following retirement by rotation. The committee meets as required. The written terms of reference of the committee are available on request from the Company Secretary.

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. Short listed candidates are interviewed by all 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.

Ted Wiggans was appointed to the board on 10 January 2011 and Alex Bevis was appointed on 14 February 2011. A leading external search consultancy was used to identify a short list of candidates for both appointments. The final appointments were made after a series of interviews with the members of the nomination committee and the recommendation of the chosen candidates to the board.

All directors are required to submit themselves for reappointment at least every three years and directors appointed during the year are required to seek reappointment at the first Annual General Meeting following their appointment.

PERFORMANCE EVALUATION

The board's policy for individual executive director performance reviews is for a formal and rigorous appraisal process based on performance by individual director against specific targets. Individual directors 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.

The board reviewed both its 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, research and development, European sales and the marketing function are based in Cambridge, England. The group has two manufacturing facilities, one in Stockholm, Sweden and the other in Huntingdon, England. The group has representative offices in Shanghai, China, New Delhi, India, Sao Paulo, Brazil, Seoul, Korea, and Atlanta, USA.

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 its Huntingdon facility during the year.

The group's financial public relations advisors give all investors and potential investors, who have met with the group's investor relations team, the opportunity to provide feedback on the meetings. The feedback is co-ordinated by the PR advisors into a single document which is circulated to all members of the board. Additionally the Chief Executive and Finance Director provide feedback to the board at the meeting following shareholder meetings to ensure 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.

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING

The board uses the Annual General Meeting to communicate with investors and to encourage their participation.

INTERNAL CONTROL

The board has established 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. The board regularly reviews the process, which has been in place from the start of 2008. The board is responsible for the group's system of internal control and for reviewing its effectiveness. 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.

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.

This report was approved by the board of directors on 21 March 2011 and signed on its behalf by:

ANDREW TAYLOR
COMPANY SECRETARY
21 MARCH 2011

REGISTERED NUMBER: 3320972

SCIENCE PARK
CAMBRIDGE
CB4 0XR

Directors' remuneration report

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006 ("the Act"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the AGM of the group at which the financial statements of the group will be approved.

The Act requires the auditor to report to the company's members on certain parts of the directors' remuneration report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

REMUNERATION COMMITTEE

The principal function of the remuneration committee (the membership of which is outlined in the corporate governance statement) is to determine, on behalf of the board, the specific remuneration and other benefits of all executive directors, including pension contributions, bonus payments, share options and service contracts. The fees paid to the non-executive directors are determined by the board. Additionally, the remuneration committee makes recommendations to the board on the framework of executive remuneration as well as principal company-wide compensation programs. The committee has access to professional advice, both inside and outside the group, in the furtherance of its duties and has accessed such advice during the year.

TOTAL LEVEL OF REMUNERATION

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 fairly and responsibly reward individuals for their contribution to the success of the group. A substantial proportion of remuneration, representing bonuses and share-based remuneration, of executive directors is performance related.

Executive directors are entitled to accept appointments outside the group providing that the Chairman's permission is sought and fees in excess of £20,000 from all such appointments are accounted for to the group.

BASIC SALARIES

An executive director's basic salary is reviewed by the committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the committee considers the group as a whole, market conditions, and the individual's performance.

BENEFITS IN KIND

Benefits in kind represent company cars and private medical insurance.

BONUS PAYMENTS

Bonuses are non-pensionable and based on a percentage of basic salary. For the year commencing 1 January 2011 the maximum potential bonus payment as a percentage of basic salary for directors under the annual bonus scheme is 100% of basic salary. Bonuses are payable based on annual targets. Non-executive directors do not receive a bonus.

TERMINATION

In the event of early termination, the executive directors' contracts provide for compensation up to a maximum of basic salary for the notice period. The remuneration committee considers the circumstances of individual cases of early termination and in exceptional circumstances only would recommend compensation payments in excess of the company's contractual obligations.

SHARE OPTIONS

All executive directors are entitled to participate in the company's share-based remuneration schemes, including the company's Save as you earn ("SAYE") scheme. Any grants thereunder are approved by the remuneration committee. Performance criteria for all share option schemes and long term incentive plans are intended to deliver increased shareholder value.

Non-executive directors do not participate in the company's share option schemes or long term incentive plans. It is the policy of the company to grant share options and make awards under the long term incentive plan to employees and executive directors as a means of encouraging ownership and providing incentives for performance.

Certain options granted to directors are subject to vesting criteria as summarised below.

Options held at 31 December 2010 granted prior to 2003 under the Xaar plc 1997 share option scheme:

- Ian Dinwoodie: 100,000 options with an exercise price of 68.5p where, as long as the share price remains above the relevant threshold for at least 20 consecutive days after the earliest date of exercise, 33% vest at a share price of 110p, 66% vest at 125p and 100% vest at 140p. These options additionally require Earnings Per Share ("EPS") growth over the three year vesting period to be more than RPI + 5% per annum compound.
- Andrew Taylor: 15,000 options with an exercise price of 25p, with no performance criteria attached. These options were granted prior to joining the board.

Options held at 31 December 2010 granted during 2003 under the Xaar plc 1997 share option scheme:

	Number	Exercise price
Ian Dinwoodie	200,000	36.0p

These options will vest as long as the share price remains above 76.0p for at least 20 consecutive days after the earliest date of exercise.

UNAUDITED INFORMATION CONTINUED

SHARE OPTIONS CONTINUED

Options held at 31 December 2010 granted under the Xaar plc 2004 share option plan:

	Date of grant	Number	Exercise price
Ian Dinwoodie	20.05.04	100,000	84.0p
Andrew Taylor	20.05.04	35,000	84.0p
Ian Dinwoodie	28.10.04	50,000	109.0p
Greg Lockett	28.10.04	50,000	109.0p
Andrew Taylor	28.10.04	30,000	109.0p
Phil Eaves	15.03.05	119,791	192.0p

Additionally, Phil Eaves was granted a further 130,209 options on 15 March 2005 at an exercise price of 192.0p. This grant was made on Phil Eaves joining the company in accordance with Rule 9.4.2 (2) of the Listing Rules. These options are subject to a separate agreement between Phil Eaves and the company, with the terms of this agreement being the provisions of the Xaar plc 2004 share option plan in all respects except as to the limit of options allowed in relation to an individual's salary.

An option granted under the Xaar plc 2004 share option plan 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 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 5.5p 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 5.5p target will apply for the final financial year in the extended period.

An option granted under the Xaar plc 1997 SAYE Scheme or the Xaar plc 2007 SAYE Scheme vests after three years. No performance criteria are attached to options granted under this scheme.

RETESTING OF PERFORMANCE CRITERIA UNDER THE RULES OF THE XAAR PLC 2004 SHARE OPTION PLAN

In accordance with best practice the remuneration committee has indicated that performance criteria will not be retested with regard to share options issued to directors under the Xaar plc 2004 share option plan.

OPTIONS EXERCISED

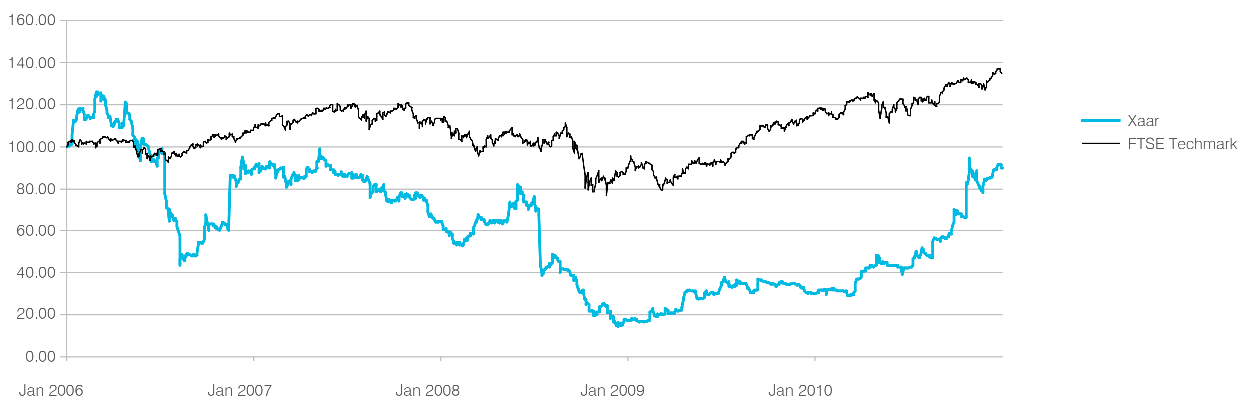
No options were exercised by directors in 2009 or 2010.

PENSION SCHEME

The company operates a self-administered, defined contribution, HMRC approved pension scheme. All current executive directors participate in this scheme. Non-executive directors do not receive pension contributions.

PERFORMANCE GRAPH

The following graph shows the company's performance, measured by Total Shareholder Return, compared with the performance of the FTSE TechMARK All Share Index.



The FTSE TechMARK All Share Index has been selected for this comparison because the Index includes Xaar plc. For the purposes of this comparison the FTSE TechMARK All Share Index is based on the constituent companies in the Index at a point in time.

Directors' remuneration report
continued

UNAUDITED INFORMATION CONTINUED

TERMS OF APPOINTMENT

It is the group's policy that executive directors should have contracts with an indefinite term, providing for a minimum of one year's notice.

All non-executive directors are appointed for an initial three year term with provision for two further three year terms, subject to satisfactory performance.

The details of directors' contracts are summarised below:

	Date of contract
Ian Dinwoodie	13.11.01
Andrew Taylor	31.03.08
Phil Eaves	04.02.05
Ramon Borrell	27.08.07
Greg Lockett	15.10.07
Phil Lawler	01.06.07
Rob Eckelmann	01.10.05
Robin Williams	05.03.10
Ted Wiggans	10.01.11
Alex Bevis	14.02.11

AUDITED INFORMATION

DIRECTORS' REMUNERATION

The remuneration of directors who served during the year was as follows:

	Basic salary £'000	Fees £'000	Benefits in kind £'000	Bonus payments £'000	Total (excluding pension contributions) £'000	Money purchase pension contributions £'000	**Total 2010 £'000**	Total (including pension contributions) 2009 £'000	Money purchase pension contributions 2009 £'000
Executive									
Ian Dinwoodie	189	—	30	151	370	13	**383**	226	13
Andrew Taylor	105	—	21	84	210	7	**217**	120	7
Phil Eaves	149	—	29	119	297	10	**307**	182	10
Ramon Borrell	118	—	24	96	238	8	**246**	145	8
Greg Lockett	95	—	19	76	190	7	**197**	120	7
	656	—	123	526	1,305	45	**1,350**	793	45
Non-executive									
Phil Lawler	—	75	—	—	75	—	**75**	75	—
John Scott	—	9	—	—	9	—	**9**	33	—
Robin Williams	—	28	—	—	28	—	**28**	—	—
Rob Eckelmann	—	33	—	—	33	—	**33**	30	—
	656	145	123	526	1,450	45	**1,495**	931	45

During 2010 an accrual has been made for £133,000 (2009: £nil) in relation to a contractual payment due to Andrew Taylor payable on his resignation from the board and the company on 31 March 2011.

AUDITED INFORMATION CONTINUED

DIRECTORS' SHARE OPTIONS

Directors' emoluments are disclosed on page 30 do not include any amounts for the value of options to acquire ordinary shares in the company granted or held by the directors. Details of the options are as follows:

Name	As at 1 January 2010	Granted	Exercised	Lapsed	As at 31 December 2010	Earliest exercise price	Earliest date of exercise	Expiry date
Ian Dinwoodie	100,000[1]	—	—	—	**100,000**	68.5p	12.06.05	12.06.12
	200,000[1]	—	—	—	**200,000**	36p	06.10.06	06.10.13
	100,000[1]	—	—	—	**100,000**	84p	20.05.07	20.05.14
	50,000[1]	—	—	—	**50,000**	109p	20.10.07	20.10.14
	10,122[3]	—	—	—	**10,122**	46p	01.06.12	01.12.12
	453,958	—	—	—	**453,958**			
Phil Eaves	119,791[1]	—	—	—	**119,791**	192p	15.03.08	15.03.15
	130,209[1]	—	—	—	**130,209**	192p	15.03.08	15.03.15
	250,000	—	—	—	**250,000**			
Greg Lockett	50,000[1,2]	—	—	—	**50,000**	109p	20.10.07	20.10.14
	—	2,524[3]	—	—	**2,524**	174p	21.12.13	21.05.14
	10,122[3]	—	—	—	**10,122**	46p	01.06.12	01.12.12
	60,122	2,524	—	—	**62,646**			
Ramon Borrell	—	2,524[3]	—	—	**2,524**	174p	21.12.13	21.05.14
	10,122[3]	—	—	—	**10,122**	46p	01.06.12	01.12.12
	10,122	2,524	—	—	**12,646**			
Andrew Taylor	15,000[2]	—	—	—	**15,000**	25p	19.11.05	19.11.12
	35,000[1,2]	—	—	—	**35,000**	84p	20.05.07	20.05.14
	30,000[1,2]	—	—	—	**30,000**	109p	20.10.07	20.10.14
	10,122[3]	—	—	—	**10,122**	46p	01.06.12	01.12.12
	90,122	—	—	—	**90,122**			

1 These options carry certain specific performance criteria which must be achieved prior to vesting. Details are shown in the unaudited section of the directors' remuneration report.
2 These amounts represent options granted prior to the date of appointment to the board.
3 These options were granted under the Xaar plc 2007 Share Save Scheme (SAYE).

The performance conditions relating to the above share options are given on pages 28 and 29.

LONG TERM INCENTIVE PLAN

Directors' emoluments disclosed above do not include any amounts for the value of shares granted to directors under the Xaar plc 2007 Long Term Incentive Plan (LTIP). Details of awards outstanding on 1 January 2010 are as follows:

	Date of grant				
	10 May 2007	26 September 2007	21 August 2008	1 April 2009	Total number of shares
Share price at date of award	258.5p	198.0p	111.0p	56.0p	
Ian Dinwoodie	67,277	—	170,900	330,357	**568,534**
Phil Eaves	53,000	—	107,159	258,928	**419,087**
Greg Lockett	28,500	—	70,207	169,642	**268,349**
Andrew Taylor	20,000	—	62,817	169,642	**252,459**
Ramon Borrell	—	55,000	84,988	205,357	**345,345**

AUDITED INFORMATION CONTINUED

LONG TERM INCENTIVE PLAN CONTINUED

During 2010 the vesting criteria for LTIPs issued in 2007 were not met and the awards therefore lapsed. Details of awards outstanding on 31 December 2010 are as follows:

	Date of grant			
	21 August 2008	1 April 2009	22 November 2010	**Total number of shares**
Share price at date of award	111.0p	56.0p	211.0p	
Ian Dinwoodie	170,900	330,357	89,573	**590,830**
Phil Eaves	107,159	258,928	70,616	**436,703**
Greg Lockett	70,207	169,642	—	**239,849**
Andrew Taylor	62,817	169,642	—	**232,459**
Ramon Borrell	84,988	205,357	56,872	**347,217**

Performance Share Awards granted in the period 2007 to 2009 inclusive under the LTIP are subject to two separate conditions, the first condition applying to 50% of the shares subject to each award and the second condition applying to the remaining 50%. For awards granted from 2010 onwards, the Remuneration Committee has decided that these awards will be subject to Earnings per Share conditions only, which will apply to 100% of any award. It is the Remuneration Committee's view that this more effectively aligns management's incentives to shareholders' interests.

THE TOTAL SHAREHOLDER RETURN (TSR) CONDITION

In respect of the first 50% of each award (the TSR Awards) granted between 2007 and 2009 inclusive, the number of shares that will vest will depend on the company's TSR performance over the three financial years of the company commencing on 1 January of the year of grant against the TSR performance of the TechMARK All Share Index (the "Comparator group").

(1) If the company's TSR performance is below the median performance of the Comparator group, none of the TSR Awards will vest.

(2) For TSR performance which is equal to the median performance of the Comparator group, 35% of the TSR Awards will vest.

(3) All of the TSR Awards will vest for TSR performance at upper quartile and above.

(4) For TSR performance between median and upper quartile, the proportion of the TSR Awards that will vest will be calculated on a straight-line basis.

THE EARNINGS PER SHARE (EPS) CONDITION

In respect of the second 50% of each award (the EPS Awards) for awards granted between 2007 and 2009 inclusive or 100% of each award for those granted in 2010, 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.

(1) None of the EPS 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 EPS 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 EPS Awards will vest if the company's EPS growth exceeds growth in the RPI by at least 10% compound p.a.

(4) EPS 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.

SHARE PRICE

The market value of the ordinary shares of the company as at 31 December 2010 was 239.5p (2009: 80.5p) per share. The closing mid range price ranged from 77.6p to 252.5p per share (2009: from 44.5p to 101.5p) during the year.

APPROVAL

This report was approved by the board of directors on 21 March 2011 and signed on its behalf by:

IAN DINWOODIE
CHIEF EXECUTIVE
21 MARCH 2011

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 elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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; and
- 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; and
- the management report, which is incorporated into the directors' 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.

By order of the board

IAN DINWOODIE
DIRECTOR
21 MARCH 2011

ANDREW TAYLOR
DIRECTOR

Independent auditor's report (group and company) to the members of Xaar plc

We have audited the financial statements of Xaar plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the related notes 1 to 36, the Parent Company Balance Sheet and the related notes 1 to 10. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (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).

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.

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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

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 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with 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; 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.

SEPARATE OPINION IN RELATION TO IFRSs AS ISSUED BY THE IASB

As explained in note 3 to the group financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

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 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

We have nothing to report in respect of the following:

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

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, contained within the directors' report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

DAVID HALSTEAD FCA (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF DELOITTE LLP
CHARTERED ACCOUNTANTS AND STATUTORY AUDITOR
CAMBRIDGE, UNITED KINGDOM
21 MARCH 2011

Financial statements

Consolidated income statement for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000 (restated) (note 4)
Continuing operations			
Revenue	5	54,678	41,497
Cost of sales		(32,085)	(24,720)
Gross profit		22,593	16,777
Distribution costs		(3,623)	(3,412)
Administrative expenses		(14,596)	(11,420)
Restructuring costs		1,107	(2,686)
Operating profit/(loss)		5,481	(741)
Investment income	5,9	42	117
Finance costs	10	(92)	(36)
Profit/(loss) before tax		5,431	(660)
Tax	11	(1,442)	718
Profit for the year attributable to shareholders	7	3,989	58
Earnings per share from continuing operations			
Basic	13	6.3p	0.1p
Diluted	13	6.1p	0.1p

Dividends paid in the year amounted to £1,545,000 (2009: £1,545,000). Further disclosures are given in note 12.

Reconciliation of adjusted financial measures for the year ended 31 December 2010

	2010 £'000	2009 £'000 (restated)
Gross profit	22,593	16,777
Exceptional commercial agreement costs	271	—
Gross profit (adjusted)	22,864	16,777
Profit/(loss) before tax	5,431	(660)
Restructuring costs	(1,107)	2,686
Exceptional commercial agreement costs	461	—
Impairment of trade investments	—	639
Exchange differences on intra-group transactions	(462)	157
(Gain)/loss on derivative financial instruments	(39)	46
Share-based payment charges	1,276	(779)
Profit before tax (adjusted)	5,560	2,089

Consolidated statement of comprehensive income for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000 (restated)
Profit for the year (as previously reported)		3,989	399
Prior period adjustment	4	—	(341)
Profit for the year (restated)		3,989	58
Exchange differences on retranslation of net investment		(391)	(180)
Loss on cash flow hedges		(87)	(349)
Tax relating to components of other comprehensive income		14	499
Other comprehensive loss for the year		(464)	(30)
Total comprehensive income for the year		3,525	28

Consolidated statement of changes in equity for the year ended 31 December 2010

	Notes	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Hedging and translation reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2010 (as previously reported)		6,351	10,525	(4,465)	3,140	904	20,769	37,224
Prior period adjustment	4	—	—	—	—	—	(761)	(761)
Balance at 1 January 2010 (restated)		6,351	10,525	(4,465)	3,140	904	20,008	36,463
Profit for the year		—	—	—	—	—	3,989	3,989
Exchange differences on retranslation of net investment		—	—	—	—	(391)	—	(391)
Loss on cash flow hedges		—	—	—	—	(87)	—	(87)
Tax on items taken directly to equity		—	—	—	—	14	—	14
Total comprehensive income for the period		—	—	—	—	(464)	3,989	3,525
Issue of share capital		886	14,139	—	—	—	—	15,025
Expenses of issue of equity shares		—	(1,130)	—	—	—	—	(1,130)
Dividends	12	—	—	—	—	—	(1,545)	(1,545)
Deferred tax benefit on share option gains		—	—	—	—	—	1,064	1,064
Credit to equity for equity-settled share-based payments		—	—	—	874	—	—	874
Balance at 31 December 2010		7,237	23,534	(4,465)	4,014	440	23,516	54,276

	Notes	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Hedging and translation reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2009 (as previously reported)		6,350	10,525	(4,465)	3,919	1,335	21,514	39,178
Prior period adjustment	4	—	—	—	—	—	(420)	(420)
Balance at 1 January 2009 (restated)		6,350	10,525	(4,465)	3,919	1,335	21,094	38,758
Profit for the year		—	—	—	—	—	58	58
Exchange differences on retranslation of net investment		—	—	—	—	(180)	—	(180)
Loss on cash flow hedges		—	—	—	—	(349)	—	(349)
Tax on items taken directly to equity		—	—	—	—	98	401	499
Total comprehensive income for the period		—	—	—	—	(431)	459	28
Issue of share capital		1	—	—	—	—	—	1
Dividends	12	—	—	—	—	—	(1,545)	(1,545)
Charge to equity for equity-settled share-based payments		—	—	—	(779)	—	—	(779)
Balance at 31 December 2009 (restated)		6,351	10,525	(4,465)	3,140	904	20,008	36,463

Financial statements

Consolidated statement of financial position as at 31 December 2010

	Notes	2010 £'000	2009 £'000 (restated)	2008 £'000 (restated)
Non-current assets				
Goodwill	14	**720**	720	720
Other intangible assets	15	**4,349**	5,108	6,650
Property, plant and equipment	16	**17,385**	14,513	12,667
Investments	18	**1,261**	1,261	1,900
Deferred tax asset	22	**995**	200	239
		24,710	21,802	22,176
Current assets				
Inventories	4,19	**10,715**	6,738	8,139
Trade and other receivables	4,20	**9,301**	5,525	6,225
Current tax asset	20	**381**	—	—
Cash and cash equivalents	20	**23,344**	11,521	11,601
Derivative financial instruments	21	**—**	47	704
		43,741	23,831	26,669
Total assets		**68,451**	45,633	48,845
Current liabilities				
Trade and other payables	24	**(10,969)**	(5,435)	(6,031)
Other financial liabilities	25	**(217)**	(224)	(210)
Current tax liabilities		**—**	(121)	(265)
Obligations under finance leases	23	**(265)**	—	—
Provisions	26	**(797)**	(2,408)	(528)
Derivative financial instruments		**—**	—	(352)
		(12,248)	(8,188)	(7,386)
Net current assets		**31,493**	15,643	19,283
Non-current liabilities				
Deferred tax liabilities	22	**(695)**	(765)	(2,260)
Other financial liabilities	25	**(361)**	(217)	(441)
Obligations under finance leases	23	**(871)**	—	—
Total non-current liabilities		**(1,927)**	(982)	(2,701)
Total liabilities		**(14,175)**	(9,170)	(10,087)
Net assets		**54,276**	36,463	38,758
Equity				
Share capital	27	**7,237**	6,351	6,350
Share premium	28	**23,534**	10,525	10,525
Own shares	29	**(4,465)**	(4,465)	(4,465)
Other reserves	31	**4,014**	3,140	3,919
Hedging and translation reserves	30	**440**	904	1,335
Retained earnings	31	**23,516**	20,008	21,094
Equity attributable to shareholders		**54,276**	36,463	38,758
Total equity		**54,276**	36,463	38,758

The financial statements of Xaar plc, registered number 3320972, were approved by the board of directors and authorised for issue on 21 March 2011.

They were signed on its behalf by:

IAN DINWOODIE
DIRECTOR

ANDREW TAYLOR
DIRECTOR

Consolidated cash flow statement for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net cash from operating activities	32	**5,524**	6,979
Investing activities			
Investment income		**42**	81
Purchases of property, plant and equipment		**(6,488)**	(5,172)
Proceeds on disposal of property, plant and equipment		**10**	—
Expenditure on capitalised product development		**(359)**	(185)
Net cash used in investing activities		**(6,795)**	(5,276)
Financing activities			
Dividends paid		**(1,546)**	(1,545)
Loan financing		**1,389**	—
Proceeds from issue of ordinary share capital		**15,025**	—
Fees for issue of ordinary share capital		**(1,130)**	—
Finance costs		**(80)**	—
Repayments of borrowings		**(537)**	(210)
Net cash provided by/(used in) financing activities		**13,121**	(1,755)
Net increase/(decrease) in cash and cash equivalents		**11,850**	(52)
Effect of foreign exchange rate changes		**(27)**	(28)
Cash and cash equivalents at beginning of year		**11,521**	11,601
Cash and cash equivalents at end of year		**23,344**	11,521

Notes to the consolidated financial statements for the year ended 31 December 2010

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 directors' report on page 19.

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 debtors and inventory balances. Provisions against both balances are made on the basis of past losses, current trading patterns and anticipated future events.

PROVISIONS
Throughout the year, management considers the potential liability arising from product warranty claims; provisions for warranty claims are made based on the basis of past losses and anticipated future events.

Management also considers costs associated with planned restructuring changes and assessment of such planned future events on a case by case basis.

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 2010 was £720,000 (2009: £720,000). Further details are given in note 14.

IMPAIRMENT OF TRADE INVESTMENTS
The group determines whether its trade investments are impaired at least on an annual basis. Unquoted investments are evaluated against the opportunity for return through trading gains through continuing to hold the investment. The carrying amount of trade investments at 31 December 2010 was £1,261,000 (2009: £1,261,000). Further details are given in note 18.

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.

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.

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 review of operations on pages 8 to 11. Notes 20, 21 and 25 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. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

BUSINESS COMBINATIONS

The acquisition of subsidiaries is accounted for using the purchase 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 is recognised when all the following conditions are satisfied:

- the company has transferred to the buyer the significant risks and rewarded 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; and
- the costs incurred or to be incurred, in respect of the transaction can be measured reliably.

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.

Revenue from the sale of licences is recognised once the licence has been delivered to the customer and acceptance criteria achieved.

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.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease, even if the payments are not made on such a basis.

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 overleaf for details of the group's accounting policies in respect of such derivative financial instruments).

Notes to the consolidated financial statements for the year ended 31 December 2010 continued

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FOREIGN CURRENCIES CONTINUED

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 the income statement. 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 GRANTS

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

Government grants relating to property, plant and equipment are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

OPERATING PROFIT

Operating profit is stated 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.

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.

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 are 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, 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
Plant and machinery	three–five years
Furniture, fittings and equipment	three–five years
Motor vehicles	three years

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

PROPERTY, PLANT AND EQUIPMENT CONTINUED

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.

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 subsequently reverses, 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 comprises 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 timeframe 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.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 with an original maturity of three months or less 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 below.

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 at 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 forecasted 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 policy is 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 and effective as hedges of future cash flows 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 forecasted 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.

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 forecasted 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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

In the current year, the following new and revised Standards and Interpretations have been adopted:

IAS 27 (2008) Consolidated and Separate Financial Statements;

IAS 28 (2008) Investments in Associates.

Adoption of these standards did not have any significant impact on the financial position or performance of the Group, or result in changes in accounting policy or additional disclosure.

The following new and revised Standards and Interpretations have been adopted in the current year. Although their adoption has not had any significant impact on the amounts reported in these financial statements it may impact the accounting for future transactions and arrangements.

IFRIC 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on when an entity should recognise a non-cash dividend payable, how to measure the dividend payable and how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the payable is settled.
IFRS 2 (amended) Group Cash-settled Share-based Payment Transactions	The amendment clarifies the accounting for share-based payment transactions between group entities.
IFRS 3 (2008) Business Combinations	IFRS 3 (2008) has introduced additional disclosure requirements for acquisitions.

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
IAS 24 (amended)	Related Party Disclosures
IAS 32 (amended)	Classification of Rights Issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 14 (amended)	Prepayments of a Minimum Funding Requirement
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
Improvements to IFRSs (May 2010)	

The adoption of IFRS 9 which the group plans to adopt for the year beginning on 1 January 2013 will impact both the measurement and disclosures of Financial Instruments.

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

4. RESTATEMENT OF PRIOR PERIODS

The financial statements include a prior period restatement in relation to the recognition of revenue from a distributor. In prior periods revenue (and associated profits) were recognised at the point of receipt of goods by the distributor.

The restated financial statements recognise revenue (and associated profits) at the point of resale by the distributor which is when risk and rewards of ownership of inventory has transferred.

In addition to the impact on the 2009 income statement following adjustments to revenue and profit, receivables and inventory have also been restated in the 2009 and 2008 statement of financial position.

Segment results in note 6 reflect this restatement which only impacted printheads and related products.

Outlined below are the corrections made for each financial statement line affected.

CONSOLIDATED INCOME STATEMENT

	31 December 2009 as reported £'000	31 December 2009 adjustment £'000	31 December 2009 restated £'000
Continuing operations			
Revenue	42,073	(576)	41,497
Cost of sales	(24,822)	102	(24,720)
Gross profit	17,251	(474)	16,777
Operating loss	(267)	(474)	(741)
Loss before tax	(186)	(474)	(660)
Tax	585	133	718
Profit for the year attributable to shareholders	399	(341)	58
Earnings per share from continuing operations			
Basic	0.6p		0.1p
Diluted	0.6p		0.1p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EXTRACTS)

	31 December 2009 as reported £'000	31 December 2009 adjustment £'000	31 December 2009 restated £'000	31 December 2008 as reported £'000	31 December 2008 adjustment £'000	31 December 2008 restated £'000
Current assets						
Inventories	5,766	972	6,738	7,269	870	8,139
Trade and other receivables	7,554	(2,029)	5,525	7,678	(1,453)	6,225
Total assets	46,690	(1,057)	45,633	49,428	(583)	48,845
Current liabilities						
Current tax liabilities	(417)	296	(121)	(428)	163	(265)
Net current assets	16,404	(761)	15,643	19,703	(420)	19,283
Total liabilities	(9,466)	296	(9,170)	(10,250)	163	(10,087)
Net assets	37,224	(761)	36,463	39,178	(420)	38,758
Equity						
Retained earnings	20,769	(761)	20,008	21,514	(420)	21,094
Equity attributable to shareholders	37,224	(761)	36,463	39,178	(420)	38,758
Total equity	37,224	(761)	36,463	39,178	(420)	38,758

4. RESTATEMENT OF PRIOR PERIODS CONTINUED

NOTES TO THE CASH FLOW STATEMENT (EXTRACTS)

	31 December 2009 as reported £'000	31 December 2009 adjustment £'000	31 December 2009 restated £'000
Loss before tax	(186)	(474)	(660)
Operating cash flows before movements in working capital	6,287	(474)	5,813
Decrease/(increase) in inventories	1,389	(972)	417
Decrease in receivables	236	2,029	2,265
Decrease in payables	(516)	(583)	(1,099)

5. REVENUE

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

	Note	2010 £'000	2009 £'000 (restated)
Sales of goods		**47,237**	36,079
Development fees		**459**	745
Licence fees and royalties		**6,982**	4,673
		54,678	41,497
Investment income	9	**42**	117
		54,720	41,614

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 product type. These product groups comprise the group's operating segments for the purposes of reporting to the group's Chief Executive Officer and board of directors. The group's chief operating decision maker is the Chief Executive Officer.

Principal product groups are as follows:

- printheads and related products;
- development fees; and
- licence fees and royalties.

Segment information about these product types is presented below and the nature of these product groups is discussed in more detail in the review of operations.

Year ended 31 December 2010	Notes	Printheads and related products £'000	Development fees £'000	Licence fees and royalties £'000	Unallocated £'000	Consolidated £'000
Revenue						
Total segment revenue		**47,237**	**459**	**6,982**	—	**54,678**
Result						
Underlying operating (loss)/profit		**(1,029)**	**179**	**5,999**	—	**5,149**
Restructuring costs		—	—	—	**1,107**	**1,107**
Exchange differences on intra-group transactions		—	—	—	**462**	**462**
Gain on derivative financial instruments		—	—	—	**39**	**39**
Share-based payment charges		—	—	—	**(1,276)**	**(1,276)**
Segment result		**(1,029)**	**179**	**5,999**	**332**	**5,481**
Investment income	9	—	—	—	**42**	**42**
Finance costs	10	—	—	—	**(92)**	**(92)**
(Loss)/profit before tax		**(1,029)**	**179**	**5,999**	**282**	**5,431**

Investment income and finance costs are not allocated to reportable segments for the purposes of reporting to the Group's Chief Executive Officer and board of directors.

Notes to the consolidated financial statements for the year ended 31 December 2010 continued

6. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

Year ended 31 December 2009	Notes	Printheads and related products £'000 (restated)	Development fees £'000	Licence fees and royalties £'000	Unallocated £'000	Consolidated £'000 (restated)
Revenue						
Total segment revenue		36,079	745	4,673	—	41,497
Result						
Underlying operating (loss)/profit		(2,033)	34	4,007	—	2,008
Restructuring costs		—	—	—	(2,686)	(2,686)
Impairment of trade investments		—	—	—	(639)	(639)
Exchange differences on intra-group transactions		—	—	—	(157)	(157)
Loss on derivative financial instruments		—	—	—	(46)	(46)
Share-based payment charges		—	—	—	779	779
Segment result		(2,033)	34	4,007	(2,749)	(741)
Investment income	9	—	—	—	117	117
Finance costs	10	—	—	—	(36)	(36)
(Loss)/profit before tax		(2,033)	34	4,007	(2,668)	(660)

SEGMENT ASSETS

	2010 £'000
Printheads and related products	**42,966**
Development fees	**—**
Licence fees and royalties	**880**
Total segment assets	**43,846**
Investments	**1,261**
Cash and cash equivalents	**23,344**
Total assets	**68,451**

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

	2009 £'000 (restated)
Printheads and related products	32,307
Development fees	1
Licence fees and royalties	543
Total segment assets	32,851
Investments	1,261
Cash and cash equivalents	11,521
Total assets	45,633

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

OTHER SEGMENT INFORMATION

Year ended 31 December 2010	Notes	Printheads and related products £'000	Development fees £'000	Licence fees and royalties £'000	Unallocated £'000	Consolidated £'000
Depreciation and amortisation	15,16	**3,686**	**1,119**	**—**	**—**	**4,805**
Share-based payment charges	34	**—**	**—**	**—**	**1,276**	**1,276**
Capital expenditure	16	**6,481**	**—**	**—**	**—**	**6,481**

Year ended 31 December 2009	Notes	Printheads and related products £'000	Development fees £'000	Licence fees and royalties £'000	Unallocated £'000	Consolidated £'000
Depreciation and amortisation	15,16	3,035	1,727	—	—	4,762
Share-based payment charges	34	—	—	—	(779)	(779)
Capital expenditure	16	5,004	—	—	—	5,004
Asset impairment	18	—	—	—	639	639

REVENUES FROM MAJOR PRODUCTS AND SERVICES

	2010 £'000	2009 £'000 (restated)
Sales of goods	**47,237**	36,079
Development fees	**459**	745
Licence fees and royalties	**6,982**	4,673
Consolidated revenue (excluding investment income)	**54,678**	41,497

GEOGRAPHICAL INFORMATION

The group operates three principal geographical areas: EMEA, the Americas and Asia. 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	
	2010 £'000	2009 £'000 (restated)
EMEA	**24,893**	12,800
Asia		
– China	**10,273**	11,524
– Japan	**7,181**	4,858
– Other	**4,851**	5,467
The Americas (including USA)	**7,480**	6,848
	54,678	41,497

Revenues are attributed to geographical areas on the basis of the customer's operating location.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

GEOGRAPHICAL INFORMATION CONTINUED

	Non-current assets	
	2010 £'000	2009 £'000
EMEA	**24,655**	21,737
Asia	**46**	45
The Americas (including USA)	**9**	20
	24,710	21,802

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.

INFORMATION ABOUT MAJOR CUSTOMERS

Included in revenues arising from sales of goods are revenues of approximately £9.5m (17% of revenues) (2009: £10.7m, 26% of revenues) which arose from sales to the group's largest customer. In the year ended 31 December 2010 revenues of approximately £2.9m (5% of revenues) (2009: £3.4m, 8% of revenues) were included in both the sale of goods and licence fees and royalties which arose from sales to the group's second largest customer. In 2010 and 2009, only the largest customer of the group exceeded 10% of revenue in the period. Revenue from the top five customers represents 37% of revenues (2009: 44%).

7. PROFIT FOR THE YEAR

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

	2010 £'000	2009 £'000 (restated)
Net foreign exchange (gains)/losses	**(462)**	489
Research and development costs	**4,656**	4,595
Government grants towards research and development	**(279)**	(201)
Depreciation of property, plant and equipment	**3,686**	3,035
Amortisation of intangible assets included in administrative expenses	**1,119**	1,727
Loss on disposal of property, plant and equipment	**25**	12
Cost of inventories recognised as expense	**16,113**	11,680
Write down of inventories recognised as an expense	**129**	317
Impairment of other financial assets	**62**	264
Reversal of impairment losses previously recognised on trade receivables	**—**	(12)
Impairment of trade investments	**—**	639
Total fees payable to the company's auditor and their associates	**374**	198

7. PROFIT FOR THE YEAR CONTINUED

	2010 £'000	2009 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	17	17
Fees payable to the company's auditor and its associates for other services to the Group		
The audit of the company's subsidiaries	75	59
Total audit fees	92	76
– Interim review	20	18
– Tax services	131	101
– Recruitment and remuneration services	13	3
– Corporate finance	105	—
– Other services	13	—
Total non-audit fees	282	122
Total fees payable to the company's auditor and its associates	374	198

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 24 to 27 and includes an explanation of how auditor's objectivity and independence is safeguarded when non-audit services are provided by the auditor.

The Group paid £7k (2009: £6k) to Cambridge Network Limited, an associate of Deloitte LLP. Cambridge Network is a networking organisation which draws its members from companies and individuals interested in the Cambridge technology industry. Neither Deloitte LLP nor any of its partners receive any financial return from Cambridge Network.

8. STAFF COSTS

The average monthly number of persons employed by the group including executive directors was as follows:

	2010 Number	2009 Number
Research and development	50	52
Sales and marketing	29	30
Manufacturing and engineering	267	208
Administration	31	28
	377	318

Their aggregate remuneration comprised:

	Note	2010 £'000	2009 £'000
Wages and salaries		15,205	10,153
Social security costs		2,401	1,693
Other pension costs	35	561	690
Share-based payments		874	(779)
		19,041	11,757

9. INVESTMENT INCOME

	2010 £'000	2009 £'000
Interest receivable on cash and bank balances	42	117

10. FINANCE COSTS

	2010 £'000	2009 £'000
Interest on bank loans and overdrafts	24	36
Interest on obligations under finance leases	68	—
	92	36

11. TAX

	Note	2010 £'000	2009 £'000 (restated)
Current tax – UK		1,485	238
Current tax – overseas		131	193
		1,616	431
Amounts overprovided in previous years		(372)	(192)
Total current income tax		1,244	239
Deferred tax – origination and reversal		(397)	(1,036)
Adjustment in respect of prior years		595	79
Total deferred tax charge/(credit)	22	198	(957)
Total tax expense/(credit) for the year		1,442	(718)

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 28%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

In June 2010, the UK Government announced that it would introduce legislation that would reduce the corporation tax rate to 27% with effect from 1 April 2011. This legislation was substantially enacted on 27 July 2010. The effective tax rate for the period to 31 December 2011 is expected to reduce accordingly.

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

	2010 £'000	2009 £'000 (restated)
Profit/(loss) on ordinary activities before tax	5,431	(660)
Tax on ordinary activities at standard rate of 28% (2009: 28%)	1,521	(185)
Effect of:		
Expenses not deductible for tax purposes	113	350
Effect of different tax rates	125	—
Enhanced tax deduction for research and development expenditure	(511)	(770)
Effect of change in UK corporation tax rate	(29)	—
Prior period adjustments	223	(113)
Total tax expense/(credit) for the year	1,442	(718)

The effective tax rate for the year is 27% (2009: 109%).

12. DIVIDENDS

	2010 £'000	2009 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2009 of 1.5p (2008: 2.5p) per share	**927**	927
Interim dividend for the year ended 31 December 2010 of 1.0p (2009: 1.0p) per share	**618**	618
Total distributions to equity holders in the year	**1,545**	1,545
Proposed final dividend for the year ended 31 December 2010 of 1.5p (2009: 1.5p) per share	**1,085**	953

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.

13. EARNINGS PER ORDINARY SHARE – BASIC AND DILUTED

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

	2010 £'000	2009 £'000 (restated)
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**3,989**	58
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**63,009,082**	61,797,389
Effect of dilutive potential ordinary shares:		
Share options	**2,311,031**	130,116
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**65,320,113**	61,927,505

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 and the Xaar plc ESOP trust.

Share options granted over 1,939,540 shares (2009: 2,610,156) have not been included in the diluted earnings per share calculation because they are anti-dilutive at the period end.

The performance conditions for LTIP awards granted over 516,061 shares (2009: 2,058,381) and share options granted over nil shares (2009: 668,859) have not been met in the current financial period and therefore the dilutive effect of the number of shares which would have been issued at the period end has not been included in the diluted earnings per share calculation.

ADJUSTED EARNINGS PER SHARE

The calculation of adjusted EPS excluding restructuring costs, impairment of trade investments and share-based payments is based on earnings of:

	2010 £'000	2009 £'000 (restated)
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**3,989**	58
Restructuring costs	**(1,107)**	2,686
Exceptional commercial agreement costs	**461**	—
Impairment of trade investments	**—**	639
Exchange differences on intra-group transactions	**(462)**	157
(Gain)/loss on derivative financial instruments	**(39)**	46
Share-based payment charges	**1,276**	(779)
Tax effect of adjusting items	**(36)**	(770)
Profit after tax excluding restructuring costs, exceptional commercial agreement costs, impairment of trade investments and share-based payment costs	**4,082**	2,037

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

13. EARNINGS PER ORDINARY SHARE – BASIC AND DILUTED CONTINUED

ADJUSTED EARNINGS PER SHARE

Earnings per share excluding restructuring costs, impairment of trade investments and share-based payments:

	2010 £'000	2009 £'000 (restated)
Basic	6.5p	3.3p
Diluted	6.2p	3.3p

This adjusted EPS information is considered to provide a fairer representation of the group's trading performance year on year.

14. GOODWILL

The carrying amount of goodwill at 31 December 2010 was £720,000 (2009: £720,000). There were no accumulated impairment losses at the end of the year.

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:

	2010 £'000	2009 £'000	2008 £'000
Printheads and related products (a single CGU)	720	720	720

The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

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 budgets approved by management for the next four years and these have been used in the value-in-use calculation. The discount rate applied to the cash flow projections is 9% (2009: 11%) and reflects management's estimate of return on capital employed. No growth rate has been applied in the extrapolation of cash flows beyond the four year forecasts.

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.

Having performed impairment testing, no impairment has been identified and, therefore, no impairment loss has been recognised in either period.

15. OTHER INTANGIBLE ASSETS

	Internally generated product development costs £'000	Other product development costs £'000	Licences acquired £'000	Software £'000	Total £'000
Cost					
At 1 January 2008	4,565	4,032	533	1,301	10,431
Additions	—	577	—	130	707
At 1 January 2009	4,565	4,609	533	1,431	11,138
Additions	—	—	—	185	185
At 1 January 2010	4,565	4,609	533	1,616	11,323
Additions	—	285	—	74	359
Disposals	—	(518)	—	—	(518)
At 31 December 2010	**4,565**	**4,376**	**533**	**1,690**	**11,164**
Amortisation					
At 1 January 2008	1,602	460	419	656	3,137
Charge for the year	960	58	57	276	1,351
At 1 January 2009	2,562	518	476	932	4,488
Charge for the year	960	409	57	301	1,727
At 1 January 2010	3,522	927	533	1,233	6,215
Charge for the year	505	409	—	205	1,119
Disposals	—	(518)	—	—	(518)
At 31 December 2010	**4,027**	**818**	**533**	**1,438**	**6,816**
Carrying amount					
At 31 December 2010	**538**	**3,558**	**—**	**252**	**4,348**
At 31 December 2009	1,043	3,682	—	383	5,108
At 31 December 2008	2,003	4,091	57	499	6,650

The amortisation period for software and development costs incurred on the group's product development is three years.

Internally generated product development costs relate to the P2 and P3 ranges of printheads. The amortisation periods of these costs are five to six years.

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

At 31 December 2010 the group had entered into contractual commitments for the acquisition of other product development costs amounting to £163,000 (2009: £nil) (2008: £nil).

Notes to the consolidated financial statements for the year ended 31 December 2010 continued

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold property £'000	Plant and machinery £'000	Furniture, fittings and equipment £'000	Assets in the course of construction £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 January 2008	2,678	22,677	1,599	2,502	14	29,470
Additions	287	1,583	167	1,463	27	3,527
Transfers	17	1,291	187	(1,495)	—	—
Exchange movements	246	1,322	47	44	—	1,659
Disposals	(6)	(160)	(6)	—	(10)	(182)
At 1 January 2009	3,222	26,713	1,994	2,514	31	34,474
Additions	19	396	109	4,480	—	5,004
Transfers	—	1,802	—	(1,802)	—	—
Exchange movements	(34)	(310)	(7)	(26)	—	(377)
Disposals	—	(42)	—	—	—	(42)
At 1 January 2010	3,207	28,559	2,096	5,166	31	39,059
Additions	416	1,246	650	4,169	—	6,481
Transfers	2,687	912	145	(3,744)	—	—
Exchange movements	171	721	38	53	—	983
Disposals	(5)	(1,190)	(52)	—	—	(1,247)
At 31 December 2010	**6,476**	**30,248**	**2,877**	**5,644**	**31**	**45,276**
Depreciation						
At 1 January 2008	2,112	14,076	1,416	—	14	17,618
Charge for the year	339	2,442	221	—	8	3,010
Exchange movements	185	1,074	42	—	—	1,301
Disposals	(2)	(106)	(4)	—	(10)	(122)
At 1 January 2009	2,634	17,486	1,675	—	12	21,807
Charge for the year	242	2,584	200	—	9	3,035
Exchange movements	(21)	(244)	(5)	—	—	(270)
Disposals	—	(26)	—	—	—	(26)
At 1 January 2010	2,855	19,800	1,870	—	21	24,546
Charge for the year	396	2,984	297	—	9	3,686
Exchange movements	169	664	35	—	—	868
Disposals	(2)	(1,156)	(51)	—	—	(1,209)
At 31 December 2010	**3,418**	**22,292**	**2,151**	**—**	**30**	**27,891**
Carrying amount						
At 31 December 2010	**3,058**	**7,956**	**726**	**5,644**	**1**	**17,385**
At 31 December 2009	352	8,759	226	5,166	10	14,513
At 31 December 2008	588	9,227	319	2,514	19	12,667

Leased assets included in the above:

	Leasehold property £'000	Plant and machinery £'000	Furniture, fittings and equipment £'000	Assets in the course of construction £'000	Motor vehicles £'000	Total £'000
Carrying amount						
At 31 December 2010	**—**	**1,411**	**—**	**—**	**—**	**1,411**
At 31 December 2009	—	2	—	—	—	2
At 31 December 2008	—	3	1	—	—	4

As at 31 December 2010 the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2,180,000 (2009: £2,287,000) (2008: £457,000).

17. 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.

18. INVESTMENTS

	2010 £'000	2009 £'000	2008 £'000
Trading investments			
At beginning of year	**1,261**	1,900	2,020
Impairment loss recognised in the year	**—**	(639)	(120)
At end of year	**1,261**	1,261	1,900

These unquoted investments represent investments in companies that present the group with opportunity for return through trading gains.

19. INVENTORIES

	2010 £'000	2009 £'000 (restated)	2008 £'000 (restated)
Raw materials and consumables	**5,135**	2,325	2,520
Work in progress	**2,350**	1,202	768
Finished goods	**3,230**	3,211	4,851
	10,715	6,738	8,139

20. OTHER FINANCIAL ASSETS

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

TRADE AND OTHER RECEIVABLES

	2010 £'000	2009 £'000 (restated)	2008 £'000 (restated)
Amount receivable for the sale of goods	**5,815**	3,458	4,941
Allowance for doubtful debts	**(190)**	(488)	(422)
	5,625	2,970	4,519
Other debtors	**2,315**	737	221
Current tax asset	**381**	—	—
Prepayments	**1,361**	1,818	1,485
	9,682	5,525	6,225

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

TRADE RECEIVABLES

The average credit period taken on sales of goods is 38 days (2009: 26 days) (2008: 37 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 58.

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. Of the trade receivables balance at the end of the year, £4.3m (2009: £2.9m) (2008: £1.5m) is due from customers representing 19% (2009: 33%) (2008: 31%) 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 £2.3m (2009: £1.7m) (2008: £1.5m) 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 £52,000 (2009: £20,000) (2008: £45,000) 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 27 days (2009: 43 days) (2008: 25 days).

20. OTHER FINANCIAL ASSETS CONTINUED

TRADE RECEIVABLES CONTINUED

Ageing of past due but not impaired receivables:

	2010 £'000	2009 £'000 (restated)	2008 £'000 (restated)
1–30 days overdue	**1,555**	1,165	1,218
30–60 days overdue	**702**	50	138
60–90 days overdue	**—**	74	82
90–120 days overdue	**—**	161	75
Over 120 days overdue	**—**	218	—
Total	**2,257**	1,668	1,513

Movement in the allowance for doubtful debts:

	2010 £'000	2009 £'000	2008 £'000
Balance at the beginning of the year	**(488)**	(422)	(560)
Impairment losses recognised	**(62)**	(264)	(200)
Amounts written off as uncollectible	**360**	186	238
Amounts recovered during the year	**—**	12	100
Balance at the end of the year	**(190)**	(488)	(422)

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.

Ageing of impaired trade receivables:

	2010 £'000	2009 £'000	2008 £'000
1–30 days overdue	**—**	—	16
30–60 days overdue	**—**	—	—
60–90 days overdue	**53**	44	—
90–120 days overdue	**—**	18	88
Over 120 days overdue	**137**	426	318
Total	**190**	488	422

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

20. OTHER FINANCIAL ASSETS CONTINUED

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:

	2010 £'000	2009 £'000	2008 £'000
Cash	**19,433**	11,521	11,601
Short term deposits	**3,911**	—	—
	23,344	11,521	11,601

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.

21. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

Financial assets of £9,682,000 (2009: £5,525,000) (2008: £6,225,000) are categorised as loans and receivables and £nil (2009: £47,000) (2008: £704,000) as derivative instruments in designated hedge accounting relationships. Financial liabilities of £13,834,000 (2009: £8,701,000) (2008: £7,638,000) are categorised as measured at amortised cost and £nil (2009: £nil) as derivative instruments in designated hedge accounting relationships. 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 short term deposits 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 and has been throughout 2010 and 2009 the group's policy that no trading in derivatives shall be undertaken.

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 20 and to liquidity risk is discussed in note 25.

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 balance at the year end has 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 2010 would increase/decrease by £0.2m (2009: £0.2m) (2008: £0.2m). This is mainly attributable to the group's exposure to interest rates on its cash balances. There would be no effect on equity reserves.

21. FINANCIAL INSTRUMENTS CONTINUED

FOREIGN CURRENCY RISK

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 also receives approximately 16% of its revenues in US dollars, which is partially naturally hedged by supplies in this currency, but the remainder requires conversion into sterling in order to fund the remaining costs of the UK offices. The group therefore enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk.

The group is mainly exposed to foreign currency risk resulting from transactions in Swedish kronor, US dollars and euros. 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 vale 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.

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 (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 intercompany 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.

	Swedish kronor currency impact			US dollar currency impact			Euro currency impact		
	2010 £'000	2009 £'000	2008 £'000	**2010 £'000**	2009 £'000	2008 £'000	**2010 £'000**	2009 £'000	2008 £'000
Effect of a 10% increase in relevant exchange rate on:									
Profit or loss	**(669)**	(675)	(557)	**(281)**	(178)	(132)	**(201)**	(181)	(67)
Other equity	**(519)**	(328)	(64)	**25**	10	608	**—**	—	—
Effect of a 10% decrease in relevant exchange rate on:									
Profit or loss	**818**	825	681	**344**	217	161	**245**	221	82
Other equity	**602**	396	78	**(31)**	(12)	(656)	**—**	—	—

FORWARD FOREIGN EXCHANGE CONTRACTS

The group utilises currency derivatives to hedge significant future transactions and cash flows. The group is party to a variety of foreign currency forward contracts and options in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the group's principal markets.

At the balance sheet date, the total notional amount of the outstanding forward foreign exchange contract that the group has committed is as below:

	2010 SEK'000	**2010 USD'000**	2009 SEK'000	2009 USD'000	2008 SEK'000	2008 USD'000
Forward foreign exchange contract	**—**	**—**	—	180,000	180,000	9,000

At 31 December 2010, the group had no open currency derivatives (2009: £47,000) (2008: £352,000).

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.

The table below summarises the maturity profile of the group's derivative financial instruments as at 31 December 2010, 31 December 2009 and 31 December 2008 based on contractual undiscounted payments.

21. FINANCIAL INSTRUMENTS CONTINUED

FORWARD FOREIGN EXCHANGE CONTRACTS CONTINUED

	2010				2009				2008			
	Less than 3 months £'000	3 to 12 months £'000	1 to 2 years £'000	Total £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 2 years £'000	Total £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 2 years £'000	Total £'000
Gross settled receipts												
US dollar	—	—	—	—	26	40	—	66	929	2,786	1,858	5,573
Swedish kronor	—	—	—	—	—	—	—	—	5,026	10,062	—	15,088
	—	—	—	—	26	40	—	66	5,955	12,848	1,858	20,661
Gross settled payments												
US dollar	—	—	—	—	(4)	(15)	—	(19)	(987)	(2,963)	(1,975)	(5,925)
Swedish kronor	—	—	—	—	—	—	—	—	(4,792)	(9,592)	—	(14,384)
	—	—	—	—	(4)	(15)	—	(19)	(5,779)	(12,555)	(1,975)	(20,309)

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.

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, including obligations under finance leases as detailed in notes 25 and 23. 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:

	2010 £'000	2009 £'000 (restated)	2008 £'000 (restated)
Bank loans	**(217)**	(441)	(651)
Obligations under finance leases and hire purchase contracts	**(1,136)**	—	—
Net debt	**(1,353)**	(441)	(651)
Equity	**54,276**	36,463	38,758
Gearing ratio	**2%**	1%	2%

The group is not subject to externally imposed capital requirements.

22. 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	Cash flow hedges £'000	Share-based payment £'000	Untaxed reserves £'000	Tax losses £'000	Other temporary difference £'000	Total £'000
At 1 January 2008	440	—	(410)	1,063	(76)	471	1,488
Charge/(credit) to income	132	(28)	37	(177)	76	(38)	2
Debit to current tax	—	—	83	—	—	—	83
Charge to equity	—	127	264	68	—	(11)	448
At 1 January 2009	572	99	(26)	954	—	422	2,021
Charge/(credit) to income	72	13	218	(592)	—	(668)	(957)
Charge to equity	—	(98)	(401)	—	—	—	(499)
At 1 January 2010	644	14	(209)	362	—	(246)	565
Charge/(credit) to income	(217)	—	(231)	360	—	301	213
Charge to equity	—	(14)	(1,064)	—	—	—	(1,078)
At 31 December 2010	**427**	**—**	**(1,504)**	**722**	**—**	**55**	**(300)**

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:

	2010 £'000	2009 £'000	2008 £'000
Deferred tax liabilities	**695**	765	2,260
Deferred tax assets	**(995)**	(200)	(239)
	(300)	565	2,021

23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		
	2010 £'000	2009 £'000	2008 £'000
Amounts payable under finance leases:			
Within one year	**265**	—	—
In the second year	**277**	—	—
In the third to fifth years inclusive	**594**	—	—
	1,136	—	—
Less: amount due for settlement within twelve months (shown under current liabilities)	**(265)**	—	—
Amount due for settlement after twelve months	**871**	—	—

24. TRADE AND OTHER PAYABLES

	2010 £'000	2009 £'000	2008 £'000
Trade creditors and accruals	**10,969**	5,435	6,031

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit taken for trade purchases is 42 days (2009: 28 days) (2008: 35 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

25. OTHER FINANCIAL LIABILITIES

Other financial liabilities consist of a sterling loan of £217,000 (2009: £441,000) (2008: £651,000) and lease incentives.

The borrowings are repayable as follows:	2010 £'000	2009 £'000	2008 £'000
Within one year	**217**	224	210
In the second year	**59**	217	224
In the third to fifth years inclusive	**124**	—	217
Over five years	**178**	—	—
	578	441	651
Less: amount due for settlement within twelve months (shown under current liabilities)	**(217)**	(224)	(210)
Amount due for settlement after twelve months	**361**	217	441

The amounts included above are not considered to be materially different from the present value of the loan repayments.

The loan is arranged at a fixed interest rate and expose the group to fair value interest rate risk. The directors estimate that the fair value of the group's borrowings is not materially different from the amounts disclosed above.

The loan was taken out on 29 December 2006. Repayments commenced on 8 January 2007 and will continue until 30 November 2011, with repayments being made in 60 equal monthly instalments. The loan is secured by a charge over certain of the group's capital equipment. The loan carries fixed interest rate at 6.2% per annum.

The group had undrawn committed borrowing facilities at 31 December 2010 of £3.1m (2009: £1.5m) (2008: £2.0m) in respect of which all conditions precedent had been met. The facility may be reviewed from time to time and the bank reserves the right to withdraw the facility at any time by providing written demand for repayment.

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 three months. Short term flexibility is achieved by overdraft facilities.

26. PROVISIONS

	Warranty provision £'000	Restructuring provision £'000	Closure of Swedish manufacturing facility £'000	Total £'000
At 1 January 2008	193	—	—	193
Additional provision in the year	214	595	—	809
Utilisation of provision	(130)	(344)	—	(474)
At 1 January 2009	277	251	—	528
Additional provision in the year	359	—	1,941	2,300
Utilisation of provision	(169)	(251)	—	(420)
At 1 January 2010	467	—	1,941	2,408
Additional provision in the year	436	—	274	710
Utilisation of provision	(306)	—	(828)	(1,134)
Release of provision	(17)	—	(1,170)	(1,187)
At 31 December 2010	**580**	**—**	**217**	**797**

The warranty provision represents management's best estimate of the group's liability under twelve month warranties granted on printheads, based on past experience of returns for defective products.

The restructuring provision, created in 2008, related to amounts payable in respect of staff redundancies during the year. The provision was fully utilised in 2009.

On 1 April 2009 the Group announced the rationalisation of its manufacturing facilities which would have involved the eventual closure of its plant in Stockholm, Sweden and the relocation of that manufacturing capability to the group's manufacturing facility in Huntingdon, England. The board has now announced that the rationalisation programme has been stopped. As a result, the remaining provision is for any committed residual costs associated with the project.

27. SHARE CAPITAL

	2010 £'000	2009 £'000	2008 £'000
Issued and fully paid:			
72,365,423 (2009: 63,506,078) (2008: 63,505,633) ordinary shares of 10.0p each	**7,237**	6,351	6,350

At the AGM on 19 May 2010 a special resolution was passed to amend the Articles of Association to delete the statement of the company's authorised share capital. This follows the abolishment of the requirement for a company to have authorised share capital in the Companies Act 2006.

The movement during the year on the company's issued and fully paid shares was as follows:

	2010 Number	2009 Number	2008 Number	**2010 £'000**	2009 £'000	2008 £'000
At beginning of year	**63,506,078**	63,505,633	62,854,664	**6,351**	6,350	6,285
Issue of share capital	**8,827,345**	—	—	**883**	—	—
Exercise of share options	**32,000**	445	650,969	**3**	1	65
At end of year	**72,365,423**	63,506,078	63,505,633	**7,237**	6,351	6,350

The company has one class of ordinary shares which carry no right to fixed income.

27. SHARE CAPITAL CONTINUED

Options have been granted under separate share option schemes to subscribe for ordinary shares of the company as follows:

Scheme	Date of grant	Number of shares under option as at 31 December 2010	Number of shares under option as at 31 December 2009	Number of shares under option as at 31 December 2008	Subscription price per share
Xaar plc 1997 Share Option Scheme	20.10.99	—	—	10,000	115.0p
	16.02.01	—	5,000	10,000	160.0p
	12.06.02	100,000	100,000	100,000	68.5p
	19.11.02	20,000	40,000	40,000	25.0p
	06.10.03	200,000	200,000	200,000	36.0p
		320,000	345,000	360,000	
Xaar plc 2004 Share Option Plan	20.05.04	198,000	205,000	230,000	84.0p
	28.10.04	210,000	210,000	210,000	109.0p
	15.03.05	119,791	119,791	119,791	192.0p
	13.04.05	52,962	52,962	82,962	208.5p
	15.09.05	143,394	143,394	447,116	274.0p
	03.04.06	11,606	11,606	240,028	293.75p
	09.10.06	295,000	340,000	445,000	169.0p
	19.02.07	—	25,000	25,000	237.0p
	17.04.07	40,000	40,000	40,000	242.0p
	23.10.07	175,000	190,000	260,000	202.0p
	21.08.08	210,000	231,000	282,000	108.25p
	05.09.08	10,000	10,000	10,000	110.75p
	01.04.09	220,000	237,500	—	56.0p
	29.09.09	30,000	30,000	—	94.5p
	26.08.10	40,000	—	—	149.5p
	22.11.10	270,000	—	—	211.0p
		2,025,753	1,846,253	2,391,897	
Xaar plc Share Save Scheme	01.08.07	—	4,945	68,050	191.0p
	01.06.09	373,751	431,359	—	46.28p
	21.12.10	322,856	—	—	174.0p
		696,607	436,304	68,050	
Options granted outside the 1997, 2004 and Share Save Schemes	15.03.05	130,209	130,209	130,209	192.0p
Total share options outstanding at 31 December		3,172,569	2,757,766	2,950,156	

27. SHARE CAPITAL CONTINUED

Options under the Xaar plc 1997 Share Option Scheme are exercisable within three to seven years after the date of the grant, except that approved options and unapproved options granted after 27 March 2001 are exercisable within three to ten years after the date of the grant. Options granted under the Xaar plc 2004 Share Option Plan are exercisable within three to ten years after the date of the grant. The maximum value of approved options, under the Xaar plc 1997 Share Option Scheme and the Xaar plc 2004 Share Option Plan, which may be granted to individual employees is £30,000. Options granted outside the 1997, 2004 and Share Save Schemes are exercisable within three to ten years after the date of grant.

Options under the Xaar plc Share Save Scheme are exercisable between 36 and 42 months after the date of the grant.

Performance share awards have been made under the Xaar plc 2007 Long Term Incentive Plan as follows:

Date of grant	Number of shares
21.08.08	544,569
01.04.09	1,200,890
22.11.10	235,634
	1,981,093

All awards under this scheme have a fixed term of three years.

28. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 January 2008	10,146
Premium arising on issue of equity shares	379
Balance at 1 January 2009	10,525
Premium arising on issue of equity shares	—
Balance at 1 January 2010	10,525
Premium arising on issue of equity shares	14,139
Expenses of issue of equity shares	(1,130)
Balance at 31 December 2010	**23,534**

29. OWN SHARES

	£'000
Balance at 1 January 2008	(4,465)
Acquired in the year	—
Balance at 1 January 2009	(4,465)
Acquired in the year	—
Balance at 1 January 2010	(4,465)
Acquired in the year	—
Balance at 31 December 2010	**(4,465)**

Of this balance, £20,000 (2009: £20,000) (2008: £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 £4,445,000 (2009: £4,445,000) (2008: £4,445,000) represents the cost of 1,617,004 (2009: 1,617,004) (2008: 1,617,004) 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 at 31 December 2010 was £3,873,000 (2009: £1,302,000) (2008: £756,000).

30. HEDGING AND TRANSLATION RESERVES

	Hedging reserve £'000	Translation reserve £'000	Total £'000
Balance at 1 January 2008	—	935	935
Increase in fair value of hedging derivatives	452	—	452
Tax on items taken directly to equity	(127)	—	(127)
Exchange differences on retranslation of net investment	—	(260)	(260)
Prior year adjustment	—	335	335
Balance at 1 January 2009	325	1,010	1,335
Decrease in fair value of hedging derivatives	(349)	—	(349)
Tax on items taken directly to equity	98	—	98
Exchange differences on retranslation of net investment	—	(180)	(180)
Balance at 1 January 2010	74	830	904
Decrease in fair value of hedging derivatives	(88)	—	(88)
Tax on items taken directly to equity	14	—	14
Exchange differences on retranslation of net investment	—	(390)	(390)
Balance at 31 December 2010	**—**	**440**	**440**

The hedging reserve at the balance sheet date represents the market value of the group's foreign currency hedges at that date. The translation reserve represents the foreign exchange difference arising on the translation of subsidiary company results prepared in a currency other than sterling.

31. 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 2008		1,105	2,461	485	4,051	20,550	24,601
Net profit for the year		—	—	—	—	3,431	3,431
Dividends paid	12	—	—	—	—	(2,148)	(2,148)
Deferred tax asset taken directly to equity		—	—	—	—	(319)	(319)
Movement in valuation of share options		—	(132)	—	(132)	—	(132)
Prior year adjustment	4	—	—	—	—	(420)	(420)
Balance at 1 January 2009		1,105	2,329	485	3,919	21,094	25,013
Net profit for the year		—	—	—	—	399	399
Dividends paid	12	—	—	—	—	(1,545)	(1,545)
Deferred tax asset taken directly to equity		—	—	—	—	401	401
Movement in valuation of share options		—	(779)	—	(779)	—	(779)
Prior year adjustment	4	—	—	—	—	(341)	(341)
Balance at 1 January 2010		1,105	1,550	485	3,140	20,008	23,148
Net profit for the year		—	—	—	—	3,989	3,989
Dividends paid	12	—	—	—	—	(1,545)	(1,545)
Deferred tax asset taken directly to equity		—	—	—	—	1,064	1,064
Movement in valuation of share options		—	874	—	874	—	874
Balance at 31 December 2010		**1,105**	**2,424**	**485**	**4,014**	**23,516**	**27,530**

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.

32. NOTES TO THE CASH FLOW STATEMENT

	2010 £'000	2009 £'000 (restated)
Profit/(loss) before tax	5,431	(660)
Adjustments for:		
Share-based payments	874	(779)
Depreciation of property, plant and equipment	3,686	3,035
Amortisation of intangible assets	1,119	1,727
Impairment loss on trade investments	—	639
Investment income	(42)	—
Finance costs	92	—
Foreign exchange gains	(649)	—
Movements on cash flow hedge valuations	(39)	(47)
Loss on disposal of property, plant and equipment	25	18
(Decrease)/increase in provisions	(1,209)	1,880
Operating cash flows before movements in working capital	9,288	5,813
(Increase)/decrease in inventories	(3,988)	417
(Increase)/decrease in receivables	(3,621)	2,265
Increase/(decrease) in payables	5,389	(1,099)
Cash generated by operations	7,068	7,396
Income taxes paid	(1,544)	(417)
Net cash from operating activities	5,524	6,979

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

33. OPERATING LEASE ARRANGEMENTS

	2010 £'000	2009 £'000	2008 £'000
Minimum lease payments under operating leases recognised in income for the year:			
Fixtures, fittings and equipment	43	32	112
Land and buildings	1,574	1,401	1,336
	1,617	1,433	1,448

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		
	2010 £'000	2009 £'000	2008 £'000	2010 £'000	2009 £'000	2008 £'000
Within one year	44	31	91	1,516	994	986
In the second to fifth years inclusive	53	35	61	3,070	2,320	2,451
After five years	1	—	—	3,623	1,440	1,922
	98	66	152	8,209	4,754	5,359

The operating leases in respect of fixtures, fittings and equipment extend over a period of up to seven years.

34. 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 vesting period is three years. The vesting criteria of these options are disclosed in the directors' remuneration report on pages 28 to 32. 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 (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:

	2010		2009		2008	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	**2,757,766**	**1.21**	2,950,156	1.72	3,628,664	1.63
Granted during the year	**632,856**	**1.88**	778,671	0.52	301,000	1.08
Lapsed during the year	**(186,053)**	**1.26**	(548,472)	1.72	(328,539)	2.23
Surrendered during the year	**—**	**—**	(422,144)	2.84	—	—
Exercised during the year	**(32,000)**	**0.59**	(445)	0.46	(650,969)	0.68
Outstanding at the end of the year	**3,172,569**	**1.35**	2,757,766	1.21	2,950,156	1.72
Exercisable at the end of the year	**1,174,356**	**1.30**	760,000	0.74	1,580,078	1.57

The weighted average share price at the date of exercise for share options exercised during the period was £0.59 (2009: £0.83) (2008: £1.35). The options outstanding at 31 December 2010 had a weighted average remaining contractual life of five years (2009: six years) (2008: seven years). In 2010, options were granted on 26 August, 22 November and 21 December. The aggregate of the estimated fair values of the options granted on those dates is £0.67m. In 2009, options were granted on 1 April, 1 June and 29 September. The aggregate of the estimated fair values of the options granted on those dates was £0.2m. In 2008, options were granted on 21 August and 5 September. The aggregate of the estimated fair values granted on those dates was £0.2m.

The performance conditions relating to the above share options are given on pages 28 to 29.

The inputs into the Black-Scholes model are as follows:

	2010	2009	2008
Weighted average share price	**£2.10**	£0.60	£1.08
Weighted average exercise price	**£1.88**	£0.60	£1.08
Weighted average expected volatility	**55%**	58%	50%
Expected life	**5 years**	7 years	6.5 years
Risk free rate	**3.11%**	4.75%	4.80%
Weighted average expected dividends	**0.47%**	1.05%	2.30%

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. Vesting of performance share awards made under this scheme is conditional upon the achievement of two separate performance conditions. Full details of the performance conditions are shown on page 32. All awards made under this scheme have a fixed term of three years. Save as permitted in the Long Term Incentive Plan rules, awards lapse on an employee leaving the group.

Details of performance share awards outstanding during the year are as follows:

	2010	2009	2008
Awards outstanding at start of year	**1,989,236**	857,491	320,777
Granted during the year	**235,634**	1,200,890	593,714
Lapsed during the year	**(243,777)**	(69,145)	(57,000)
Awards outstanding at end of year	**1,981,093**	1,989,236	857,491

In 2010, performance share awards were made on 22 November 2010. The aggregate of the estimated fair values of grants made on those dates is £0.5m. In 2009, performance share awards were made on 1 April 2009. The aggregate of the estimated fair values of grants made on those dates was £0.5m. In 2008, performance share awards were made on 21 August. The aggregate of the estimated fair value of grants made on that date was £0.4m.

34. SHARE-BASED PAYMENTS CONTINUED

LONG TERM INCENTIVE PLAN CONTINUED

The estimated fair values for 2010 grants were calculated using a Black-Scholes model, whereas the estimated fair value of 2009 grants were calculated using a stochastic (Monte-Carlo binomial) model. The valuation technique was changed following an amendment to the vesting criteria for grants made after 2009 (refer to page 32). The inputs to the model were as follows:

	2010	2009	2008
Weighted average exercise price	£nil	£nil	£nil
Expected volatility	55.44%	63.40%	58.60%
Expected life	3 years	3 years	3 years
Expected dividend yield	0.29%	4.35%	2.70%

35. 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 2010 was £561,000 (2009: £690,000). As at 31 December 2010 contributions of £57,000 (2009: £48,000) due in respect of the current reporting period had not been paid over to the schemes.

36. 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.

As part of the placing and open offer which was completed on 11 November 2010, the following related parties undertook to subscribe for shares under the placing and open offer at 170 pence per share:

- Legal & General Investment Management subscribed for 696,278 shares;
- Axa Framlington Investment Managers subscribed for 1,167,762 shares; and
- Blackrock Investment Management subscribed for 684,108 shares.

However, due to acceptance levels under the placing and open offer, these commitments to subscribe for new shares were subject to clawback to satisfy applications received from the company's shareholders. Accordingly, these related parties did not receive all of the shares referred to above.

This conditional placing of shares is classified as a smaller related party transaction under Listing Rule 11.1.10 and this disclosure is being made in accordance with that rule.

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 pages 28 to 32.

	2010 £'000	2009 £'000
Short term employee benefits	1,450	886
Post-employment benefits	45	45
Share-based payments	137	(33)
	1,632	898

Company balance sheet (UK GAAP) as at 31 December 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Investments in subsidiaries	3	12,445	12,445
Trade investments	3	1,261	1,261
		13,706	13,706
Current assets			
Debtors – due within one year	4	67,250	53,999
Debtors – due after one year	4	627	97
Cash at bank and in hand		20,393	6,470
		88,270	60,566
Creditors: amounts falling due within one year	5	(46,597)	(31,729)
Net current assets		41,673	28,837
Total assets less current liabilities		55,379	42,543
Creditors: amounts falling due after more than one year	5	—	(217)
Net assets		55,379	42,326
Capital and reserves			
Called-up share capital	6	7,237	6,351
Share premium account	6	23,534	10,525
Other reserves	6	25,333	25,333
Own shares	6	(4,445)	(4,445)
Share-based payment reserve	6	758	524
Profit and loss account	6	2,962	4,038
Equity shareholders' funds	8	55,379	42,326

The financial statements of Xaar plc, registered number 3320972, were approved by the board of directors and authorised for issue on 21 March 2011 and signed on its behalf by:

IAN DINWOODIE
DIRECTOR
21 MARCH 2011

ANDREW TAYLOR
DIRECTOR

The accompanying notes are an integral part of this balance sheet.

Financial statements

Notes to the (UK GAAP) Company balance sheet For the year ended 31 December 2010

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The separate financial statements of the company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

The company has taken advantage of the exemption of FRS 8 "Related party disclosures" not to show transactions with other companies in the group headed by Xaar plc.

The company has taken advantage of the exemption in paragraph 2D of FRS 29 "Financial Instruments: Disclosure" and not disclosed information required by that standard as the group's consolidated financial statements, in which the company is included, provide equivalent disclosures for the group under IFRS 7 "Financial Disclosures".

OWN SHARES

Own shares are deducted from equity. No gain or loss is recognised in the profit and loss account on the purchase, sale, issue or cancellation of the company's own shares.

SHARE-BASED PAYMENTS

The company has applied the requirements of FRS 20 "Share-based payment". In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The company 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 company'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 company's Long Term Incentive Plan is measured using a stochastic (Monte-Carlo binominal) 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.

TAXATION

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when the timing differences crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets and liabilities are not discounted.

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.

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 profit for the financial year ended 31 December 2010 of £5,000 (2009: profit of £1,349,000).

The average number of employees throughout 2010 was 17 (2009: 16). Staff costs amounted to £1.5m (2009: £0.9m). Information about the remuneration of directors is provided in the audited part of the directors' remuneration report on pages 28 to 32 of the consolidated financial statements.

The audit fee for the company in 2010 was £17,000 (2009: £17,000).

3. FIXED ASSET INVESTMENTS

	2010 £'000	2009 £'000
Subsidiary undertakings		
At beginning and end of the year	**12,445**	12,445
Trade investments		
At beginning of year	**1,261**	1,900
Impairment loss recognised in the year	—	(639)
At end of year	**1,261**	1,261

4. DEBTORS

	2010 £'000	2009 £'000
Amounts receivable within one year		
Amounts owed by group undertakings	**66,979**	53,873
Prepayments and accrued income	**29**	31
Other debtors	**210**	90
VAT	**32**	5
	67,250	53,999
Amounts receivable after more than one year		
Deferred tax asset	**627**	97
	67,877	54,096

5. CREDITORS

	2010 £'000	2009 £'000
Amounts falling due within one year		
Trade creditors	**182**	31
Financial liabilities	**217**	224
Corporation tax creditor	**43**	72
Amounts owed to group undertakings	**45,347**	31,187
Accruals	**808**	215
	46,597	31,729
Amounts falling due after more than one year		
Financial liabilities	—	217
	46,597	31,946

For additional disclosures relating to financial liabilities, see note 25 in the consolidated financial statements.

Notes to the (UK GAAP) Company balance sheet continued For the year ended 31 December 2010 continued

6. CAPITAL AND RESERVES

	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 2009		6,350	10,525	25,333	(4,445)	1,727	3,809	43,299
New shares issued		1	—	—	—	—	—	1
Dividends paid	7	—	—	—	—	—	(1,545)	(1,545)
Deferred tax asset taken directly to equity		—	—	—	—	—	425	425
Profit for the financial year		—	—	—	—	—	1,349	1,349
Share-based payments		—	—	—	—	(1,203)	—	(1,203)
At 1 January 2010		6,351	10,525	25,333	(4,445)	524	4,038	42,326
New shares issued		886	13,009	—	—	—	—	13,895
Dividends paid	7	—	—	—	—	—	(1,545)	(1,545)
Deferred tax asset taken directly to equity		—	—	—	—	—	464	464
Profit for the financial year		—	—	—	—	—	5	5
Share-based payments		—	—	—	—	234	—	234
At 31 December 2010		**7,237**	**23,534**	**25,333**	**(4,445)**	**758**	**2,962**	**55,379**

Full details of movements in share capital and the share option schemes are given in note 27 to the consolidated financial statements. The share premium account and other reserves are non-distributable.

7. DIVIDENDS

	2010 £'000	2009 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2009 of 1.5p (2008: 1.5p) per share	**927**	927
Interim dividend for the year ended 31 December 2010 of 1.0p (2009: 1.0p) per share	**618**	618
Total distributions to equity holders in the period	**1,545**	1,545
Proposed final dividend for the year ended 31 December 2010 of 1.5p (2009: 1.5p) per share	**1,085**	953

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.

8. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2010 £'000	2009 £'000
Profit for the financial year	**5**	1,349
Share-based payments	**234**	(1,203)
Deferred tax asset taken directly to equity	**464**	425
Dividends paid	**(1,545)**	(1,545)
New shares issued	**13,895**	1
Net addition to/(reduction in) shareholders' funds	**13,053**	(973)
Opening shareholders' funds	**42,326**	43,299
Closing shareholders' funds	**55,379**	42,326

9. 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 the directors' remuneration report in the consolidated financial statements on pages 28 to 32. 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, the options expire. Save as permitted in the share option scheme rules, options lapse on an employee leaving the company.

Details of the share options outstanding during the year are as follows:

	2010		2009	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	673,657	0.71	988,364	1.42
Granted during the year	67,449	1.96	115,657	0.62
Lapsed during the year	(60,091)	0.89	(180,364)	1.63
Surrendered during the year	—	—	(250,000)	2.83
Exercised during the year	—	—	—	—
Outstanding at the end of the year	681,015	0.80	673,657	0.71
Exercisable at the end of the year	515,000	0.66	530,000	0.65

No options were exercised in 2009 or 2010. The options outstanding at 31 December 2010 had a weighted average remaining contractual life of four years (2009: one year). In 2010, options were granted on 22 November and 21 December. The aggregate of the estimated fair values of the options granted on those dates is £62,000. In 2009, options were granted on 1 April, 1 June and 29 September. The aggregate of the estimated fair values of the options granted on those dates was £34,000.

The performance conditions relating to the above share options are given on pages 28 and 32 of the directors' remuneration report and the exercise prices of options outstanding at the year end are given in note 34 to the consolidated accounts.

The inputs into the Black-Scholes model are as follows:

	2010	2009
Weighted average share price	£2.14	£0.67
Weighted average exercise price	£1.96	£0.62
Expected volatility	56%	59%
Expected life	5.18 years	5.15 years
Risk free rate	3.3%	4.8%
Expected dividends	0.5%	0.6%

Expected volatility was determined by calculating the historical volatility of the company'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.

Notes to the (UK GAAP) Company balance sheet continued For the year ended 31 December 2010 continued

9. SHARE-BASED PAYMENTS CONTINUED

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 two separate performance conditions. Full details of the performance conditions are shown on page 32 of the group financial statements. All awards made under this scheme have a fixed term of three years. Save as permitted in the Long Term Incentive Plan rules, awards lapse on an employee leaving the company.

Details of performance share awards outstanding during the year are as follows:

	2010	2009
Awards outstanding at start of year	**820,993**	390,139
Granted during the year	**89,573**	499,999
Lapsed during the year	**(87,277)**	(69,145)
Awards outstanding at end of year	**823,289**	820,993

In 2010, performance share awards were made on 22 November 2010. The aggregate of the estimated fair values of grants made on those dates is £0.2m.

In 2009, performance share awards were made on 1 April. The aggregate of the estimated fair values of grants made on that date was £0.2m.

	2010	2009
Weighted average exercise price	**£nil**	£nil
Expected volatility	**55%**	63.4%
Expected life	**3 years**	3 years
Expected dividend yield	**0.3%**	4.4%

The company recognised total expenses of £0.2m (2009: income of £1.2m) related to share-based payment transactions in the year.

10. 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 £1 shares	100%
XaarJet Limited	England	Manufacturing, research and development and sales and marketing	2 ordinary £1 shares	100%
XaarJet (Overseas) Limited	England	Sales and marketing	1 ordinary £1 share	100%
Xaar Trustee Limited[1]	England	Trustee	2 ordinary £1 shares	100%
Xaar Digital Limited	England	Treasury	1 ordinary £1 share	100%
Xaar Group AB	Sweden	Holding company	1,137,000 ordinary shares of SEK 100 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.

Five year record

	2010 £'000	2009 £'000 (restated)	2008 £'000 (restated)	2007 £'000 (restated)	2006 £'000 (restated)
Summarised consolidated results					
Results					
Turnover	**54,678**	41,497	42,882	48,751	41,990
Gross profit	**22,593**	16,777	21,533	23,559	23,991
Operating profit/(loss)	**5,481**	(741)	4,864	5,624	6,457
Abortive deal costs	**—**	—	—	—	(298)
Net interest	**(50)**	81	393	328	335
Taxation	**(1,442)**	718	(1,174)	(1,537)	(2,034)
Dividends	**(1,545)**	(1,545)	(2,148)	(1,218)	(903)
Basic earnings per share	**6.3p**	0.1p	6.6p	7.2p	7.7p
Assets employed					
Property, plant and equipment	**17,385**	14,513	12,667	11,849	11,990
Cash and cash equivalents	**23,344**	11,521	11,601	13,036	12,438
Net current assets	**31,493**	15,643	19,283	16,686	12,880
Financed by					
Shareholders' funds: all equity	**54,276**	36,463	38,758	36,430	33,167

Notice of annual general meeting

Notice is hereby given that the fourteenth Annual General Meeting (AGM) of Xaar plc (the "company") will be held at the London Capital Club, 15 Abchurch Lane, London EC4N 7BW on 17 May 2011 at 9.30am 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 2010, together with the directors' report, the directors' remuneration report, the independent auditor's report on the auditable part of the directors' remuneration report and the independent auditor's report on those financial statements.
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 and to authorise the directors to fix their remuneration.
3. To declare a final dividend for the financial year ended 31 December 2010 of 1.5p per ordinary share.
4. To reappoint as a director in accordance with the company's Articles of Association Phil Lawler, who is retiring by rotation.
5. To reappoint as a director in accordance with the company's Articles of Association Ramon Borrell, who is retiring by rotation.
6. To reappoint Ted Wiggans as a director who offers himself for reappointment at the first AGM after his appointment to the board.
7. To reappoint Alex Bevis as a director who offers himself for reappointment at the first AGM after his appointment to the board.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following Resolutions which will be proposed in the case of Resolutions 8 and 10 as Ordinary Resolutions and in the case of Resolutions 9 and 11 as Special Resolutions:

8. To approve the directors' remuneration report in accordance with section 439 of the Companies Act 2006.
9. That the company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act to make one or more market purchases (within the meaning of section 693(4) of the Companies Act 2006) 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 10,777,680 (representing 14.9% of the issued ordinary share capital);
   - the minimum price which may be paid for an ordinary share is the par value of the shares;
   - the maximum price which may be paid for an ordinary share is an amount equal to 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;
   - this authority expires at the conclusion of the next AGM of the company or within 15 months from the date of the passing of this Resolution, whichever is earlier; and
   - 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.
10. 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 Companies Act 2006 (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):

    (a) up to an aggregate nominal amount of £2,412,180.80; and

    (b) up to an aggregate nominal amount of £2,412,180.80 in connection with a rights issue (as defined in the Listing Rules issued by the Financial Services 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,

    provided that this authority shall expire on the conclusion of the company's Annual General Meeting in 2011 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.

SPECIAL BUSINESS CONTINUED

11. Subject to the passing of Resolution 10 overleaf of the notice of meeting of which this resolution forms part, 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, the directors be and they are empowered pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of section 560 of the Act):

    (a) pursuant to the authority conferred by Resolution 10(a) of the notice of meeting of which this resolution forms part, as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to:

        (i) the allotment of equity securities for cash in connection with any rights issue or other issue or offer by way of rights (including, without limitation, under an open offer or similar arrangement) 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

        (ii) the allotment of equity securities (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal value of £361,827;

    (b) pursuant to authority conferred by Resolution 10(b) of the notice of which this resolution forms part, as if section 561 of the Act did not apply to any such allotment, provided that this power 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 Services 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,

    provided that this power shall expire on the conclusion of the company's Annual General Meeting in 2012 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 board may allot equity securities in pursuance of such an offer or agreement as of the power conferred by this resolution had not expired.

By order of the board

ANDREW TAYLOR
COMPANY SECRETARY
21 MARCH 2011

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 9.30am on 15 May 2011 (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 9.30am on 15 May 2011 (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.

Notice of annual general meeting
continued

NOTES CONTINUED

6. 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 and the Xaar plc 2007 Long Term 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 reappointment are set out on pages 16 and 17.
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 9.30am on 15 May 2011. 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 7.00am on 21 March 2011 (the date of publication of this Notice), the company's issued share capital comprised 72,366,015 Ordinary shares of 10p each. Each Ordinary share carries the right to one vote at a general meeting of the company and, therefore, the total number of voting rights in the company as 7.00am on 21 March 2011 is 72,366,015.
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.

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