XAAR®

Annual Report and Accounts 2011

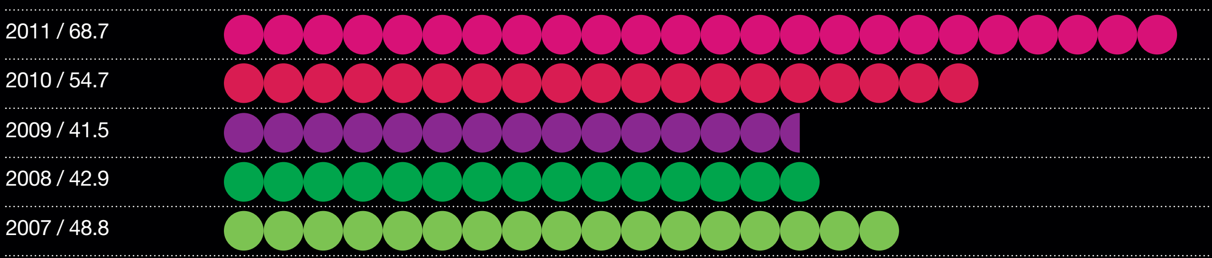
Driving the growth of digital inkjet printing

How we performed this year

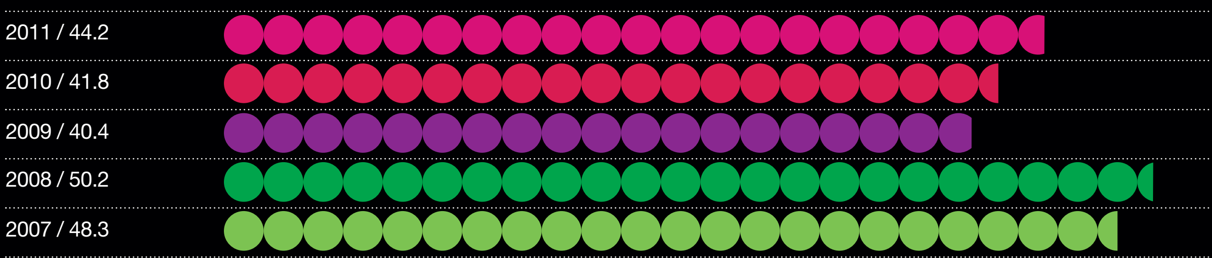
Another year of growth.

2011 is another year of growth for Xaar, following on from growth in revenue and profit in 2010.

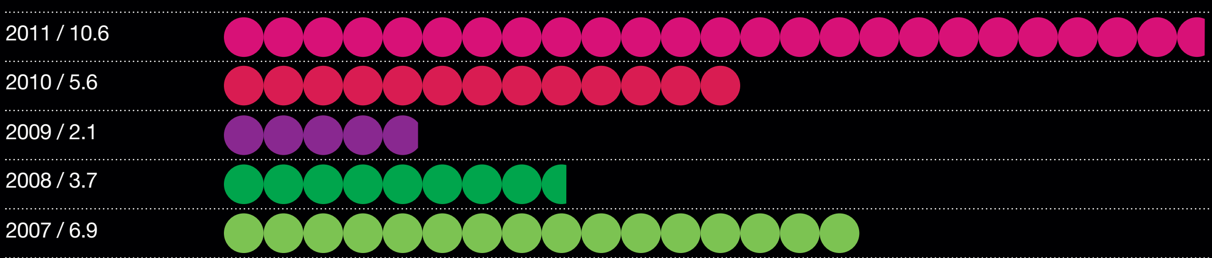
Revenue (£m)



Adjusted gross margin (%)



Adjusted profit before tax (£m)



Our growth story

A rich history of innovation and success.

Based in Cambridge, UK, and with manufacturing facilities in the UK and Sweden, Xaar is a leading player in the digital inkjet market. The Company has continued to innovate since it was established in 1990. Today Xaar is the world's leading independent supplier of industrial inkjet printheads.

Xaar formed in Cambridge

1996 revenue from licences hits £1.5m

Xaar floats on the London Stock Exchange

Xaar acquires MIT – Platform 1

First greyscale printhead produced – Platform 2

Further printhead developments

1990 Xaar is established
Xaar was formed in Cambridge to acquire, develop and commercially exploit a new digital inkjet printing technology arising out of work done by Cambridge Consultants Ltd. Xaar's business concentrated on licensing four granted patents and know-how to printer manufacturers, primarily for use in office applications.

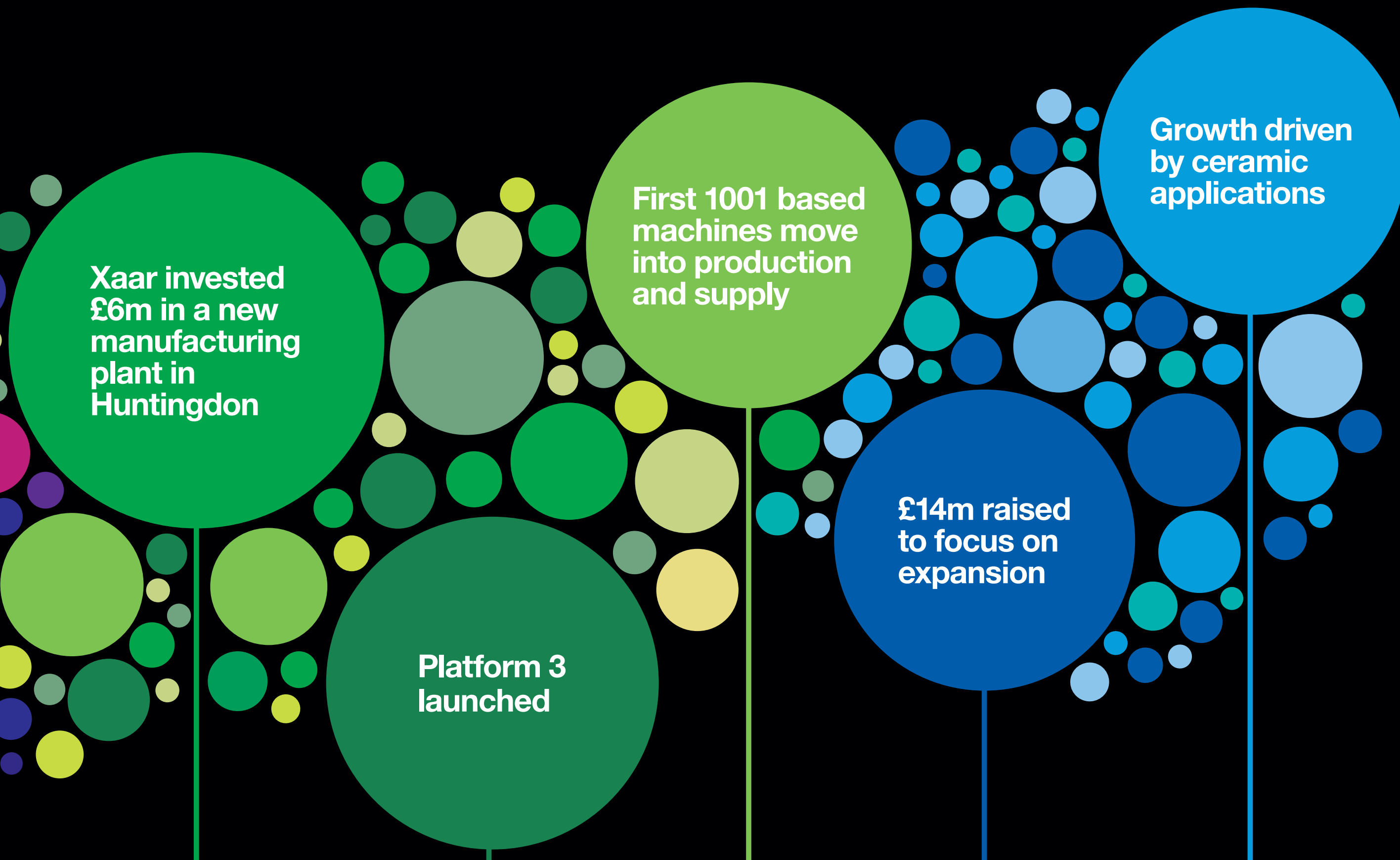
1997 London Stock Exchange listing
Xaar completed a successful listing on the London Stock Exchange. The flotation raised a total of £15 million after expenses. Of this, £10 million represented new capital for the Company to accelerate development of the Group.

1999 first printhead manufacturing
Xaar acquired MIT, an existing licensee. MIT was integrated into Xaar and became Xaar's dedicated manufacturing facility at Järfälla, Sweden. Xaar's product portfolio has expanded considerably since this acquisition.

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

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

1990 | 1997 | 1999 | 2003 | 2005



2006 manufacturing in UK
Xaar invested £6 million in a new manufacturing plant in Huntingdon.

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

2009 label presses launched
Five label presses are launched demonstrating the Xaar 1001's high quality, single-pass printing capability.

2010 capital investment programme
£14 million was raised, after expenses, through placing an open offer to fund the £22 million capacity expansion at the Huntingdon facility to meet growing demand for the Xaar 1001 in the ceramics market.

2011 growth
Xaar completes a second consecutive year above 25% sales growth through the adoption of the Xaar 1001 by the ceramics and label printing sectors.

2006	2007	2009	2010	2011

Who we are

A world leader in the development of inkjet technology and manufacturer of piezoelectric drop-on-demand industrial inkjet printheads.

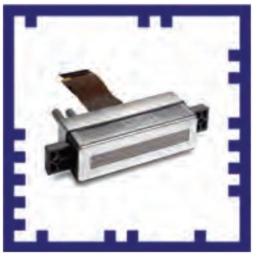
Our technology is used all over the world in a wide range of print applications including wide-format graphics, labels, packaging, ceramic tile decoration and outer case coding, as well as printing with specialist fluids for advanced manufacturing applications.

We design and manufacture our printheads in the UK and Sweden, exporting 86% of our production to customers around the world.

We also develop and sell ink systems, electronics, and a fluid optimisation service to accelerate inkjet system development and adoption.

Operational highlights

- Strong growth in revenue and profit driven by demand for Platform 3 products from the ceramic decoration sector.
- Increased output to meet growing demand was achieved through the successful implementation of the first stages of a £22 million capacity expansion programme at Xaar's Huntingdon facility.
- The remaining stages of the expansion programme are on track to complete by the end of June 2012, three months ahead of the original plan.
- Sales into the graphic arts segment declined as expected, reflecting market maturity and competition. A recovery plan in this segment is underway.



Download the Xaar app – Xapp – for iPhone/iPad from the Apple app store. Use the AR function to view this image above in 3D augmented reality.

What we do
Our business model.

Investment in UK manufacturing
£6 million was initially invested to create the Huntingdon facility in 2006. In 2010 Xaar decided to invest over £22 million in order to expand manufacturing in Huntingdon and significantly increase staff at that location to meet the increased demand for the Xaar 1001 products.

Xaar designs

Xaar invests around 8% of revenue in research and development to remain a world leader in inkjet technology. Xaar's innovative products are used in a range of print applications including wide-format graphics, ceramics, labels, packaging, coding and marking and decorative laminates.

Xaar has over 550 patents and patent applications and continues to add to its IPR (intellectual property) portfolio.

Xaar manufactures

Xaar manufactures its printheads in Huntingdon, UK and Järfälla, Sweden. The plant in Sweden produces the popular Xaar 128 printhead for the wide-format graphics market and the Huntingdon plant produces the Xaar ***Proton*** and the Xaar 1001 product ranges.

Key patented technologies include:
Shear Mode technology, Shared Wall technology, Chevron technology, Hybrid Side Shooter™ architecture, and the revolutionary TF Technology™.

R&D expenditure

£5.8m

2010: £5.0m

Manufacturing and engineering staff

325

2010: 267

Exports

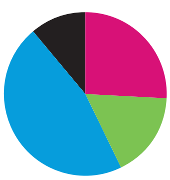
86% of revenue

Xaar markets

Xaar offers the widest range of industrial strength inkjet printheads which are designed and manufactured to meet the customer-driven requirements of a range of print applications. Primary markets include wide-format graphics, labels, packaging, ceramics and decorative laminates.

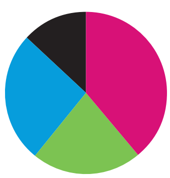
Xaar sells

Xaar sells to Original Equipment Manufacturers (OEMs) around the world through its regional sales offices and Xaar-approved distributors. Xaar's highly skilled application engineers offer the highest level of technical support to assist OEMs in the successful design, build, commissioning and on-going maintenance of printing systems.



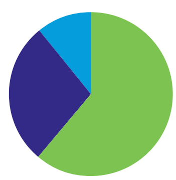
2011 Sales (£m)

Graphic arts:	18.1	26%
Packaging:	11.7	17%
Industrial:	31.5	46%
Other:	7.4	11%



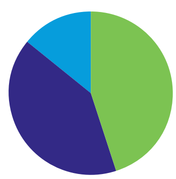
2010 Sales (£m)

Graphic arts:	21.4	39%
Packaging:	11.8	22%
Industrial:	14.1	26%
Other:	7.4	13%



2011 Regional revenue (£m)

EMEA:	42.0	61%
APAC:	19.3	28%
AMER:	7.4	11%



2010 Regional revenue (£m)

EMEA:	24.9	45%
APAC:	22.3	41%
AMER:	7.5	14%

Our products and services

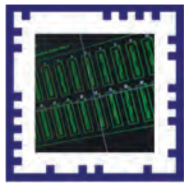
Creating market-leading printhead technology.

See the technology in action in 3D augmented reality

To view these animations in 3D augmented reality, download Xaar's app (Xapp) from the Apple app store, and use the AR function.

Chevron and Shared Wall technology

The active walls inside Xaar's piezoelectric printheads are made from a ceramic material (PZT) that deforms when a voltage is applied. Xaar uses a double layer laminated structure where the layers have an opposite poling. When a voltage is applied the material flexes creating a chevron shape and associated pressure wave. This flexing is done at a very high frequency. Chevron design is very energy efficient, reducing the required voltage and therefore reducing power consumption. Xaar also uses a shared wall design inside the printheads. This gives efficient use of the piezo material to deliver cost effective, high density printheads.

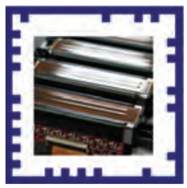


Greyscale

This animation shows Xaar's greyscale technology creating a range of drop sizes formed using smaller drops. Each nozzle can eject a different drop size from its neighbours as well as a different drop size each time it is fired.

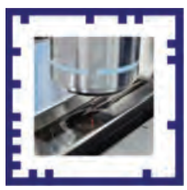
Resolution is a function of the smallest drop. The ability to print small through to big drops gives the printed image a high "apparent resolution".

This capability delivers higher productivity combined with outstanding print quality.



XaarDOT™ fluid optimisation

Xaar helps its partners to design and develop fluids to meet the requirements of a chosen application through the use of our XaarDOT™ fluid optimisation tools. Fluid optimisation involves the use of Xaar's new analytical technique, XaarDOT™ CR to determine the complex rheological characteristics of a fluid. XaarDOT™ fluid optimisation also involves measurement of basic formulation characteristics, waveform tuning and application specialisation, delivering the best printing performance, product differentiation and a faster time to market. The animation simulates drop formation for both an optimised and a non-optimised fluid/waveform combination.



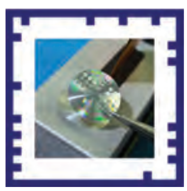
XAARDOT™
DROP OPTIMISATION TECHNOLOGY

TF Technology™

The Hybrid Side-Shooter™ (HSS™) architecture is unlike a conventional piezo channel design. This structure allows the ink to flow through the channel and directly past the back of the nozzle (TF Technology™), continuously supplying the nozzle with fresh ink at the correct jetting temperature. This technology delivers unprecedented reliability, reduced maintenance cycles and consistent drop formation.

An added advantage is self-recovery of the print system. If the print system experiences a mechanical shock, air bubbles can enter the nozzle leading to print defects and usually machine down-time. With TF Technology™ the printhead automatically recovers and the bubbles are removed from the channels, ideal for applications where uptime is critical.

This animation shows TF Technology™ in action with air bubble removal.



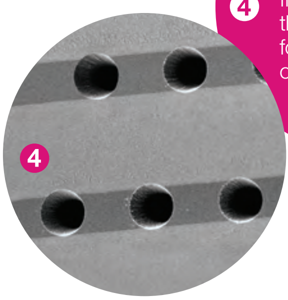
TF TECHNOLOGY™

Xaar's technology is ideal for high productivity, high quality printing.

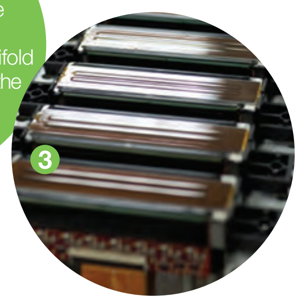
1 **Lamination**
Lamination is the starting point of the multi-process assembly line for the Xaar 1001.

2 **Channels**
During the machining stage of manufacture, 1,000 channels are fabricated in the PZT material. The resultant walls of the channel are thinner than a human hair.

4 **Nozzles**
Nozzles are ablated perpendicular to the flow of ink through the channels. This forms the essence of TF Technology™.



3 **Manifold**
The 1001 in production after the manifold has been attached. The manifold delivers and returns the ink from the 1,000 active channels.



Chairman's statement

"Our continuing success in the ceramic decoration market is driving the profitable development of our business."

Introduction

I am pleased to report that Xaar delivered an excellent set of financial results during 2011, in a very uncertain macro-economic climate, whilst executing a capacity expansion to enable the Company to satisfy strong demand for its products.

Our continuing success in the ceramic decoration market, through our Platform 3 (P3) technology, is driving the profitable development of our business. The major manufacturing capacity and infrastructure investment programme that we embarked on over a year ago, is ahead of plan and on budget and is expected to complete by the end of June 2012.

Revenue growth has continued, with sales up 26% on 2010, and adjusted profit before tax has risen sharply, up by 90% over last year. Our balance sheet remains strong with a healthy net cash balance of over £17 million at 31 December 2011.

Business trends

Our success in the ceramic decoration market has shifted the geographic spread of our business. Currently, our main customers in ceramics are based in Europe, whereas our well established graphic arts business, which delivered the majority of sales from 2004 to 2009, is predominantly based in Asia. Although this has increased our exposure to the economic problems of the Eurozone, the risks are mitigated by the level of exports that our European ceramic partners are achieving.

Our growth and success in the ceramics market continues, where our disruptive technology is enabling digitalisation to take place. We have won significant market share by offering a new and significantly advantageous solution. Inevitably, Xaar's success is attracting competition to which we are responding by developing new variants, the first of which is already in customer trials. We are also increasing sales to ceramics customers in China, where over 40% of the world ceramic tile production capacity exists.

Whilst we have had major success in ceramic decoration, progress in labels and other industrial applications has been slower. This reflects the time taken to develop new printing machines, new processes and gain end market acceptance.

In graphic arts our market share has continued to decline. Competitors are well established and pricing is aggressive. The competition includes Xaar licensees who continue to pay royalties.

Our future continues to lie in selectively re-engineering existing print applications and in new industrial developments. Unlike most high technology markets, these transitions move slowly, but once success has been achieved, they result in long product lifecycles.

Over the past few years, much of Xaar's development effort and resource has been expended on existing product development, manufacturability, quality and product integration, resulting in significant improvements, and we continue to set more challenging targets in this area. However, our Research and Development team is now focusing more resources on the future, both in the expansion of P3 and in the development of next generation Platform 4 (P4). Research and Development is a vital element of Xaar's strategy and we continue to invest in the range of 7% to 10% of revenue each year. We are fortunate to have a highly knowledgeable and talented team in this function.

I commented earlier on the progress made with our capital investment programme to install significant additional capacity. At the start of last year, we were capacity constrained and could not meet demand for P3. By October 2011, this situation had been resolved and we are now able to meet customer demand. The major and complex task of installing, commissioning and qualifying the new plant facilities and machinery, whilst ensuring that delivered product quality was not compromised, was a massive achievement and testament to the strength and experience of our manufacturing team.

Dividend

Xaar's financial position remains strong with substantial and sufficient net cash resources of £17.4 million as at 31 December 2011. Based on the profitability and expected continuing cash generation of the business the Board has decided to recommend a final dividend of 2.0 pence which, together with the 1.0 pence interim dividend paid on 16 September 2011, represents a 0.5 pence increase in total dividend compared to 2010. Further dividend increases in future years may be considered.

Corporate governance

Throughout 2011, the Group has complied fully with the UK Corporate Governance Code 2010. The value placed on corporate governance is reflected in the Group's principles, policies and processes in use every day. The Group continually endeavours to improve the governance of the Group based on measurement against internal objectives, external audits and a thorough approach to risk management. The role and effectiveness of the Board continues to be evaluated through regular performance reviews.

The Board has a formal schedule of matters reserved for its decision and authorisation, which includes approval of significant business decisions, policies, operating budgets and significant capital expenditure or investment. Authority on certain responsibilities is delegated to the Audit, Remuneration and Nomination committees as documented within written terms of reference. These committees are chaired by independent Non-Executive Directors.

Board

There have been a number of changes to the Board during 2011. Ted Wiggans joined in January 2011 as Operations Director and Alex Bevis took over the role of Finance Director and Company Secretary in March 2011. David Cheesman joined as a Non-Executive Director in July 2011, replacing Rob Eckelmann who stepped down after almost six years.

As announced in 2011, Phil Eaves, Sales and Marketing Director, is retiring from the Board at the end of March 2012. On behalf of Xaar I would like to thank Phil for his significant contribution to the growth and development of the Company over the past six years and wish him well in his retirement.

I am pleased to welcome Richard Barham to the Board (appointed 5 March 2012) as Sales and Marketing Director. Since 1986, Richard has held a range of sales, marketing and management positions at Agfa Graphics NV. Since February 2008 he has acted as Vice President of the Inkjet Division where he was responsible for turning the business around and integrating a major acquisition. Richard therefore brings considerable knowledge and relevant experience of our industry as both a tier one printer manufacturer and customer of Xaar product and technology.

Phil Lawler
Chairman
19 March 2012

Operations review

"The £22 million investment programme to increase P3 capacity is running smoothly and is now approximately three months ahead of the original schedule."

“For the first time, industrial markets have become the largest end application for Xaar technology.”

Introduction

2011 was a year of substantial progress. Strong revenue growth was driven by Platform 3 (P3) demand and was delivered through the successful execution of the capacity expansion programme at the Huntingdon plant, increasing output. The £22 million investment programme to increase P3 capacity is running smoothly and is now approximately three months ahead of the original schedule and is expected to complete by the end of June 2012.

As a result of this growth, coupled with improvements achieved in gross margins and operating efficiencies, adjusted profit before tax for the year (see the reconciliation of adjusted financial measures) increased by 90%.

Business review

Total revenue for 2011 of £68.7 million (2010: £54.7 million) comprises product sales of £61.4 million (2010: £47.2 million), representing 89% of turnover (2010: 86%); royalties of £7.2 million (2010: £7.0 million), representing 11% of turnover (2010: 13%); and development fees of £0.1 million (2010: £0.5 million). This 26% growth in total revenue is made up of 30% growth in product sales, and 3% growth in royalties.

Throughout the year, gross margin continued the positive trend which started in 2009, improving from 44% for the first half of 2011 to 45% for the second half. For the year overall, adjusted gross margin (see the reconciliation of adjusted financial measures) increased to 44% (2010: 42%).

The successful implementation of additional P3 capacity has allowed the acceleration of P3 sales into both the ceramic tile decoration and primary label printing markets. The digitalisation of the ceramic decoration market is now well underway and a significant percentage of this market is expected to convert over the next five years. Our success in this field is now starting to attract the interest of competitors and we anticipate that competition will grow over time. We believe that the superiority of our technology and products, combined with a competitive pricing strategy, will enable Xaar to strengthen its position in the ceramics market and to sustain strong growth in revenues and profits. Progress in the primary label market continues, but at a more modest rate than ceramics, and further applications continue to be developed by our partners.

As expected, given the maturity of the wide-format graphics market and intense competition, P1 sales fell in 2011 with licensee royalties also marginally down on 2010 in constant currency terms. Both commercial and technical efforts are required to reverse this trend, in parallel with changing our infrastructure in China, as discussed later in this review, we plan to improve results in this sector.

Commercial review

Geographic

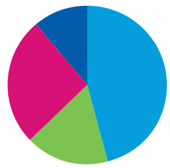
Based on the strong adoption of our P3 technology in the ceramic decoration market, EMEA remained the Company’s largest sales region, generating revenue of £42.0 million (2010: £24.9 million) representing 69% growth over the previous year which itself had almost doubled from 2009. For 2011 the EMEA region represented 61% of total revenue compared to 46% in the previous year.

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

Asia generated 28% of total sales which, at £19.3 million, were down 13% on 2010. Royalties increased by 3% due to foreign currency movements, and fell slightly in constant currency terms. As expected, in 2011, P3 uptake in Asia was very modest, with the vast majority of volume being supplied via European OEMs and reflected in EMEA revenues. Over the next few years, we expect the contribution of P3 sales in Asia to become more material as the result of direct sales into China.

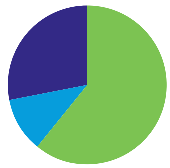
Total sales to the Americas in 2011 were maintained at the £7.4 million achieved in 2010, representing 11% (2010: 14%) of total sales. P3 growth in the packaging markets of North America was offset by P1 shrinkage in the wide-format graphics market of South America. Ceramics customers in the Americas are supplied by European OEMs with revenues included in those reported for EMEA.

Revenue by segment



Industrial
46%
Packaging
17%
Graphic arts
26%
Licensee royalties
11%

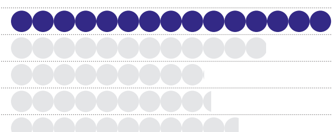
Revenue by region



EMEA
61%
Americas
11%
Asia
28%

Total revenue (£m)

2011 / 68.7
2010 / 54.7
2009 / 41.5
2008 / 42.9
2007 / 48.8



Commercial review continued

End markets

For the first time, industrial markets have become the largest end application for Xaar technology. Business in these applications more than doubled for the second year running, resulting in sales of £31.5 million (2010: £14.1 million) and now accounts for 46% of total sales (2010: 26%). Rapid adoption of P3 technology in the ceramic decoration sector has continued to be the primary driving force in this area. Since the second half of 2011, the successful P3 capacity expansion has released the constraint on sales. As a result of the improved availability of product, development of further industrial applications is now taking place with multiple partners.

Sales into the graphic arts market fell by 15% to £18.1 million, compared to £21.4 million for 2010, and now represent 26% of total sales (2010: 39%). Whilst this market is mature it continues to be an important core market for Xaar, specifically in the areas of large format advertising and signage printing. Reversing the trend of declining sales is a key objective of the Company which we believe can be achieved by a combination of commercial and technical activities designed to win back market share in this highly competitive market.

Sales into the packaging market were stable compared to the previous year at £11.7 million (2010: £11.8 million) and represent 17% (2010: 22%) of total sales. Within this figure P3 growth in primary label printing applications has been offset by a decline in the mature coding and marking applications serviced by our P1 products.

Operations review

All elements of the P3 capacity expansion plan have been well executed and the plan is now running approximately three months ahead of the original schedule with the cost expected to be within budget.

I am particularly pleased with the quality of staff we have managed to attract during this process. Facilities work, including a full third clean room, was completed as planned by mid 2011. By the end of the year, 80% of the processing assets had been delivered, with the final deliveries and process qualifications expected to occur by mid 2012. It is also pleasing to report that this capacity expansion programme has been delivered without any disruption of the supply of products to customers and has enabled supply to move ahead of demand during the third quarter of 2011, allowing for a significant improvement in both product lead-times and customer delivery satisfaction.

The increase in volume throughput and operational improvements achieved during the year were key to our success in improving gross margins during the year.

R&D spend in the year increased by 15% to £5.8 million, representing 8% (2010: 9%) of sales. Projects which commenced during 2011 included the development of a new P3 product together with new P3 variants, new P1 variants and new electronics development programmes. Following successful completion of the modelling and simulation stages, the Platform 4 (P4) project has moved to prototyping with first physical test structures expected to occur during 2012.

Xaar 1001 printhead manufacture
During the lamination stage of manufacture, two key components are bonded – a uniquely numbered ceramic tile and PZT.

Ceramic tile decoration
Tiles shown here were printed with the Xaar 1001 printhead.

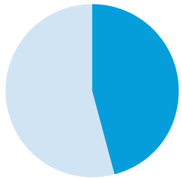
Industrial: (including ceramics)

Revenue

£31.5m

Contribution to Group revenue

46%



Industrial sales (£m)

2011 / 31.5	
2010 / 14.1	
2009 / 6.0	
2008 / 5.0	
2007 / 1.7	

China representation
As previously announced on 24 January 2012, our China sales support team have left the Company.

The Company is in direct contact with its Chinese customers, and revenue during the early stages of 2012 is in line with expectations. The Company has decided to close its representative office in Shanghai, and will support Chinese customers with sales and technical support based in Hong Kong. This is a return to the support model which was successfully used prior to 2007. In the short term UK staff will continue to provide support to Chinese customers, and it is expected that the new Hong Kong based support centre will be fully operational, for both technical and commercial local support, by the middle of the year. Whilst some transitional costs will be incurred, the financial impact of this change is expected to be immaterial.

Outlook
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 will continue to innovate, focusing on carefully selected market segments and products offering attractive commercial returns.

Having established a trend of profitable growth, which we expect to continue, we are now seeking to accelerate the further adoption of Xaar's technology in both existing and new applications.

P3 is now established, with both variants and new products being planned and developed to enable us to exploit its potential fully. We expect this platform to have a long and successful life.

Whilst we are not planning for substantial growth in graphic arts, the market is significant and through new product releases and competitive pricing, we expect to remain a leading supplier to this sector.

The priorities for 2012 are:

- in the short term, complete the establishment of our new support infrastructure for China;
- to grow P3 further in both the label and ceramic markets whilst commencing material business in the décor market;
- to reverse the decline in the wide-format graphics market; and
- to prime the product development pipeline to underpin and sustain growth over the medium term.

People
I would like to thank all our staff for their efforts during a year of significant progress for the Company. The combination of their skill, hard work and dedication has delivered a set of results of which they can be justifiably proud.

Ian Dinwoodie
Chief Executive
19 March 2012

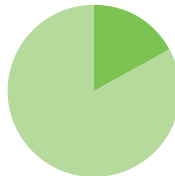
Packaging: (including labels, coding and marking)

Revenue

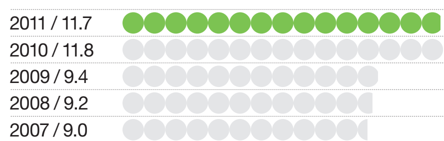
£11.7m

Contribution to Group revenue

17%



Packaging sales (£m)



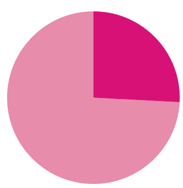
Graphic arts: (including advertising)

Revenue

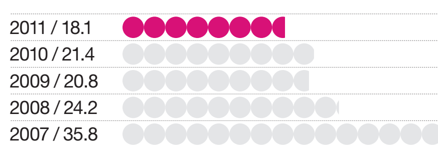
£18.1m

Contribution to Group revenue

26%



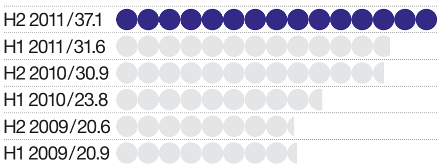
Graphic arts sales (£m)



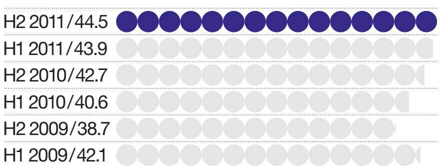
Finance review

"Strong demand from the industrial sector, driven mainly by ceramics, resulted in total Group revenue growing by 26%."

Revenue growth (£m)



Adjusted gross margin improvement (%)



Trading

Strong demand from the industrial sector, driven mainly by ceramics, resulted in total Group revenue growing by 26% to £68.7 million in 2011 from £54.7 million in 2010. This followed a 32% increase in sales in 2010 compared to 2009.

The prospect for sustainable revenue growth supported Xaar's decision, announced in 2010, to invest in expanding production capacity at Huntingdon, and is reflected in the revenue growth achieved over consecutive half years since 2009.

Revenue for the second half of 2011 grew by 17% over the first six months of the year. This increase was driven by sales into the ceramics segment, facilitated by the capacity expansion programme. It also reflects normal seasonality favouring the second half as a result of the Chinese New Year and other factors affecting the first half. Revenue for the second half of 2011 grew by 20% over the same period in 2010.

The majority of Xaar's revenue is generated by product sales (£61.4 million, 89% of total sales in 2011), with printheads constituting the most significant element of this category (£54.4 million, 89% of product sales in 2011).

Success in ceramics resulted in 124% growth (£17.5 million) in sales for the industrial segment. Product sales into other segments reduced by 8% (£3.4 million), principally reflecting a decline in sales into the graphics arts segment. In response to market maturity and competitive pressures in this sector, management is implementing a recovery plan which includes new product development.

Licence fees and royalties grew by 3% to £7.2 million (2010: £7.0 million). In constant currency terms, royalties fell slightly highlighting competitive pressure in the mature wide-format graphics market.

An adjusted gross margin (gross margin excluding exceptional items per the reconciliation of financial measures) of 44.2% was achieved in 2011 (2010: 41.8%). This increase reflects the leverage of higher sales over the fixed elements of manufacturing costs, production efficiency improvements achieved during the year, and the cessation of royalties payable on licensee income. As a result of these factors, adjusted gross profit grew by 33%, from £22.9 million in 2010 to £30.4 million in 2011.

Adjusted operating expenditure for the year, excluding share charges, intercompany exchange and exceptional items, was up 14% on 2010 to £19.8 million for 2011. This increase reflects an investment in headcount in the R&D, sales and marketing, and support functions. R&D expenditure increased by 15% to £5.8 million.

Included within adjusted operating expenditure was a £0.4 million exchange loss in 2011 (2010: a £0.1 million gain), reflecting exposure to Euro/Sterling currency fluctuations during the year through higher sales to European ceramic printer manufacturers. Despite some natural hedging against Euro outflows, particularly related to the capacity expansion programme, exchange losses were suffered in the latter part of 2011 on net excess Euro inflows. In 2012, Euro cash inflows will be managed using a combination of spot trades and flexible forward contracts.

Exceptional items in the year of £1.4 million (2010: £0.1 million) include share-based payment charges of £1.3 million (2010: £1.3 million); the net release of the provision for restructuring costs associated with the previously planned closure of the Swedish plant of £0.2 million (2010: £1.1 million); and foreign exchange losses associated with operating the Swedish plant of £0.3 million (2010: a gain of £0.5 million). In 2010, exceptional commercial agreement costs of £0.5 million were incurred.

The total charge relating to interest income, interest payable and non-operating exchange gains and losses netted to £nil in 2011 (2010: a charge of £0.1 million).

Adjusted profit before tax for the year (see the reconciliation of adjusted financial measures), increased by 90% to £10.6 million (2010: £5.6 million) as a result of gross profit increasing 33%, well ahead of the 12% increase in operating expenditure. Adjusted profit before tax is stated before exceptional items and is the normal measure used by management for tracking the underlying profitability of the Group.

The tax charge on adjusted profit before tax was £2.6 million (2010: £1.5 million), representing an effective tax rate of 25% (2010: 27%). This tax charge is the product of the UK and Sweden corporation tax rates (26.5% and 26.3% respectively) reduced by the impact of R&D tax credits.

The tax charge on unadjusted profit before tax was £1.5 million (2010: £1.4 million) representing an effective tax rate of 16% (2010: 27%). The low rate was mainly the result of the release of a provision that is no longer required.

Adjusted profit after tax for 2011 (see note 12) was £7.9 million, up 93% from the £4.1 million recorded in 2010. Adjusted diluted earnings per share for 2011 was 10.7 pence (2010: 6.2 pence).

Financial position

Xaar maintains a strong balance sheet, with net cash (gross cash less financing arrangements) at 31 December 2011 of £17.4 million, versus £22.0 million at 31 December 2010. Compared to the adjusted profit before tax of £10.6 million achieved in 2011, the reduction in cash is principally explained by the capacity expansion programme, with total capital related cash expenditure for the year of £15.7 million.

Operational cash flow remains strong, benefiting from the growth in revenue and profit resulting from the capacity expansion at Huntingdon, and the Company continues to focus on controlling costs and working capital.

Dividend

The Board will recommend a final dividend of 2.0 pence for 2011 at the forthcoming AGM, giving a total dividend for the year of 3.0 pence (2010: 2.5 pence). An interim dividend of 1.0 pence was paid during the year (2010: 1.0 pence). Subject to approval by shareholders at the AGM, the final dividend will be paid on 22 June 2012 to shareholders on the register on 1 June 2012.

Annual General Meeting

The AGM will be held at 9.30am on 22 May 2012 at 316 Science Park, Cambridge CB4 0XR.

Key Performance Indicators

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

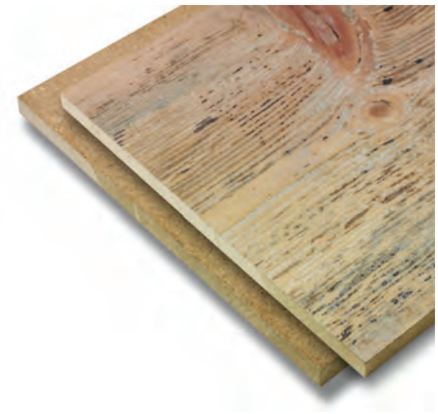
Financial measures, measured against budget on a monthly basis:

- Revenue by business and geographical segment
- Manufacturing costs per unit by product family
- Adjusted gross margin
- Adjusted profit before tax
- Net cash position

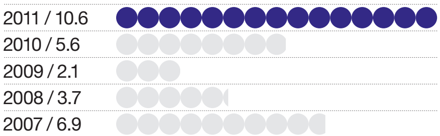
Non-financial measures, measured against targets on a weekly or monthly basis:

- Sales order book – month to date
- Production output – month to date
- Quality performance – month to date
- Health & Safety incidents – monthly

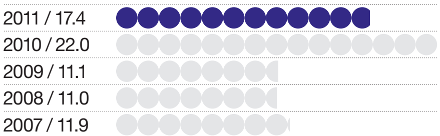
Alex Bevis
Finance Director and Company Secretary
19 March 2012



Adjusted profit before tax (£m)



Net cash balance (£m)



Risks and uncertainties

Below are the principal risks and uncertainties identified by the Group, and the related impact and mitigation.

Principal risk and uncertainty	Impact	Mitigation
Market share loss in the industrial segment due to competitor activity.	Lower than anticipated revenues are achieved resulting in excess production capacity and lower levels of profit.	Competitive pricing policies are employed. The product portfolios and pricing of competitors are constantly monitored. Manufacturing cost reduction programmes are established to ensure products remain competitive. Close customer relationships are maintained with supply agreements in place where appropriate. New product variants are developed to constantly improve the product portfolio on offer.
Revenues into the graphic arts segment decline rapidly due to market maturity and/or competitor activity.	Lower than anticipated revenues are achieved resulting in excess production capacity and lower levels of profit.	Competitive pricing policies are employed. Manufacturing cost reduction programmes are established to ensure products remain competitive. Regular reviews of OEM partners are held to ensure appropriate and extensive market coverage is achieved together with a focus on new equipment manufacture. A recovery plan in this segment is underway which includes the development of new products and new product variants.
Manufacturing output fails to meet demand due to supplier issues, an event at one of the manufacturing facilities, delays or problems associated with the capacity expansion, or for other reasons.	Demand is not satisfied resulting in lower levels of revenue and profit. Customers may start purchasing (or increase their level of purchasing) with Xaar's competitors, leading to a longer term reduction in market share, revenue and profit.	Detailed sales forecasts are prepared and reviewed regularly to minimise unexpected changes in short term demand. Suppliers are managed carefully. Appropriate sourcing, inspection and inventory holding policies are applied to ensure continuity and consistency of product supply. Appropriate contingency factors are applied to capacity planning. Manufacturing facilities are fitted with the appropriate safety and security systems. Staff are properly trained. A dedicated project manager controls the capacity expansion programme.

Principal risk and uncertainty	Impact	Mitigation
Significant and sustained quality problems are identified with products which have been sold or which are held in inventory.	Lower levels of revenue in the short term whilst the issues are resolved. Unexpected costs associated with resolving the issues, which may include product scrap, warranty costs and/or customer compensation. Potentially longer term revenue loss if customers start purchasing (or increase their level of purchasing) with Xaar's competitors.	Standard operating procedures are in place for all products. Staff are properly trained. The quality of supplies is constantly monitored. Quality performance is regularly reviewed by senior management who apply appropriate resources to systematically address recurrent problems. New products are thoroughly tested before launch. Xaar's Swedish and UK manufacturing facilities are ISO 9001 accredited. Customer returns are reviewed quickly using a consistent and thorough investigation process.
A failure to identify the appropriate products to meet future market requirements, or, the products are identified but are not successfully developed in time or to the required specification.	Longer term revenue and profit is impacted.	Regular, specific and detailed reviews are held to assess current and anticipated market requirements. These reviews include input from customers and other external sources. Product developments are selected on appropriate criteria. Product development activity is properly managed with regular reviews of progress against projects plans, and gated milestone reviews. Appropriate resource is applied to product development activity.

Board of Directors

Phil Lawler
Chairman
Age 63

Phil has extensive experience of high technology industries. He started with co-founding a software business and subsequently spent 18 years until 2002 at Hewlett Packard in various senior positions, most recently as chairman and managing director of Hewlett Packard, UK and Ireland. Since leaving Hewlett Packard, he has been chairman of both public and a number of technology companies where he has been introduced by private equity and venture capital investors. He is a Chartered Director.

Ian Dinwoodie
Chief Executive
Age 51

Ian joined Xaar in September 2001 as Group Operations Director and was appointed Chief Executive in July 2003. With over 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.

Alex Bevis
Finance Director and Company Secretary
Age 36

Alex joined Xaar in February 2011 after ten 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.

Phil Eaves
Sales and Marketing Director
Age 58

Since February 2005 Phil held the position of Sales and Marketing Director. He previously worked for over 20 years in senior management positions at market leading companies such as Scitex, Crosfield and Xeikon, in the imaging and printing industries. Phil has made a significant contribution to the development and growth of Xaar over this time, and retired from Xaar in March 2012.

Ramon Borrell
Research and Development Director
Age 48

Ramon 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.

Ted Wiggans
Operations Director
Age 56

Ted joined Xaar in January 2011. With over 30 years' experience in high-technology operations. Immediately prior to joining Xaar he was chief operating officer at Cambridge Semiconductor Ltd (CamSemi). Before joining CamSemi in 2006, he was operations director at Zetex Semiconductors with overall responsibility for its multi-site, multi-national manufacturing activities and a global team of 500. In addition, he has held senior level manufacturing, engineering and quality roles with Motorola and Philips. He is a Chartered Engineer.

Richard Barham
Sales and Marketing Director
Age 50

Richard joined Xaar in March 2012, was previously Vice President Inkjet at Agfa Graphics N.V. He brings over 25 years of international sales and marketing expertise across many sectors of the imaging and printing industries and has held senior management positions at Agfa including, VP Research & Development, VP Global Marketing and Product Development and VP Commercial Printing. He is a member of the Chartered Institute of Marketing.

David Cheesman
Non-Executive Director
Age 68

David joined Xaar in July 2011. He obtained an electrical engineering degree from City University before qualifying as a Chartered Engineer with the UKAEA. He was a senior engineer with Honeywell, Chief Engineer at CASE Ltd, Technical Operations Director at Univac, Vice President International with Prime Computer Inc. and CEO of Dowty Information Systems Ltd. He then joined the venture capital industry in 1989 and was head of the High Technology Investment Unit at 3i, a Partner in TriTech Investments and then spent 12 years as a General Partner with Advent Ventures. He has held many directorships on investee companies in the electronics, telecommunications and advanced materials sectors. He was recently a non-executive director of LSI Lasers Ltd, Celoxica Plc, Inca Digital Ltd, and is currently on the Advisory Board of the London Technology Fund.

Robin Williams
Non-Executive Director
Age 54

Robin joined Xaar in March 2010. He obtained an engineering degree from Oxford before qualifying as a Chartered Accountant with Peat Marwick Mitchell. He spent ten years as a corporate advisor before co-founding Britton Group plc. As CEO of Britton, he grew the business to £250 million revenues within six years, before selling to a competitor. He was then an executive director of Hepworth PLC, with a leading role in the rationalisation and subsequent sale of the group. He has subsequently held various public and private company directorships across a range of industries including business services, healthcare, outsourcing, contracting and manufacturing. Robin is currently chairman of NHS Professionals Ltd, Bio Products Laboratory Ltd, DCI Biologicals Inc. and a non-executive director of Maxima Holdings plc, AH Worth & Company Ltd, Plasma Resources UK Ltd, and Baronsmead VCT 4 plc.

Corporate social responsibility

The Group continued with the development of its formal corporate responsibility initiative, launched during 2008 to coordinate 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. There is internal reporting of key metrics throughout the business.

Formal directives and certification

The Group manufactures products in both Sweden and the UK and undertakes research and development in the UK. 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 ISO 9001 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 OHSAS 18001 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 its 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.

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them and on the various factors affecting the performance of the Group.

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

The management of Xaar is committed to achieving and maintaining full compliance with 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

- Three teams were entered into the BBC Children in Need fun run around the Cambridge Science Park in November 2011.
- Various charitable donations have been made, including to East Anglian Children's Hospice.
- The social club, which is aimed at encouraging staff to have fun and get to know each other socially, held several events throughout the year including theatre trips, comedy nights, dry slope skiing and nights at the races.
- Xaar were delighted to become a sponsor of PrintIT! during the year. PrintIT! is a major initiative to encourage young people to embark on careers in the UK printing industry.
- Xaar sponsored a student of the Bartlett School of Architecture, in support of an exhibition.

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 2011. 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 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 finance review, and the review of operations. 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 13 which are incorporated in this report by reference.

Results and dividends

Revenue for the year was £68.7 million (2010: £54.7 million) and comprised the sale of printheads and related products, development fees and licence fees and royalties. The profit after tax for the year was £7.7 million (2010: £4.0 million). The Directors recommend the payment of a final dividend of 2.0p per ordinary share (2010: 1.5p), giving a total dividend of 3.0p per ordinary share (2010: 2.5p) for the full year. If approved at the forthcoming Annual General Meeting, the final dividend will be paid on 22 June 2012 to shareholders on the register at close of business on 1 June 2012.

Research and development

Expenditure on R&D in the year was £5.8 million (2010: £5.0 million). R&D activity focused on both the development of existing products and technologies and researching new technologies for future inkjet projects.

Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 26. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

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

Details of employee share schemes are set out in note 33.

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on page 24.

Treasury

The Group's policy enables it to use financial instruments to hedge foreign currency exposures. The main trading currency of the Group is UK pounds. The Group's use of financial instruments and the related risks are discussed further in notes 19, 20 and 24.

At the 2011 Annual General Meeting held on 17 May 2011, 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 2011 or 2010.

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

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, and subsequent to the year end unless otherwise stated, were as follows:

Ian Dinwoodie – Chief Executive
Alex Bevis – Finance Director and Company Secretary (appointed 14 February 2011)
Phil Eaves – Sales and Marketing Director (retires from the Board 31 March 2012)
Ramon Borrell – Research and Development Director
Ted Wiggans – Operations Director (appointed 10 January 2011)
Phil Lawler – Chairman
Robin Williams – Senior Independent Director
David Cheesman – Non-Executive Director (appointed 4 July 2011)

Andrew Taylor (resigned 31 March 2011)
Greg Lockett (resigned 10 January 2011)
Rob Eckelmann (retired from the Board 17 May 2011)

Richard Barham (appointed 5 March 2012) replaces Phil Eaves as Sales and Marketing Director on his retirement from the Board.

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 33.

The interests of the Directors in the shares of the Company and its subsidiaries (all of which are beneficial) as at 31 December 2011 are as follows:

Shareholdings in the Company

	Number of ordinary shares of 10p each 31 December 2011	Number of ordinary shares of 10p each 31 December 2010
Ian Dinwoodie	**197,327**	197,327
Alex Bevis	**10,724**	—
Phil Eaves	**22,249**	22,249
Ramon Borrell	**129,799**	95,330
Ted Wiggans	**2,000**	—
Phil Lawler	**101,430**	101,430
Robin Williams	**—**	—
David Cheesman	**—**	—

There have been no changes in the Directors' interests in shares of the Company between 31 December 2011 and 19 March 2012. 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, David Cheesman (appointed 4 July 2011) and Richard Barham (appointed 5 March 2012) 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 31 December 2011 the Company had been notified in accordance with chapter five of the 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 (UK)	11,955,598[1]	16.5%
Legal & General Investment Management	9,463,390	13.0%
AXA Framlington	8,220,229	11.3%
Cazenove Capital Management	8,076,155[1]	11.1%
M&G Investments	5,469,171	7.5%
Artemis Fund Managers	3,627,285	5.0%
Royal Bank of Canada Europe	2,766,709	3.8%
Aviva Investors	2,211,414	3.0%

During the period between 31 December 2011 and 19 March 2012, the Company received notifications under chapter five of the Disclosure and Transparency Rules, of the following significant holdings of voting rights and issued share capital:

	Number of ordinary shares held	Percentage of issued share capital
Cazenove Capital Management	9,659,506[1]	13.3%
Legal & General Investment Management	7,646,717	10.5%
Merrill Lynch International Bank	6,562,035	9.0%

1 Figures include Contracts for Difference.

Since 31 December 2011, the Royal Bank of Canada Europe's share holding has fallen below 3%.

Annual General Meeting

The notice convening the Annual General Meeting is set out on pages 78 to 80. Resolutions 1 to 6 set out in the notice of the meeting deal with the ordinary business to be transacted at the meeting. Resolutions 4 to 6 are explained further below. The special business at the meeting (Resolutions 7 to 10) is explained on pages 78 and 79.

Re-appointment of Ian Dinwoodie, David Cheesman and Richard Barham as Directors

Resolution 4, 5 and 6

In line with provisions B.7.1 and B.7.2 of the UK Corporate Governance Code, the Board has considered the re-appointment of Mr Dinwoodie, Mr Cheesman and Mr Barham in light of their performance and commitment to their respective roles. The Board has concluded that, following a formal performance review, the performance of each of Mr Dinwoodie, Mr Cheesman and Mr Barham continues to be effective and they continue to demonstrate commitment to their respective roles. The Board therefore supports the re-appointment of Mr Dinwoodie, Mr Cheesman and Mr Barham to the Board.

Authority to purchase own shares

Resolution 8

It is proposed by Resolution 8, 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 2011 was 3,039,987. 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 2011 would represent 5% of the reduced issued ordinary share capital.

Annual General Meeting continued

Power to issue securities

Resolution 9

Under the Companies Act 2006 the Directors of the Company may only allot shares (whether for cash or otherwise) with the authority of shareholders given at a general meeting of the Company. In accordance with institutional guidelines, under Resolution 9, to be proposed as an Ordinary Resolution, authority is sought to allot shares:

(i) in relation to a pre-emptive rights issue only, up to an aggregate nominal amount of £4,877,805.76, which represented two-thirds of the Company's ordinary share capital as at 19 March 2012; and

(ii) in any other case, up to an aggregate nominal amount of £2,418,396.48, which represented one third of the Company's ordinary share capital as at 19 March 2012.

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

Resolution 10

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 £364,015, representing 5% of the ordinary share capital of the Company as at 19 March 2012. 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 9 and 10 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 during the year totalling £319 (2010: £13,398). No political donations were made in the year (2010: £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 payable days of the Group at 31 December 2011 were 20 days (2010: 42 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 26 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.

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 21.

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 Operations review on pages 8 to 11. Notes 19, 20 and 24 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, based on the Group's forecasts and projections, taking account of reasonably possible changes in trading performance. 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 page 20.

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

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditor is unaware; 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.

By order of the Board

Alex Bevis
Company Secretary
19 March 2012

316 Science Park
Cambridge
CB4 0XR

Registered number: 3320972

Corporate governance statement

The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code which was issued in 2010 by the Financial Reporting Council ("the Code") for which the Board is accountable to shareholders.

Statement of compliance with the Code of best practice

Throughout the year ended 31 December 2011 the Company has been in compliance with the provisions set out in the 2010 UK Corporate Governance Code.

Statement about applying the principles of the Code

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

Board of Directors

The Board of Directors comprises the Chairman, five 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) resigned from the Board on 31 March 2011 and was replaced as Finance Director by Alex Bevis. Rob Eckelmann retired from the Board at the Annual General Meeting after six years as a Non-Executive Director. Robin Williams was then selected as the Senior Independent Director. David Cheesman joined the Board as a Non-Executive Director on 4 July 2011. Phil Eaves (Sales and Marketing Director) will resign from the Board on 31 March 2012 and will be replaced as Sales and Marketing Director by Richard Barham.

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

The Board is responsible for the formulation of strategy; the monitoring of financial and non-financial performance and the approval of major transactions; financial statements; other formal communications with shareholders and operating and capital expenditure budgets. Comprehensive Board papers, dealing with all aspects of the business, are distributed by the Company Secretary one week in advance of each Board meeting. The Board met ten times during 2011.

The Non-Executive Directors attend the Board meetings, and form the Audit, Remuneration and Nomination Committees.

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 Alex Bevis, Phil Eaves (who will be replaced by Richard Barham on 31 March 2012), Ramon Borrell and Ted Wiggans, the Director of Marketing (Mark Alexander) and the Director of Quality (Mike Read). Richard Barham joined the executive committee immediately on 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 2011

Ten Board meetings were held in 2011.

Name	Meetings attended
Phil Lawler	10 (10)
Rob Eckelmann	3 (3)
Robin Williams	10 (10)
David Cheesman	5 (5)
Ian Dinwoodie	10 (10)
Alex Bevis	10 (10)
Andrew Taylor	2 (2)
Phil Eaves	8 (10)
Ramon Borrell	10 (10)
Ted Wiggans	10 (10)

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

Board committees

Summary of committee membership

Name	Audit committee	Remuneration committee	Nomination committee
Phil Lawler	Yes	Yes	Yes
Robin Williams	Chairman	Yes	Yes
Rob Eckelmann[1]	Yes	Chairman	Chairman
David Cheesman[1]	Yes	Chairman	Chairman
Ian Dinwoodie	No	No	Yes

1 David Cheesman replaced Rob Eckelmann as Chairman of the Remuneration and the Nomination Committees and is a member of Audit Committee at the 2011 Annual General Meeting.

Summary of committee meeting attendance in 2011

Name	Audit committee	Remuneration committee	Nomination committee
Number of meetings held	4	5	1
Phil Lawler	3(4)	5(5)	1(1)
Robin Williams	4(4)	5(5)	1(1)
Rob Eckelmann	1(1)	2(2)	1(1)
David Cheesman	2(2)	3(3)	1(1)
Ian Dinwoodie	N/A	N/A	1(1)

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 is appointed by the Board from the Non-Executive Directors of the Company. 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 Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency rule 7.1 and the UK Corporate Governance Code. The written terms of reference of the committee are available on request from the Company Secretary and the policy can be accessed on the Xaar website at www.xaar.com.

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken.

The committee meets with the Company's auditor at least twice a year. The Chief Executive and Finance Director attend by invitation, except for a period of each meeting where the committee members 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.

Please see the tables above for details of the Audit Committee members in the year and the number of Audit Committee meetings attended.

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

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.

Board committees continued

Audit Committee continued

Note 6 to the financial statements includes disclosures of the auditor's remuneration for the year, including an analysis of audit services, audit related services and other non-audit services under those headings prescribed by law.

The Audit Committee has considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditors.

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 Alex Bevis as Director responsible for risk assessment.

Since the beginning of 2011, the Audit Committee has performed actions to discharge its responsibilities, including reviewing the 31 December 2010 annual report and financial statements, the 30 June 2011 half-yearly financial report and as part of this review the Audit Committee received a report from the external auditor on their audit and review performed, reviewed the effectiveness of the Group's internal controls, reviewed and agreed the scope of the audit work to be undertaken by the auditors, agreed the fees to be paid to the external auditor in respect of their services rendered for the annual audit and interim review, reviewed its own effectiveness, reviewed the internal controls and risk management systems, and reviewed compliance and the whistle-blowing policies.

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditor. The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the committee.

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 and Finance Director attend meetings by invitation, except when their 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 and PwC 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 and can be accessed on the Xaar website at www.xaar.com.

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 re-appointment 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 and can be accessed on the Xaar website at www.xaar.com.

The process adopted by the committee to identify a candidate for a specific vacancy is, in the first instance, to determine whether any individuals known to the committee would be suitable for the role. If no candidates can be identified through this process then an external search consultancy will be approached. Shortlisted candidates are interviewed by members of the committee and other executive and Non-Executive Directors as the committee deems appropriate. Once a suitable candidate has been identified, the Chairman of the committee will recommend to the Board that the Company make a formal offer of employment to the candidate.

The committee fulfilled its duties during the period, through the process of recruiting Richard Barham, who replaces Phil Eaves, Sales and Marketing Director, on 31 March 2012.

Ted Wiggans was appointed to the Board on 10 January 2011, Alex Bevis was appointed on 14 February 2011 and Richard Barham was appointed on 5 March 2012. Leading external search consultancies were used to identify a shortlist of candidates for each appointment. The final appointments were made after a series of interviews with members of the Nomination Committee and relevant Executive Directors.

All Directors are required to submit themselves for re-appointment at least every three years and Directors appointed during the year are required to seek re-appointment 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 the 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.

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

Performance evaluation continued

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, marketing function and business support functions are based in Cambridge, UK. The Group also has two manufacturing facilities, one in Stockholm, Sweden and the other in Huntingdon, UK. The Group has representative offices in New Delhi, India, São Paulo, Brazil, Seoul, Korea, and Atlanta, USA. Refer to pages 2 and 3 for the Xaar business model.

Dialogue with institutional shareholders

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

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

Constructive use of the Annual General Meeting

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

Risk management and internal control

The Board has applied principle C.2 of the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces which has operated throughout the year and up to the date of this report. 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.

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

During the course of its review of the risk management and internal control systems, the Board has not identified or been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Whistle-blowing policy

The Company conducts its business with the highest standards of integrity and honesty at all times and expects its employees to maintain the same standards in everything they do. Employees are therefore encouraged to report any wrongdoing by Xaar or its members of staff that falls short of these principles. The whistle-blowing policy is available and communicated to all employees via the Company intranet, and all employees confirm in writing that they have read and comply with the whistle-blowing policy.

At the end of December 2011, the China staff raised some concerns about the perceived unfair treatment of both themselves and some Chinese customers compared to other regions. The Company undertook a detailed investigation into the concerns, which included allegations that Xaar's pricing and shipment policies had created an unfair market. Xaar took the allegations extremely seriously and, having completed a thorough investigation, found no evidence to substantiate the allegations. The China staff rejected the conclusions of the investigation, and resigned, despite intensive efforts on the part of the Company to resolve the situation amicably.

Alex Bevis
Company Secretary
19 March 2012

316 Science Park
Cambridge
CB4 0XR

Registered number: 3320972

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 relating to Directors' remuneration in the UK Corporate Governance Code. 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 Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the UK Corporate Governance Code. The terms of reference of the Remuneration Committee can be obtained by contacting the Company Secretary and can be accessed on the Xaar website at www.xaar.com.

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 programmes. 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 2012 the maximum potential bonus payment as a percentage of basic salary for Directors under the annual bonus scheme is 133% of basic salary. Bonuses are payable based on annual Group profit targets and individual performance objectives. 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 there under 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.

Unaudited information continued

Share options continued

Options held at 31 December 2011 granted during 2003 under the Xaar plc 1997 share option scheme:

	Date of grant	Number	Exercise price
Ian Dinwoodie	06.10.03	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.

Options held at 31 December 2011 granted under the Xaar plc 2004 share option plan:

	Date of grant	Number	Exercise price
Ian Dinwoodie	20.05.04	100,000	84.0p
Ian Dinwoodie	28.10.04	50,000	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

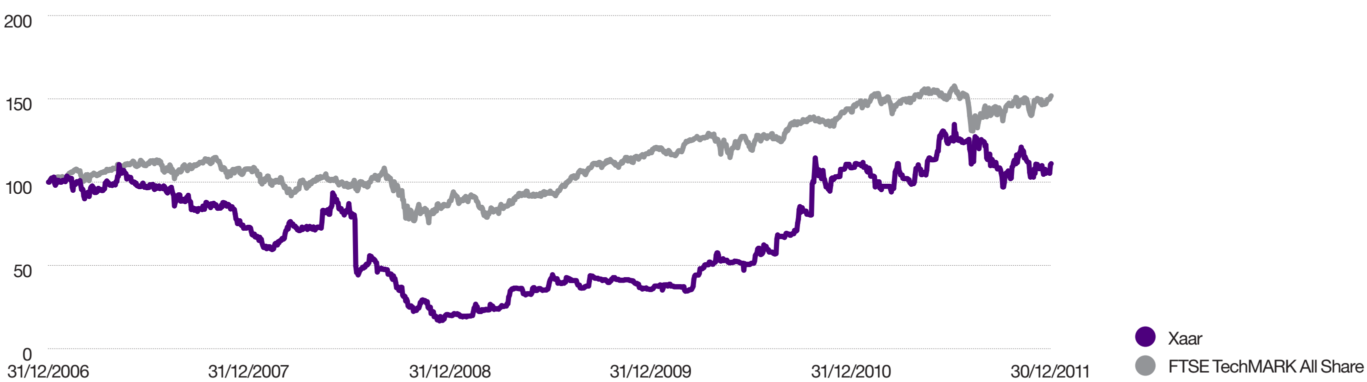
In accordance with best practice the Remuneration Committee has indicated that performance criteria will not be retested with regard to share options issued to Directors under the Xaar plc 2004 share option plan.

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. (Source: Datastream) This graph shows the value, by 31 December 2011, of £100 invested in Xaar plc on 31 December 2006 compared with the value of £100 invested in 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.

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
Phil Eaves	04.02.05
Phil Lawler	01.06.07
Ramon Borrell	27.08.07
Robin Williams	05.03.10
Ted Wiggans	10.01.11
Alex Bevis	14.02.11
David Cheesman	04.07.11
Richard Barham	05.03.12

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 2011 £'000**	Total (including pension contributions) 2010 £'000	Money purchase pension contributions 2010 £'000
Executive									
Ian Dinwoodie	200	—	39	200	439	18	**457**	383	13
Andrew Taylor	26	—	5	—	31	2	**33**	217	7
Phil Eaves	162	—	23	161	346	11	**357**	307	10
Ramon Borrell	135	—	21	137	293	9	**302**	246	8
Alex Bevis	123	—	17	123	263	8	**271**	—	—
Ted Wiggans	137	—	26	137	300	9	**309**	—	—
Greg Lockett	8	—	2	—	10	1	**11**	197	7
	791	—	133	758	1,682	58	**1,740**	1,350	45
Non-Executive									
Phil Lawler	—	80	—	—	80	—	**80**	75	—
David Cheesman	—	18	—	—	18	—	**18**	—	—
Robin Williams	—	37	—	—	37	—	**37**	28	—
Rob Eckelmann	—	11	—	—	11	—	**11**	33	—
John Scott	—	—	—	—	—	—	**—**	9	—
	791	146	133	758	1,828	58	**1,886**	1,495	45

During 2010 an accrual was made for £133,000 in relation to a contractual payment due to Andrew Taylor payable on his resignation from the Board and the Company on 31 March 2011. This amount was fully paid during 2011 and no similar accrual exists at 31 December 2011.

Audited information continued

Directors' share options

Directors' emoluments are disclosed on page 30 and 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 2011	Granted	Exercised	Lapsed	**As at 31 December 2011**	Exercise price	Earliest date of exercise	Expiry date
Ian Dinwoodie	100,000[1]	—	100,000[3]	—	**—**	68.5p	12.06.05	12.06.12
	10,122[2]	—	—	—	**10,122**	46p	01.06.12	01.12.12
	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
	460,122	—	100,000	—	**360,122**			
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**			
Ramon Borrell	10,122[2]	—	—	—	**10,122**	46p	01.06.12	01.12.12
	2,524[2]	—	—	—	**2,524**	174p	21.12.13	21.05.14
	12,646	—	—	—	**12,646**			
Alex Bevis	—	4,245[2]	—	—	**4,245**	212p	01.11.14	01.05.15
Ted Wiggans	—	4,245[2]	—	—	**4,245**	212p	01.11.14	01.05.15

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 options were granted under the Xaar plc 2007 Share Save Scheme (SAYE).

3 The date of exercise was 08.06.11 and the market price on the date of exercise was 260p.

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

Audited information continued

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 the LTIPs held are as follows:

Name	As at 1 January 2011	Granted	Exercised	Lapsed	**As at 31 December 2011**	Share price At date of award	Earliest date of exercise	Expiry date
Ian Dinwoodie	170,900	—	55,372	115,528	**–**	110.0p	21.08.11	21.08.11
	330,357	—	—	—	**330,357**	56.0p	01.04.12	01.04.19
	89,573	—	—	—	**89,573**	211.0p	22.11.13	22.11.20
	—	88,889	—	—	**88,889**	229.0p	11.04.14	11.04.21
	590,830	88,889	55,372	115,528	**508,819**			
Phil Eaves	107,159	—	34,720	72,439	**–**	110.0p	21.08.11	21.08.11
	258,928	—	—	—	**258,928**	56.0p	01.04.12	01.04.19
	70,616	—	—	—	**70,616**	211.0p	22.11.13	22.11.20
	—	73,149	—	—	**73,149**	229.0p	11.04.14	11.04.21
	436,703	73,149	34,720	72,439	**402,693**			
Ramon Borrell	84,988	—	27,535	57,453	**–**	110.0p	21.08.11	21.08.11
	205,357	—	—	—	**205,357**	56.0p	01.04.12	01.04.19
	56,872	—	—	—	**56,872**	211.0p	22.11.13	22.11.20
	—	60,844	—	—	**60,844**	229.0p	11.04.14	11.04.21
	—	40,000[1]	—	—	**40,000**	241.8p	03.05.14	03.05.21
	347,217	100,844	27,535	57,453	**363,073**			
Alex Bevis	—	43,556	—	—	**43,556**	229.0p	11.04.14	11.04.21
Ted Wiggans	—	43,556	—	—	**43,556**	229.0p	11.04.14	11.04.21

1 Issued as part of the LTIP bonus matching scheme.

The LTIP permits the grant of awards in the form of conditional allocations of shares or options with a nil exercise price. Awards are made to key management personnel and in addition to this during 2011 the Company introduced a bonus matching award scheme in which a selection of employees were invited to participate. Under this scheme if an employee invests some or all of their net annual bonus in Xaar shares, an award is granted to the value of the equivalent gross bonus amount.

Awards granted under the LTIP have previously been granted in the form of conditional allocations of shares. With effect from 23 December 2011 conditional allocations of shares held by continuing employees were converted into options with a nil exercise price. This change does not affect the number of shares subject to an award or the performance conditions that must be satisfied in order for an award to vest. Following the vesting of an award, a participant has a period of seven years in which to exercise the option. Andrew Taylor's conditional allocations of shares were not converted.

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 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.

Audited information continued

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 from 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 2011 was 242.5p (2010: 239.5p) per share. The closing mid range price ranged from 207.5p to 295.0p per share (2010: from 77.6p to 252.5p) during the year.

Approval

This report was approved by the Board of Directors on 19 March 2012 and signed on its behalf by:

Ian Dinwoodie
Chief Executive
19 March 2012

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
Chief Executive
19 March 2012

Alex Bevis
Finance Director and Company Secretary

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 2011 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 35, the Parent Company Balance Sheet and 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 2011 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.

Matters on which we are required to report by exception continued

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 UK Corporate Governance 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
19 March 2012

Consolidated income statement
for the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Revenue	4	**68,706**	54,678
Cost of sales		**(38,327)**	(32,085)
Gross profit		**30,379**	22,593
Research and development expenses		**(5,781)**	(5,017)
Sales and marketing expenses		**(4,606)**	(4,192)
General and administrative expenses		**(11,064)**	(9,010)
Restructuring costs		**169**	1,107
Operating profit		**9,097**	5,481
Investment income	4, 8	**91**	42
Finance costs	9	**(62)**	(92)
Profit before tax		**9,126**	5,431
Tax	10	**(1,450)**	(1,442)
Profit for the year attributable to shareholders	6	**7,676**	3,989
Earnings per share			
Basic	12	**10.8p**	6.3p
Diluted	12	**10.4p**	6.1p

Dividends paid in the year amounted to £1,773,000 (2010: £1,545,000). Further disclosures are given in note 11.

All activities relate to continuing operations.

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Profit for the year		**7,676**	3,989
Exchange differences on retranslation of net investment	29	**67**	(391)
Loss on cash flow hedges		**—**	(87)
Tax relating to components of other comprehensive income		**—**	14
Other comprehensive profit/(loss) for the year		**67**	(464)
Total comprehensive income for the year		**7,743**	3,525

Reconciliation of adjusted financial measures
for the year ended 31 December 2011

	Notes	**2011 £'000**	2010 £'000
Gross profit		**30,379**	22,593
Exceptional commercial agreement costs		**—**	271
Adjusted gross profit		**30,379**	22,864
Profit before tax		**9,126**	5,431
Release of accrued restructuring costs	25	**(169)**	(1,107)
Exceptional commercial agreement costs		**—**	461
Exchange differences arising on consolidation of the Swedish operations		**335**	(462)
Gain on derivative financial instruments		**—**	(39)
Share-based payment charges	33	**1,274**	1,276
Adjusted profit before tax		**10,566**	5,560

The restructuring costs released related to the aborted closure of the Swedish manufacturing plant.

Exceptional commercial agreement costs related to dispute settlements with two customers.

Exchange differences arising on consolidation of the Swedish operations relates to the exchange gains or losses recorded in the income statement as a result of operating in Sweden.

Gain on derivative financial instruments related to gains made on forward contracts in 2010.

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

	2011 Pence per share	2010 Pence per share
Diluted earnings per share	**10.4p**	6.1p
Release of accrued restructuring costs	**(0.2p)**	(1.7p)
Exceptional commercial agreement costs	**—**	0.7p
Exchange differences arising on consolidation of the Swedish operations	**0.4p**	(0.7p)
Gain on derivative financial instruments	**—**	(0.1p)
Share-based payment charges	**1.7p**	2.0p
Tax effect of adjusting items	**(0.5p)**	(0.1p)
Tax provision release	**(1.1p)**	—
Adjusted diluted earnings per share	**10.7p**	6.2p

This reconciliation is provided to enable a better understanding of the Group's results and is not a primary statement.

Consolidated statement of changes in equity
for the year ended 31 December 2011

	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		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
Expense of issue of equity shares		—	(1,130)	—	—	—	—	(1,130)
Dividends	11	—	—	—	—	—	(1,545)	(1,545)
Deferred tax on share option gains		—	—	—	—	—	1,064	1,064
Credit to equity for equity-settled share-based payments		—	—	—	874	—	—	874
Balance at 1 January 2011		**7,237**	**23,534**	**(4,465)**	**4,014**	**440**	**23,516**	**54,276**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**7,676**	**7,676**
Exchange differences on retranslation of net investment		**—**	**—**	**—**	**—**	**67**	**—**	**67**
Total comprehensive income for the period		**—**	**—**	**—**	**—**	**67**	**7,676**	**7,743**
Issue of share capital		**43**	**193**	**—**	**—**	**—**	**(18)**	**218**
Dividends	11	**—**	**—**	**—**	**—**	**—**	**(1,773)**	**(1,773)**
Deferred tax on share option gains		**—**	**—**	**—**	**—**	**—**	**(230)**	**(230)**
Credit to equity for equity-settled share-based payments		**—**	**—**	**—**	**1,135**	**—**	**—**	**1,135**
Balance at 31 December 2011		**7,280**	**23,727**	**(4,465)**	**5,149**	**507**	**29,171**	**61,369**

Consolidated statement of financial position
as at 31 December 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Goodwill	13	**720**	720
Other intangible assets	14	**4,408**	4,349
Property, plant and equipment	15	**27,558**	17,385
Investments	17	**1,261**	1,261
Deferred tax asset	21	**835**	995
		34,782	24,710
Current assets			
Inventories	18	**11,756**	10,715
Trade and other receivables	19	**9,375**	9,301
Current tax asset	19	**465**	381
Cash and cash equivalents	19	**18,274**	23,344
		39,870	43,741
Total assets		**74,652**	68,451
Current liabilities			
Trade and other payables	23	**(9,945)**	(10,969)
Other financial liabilities	24	**(61)**	(217)
Current tax liabilities		**(642)**	—
Obligations under finance leases	22	**(277)**	(265)
Provisions	25	**(991)**	(797)
		(11,916)	(12,248)
Net current assets		**27,954**	31,493
Non-current liabilities			
Deferred tax liabilities	21	**(484)**	(695)
Other financial liabilities	24	**(289)**	(361)
Obligations under finance leases	22	**(594)**	(871)
Total non-current liabilities		**(1,367)**	(1,927)
Total liabilities		**(13,283)**	(14,175)
Net assets		**61,369**	54,276
Equity			
Share capital	26	**7,280**	7,237
Share premium	27	**23,727**	23,534
Own shares	28	**(4,465)**	(4,465)
Other reserves	30	**5,149**	4,014
Hedging and translation reserves	29	**507**	440
Retained earnings	30	**29,171**	23,516
Equity attributable to shareholders		**61,369**	54,276
Total equity		**61,369**	54,276

The financial statements of Xaar plc, registered number 3320972, were approved by the Board of Directors and authorised for issue on 19 March 2012.

They were signed on its behalf by:

Ian Dinwoodie
Chief Executive

Alex Bevis
Finance Director and Company Secretary

Consolidated cash flow statement

for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Net cash from operating activities	31	**12,787**	5,524
Investing activities			
Investment income		**91**	42
Purchases of property, plant and equipment		**(14,438)**	(6,488)
Proceeds on disposal of property, plant and equipment		**2**	10
Expenditure on capitalised product development and software		**(1,272)**	(359)
Net cash used in investing activities		**(15,617)**	(6,795)
Financing activities			
Dividends paid		**(1,773)**	(1,546)
Loan financing		**—**	1,389
Proceeds from issue of ordinary share capital		**218**	15,025
Fees for issue of ordinary share capital		**—**	(1,130)
Finance costs		**(54)**	(80)
Repayments of borrowings		**(482)**	(537)
Net cash (used in)/provided by financing activities		**(2,091)**	13,121
Net (decrease)/increase in cash and cash equivalents		**(4,921)**	11,850
Effect of foreign exchange rate changes on cash balances		**(149)**	(27)
Cash and cash equivalents at beginning of year		**23,344**	11,521
Cash and cash equivalents at end of year		**18,274**	23,344

Notes to the consolidated financial statements
for the year ended 31 December 2011

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 receivables 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 2011 was £720,000 (2010: £720,000). Further details are given in note 13.

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 2011 was £1,261,000 (2010: £1,261,000). Further details are given in note 17.

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 19, 20 and 24 include a description of the Group's objectives; policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

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

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, based on the Group's forecasts and projections, taking account of reasonably possible changes in trading performance. 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 acquisition method.

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

Goodwill

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

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

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

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

Revenue recognition

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

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

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

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

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

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

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

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.

Leases

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.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

3. Significant accounting policies continued

Leases continued

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

Foreign currencies

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

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognised in other comprehensive income and taken to the translation reserve. Exchange differences on the translation of net investments are taken to the translation reserve of the applicable entity.

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

Government grants

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

Government 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 after charging restructuring costs but before investment income and finance costs.

Retirement benefit costs

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

Taxation

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

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

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

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

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

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

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

3. Significant accounting policies continued

Taxation continued

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

Property, plant and equipment

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

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

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

Leasehold property improvements	ten years
Plant and machinery	three to five years
Furniture, fittings and equipment	three to five years
Motor vehicles	three years

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

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

Internally generated intangible assets – research and development expenditure

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

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

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

Other intangible assets

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

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

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

Financial instruments

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

3. Significant accounting policies continued

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.

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 up to twelve months and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out within the policy on derivative financial instruments and hedge accounting 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 Group can choose to fund significant fixed asset purchases by finance leases repayable over a period of three to five years dependent on the individual asset being financed and interest-bearing loans.

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

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

Changes in the fair value of derivative financial instruments that are designated 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. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the 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.

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3. Significant accounting policies continued

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.

Share-based payments

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

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

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

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

Own shares

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

New standards and interpretations

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

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments;
- Amendment to IFRS 3 Business Combinations; and
- Amendment to IFRS 7 Financial Instruments: Disclosures.

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 became effective 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.

Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	The amendment provides a limited exemption for first-time adopters from providing comparative fair-value hierarchy disclosures under IFRS 7.
IAS 24 (2009) Related Party Disclosures	The revised Standard has a new, clearer definition of a related party, with inconsistencies under the previous definition having been removed.
Amendment to IAS 32 Classification of Rights Issues	Under the amendment, rights issues of instruments issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency and which otherwise meet the definition of equity are classified as equity.
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	The amendments now enable recognition of an asset in the form of prepaid minimum funding contributions.
Improvements to IFRSs 2010	Aside from those items already identified above, the amendments made to standards under the 2010 improvements to IFRSs have had no impact on the Group.

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 1 (amended)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IFRS 7 (amended)	Disclosures – Transfers of Financial Assets

3. Significant accounting policies continued

New standards and interpretations continued

IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interest in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets
IAS 19 (revised)	Post Employment Benefits and Termination Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to IAS 32 (December 2011)	Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 7 (December 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities
Annual improvements to IFRSs	

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 adoption of IFRS 12 which the Group plans to adopt for the year beginning on 1 January 2013 will impact the disclosure of interests Xaar plc has in other entities.

The adoption of IFRS 13 which the Group plans to adopt for the year beginning on 1 January 2013 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

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. Revenue

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

	Note	2011 £'000	2010 £'000
Sales of goods		**61,355**	47,237
Development fees		**125**	459
Licence fees and royalties		**7,226**	6,982
		68,706	54,678
Investment income	8	**91**	42
		68,797	54,720

5. 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.

5. Business and geographical segments continued

Year ended 31 December 2011	Notes	Printheads and related products £'000	Development fees £'000	Licence fees and royalties £'000	Unallocated £'000	Consolidated £'000
Revenue						
Total segment revenue		**61,355**	**125**	**7,226**	**—**	**68,706**
Result						
Adjusted profit before tax		**3,293**	**18**	**7,226**	**29**	**10,566**
Restructuring costs	25	**169**	**—**	**—**	**—**	**169**
Exchange differences arising on consolidation of the Swedish operations		**(335)**	**—**	**—**	**—**	**(335)**
Share-based payment charges	7	**—**	**—**	**—**	**(1,274)**	**(1,274)**
Profit/(loss) before tax		**3,127**	**18**	**7,226**	**(1,245)**	**9,126**

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.

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

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						
Adjusted (loss)/profit before tax		(568)	179	5,999	(50)	5,560
Restructuring costs	25	1,107	—	—	—	1,107
Exceptional commercial agreement costs		(461)	—	—	—	(461)
Exchange differences arising on consolidation of the Swedish operations		462	—	—	—	462
Gain on derivative financial instruments		—	—	—	39	39
Share-based payment charges	7	—	—	—	(1,276)	(1,276)
Profit/(loss) before tax		540	179	5,999	(1,287)	5,431

Segment assets

	2011 £'000	2010 £'000
Printheads and related products	**54,473**	42,966
Development fees	**—**	—
Licence fees and royalties	**644**	880
Total segment assets	**55,117**	43,846
Investments	**1,261**	1,261
Cash and cash equivalents	**18,274**	23,344
Total assets	**74,652**	68,451

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

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

5. Business and geographical segments continued

Other segment information

Year ended 31 December 2011	Notes	Printheads and related products £'000	Development fees £'000	Licence fees and royalties £'000	Unallocated £'000	Consolidated £'000
Depreciation and amortisation	14,15	**4,660**	**1,315**	**—**	**—**	**5,975**
Share-based payment charges	33	**—**	**—**	**—**	**1,274**	**1,274**
Capital expenditure	14,15	**14,991**	**1,272**	**—**	**—**	**16,263**

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	14,15	3,686	1,119	—	—	4,805
Share-based payment charges	33	—	—	—	1,276	1,276
Capital expenditure	14,15	6,481	359	—	—	6,840

Revenues from major products and services

	2011 £'000	2010 £'000
Sales of goods	**61,355**	47,237
Development fees	**125**	459
Licence fees and royalties	**7,226**	6,982
Consolidated revenue (excluding investment income)	**68,706**	54,678

5. Business and geographical segments continued

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	
	2011 £'000	2010 £'000
EMEA	**42,034**	24,893
Asia		
– China	**7,953**	10,273
– Japan	**7,643**	7,181
– Other	**3,673**	4,851
The Americas (including USA)	**7,403**	7,480
	68,706	54,678

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

	Non-current assets	
	2011 £'000	2010 £'000
EMEA	**34,731**	24,655
Asia	**42**	46
The Americas (including USA)	**9**	9
	34,782	24,710

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 £7.2 million, 11% of revenues (2010: £9.5 million, 17% of revenues) which arose from sales to the Group's largest customer. In the year ended 31 December 2011 revenues of approximately £7.2 million, 11% of revenues (2010: £2.9 million, 5% of revenues) were included in the sale of goods which arose from sales to the Group's second largest customer. In 2011, three customers including the largest customer each exceeded 10% of revenue in the period. In 2010 only the largest customer of the Group exceeded 10% of revenue in the period. Revenue from the top five customers represents 43% of revenues (2010: 37%).

6. Profit for the year

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

	2011 £'000	2010 £'000
Net foreign exchange losses/(gains) (including exchange differences arising on consideration of the Swedish operations)	**771**	(551)
Research and development expenses	**5,781**	5,017
Government grants towards research and development	**(107)**	(279)
Depreciation of property, plant and equipment	**4,660**	3,686
Amortisation of intangible assets included in administrative expenses	**1,315**	1,119
Loss on disposal of property, plant and equipment	**9**	25
Cost of inventories recognised as expense	**38,327**	32,085
Impairment of other financial assets	**2**	62
Total fees payable to the Company's auditor and its associates	**238**	374

6. Profit for the year continued

	2011 £'000	2010 £'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	**78**	75
Total audit fees	**95**	92
– Interim review	**20**	20
– Tax services	**112**	131
– Recruitment and remuneration services	**8**	13
– Corporate finance	**—**	105
– Other services	**3**	13
Total non-audit fees	**143**	282
Total fees payable to the Company's auditor and its associates	**238**	374

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 £7,000 (2010: £7,000) 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.

7. Staff costs

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

	2011 Number	2010 Number
Research and development	**50**	50
Sales and marketing	**44**	29
Manufacturing and engineering	**325**	267
Administration	**42**	31
	461	377

Their aggregate remuneration comprised:

	Notes	2011 £'000	2010 £'000
Wages and salaries		**21,693**	15,205
Social security costs		**2,583**	2,401
Pension costs	34	**739**	561
Share-based payments	33	**1,274**	1,276
		26,289	19,443

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

8. Investment income

	2011 £'000	2010 £'000
Interest receivable on cash and bank balances	**91**	42

9. Finance costs

	2011 £'000	2010 £'000
Interest payable on bank loans and overdrafts	**8**	24
Interest payable on obligations under finance leases	**54**	68
	62	92

10. Tax

	Note	2011 £'000	2010 £'000
Current tax – UK		**1,923**	1,485
Current tax – overseas		**609**	131
		2,532	1,616
Amounts overprovided in previous years		**(801)**	(372)
Total current income tax		**1,731**	1,244
Deferred tax – origination and reversal		**(213)**	(397)
Adjustment in respect of prior years		**(68)**	595
Total deferred tax (credit)/charge	21	**(281)**	198
Total tax expense for the year		**1,450**	1,442

The blended standard rate of tax for the year, based on the UK standard rate of corporation tax, is 26.5% (2010: 28%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

In March 2011, the UK Government announced a reduction in the standard rate of UK Corporation tax to 26% effective 1 April 2011 and to 25% effective 1 April 2012. These rate reductions became substantively enacted in March 2011 and July 2011, respectively. The UK Government also proposed changes to further reduce the standard rate of UK Corporation tax by 1% per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted. The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

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

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	**9,126**	5,431
Tax on ordinary activities at a blended standard rate of 26.5% (2010: 28%)	**2,418**	1,521
Effect of:		
Expenses not deductible for tax purposes	**175**	113
Effect of different tax rates of subsidiaries operating overseas	**154**	125
Enhanced tax deduction for research and development expenditure	**(389)**	(511)
Effect of change in UK corporation tax rate	**(39)**	(29)
Prior period adjustments	**(869)**	223
Total tax expense for the year	**1,450**	1,442

The effective tax rate for the year is 16% (2010: 27%).

11. Dividends

	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2010 of 1.5p (2009: 1.5p) per share	**1,062**	927
Interim dividend for the year ended 31 December 2011 of 1.0p (2010: 1.0p) per share	**711**	618
Total distributions to equity holders in the year	**1,773**	1,545
Proposed final dividend for the year ended 31 December 2011 of 2.0p (2010: 1.5p) per share	**1,456**	1,085

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

12. Earnings per ordinary share – basic and diluted

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

	2011 £'000	2010 £'000
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**7,676**	3,989
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**70,878,697**	63,009,082
Effect of dilutive potential ordinary shares:		
Share options	**3,015,999**	2,311,031
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**73,894,696**	65,320,113

	2011 Pence per share	2010 Pence per share
Basic	**10.8p**	6.3p
Diluted	**10.4p**	6.1p

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 344,312 shares (2010: 1,939,540) 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 231,457 shares (2010: 516,061) and share options granted over 229,793 shares (2010: nil) 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.

12. Earnings per ordinary share – basic and diluted continued

Adjusted earnings per share

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

The calculation of adjusted EPS excluding restructuring costs, exceptional commercial agreement costs, exchange differences on intra-group transactions, share-based payment charges, and the gain or loss on derivative financial instruments is based on earnings of:

	Notes	2011 £'000	2010 £'000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent		**7,676**	3,989
Release of accrued restructuring costs	25	**(169)**	(1,107)
Exceptional commercial agreement costs		**—**	461
Exchange differences arising on consolidation of the Swedish operations		**335**	(462)
Gain on derivative financial instruments		**—**	(39)
Share-based payment charges	33	**1,274**	1,276
Tax effect of adjusting items		**(382)**	(36)
Tax provision release		**(812)**	—
Adjusted profit after tax		**7,922**	4,082

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

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

Adjusted earnings per share is earnings per share excluding restructuring costs, exceptional commercial agreement costs, exchange differences on intra-group transactions, share-based payment charges, and the gain or loss on derivative financial instruments:

	2011 Pence per share	2010 Pence per share
Basic – adjusted	**11.2p**	6.5p
Diluted – adjusted	**10.7p**	6.2p

13. Goodwill

The carrying amount of goodwill at 31 December 2011 was £720,000 (2010: £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:

	2011 £'000	2010 £'000
Printheads and related products (a single CGU)	**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 forecasts reviewed 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 7% (2010: 9%) and reflects management's estimate of return on capital employed.

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

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

14. 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 2010	4,565	4,609	533	1,616	11,323
Additions	—	285	—	74	359
Disposals	—	(518)	—	—	(518)
At 1 January 2011	4,565	4,376	533	1,690	11,164
Additions	—	520	—	752	1,272
Transfers from property, plant and equipment	—	—	—	130	130
Disposals	—	—	—	(425)	(425)
At 31 December 2011	**4,565**	**4,896**	**533**	**2,147**	**12,141**
Amortisation					
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 1 January 2011	4,027	818	533	1,438	6,816
Charge for the year	538	409	—	368	1,315
Transfers from property, plant and equipment	—	—	—	27	27
Disposals	—	—	—	(425)	(425)
At 31 December 2011	**4,565**	**1,227**	**533**	**1,408**	**7,733**
Carrying amount					
At 31 December 2011	**—**	**3,669**	**—**	**739**	**4,408**
At 31 December 2010	538	3,558	—	252	4,348

The amortisation period for software is three to five years and for other development costs incurred on the Group's product development is ten years.

Internally generated product development costs relate to the Platform 2 and Platform 3 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 2011 the Group had entered into contractual commitments for the acquisition of software amounting to £47,000 (2010: other product development costs of £163,000).

15. Property, plant and equipment

	Leasehold property £'000	Plant and machinery £'000	Furniture, fittings and equipment £'000	Assets in the course of construction £'000	Motor vehicles £'000	Total £'000
Cost						
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 1 January 2011	6,476	30,248	2,877	5,644	31	45,276
Additions	307	907	479	13,298	—	14,991
Transfers	2,740	8,468	210	(11,418)	—	—
Transfers to other intangible assets	—	—	(130)	—	—	(130)
Exchange movements	(36)	(172)	(9)	(22)	—	(239)
Disposals	(184)	(2,960)	(898)	(7)	(5)	(4,054)
At 31 December 2011	**9,303**	**36,491**	**2,529**	**7,495**	**26**	**55,844**
Depreciation						
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 1 January 2011	3,418	22,292	2,151	—	30	27,891
Charge for the year	547	3,780	332	—	1	4,660
Transfers to other intangible assets	—	—	(27)	—	—	(27)
Exchange movements	(38)	(146)	(9)	—	—	(193)
Disposals	(184)	(2,958)	(898)	—	(5)	(4,045)
At 31 December 2011	**3,743**	**22,968**	**1,549**	**—**	**26**	**28,286**
Carrying amount						
At 31 December 2011	**5,560**	**13,523**	**980**	**7,495**	**—**	**27,558**
At 31 December 2010	3,058	7,956	726	5,644	1	17,385
Leased assets included in the above:						
Carrying amount						
At 31 December 2011	**—**	**1,231**	**—**	**—**	**—**	**1,231**
At 31 December 2010	—	1,411	—	—	—	1,411

As at 31 December 2011 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £5,157,000 (2010: £2,180,000).

16. Subsidiaries

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

17. Investments

	2011 £'000	2010 £'000
Trading investments	**1,261**	1,261

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

18. Inventories

	2011 £'000	2010 £'000
Raw materials and consumables	**5,847**	5,135
Work in progress	**1,541**	2,350
Finished goods	**4,368**	3,230
	11,756	10,715

19. Other financial assets

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

Trade and other receivables

	2011 £'000	2010 £'000
Amount receivable for the sale of goods	**6,159**	5,815
Allowance for doubtful debts	**(155)**	(190)
	6,004	5,625
Other debtors	**2,309**	2,315
Current tax asset	**465**	381
Prepayments	**1,062**	1,361
	9,840	9,682

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

Trade receivables

The average credit period taken on sales of goods is 32 days (2010: 38 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 59.

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, six customers represented each greater than 5% of the total receivables balance, totalling £4.0 million (2010: £4.3 million) is due from customers representing 36% (2010: 19%) of the Group's revenue; there are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivables balance are debtors with a carrying amount of £1.2 million (2010: £2.3 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. Of these amounts, the Group is in possession of letters of credit to the value of £11,600 (2010: £52,000) 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 11 days (2010: 27 days).

19. Other financial assets continued

Trade receivables continued

Ageing of past due but not impaired receivables:

	2011 £'000	2010 £'000
1–30 days overdue	**1,070**	1,555
30–60 days overdue	**154**	702
60–90 days overdue	**9**	—
Total	**1,233**	2,257

Movement in the allowance for doubtful debts:

	2011 £'000	2010 £'000
Balance at the beginning of the year	**190**	488
Impairment losses recognised	**2**	62
Amounts written off as uncollectible	**(37)**	(360)
Balance at the end of the year	**155**	190

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:

	2011 £'000	2010 £'000
1–30 days overdue	**26**	—
30–60 days overdue	**13**	—
60–90 days overdue	**62**	53
90–120 days overdue	**32**	—
Over 120 days overdue	**22**	137
Total	**155**	190

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

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:

	2011 £'000	2010 £'000
Cash	**9,333**	19,433
Short term deposits	**8,941**	3,911
	18,274	23,344

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

20. Financial instruments

Categories of financial instruments

Financial assets of £8,778,000 (2010: £9,682,000) are categorised as loans and receivables. Financial liabilities of £12,799,000 (2010: £13,834,000) are categorised as measured at amortised cost. Derivative financial assets and liabilities are derived from quoted prices (unaudited) in active markets for identical assets and liabilities.

Financial risk management objectives

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

The Group finances its activities with a combination of bank loans, finance leases, cash and 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 Group 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 19 and to liquidity risk is discussed in note 24.

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 2011 would increase by £0.4 million or decrease by £0.1 million (2010: increase/decrease by £0.2 million). This is mainly attributable to the Group's exposure to interest rates on its cash balances. There would be no effect on equity reserves.

Foreign currency risk

The Group 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 10% of its revenues in US dollars and 36% of its revenue in euros, which are partially naturally hedged by supplies in these currencies, but the remainder requires conversion into sterling in order to fund the remaining costs of the UK offices. The Group may enter 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 value of monetary assets, liabilities and forward currency contracts). 10% represents management's assessment of the reasonably possible movement in exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes inter Company balances within the Group where the denomination of the balance is in a currency other than the functional currency of the debtor or the creditor. A positive number below indicates an increase in profit or equity.

	Swedish kronor currency impact		US dollar currency impact		Euro currency impact	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
Effect of a 10% increase in relevant exchange rate on:						
Profit or loss	**(2)**	(669)	**(132)**	(281)	**(478)**	(201)
Other equity	**(1,111)**	(519)	**35**	25	**—**	—
Effect of a 10% decrease in relevant exchange rate on:						
Profit or loss	**3**	818	**162**	344	**584**	245
Other equity	**1,357**	602	**(42)**	(31)	**—**	—

20. Financial instruments continued

Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business, maximise shareholder value and provide flexibility for value enhancing investments. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions or as a result of corporate strategy. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In addition, any potential value enhancing investments may be funded through additional debt instruments. No changes were made in the objectives, policies or processes during the current or prior year, except for the proposed increase in final dividend for 2011, as detailed in note 11 on page 54.

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 22 and 24. 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:

	2011 £'000	2010 £'000
Bank loans	**—**	(217)
Obligations under finance leases and hire purchase contracts	**(871)**	(1,136)
Net debt	**(871)**	(1,353)
Equity	**61,369**	54,276
Gearing ratio	**1%**	2%

The Group is not subject to externally imposed capital requirements.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across different industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

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

21. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation £'000	Cash flow hedges £'000	Share-based payment £'000	Untaxed reserves £'000	Tax losses £'000	Other temporary difference £'000	Total £'000
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
Credit/(charge) to income	(217)	—	(231)	360	—	301	213
Charge to equity	—	(14)	(1,064)	—	—	—	(1,078)
At 1 January 2011	427	—	(1,504)	722	—	55	(300)
Charge/(credit) to income	256	—	(57)	(366)	—	(114)	(281)
Credit to equity	—	—	230	—	—	—	230
At 31 December 2011	**683**	**—**	**(1,331)**	**356**	**—**	**(59)**	**(351)**

21. Deferred tax continued

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2011 £'000	2010 £'000
Deferred tax liabilities	484	695
Deferred tax assets	(835)	(995)
	(351)	(300)

22. Obligations under finance leases

	Minimum lease payments	
	2011 £'000	2010 £'000
Amounts payable under finance leases:		
Within one year	277	265
In the second year	290	277
In the third to fifth years inclusive	304	594
	870	1,136
Less: amount due for settlement within twelve months (shown under current liabilities)	(277)	(265)
Amount due for settlement after twelve months	594	871

	Present value of minimum lease payments	
	2011 £'000	2010 £'000
Amounts payable under finance leases:		
Within one year	260	244
In the second year	254	234
In the third to fifth years inclusive	249	443
	763	921
Less: amount due for settlement within twelve months (shown under current liabilities)	(260)	(244)
Amount due for settlement after twelve months	503	677

It is the Group's policy to consider leasing certain of its fixtures and equipment under finance leases. The average lease term is five years. For the year ended 31 December 2011, the average effective borrowing rate was 4.56% (2010: 4.56%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations is approximately equal to their carrying amount.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 15.

23. Trade and other payables

	2011 £'000	2010 £'000
Trade payables and accruals	9,945	10,969

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit taken for trade purchases is 20 days (2010: 42 days).

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

24. Other financial liabilities

Other financial liabilities consist of lease incentives in 2011, and in 2010 it consists of a sterling loan of £217,000 and lease incentives of £361,000.

The borrowings are repayable as follows:

	2011 £'000	2010 £'000
Within one year	**61**	217
In the second year	**61**	59
In the third to fifth years inclusive	**60**	124
Over five years	**168**	178
	350	578
Less: amount due for settlement within twelve months (shown under current liabilities)	**(61)**	(217)
Amount due for settlement after twelve months	**289**	361

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

The loan was arranged at a fixed interest rate and exposes 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 fully repaid by 30 November 2011. The loan carried a fixed interest rate at 6.2% per annum.

The Group had undrawn committed borrowing facilities at 31 December 2011 of £3.0 million (2010: £3.1 million) 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 twelve months allowed per the policy. Short term flexibility is achieved by overdraft facilities.

25. Provisions

	Warranty provision £'000	Closure of Swedish manufacturing facility £'000	Total £'000
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 1 January 2011	580	217	797
Additional provision in the year	1,189	—	1,189
Utilisation of provision	(643)	(48)	(691)
Release of provision	(135)	(169)	(304)
At 31 December 2011	**991**	**—**	**991**

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

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, UK. The Board has now announced that the rationalisation programme has been stopped. As a result, the remaining provision was for any committed residual costs associated with the project. In the year, part of the provision was required for utilisation and the remainder was released.

26. Share capital

	2011 £'000	2010 £'000
Issued and fully paid:		
72,803,071 (2010: 72,365,423) ordinary shares of 10.0p each	**7,280**	7,237

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

	2011 Number	2010 Number	**2011 £'000**	2010 £'000
At beginning of year	**72,365,423**	63,506,078	**7,237**	6,351
Issue of share capital	**—**	8,827,345	**—**	883
Exercise of share options	**437,648**	32,000	**43**	3
At end of year	**72,803,071**	72,365,423	**7,280**	7,237

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

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 2011**	Number of shares under option as at 31 December 2010	Subscription price per share
Xaar plc 1997 Share Option Scheme	20.10.99	**—**	—	115.0p
	16.02.01	**—**	—	160.0p
	12.06.02	**—**	100,000	68.5p
	19.11.02	**—**	20,000	25.0p
	06.10.03	**200,000**	200,000	36.0p
		200,000	320,000	
Xaar plc 2004 Share Option Plan	20.05.04	**105,000**	198,000	84.0p
	28.10.04	**159,726**	210,000	109.0p
	15.03.05	**119,791**	119,791	192.0p
	13.04.05	**52,962**	52,962	208.5p
	15.09.05	**133,394**	143,394	274.0p
	03.04.06	**—**	11,606	293.75p
	09.10.06	**—**	295,000	169.0p
	19.02.07	**—**	—	237.0p
	17.04.07	**40,000**	40,000	242.0p
	23.10.07	**175,000**	175,000	202.0p
	21.08.08	**200,000**	210,000	108.25p
	05.09.08	**10,000**	10,000	110.75p
	01.04.09	**210,000**	220,000	56.0p
	29.09.09	**30,000**	30,000	94.5p
	26.08.10	**40,000**	40,000	149.5p
	22.11.10	**260,000**	270,000	211.0p
	01.06.11	**345,000**	—	250.0p
	27.10.11	**25,000**	—	243.0p
		1,905,873	2,025,753	

26. Share capital continued

Scheme	Date of grant	**Number of shares under option as at 31 December 2011**	Number of shares under option as at 31 December 2010	Subscription price per share
Xaar plc Share Save Scheme	01.08.07	**—**	—	191.0p
	01.06.09	**343,743**	373,751	46.28p
	21.12.10	**295,305**	322,856	174.0p
	01.11.11	**164,857**	—	212.0p
		803,905	696,607	
Options granted outside the 1997, 2004 and Share Save Schemes	15.03.05	**130,209**	130,209	192.0p
Total share options outstanding at 31 December		**3,039,987**	3,172,569	

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.

Long Term Incentive Plan

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

Date of grant	Number of shares
01.04.09	1,144,187
22.11.10	235,634
11.04.11	335,816
03.05.11	74,769
	1,790,406

All awards under this scheme are exercisable within three to ten years after the date of grant.

27. Share premium account

	£'000
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 1 January 2011	23,534
Premium arising on issue of equity shares	180
Expenses of issue of equity shares	13
Balance at 31 December 2011	**23,727**

28. Own shares

	£'000
Balance at 1 January 2010, 1 January 2011 and 31 December 2011	**(4,465)**

Of this balance, £20,000 (2010: £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 (2010: £4,445,000) represents the cost of 1,617,004 (2010: 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 2011 was £4,107,000 (2010: £4,091,000).

29. Hedging and translation reserves

	Hedging reserve £'000	Translation reserve £'000	Total £'000
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 1 January 2011	—	440	440
Exchange differences on retranslation of net investment	—	67	67
Balance at 31 December 2011	**—**	**507**	**507**

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being sterling, are recognised directly in the translation reserve.

30. 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 2010		1,105	1,550	485	3,140	20,008	23,148
Net profit for the year		—	—	—	—	3,989	3,989
Dividends paid	11	—	—	—	—	(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 1 January 2011		1,105	2,424	485	4,014	23,516	27,530
Net profit for the year		—	—	—	—	7,676	7,676
Share issue related to LTIP awards		—	—	—	—	(18)	(18)
Dividends paid	11	—	—	—	—	(1,773)	(1,773)
Deferred tax asset taken directly to equity		—	—	—	—	(230)	(230)
Movement in valuation of share options		—	1,135	—	1,135	—	1,135
Balance at 31 December 2011		**1,105**	**3,559**	**485**	**5,149**	**29,171**	**34,320**

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.

31. Notes to the cash flow statement

	2011 £'000	2010 £'000
Profit before tax	**9,126**	5,431
Adjustments for:		
Share-based payments	**1,274**	1,276
Depreciation of property, plant and equipment	**4,660**	3,686
Amortisation of intangible assets	**1,315**	1,119
Investment income	**(91)**	(42)
Finance costs	**62**	92
Foreign exchange losses/(gains)	**313**	(649)
Movements on cash flow hedge valuations	**—**	(39)
Loss on disposal of property, plant and equipment	**(9)**	25
Increase/(decrease) in provisions	**194**	(1,611)
Operating cash flows before movements in working capital	**16,844**	9,288
Increase in inventories	**(1,079)**	(3,988)
Increase in receivables	**(88)**	(3,621)
(Decrease)/increase in payables	**(1,654)**	5,389
Cash generated by operations	**14,023**	7,068
Income taxes paid	**(1,236)**	(1,544)
Net cash from operating activities	**12,787**	5,524

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. The carrying amount of these assets is approximately equal to their fair value.

32. Operating lease arrangements

	2011 £'000	2010 £'000
Minimum lease payments under operating leases recognised in income for the year:		
Fixtures, fittings and equipment	**50**	43
Land and buildings	**1,679**	1,574
	1,729	1,617

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	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Within one year	**51**	44	**1,139**	1,516
In the second to fifth years inclusive	**77**	53	**2,663**	3,070
After five years	**—**	1	**2,937**	3,623
	128	98	**6,739**	8,209

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

33. Share-based payments

Equity-settled share option scheme

The Company's share option schemes are open to all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The standard vesting period is three years. The vesting criteria of these options are disclosed in the Directors' remuneration report on pages 28 to 33. 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:

	2011		2010	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	**3,172,569**	**1.35**	2,757,766	1.21
Granted during the year	**534,857**	**2.38**	632,856	1.88
Lapsed during the year	**(403,573)**	**1.63**	(186,053)	1.26
Exercised during the year	**(263,866)**	**0.78**	(32,000)	0.59
Outstanding at the end of the year	**3,039,987**	**1.54**	3,172,569	1.35
Exercisable at the end of the year	**901,082**	**1.43**	1,174,356	1.30

The weighted average share price at the date of exercise for share options exercised during the period was £2.48 (2010: £2.19). The options outstanding at 31 December 2011 had a weighted average remaining contractual life of five years (2010: five years). In 2011, options were granted on 1 June, 27 October and 1 November. The aggregate of the estimated fair values of the options granted on those dates is £0.71 million. 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 was £0.67 million.

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:

	2011	2010
Weighted average share price	**£2.54**	£2.10
Weighted average exercise price	**£2.38**	£1.88
Weighted average expected volatility	**53%**	55%
Expected life	**5 years**	5 years
Risk free rate	**3.66%**	3.11%
Weighted average expected dividends	**0.25%**	0.47%

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.

33. Share-based payments continued

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 pages 32 to 33. All awards made under this scheme exercisable within three to ten years after the date of grant. Save as permitted in the Long Term Incentive Plan rules, awards lapse on an employee leaving the Group.

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

	2011	2010
Awards outstanding at start of year	**1,981,093**	1,989,236
Granted during the year	**410,585**	235,634
Lapsed during the year	**(427,490)**	(243,777)
Exercised during the year	**(173,782)**	—
Awards outstanding at end of year	**1,790,406**	1,981,093

No LTIP awards were exercisable as at 31 December 2011 (2010: nil).

In 2011, performance share awards were made on 11 April and 3 May. The aggregate of the estimated fair values of grants made on those dates is £0.9 million. In 2010, performance share awards were made on 22 November 2010. The aggregate of the estimated fair values of grants made on those dates was £0.5 million.

The estimated fair values for 2010 grants onwards 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 pages 32 and 33). The inputs to the model were as follows:

	2011	2010
Weighted average exercise price	**£nil**	£nil
Weighted average expected volatility	**56.25%**	55.44%
Weighted average expected life	**3 years**	3 years
Weighted average expected dividend yield	**0.27%**	0.29%

The Group recognised total expenses of £1,135,000 and £779,000 related to all equity-settled share-based payment transactions in 2011 and 2010 respectively.

34. 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 2011 was £739,000 (2010: £561,000). As at 31 December 2011 contributions of £79,000 (2010: £57,000) due in respect of the current reporting period had not been paid over to the schemes.

35. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 “Related Party Disclosures”. Further information about the remuneration of individual Directors is provided in the audited part of the Directors’ remuneration report on pages 28 to 33.

	2011 £’000	2010 £’000
Short term employee benefits	**1,960**	1,450
Post-employment benefits	**58**	45
Share-based payments	**588**	137
	2,606	1,632

Company balance sheet (UK GAAP)
as at 31 December 2011

	Notes	2011 £'000	2010 £'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	**77,784**	67,250
Debtors – due after one year	4	**503**	627
Cash at bank and in hand		**13,816**	20,393
		92,103	88,270
Creditors: amounts falling due within one year	5	**(51,726)**	(46,597)
Net current assets		**40,377**	41,673
Total assets less current liabilities		**54,083**	55,379
Net assets		**54,083**	55,379
Capital and reserves			
Called up share capital	6	**7,280**	7,237
Share premium account	6	**23,727**	23,534
Other reserves	6	**25,333**	25,333
Own shares	6	**(4,445)**	(4,445)
Share-based payment reserve	6	**1,086**	758
Profit and loss account	6	**1,102**	2,962
Equity shareholders' funds	8	**54,083**	55,379

The financial statements of Xaar plc, registered number 3320972, were approved by the Board of Directors and authorised for issue on 19 March 2012 and signed on its behalf by:

Ian Dinwoodie
Chief Executive
19 March 2012

Alex Bevis
Finance Director and Company Secretary

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

Notes to the (UK GAAP) Company balance sheet
for the year ended 31 December 2011

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 2011 of £55,000 (2010: profit of £5,000).

The average number of employees throughout 2011 was 25 (2010: 17). Staff costs amounted to £1.8 million (2010: £1.5 million). Information about the remuneration of Directors is provided in the audited part of the Directors' remuneration report on pages 28 to 33 of the consolidated financial statements.

The audit fee for the Company in 2011 was £17,000 (2010: £17,000).

3. Fixed asset investments

	2011 £'000	2010 £'000
Subsidiary undertakings		
At beginning and end of the year	**12,445**	12,445
Trade investments		
At beginning and end of the year	**1,261**	1,261

4. Debtors

	2011 £'000	2010 £'000
Amounts receivable within one year		
Amounts owed by Group undertakings	**77,483**	66,979
Prepayments and accrued income	**47**	29
Other debtors	**231**	210
VAT	**23**	32
	77,784	67,250
Amounts receivable after more than one year		
Deferred tax asset	**503**	627
	78,287	67,877

5. Creditors

	2011 £'000	2010 £'000
Amounts falling due within one year		
Trade creditors	**78**	182
Financial liabilities	**—**	217
Corporation tax creditor	**—**	43
Amounts owed to Group undertakings	**50,906**	45,347
Accruals	**742**	808
	51,726	46,597

For additional disclosures relating to financial liabilities, see note 24 in the consolidated financial statements.

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 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 1 January 2011		7,237	23,534	25,333	(4,445)	758	2,962	55,379
New shares issued		43	193	—	—	—	(18)	218
Dividends paid	7	—	—	—	—	—	(1,773)	(1,773)
Deferred tax asset taken directly to equity		—	—	—	—	—	(124)	(124)
Profit for the financial year		—	—	—	—	—	55	55
Share-based payments		—	—	—	—	328	—	328
At 31 December 2011		**7,280**	**23,727**	**25,333**	**(4,445)**	**1,086**	**1,102**	**54,083**

Full details of movements in share capital and the share option schemes are given in note 26 to the consolidated financial statements. The share premium account and other reserves are non-distributable.

7. Dividends

	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2010 of 1.5p (2009: 1.5p) per share	**1,062**	927
Interim dividend for the year ended 31 December 2011 of 1.0p (2010: 1.0p) per share	**711**	618
Total distributions to equity holders in the period	**1,773**	1,545
Proposed final dividend for the year ended 31 December 2011 of 2.0p (2010: 1.5p) per share	**1,456**	1,085

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

	2011 £'000	2010 £'000
Profit for the financial year	**55**	5
Share-based payments	**328**	234
Deferred tax asset taken directly to equity	**(124)**	464
Dividends paid	**(1,773)**	(1,545)
Share issue of LTIP award	**(18)**	—
New shares issued	**236**	13,895
Net (reduction in)/addition to shareholders' funds	**(1,296)**	13,053
Opening shareholders' funds	**55,379**	42,326
Closing shareholders' funds	**54,083**	55,379

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 33. 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:

	2011		2010	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	**681,015**	**0.80**	673,657	0.71
Granted during the year	**64,305**	**2.38**	67,449	1.96
Lapsed during the year	**(14,259)**	**0.83**	(60,091)	0.89
Surrendered during the year	**—**	**—**	—	—
Exercised during the year	**(165,000)**	**0.79**	—	—
Outstanding at the end of the year	**566,061**	**0.98**	681,015	0.80
Exercisable at the end of the year	**350,000**	**0.60**	515,000	0.66

The weighted average share price at the date of exercise for share options exercised during the period was £2.50. No options were exercised in 2010. The options outstanding at 31 December 2011 had a weighted average remaining contractual life of four years (2010: four years). In 2011, options were granted on 1 June, 27 October and 1 November. The aggregate of the estimated fair values of the options granted on those dates is £86,000. 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.

The performance conditions relating to the above share options are given on pages 28 and 33 of the Directors' remuneration report and the exercise prices of options outstanding at the year end are given in note 33 to the consolidated accounts.

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

	2011	2010
Weighted average share price	**£2.54**	£2.14
Weighted average exercise price	**£2.38**	£1.96
Expected volatility	**53%**	56%
Expected life	**5.52 years**	5.18 years
Risk free rate	**3.7%**	3.3%
Expected dividends	**0.3%**	0.5%

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.

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 pages 32 and 33 of the Group financial statements. All awards made under this scheme exercisable within three to ten years after the date of grant. Save as permitted in the Long Term Incentive Plan rules, awards lapse on an employee leaving the Company.

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

	2011	2010
Awards outstanding at start of year	**823,289**	820,993
Granted during the year	**146,755**	89,573
Lapsed during the year	**(217,353)**	(87,277)
Exercised during the year	**(73,067)**	—
Awards outstanding at end of year	**679,624**	823,289

No LTIP awards were exercisable as at 31 December 2011 (2010: nil).

In 2011, performance share awards were made on 11 April 2011 and 3 May 2011. The aggregate of the estimated fair values of grants made on those dates is £0.3 million.

In 2010, performance share awards were made on 22 November. The aggregate of the estimated fair values of grants made on that date was £0.2 million.

	2011	2010
Weighted average exercise price	**£nil**	£nil
Expected volatility	**56%**	55%
Expected life	**3 years**	3 years
Expected dividend yield	**0.3%**	0.3%

The Company recognised total expenses of £0.3 million (2010: income of £0.2 million) 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

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Summarised consolidated results					
Results					
Revenue	**68,706**	54,678	41,497	42,882	48,751
Gross profit	**30,379**	22,593	16,777	21,533	23,559
Operating profit/(loss)	**9,097**	5,481	(741)	4,864	5,624
Net interest	**29**	(50)	81	393	328
Adjusted profit before tax	**10,566**	5,560	2,089	3,709	6,906
Taxation	**(1,450)**	(1,442)	718	(1,174)	(1,537)
Dividends paid	**(1,773)**	(1,545)	(1,545)	(2,148)	(1,218)
Basic earnings per share	**10.8p**	6.3p	0.1p	6.6p	7.2p
Adjusted diluted earnings per share	**10.7p**	6.2p	3.3p	4.8p	8.2p
Assets employed					
Property, plant and equipment	**27,558**	17,385	14,513	12,667	11,849
Cash and cash equivalents	**18,274**	23,344	11,521	11,601	13,036
Net current assets	**27,954**	31,493	15,643	19,283	16,686
Financed by					
Shareholders' funds: all equity	**61,369**	54,276	36,463	38,758	36,430

Notice of the Annual General Meeting

Notice is hereby given that the fifteenth Annual General Meeting (AGM) of Xaar plc (the "Company") will be held at 316 Science Park, Cambridge, CB4 0XR on 22 May 2012 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 2011 together with the Directors' report, 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 2011 of 2.0p per ordinary share.
4. To reappoint as a Director in accordance with the Company's Articles of Association Ian Dinwoodie, who is retiring by rotation.
5. To reappoint David Cheesman as a Director who offers himself for re-appointment at the first AGM after his appointment to the Board.
6. To reappoint Richard Barham as a Director who offers himself for re-appointment 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 7 and 9 as Ordinary Resolutions and in the case of Resolutions 8 and 10 as Special Resolutions:

7. To approve the Directors' remuneration report in accordance with section 439 of the Companies Act 2006.
8. 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 10,847,657 (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.
9. 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 £2,402,501.38; and

   (b) up to an aggregate nominal amount of £4,877,805.76 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

10. Subject to the passing of Resolution 9 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 £364,015;

    (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 2013 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

Alex Bevis
Company Secretary
19 March 2012

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 20 May 2012 (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 20 May 2012 (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.
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 re-appointment 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 20 May 2012. 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 19 March 2012 (the date of publication of this Notice), the Company's issued share capital comprised 72,803,071 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 19 March 2012 is 72,803,071.
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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