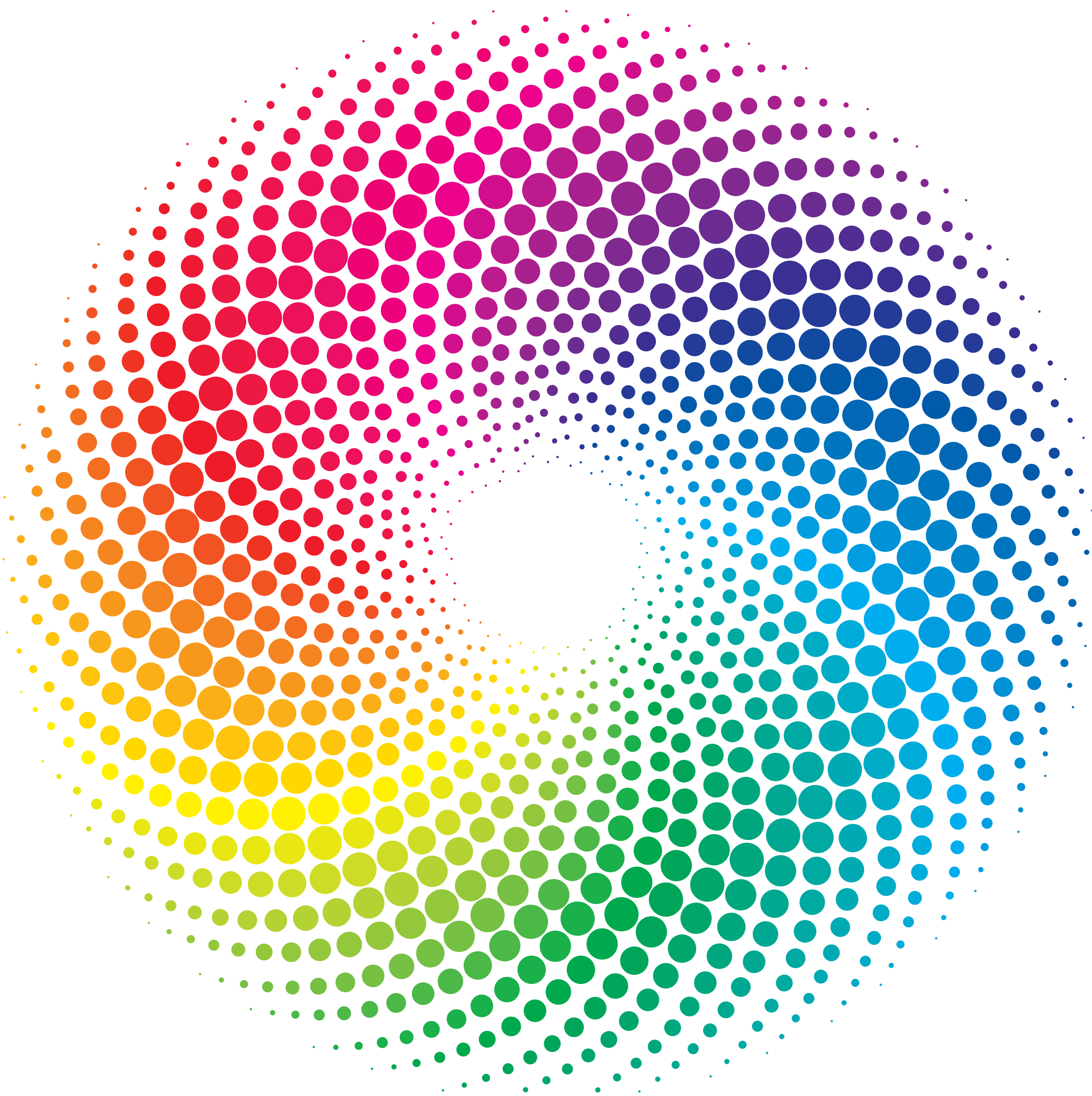
XAAR®

Annual Report and Accounts 2012

At the centre of the digital inkjet revolution



Who we are
A leading technology company

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 manufacturing applications including graphics, labels, packaging, ceramic tiles, décor, and outer case coding, as well as printing with specialist fluids for advanced manufacturing techniques.

We design and manufacture our printheads in the UK and Sweden, exporting over 90% of our production to customers around the world.

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

Overview

"Our patented inkjet technology is now dominant in the digital decoration of ceramic tiles around the world."

Business review

"During 2013, in response to demand we will expand manufacturing capacity further than previously announced."

"Xaar has now delivered three consecutive years of annual revenue growth at 26% or higher."

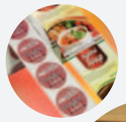
Governance

Accounts

The digital inkjet story

Growing through innovation

The dynamic world of global manufacturing provides an exciting opportunity for Xaar. Most things we come into contact with on a daily basis are patterned, decorated, printed or finished in some way; the packaging and labels in our supermarkets, the boxes containing everything we buy, the tiles and laminate flooring in our homes and offices, the televisions we watch and the solar panels used to power our houses. Many production processes used in the manufacture of these products use traditional analogue technology. However, increasingly Xaar's digital inkjet technology is transforming manufacturing, providing significant scope for Xaar to expand into new markets.



Over 3 trillion m²* of products and materials are patterned, decorated, printed or finished each year – equivalent to the area of India.

These products include ceramic tiles, laminate flooring, interior and exterior building materials, advertising materials, banners, product packaging, labels, books, catalogues, brochures and newspapers.

At least 90% of these items are still manufactured using traditional analogue processes.

Over the last 20 years, digital imaging technologies have emerged for applying images, patterns or finishes in more efficient, flexible and cost-effective ways.

One of the leading digital solutions, Industrial Inkjet, has already transformed a number of traditional manufacturing processes; revolutionising productivity and driving down costs.

Xaar, an Industrial Inkjet leader at the centre of this digital manufacturing revolution, has successfully developed digital technology and manufactured and sold inkjet products, predominantly printheads, into a number of sectors.

The printhead is the heart of the digital process, depositing fluids, including inks and coatings, in precisely the right quantity and in the right place on the substrate, without even touching the surface.

Xaar's success is driven by markets transitioning from traditional analogue manufacturing processes to digital manufacturing using inkjet printheads.

To date two markets in particular have been very successful for Xaar; graphics and ceramic tile production have both rapidly adopted digital manufacturing technology.

These sectors presently use inkjet to annually produce over 7 billion m², but represent only 0.2% of the 3 trillion m² entire global print production.

Xaar's challenge is to expand its existing digital inkjet printhead technology into new markets and to develop new technology to maximise the opportunity that the digital manufacturing revolution offers.

* Excludes home and office printing.

Our performance
A year of growth

Revenue £m

2012	**86.3**
2011	68.7
2010	54.7
2009	41.5
2008	42.9

Gross margin %

2012	**47.4**
2011	44.2
2010	41.3
2009	40.4
2008	50.2

Adjusted profit before tax £m

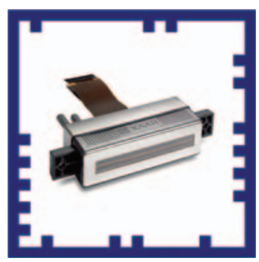
2012	**18.4**
2011	10.6
2010	5.6
2009	2.1
2008	3.7

Net cash balance £m

2012	**28.9**
2011	17.4
2010	22.0
2009	11.1
2008	11.0

Operational highlights

- The strong financial performance achieved in 2012 was driven by the continuing success of Xaar's disruptive technology in the digital decoration of ceramic tiles.
- The Group has more than doubled revenue over a three year period with growth in excess of 25% for each year.
- The growth in sales in 2012 was supported by the successful completion of a £22m capacity expansion programme at Xaar's Huntingdon facility. Further capacity will now be added during 2013 to support the demand for Platform 3 (P3) products in ceramics and other applications.
- Xaar invested £8m in R&D during 2012 (9% of revenue), including a 50% growth in R&D staff, to support the Group's plans for product and technology development.



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.

Our business model
Creating long-term value

Xaar designs

Xaar invests 8-10% of revenue annually in Research and Development (R&D) 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 around 500 patents and patent applications and continues to add to its Intellectual Property (IP) portfolio.

During 2012 we launched two new digital printheads: Xaar ***Proton 15***+ for UV curable printing in wide-format graphics applications, and the Xaar 1001 GS12 for ceramics decoration which doubles the productivity (or speed) of the original Xaar 1001 GS6. We continue to progress product and technology development. During 2012 we increased the R&D headcount by 50%.

Xaar manufactures

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

2012 saw the successful completion of the Xaar 1001 expansion programme in Huntingdon. The £22m programme, started in 2010, achieved a ten-fold increase in production capacity and was completed three months ahead of schedule and almost 10% below budget. The Huntingdon plant headcount was also significantly increased during the year, with engineering and production staff numbers growing by 47%, to support the demand for our products.

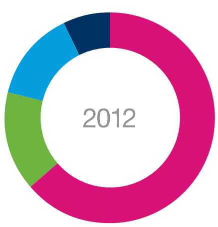
Xaar markets

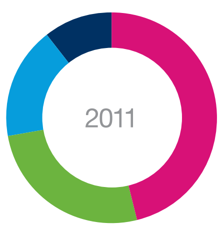
Xaar offers a wide range of industrial inkjet printheads which are designed and produced to meet the customer-driven requirements of a range of manufacturing applications. Primary markets include graphics, labels, packaging, outer case coding, ceramics and décor.

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 ongoing maintenance of printing systems.

Revenue by segment

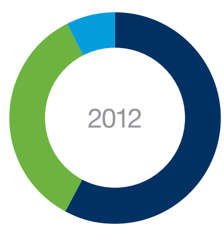


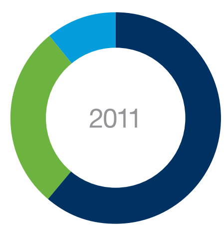


2012 Revenue £m		
Industrial	55.0	64%
Graphic arts	13.1	15%
Packaging	12.0	14%
Royalties	6.2	7%

2011 Revenue £m		
Industrial	31.7	46%
Graphic arts	18.1	26%
Packaging	11.7	17%
Royalties	7.2	11%

Revenue by region





2012 Revenue £m		
EMEA	50.0	58%
Asia	30.0	35%
Americas	6.3	7%

2011 Revenue £m		
EMEA	42.0	61%
Asia	19.3	28%
Americas	7.4	11%

Our business at a glance
Focused on innovation

New product development process

1 Opportunity assessment
Identifying a potential market or product opportunity. Developing outline business case to justify further investigation. Business case outlines customer need, how this could be met by Xaar technology and potential financial opportunity.

2 Product specification
Clarifying real customer requirements, developing potential technology and product solutions. Development of value proposition, target market opportunity and implementation costs to refine the business case.

3 Architecture and design
Progressive refinement of the product definition and demonstration of its feasibility. Design and verification of functionality, parts, tooling and processes.

4 Industrialisation and validation
Set up of the production means and controls. Manufacturing of pre-production parts for validation, both internally and externally with actual users.

5 Launch and production
General availability of product for sales. Support adoption and integration of new product by customers (OEMs) whilst increasing capacity to meet the additional demand.

R&D in action: How is Xaar driving further growth?

We explicitly manage product development with three horizons: short term, by updating and improving current products medium term, by developing new product platforms or derivatives with new capabilities using existing technologies; and longer term through research and development of novel technologies which open up new markets for new applications.

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

> Xaar invested £8m in R&D during 2012 (9% of revenue), including a 50% growth in R&D staff, to support the Group's plans for product and technology development.

R&D in action: Redefining the ceramic tile market

Xaar's technology and printheads hold a leading market share in the digital decoration of tiles manufactured today. Ceramic tiles can be digitally decorated to imitate naturally occurring materials like marble and slate, or even wood. Tiles are used for flooring and wall coverings both inside and outside buildings. Tile manufacturers in China, Europe, India and Brazil are responsible for producing most of the world's output. Xaar's patented TF Technology™, which operates inside the Platform 3 (P3) Xaar 1001 printhead, is widely recognised as leading the transformation to digital tile decoration within this sector. TF Technology™ combined with the Hybrid Side Shooter™ printhead architecture deliver unrivalled printhead reliability which in turn leads to a much greater production uptime than rival printheads can offer.

R&D priorities for 2013

We plan to launch new products and new product variants in 2013 which will utilise the capability of our P3 technology, whilst continuing to develop a new technology platform (Platform 4) to expand our future market opportunity.

One key product development for 2013 is our first P3 product targeted at the graphic arts market. Currently this segment is serviced by P1 technology.

Platform 4 (P4) will move from technology creation to product development in 2013, as we continue to invest a substantial proportion of our R&D effort in this important activity.

The expansion of capacity and capability in R&D will continue through the ongoing recruitment of highly qualified staff who will bring new skills and experience to Xaar, building on the progress made in 2012.

Chairman's statement
Another year of growth

> "The Board expects the cash generation of the business to continue and has decided to recommend a final dividend of 3.0 pence, which would represent a 33% increase in the total dividend for 2012 compared to 2011.

Introduction
I am pleased to report on another year of strong financial performance by Xaar. During the twelve months ended 31 December 2012, our patented inkjet technology demonstrated its market leadership and is now dominant in the digital decoration of ceramic tiles around the world. Our results for the year also benefited from the successful implementation of our investment in expanding manufacturing capacity, enabling us to fulfil strong demand for our products, achieve high revenue growth, and improve profitability and cash flow through operational gearing.

These factors translated into record results for the Company during 2012 with revenue growth of 26% and adjusted profit before tax up 74% which followed a 90% increase in 2011. Adjusted diluted earnings per share increased by 88% to 20.1 pence in 2012 (2011: 10.7 pence). Our balance sheet continues to be consistently strong with net cash (cash and cash equivalents, treasury deposits less borrowings) of almost £29 million at 31 December 2012.

Business developments
During the last three years our Platform 3 (P3) technology has enabled us to build an industry leadership position in ceramic tile decoration, where the market shift to this new printing process has been rapid by normal print industry measures, and which has been the largest contributor to our growth in 2012.

A year ago I referred to the geographic shift in our sales to Europe from Asia as we benefited from the conversion to digital decoration in European tile manufacture. Whilst that success continues we are now making substantial progress in supplying the ceramic industry in China where almost half of the world's ceramic tiles are manufactured. We are also starting to address other geographic markets including Latin America, India and Turkey.

Whilst we currently derive the majority of revenue from ceramics, we are seeking opportunities for P3 products in other markets. During 2012 we made significant progress in the decorative laminate segment, which includes flooring, cladding and furniture-based applications. We expect to continue to develop this market which, although not forecast to convert at the same high rate as seen in the ceramics market, still presents a very interesting growth opportunity. P3 sales into the packaging segment continue to grow at a modest rate and we remain confident that we can increase our share of primary label printing.

During the second half of 2012 we arrested the decline in our sales into the graphic arts market, recording a modest increase over the first half. We are planning a new P3 product which we believe will improve our competitive position in this mature but significant market where Xaar has long-standing brand awareness.

Continuing growth in demand for P3 products will result in additional investment in 2013 to further increase the manufacturing capacity of our world-class manufacturing facility at Huntingdon. In order to support this growth we continue to hire, and have increased total worldwide headcount by 18% in 2012 to in excess of 550 people. This level of personnel increase places additional challenges on any business and I am pleased to report that, as the result of improved processes and capability, we managed the recent growth in staff effectively.

Research and Development (R&D)

As a leading technology company, R&D is key to our future success. Sustaining a strong financial performance has allowed us to increase our investment in R&D, which accounted for 9% of sales for the year, by 23%.

As already reported in the interim report, in order to accommodate the increased R&D headcount we have taken further office and lab space adjacent to our head office on the Cambridge Science Park. This investment provides the additional space and improved working environment necessary for R&D to deliver the new technology and new products which will enable our continued growth.

The current focus of our research effort is on Platform 4 (P4), our next-generation technology and product range which we anticipate will open up new markets. If successful, P4 will provide more disruption to traditional analogue printing markets and sustain Xaar's success.

As our technology continues to develop, our substantial knowledge and experience in addressing the considerable technical and processing challenges will remain a major barrier to entry for potential competitors.

Dividend – pence per share

2012	**4.0**
2011	3.0
2010	2.5
2009	2.5
2008	2.5

Dividend

Xaar continues to enjoy financial strength and further increased net cash resources during 2012. The Board expects the cash generation of the business to continue and has decided to recommend a final dividend of 3 pence which, together with the 1 pence interim dividend paid on 21 September 2012, equals 4 pence for the year, a 33% increase over the total dividend paid in 2011.

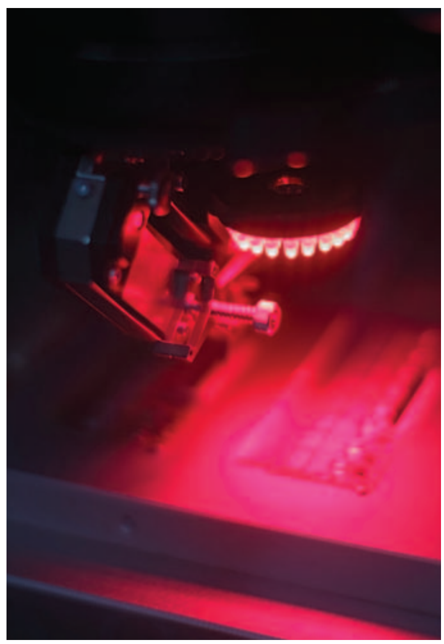
Corporate Governance

The Group continues to comply fully with the UK Corporate Governance Code 2010. Xaar's strategy undergoes a detailed review twice every year when the Board takes additional dedicated days to consider and debate the future direction and aspirations of the Group. The Board, its executives, chairman and non-executives are all evaluated annually against specific and relevant performance criteria.

Board

Other than the previously reported appointment of Richard Barham and retirement of Phil Eaves as Sales and Marketing Directors in March 2012, there have been no other changes to the Board membership. Board meetings are supported by detailed papers and minutes. Attendance by all members is excellent and I take this opportunity to thank them for their continuing professionalism, commitment and results.

Phil Lawler
Chairman
19 March 2013



Operations review
Building momentum

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> The P3 capacity expansion programme at the Huntingdon plant successfully completed three months ahead of schedule, allowing increasing output to match the growing demand for this range of products.

Introduction

I am delighted to report that the growth momentum generated over the past few years has been sustained in 2012. Strong revenue growth was again delivered by Platform 3 (P3) products being supplied into the ceramic tile decoration market.

The P3 capacity expansion programme at the Huntingdon plant successfully completed three months ahead of schedule, allowing increasing output to match the growing demand for this range of products.

Once again revenue grew strongly and has now doubled over the last three years. As a result of this growth, coupled with improvements in operating efficiencies, adjusted profit before tax for the year (see the reconciliation of adjusted financial measures) increased by 74% to £18.4 million (2011: £10.6 million).

Business review

Total revenue for 2012 of £86.3 million (2011: £68.7 million) comprised product sales, commissions and fees of £80.1 million (2011: £61.5 million), representing 93% of turnover (2011: 90%) and royalties of £6.2 million (2011: £7.2 million), representing 7% of turnover (2011: 10%). The 26% growth in total revenue comprises 30% growth in product sales, commissions and fees, and a 14% decline in royalties.

Gross margin continued the positive trend seen in recent years, improving from 46.0% for the first half of 2012 to 48.6% for the second half. For the year overall, gross margin increased to 47.4% (2011: 44.2%).

The successful introduction of the Xaar 1001 GS12, our first P3 product specifically optimised for ceramic tile decoration, in the third quarter, together with the development of the Chinese ceramics market (the largest ceramic market in the world), boosted demand for P3 products which required a doubling of the daily production output rate over the year.
The digitalisation of the ceramic decoration market progressed as anticipated during 2012, as the substantial benefits of digital inkjet printing over traditional analogue processes have now established the digital solution as the desired standard method of manufacture. Competition in this field is growing, but to date we have been successful in maintaining our dominant market share through the superiority of our technology and products, combined with a competitive pricing strategy. Progress in the primary label market and the decorative laminate market continues, and both applications now generate material revenues for the Company. We remain excited about the prospects in these markets although, as previously stated, these markets are expected to convert from analogue to digital process at a more modest rate than the ceramics market.

As expected, given the maturity of the wide-format graphic arts market and intense competition, Platform 1 (P1) sales continued to fall in 2012. The second half of 2012 showed some more encouraging signs and we expect to benefit from the launch of the Xaar 501 planned for the fourth quarter of 2013, with revenues anticipated from 2014 onwards.

Royalties from our legacy licensing business in Asia declined by 14% in the year to £6.2 million (2011: £7.2 million). It is particularly pleasing to see a significant progression in both gross margin and operating profit despite this decrease.

Commercial review

Geographic

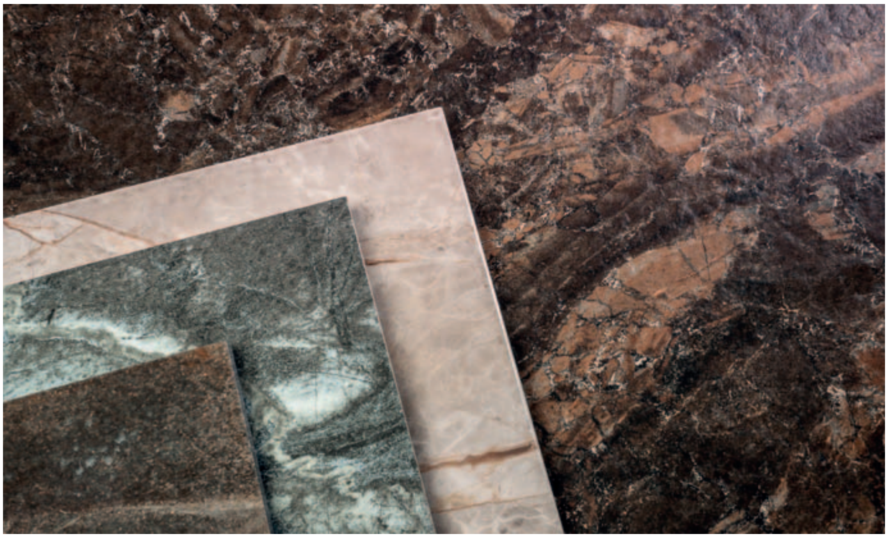
As a supplier of technology to OEM partners, our geographic sales split reflects where our products are integrated into the manufacturing equipment, which is not necessarily the end-user location.

In 2012, Europe, Middle East and Africa (EMEA) remained the Company’s largest sales region, and hit the £50.0 million milestone for the first time in the Company’s history (2011: £42.0 million) representing 19% growth over the previous year. The primary growth application in Europe was ceramic tile

Understanding our business

Industrial

Industrial applications form a large part of Xaar's portfolio. Xaar's industrial market includes the ceramics sector, the décor sector and also the advanced manufacturing sector.



Revenue £m

55.0m

Contribution to Group revenue

64%

Industrial sales £m

2012	**55.0**
2011	31.7
2010	14.1
2009	6.0
2008	5.0

Ceramics

Around 9 billion m² of ceramic tiles are produced worldwide each year. There are approximately 9,000 production lines globally, almost half of which are in China. The decoration of the tile is the key selling point. The market has been moving to digital inkjet decoration over the last 10 years but the pace of change has recently accelerated significantly because the Xaar 1001 with TF Technology™ delivers both quality and cost advantages over traditional analogue methods. The digitally decorated tile looks superior, tile designs can be more creative, production costs are lower, waste is reduced, inventory is decreased and short runs and samples are far easier to achieve. The Xaar 1001 is the market-leading printhead in this sector.

Ceramic tiles produced annually

9bn m²*

* Ceramic World Review August – October 2012.

Décor

The décor market covers a number of sub-sectors which include the production of décor laminates (Xaar's market), wood, glass, vinyl flooring and wallpaper. This market is at the early stages of adopting digital inkjet technology. Within the laminates sector, Xaar printheads are being used to directly image laminate boards to produce laminate flooring, furniture and panels, delivering a far broader range of design variations than is possible with analogue technology and dramatically reducing inventories. Approximately 7.5 billion m² of laminate surface is produced annually. Most production currently uses analogue technologies.

Laminate surface produced annually

7.5bn m²*

* Based on research by Poyry.

Advanced manufacturing

Demand for the fine coating, patterning and printing of functional fluids is expected to grow in the coming years and Xaar is at the forefront of the race to develop inkjet as an advanced manufacturing process. Applications are challenging and push inkjet to its known limits and beyond in fields such as nano imprinting, solar cell manufacturing and flat screen production. However Xaar's 1001 printhead with its patented TF Technology™ recirculates the fluid directly past the back of the nozzle, effectively managing temperature, keeping particles in suspension and removing any debris and air from inside the printhead. This is ideal for applying functional fluids, where high performance, precise dot placement and reliability are essential.

Packaging

Xaar's packaging markets cover the label sector, primary package and also coding and marking. Within the coding and marking sector, Xaar's technology is predominantly used for printing barcodes on outer case (secondary) packaging. Of the £19.8bn annual label sector, less than 5% is produced with digital inkjet. Recent product upgrades by Xaar's OEM partners to deliver higher quality and greater productivity have accelerated the adoption of digital label manufacturing. Currently Xaar, with its P3 Xaar 1001 printhead, is the leading digital inkjet player in this market.

* Based on research by Smithers PIRA.

Revenue £m

12.0m

Contribution to Group revenue

14%

Packaging sales £m

2012	**12.0**
2011	11.7
2010	11.8
2009	9.4
2008	9.2

Graphic arts

The graphic arts sector includes signage and advertising (e.g. billboards and posters). This was the first sector to adopt industrial inkjet and is therefore the most mature, with over 60% of the available market already converted to digital technology. Xaar predominantly sells its Platform 1 technology (e.g. Xaar 128, Xaar Proton) into this sector. In recent years Xaar has lost market share in this sector. We are currently working on a new P3 product for the graphic arts market to increase revenues in this segment.

Revenue £m

13.1m

Contribution to Group revenue

15%

Graphic art sales £m

2012	**13.1**
2011	18.1
2010	21.4
2009	20.8
2008	24.2

> P4 research and development spending will now accelerate, positioning the Company to deliver further growth over the longer term horizon.

decoration through OEM partners located in Spain and Italy. Outside of ceramics, primary label and decorative laminate applications continued to grow albeit on a smaller scale. For 2012 the EMEA region represented 58% of total revenue, compared to 61% in the previous year, although we continue to see European OEMs innovate with digital inkjet technology in a wide range of applications.

During the year, the digitalisation of the Chinese ceramic tile market strongly accelerated which was the major contributor to the 55% increase in our Asian business. Total sales in Asia increased to £30.0 million (2011: £19.3 million) representing 35% (2011: 28%) of total revenues. With over 40% of the world's ceramic tile production located in China, this market is clearly very important to Xaar, and it is encouraging that the effort expended in this market over the past few years is now being rewarded.

Total sales to the Americas in 2012 were £6.3 million, a decline of 15% versus the £7.4 million in 2011. A lower level of activity was recorded in both North and South America. Ceramics manufacturers in the Americas are supplied by European OEMs with revenues included in those reported for EMEA. As previously stated, we would expect the Americas to remain the smallest geographic region for Xaar due to the distribution of printing equipment manufacturers which tends to be localised in Asia and Europe.

I am pleased to confirm that the previously announced transition, from our Shanghai-based representative office to our new Hong Kong-based office, completed smoothly during 2012, incurring minimal transition cost and no business interruption.

End markets

Industrial markets (i.e. for the decoration of physical end products) continue to be the largest end application for Xaar's technology. Business in these markets grew by 74% over 2011, generating sales of £55.0 million (2011: £31.7 million) and for the first time accounting for over half of total turnover at 64% (2011: 46%). The conversion of ceramic tile decoration from analogue to digital processes continues at a strong pace and this application dominates this revenue stream. Developments in the decorative laminate market have accelerated during the year, and revenues from this second industrial application have become more significant as a consequence.

Sales into the packaging market were 3% higher compared to the previous year at £12.0 million (2011: £11.7 million) and represent 14% (2011: 17%) of total sales. Some years ago Coding and Marking was the only significant segment of the packaging market addressed by our technology. Following the successful introduction of P3 products, growth in labels and other packaging applications now means that 45% of packaging revenue comes from non outer case coding segments.

Sales into the graphic arts market continued their recent decline and totalled £13.1 million for the year (2011: £18.1 million) representing 15% of total sales (2011: 26%). The second half of the year saw the first increase in revenue for some time in this sector. Whilst this is a positive development, a significant change is not expected until the planned release of the Xaar 501 towards the end of 2013.

Operations review

The P3 capacity expansion plan was flawlessly executed over the last two years, being completed three months ahead of schedule and almost 10% below budget. The success of this programme allowed incremental customer demand to be fulfilled as the year progressed. Unit output from the Huntingdon plant more than doubled from the start to the end of the year, and the monthly output rate in the fourth quarter of 2012 was significantly higher than the entire output in 2009. Further capacity will be added during 2013 as a result of the strong and increasing demand for P3 products.

The increase in volume throughput and operational improvements achieved were key to our success in improving gross margins during a year of planned volume price reductions.

As anticipated, spending on Research and Development (R&D) increased to £8.0 million in 2012, a 23% increase over the £6.5 million spent in 2011. This spend has been primarily on new P3 product developments and P4 research. The first P4 physical test structures were completed before the end of 2012 as expected. Investment in R&D headcount and facilities has accelerated during the year. Additional space on the Cambridge Science Park has been secured and re-developed to provide roughly twice the space previously occupied. R&D headcount increased by 50% during 2012 and will increase further in 2013.

Total headcount at year end was 556, an increase of 18% in the year. Systems and processes have either been up-scaled or replaced in order to manage this rate of expansion effectively.

People

There is a strong sense of pride within the growing community of people working to build Xaar as a successful business and I would like to thank all of them for their efforts during another year of significant progress for the Company.

Outlook

Xaar remains a focused technology leader operating in very large, but highly segmented markets. The transition from analogue to digital printing processes continues to provide a significant growth opportunity which is expected to continue for many years into the future. Our challenges remain: to maximise the opportunity in the markets where we are already operating; to expand our existing inkjet technology into new markets; and to develop new technology to enable a wider industrial inkjet revolution.

During 2013, in response to demand for P3 products in ceramics and other applications we will expand the P3 manufacturing capacity further than previously announced, and we will release products in support of our strategic objectives, which should underpin the Company's growth prospects for both the short and the medium term. P4 research and development spending will accelerate over this period positioning the Company to deliver further growth over the longer term.

Ian Dinwoodie
Chief Executive
19 March 2013

Financial review
Delivering strong results

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The strong financial performance in 2012 drove net cash to increase to £28.9 million at 31 December 2012.

Trading

Revenue increased by 26% in 2012 to £86.3 million (2011: £68.7 million), matching the growth rate achieved in 2011. Xaar has now delivered three consecutive years of annual revenue growth at 26% or higher (2010 grew by 32% versus 2009). This growth has been predominantly driven by the success of Xaar's technology in transforming the decoration of ceramic tiles from an analogue process to a digital inkjet solution.

The growth in sales has been made possible through a £22 million capacity expansion programme at the Huntingdon manufacturing facility, which began in 2010 and was completed in the first half of 2012. This programme delivered a tenfold increase in the production output of Xaar 1001, the Group's world-leading product in the industrial segment. Following the completion of the expansion programme in the first half of the year, revenue grew strongly in the second half and was up 28% on the first six months.

The majority of Xaar's revenue is generated by product sales, commissions and fees (£80.1 million or 93% of total sales in 2012), with 7% of revenue in 2012 derived from licensee royalty income.

Continued success in the ceramics market resulted in a 74% growth in sales for the industrial segment from £31.7 million in 2011 to £55.0 million in 2012. Sales in the packaging segment were relatively stable at £12.0 million (2011: £11.7 million), while the graphic arts segment reduced by 28% from £18.1 million in 2011 to £13.1 million in 2012. Actions taken on product development and commercial arrangements helped to reverse the trend in graphic arts sales during the year, with sales in the second half of the year increasing over the first six months.

Gross margin increased to 47.4% in 2012 (2011: 44.2%). The increase reflects the leverage of higher sales volumes over the fixed elements of manufacturing costs, and production efficiency improvements achieved during the year. As a result, gross profit grew by 35%, ahead of the 26% growth in revenue, from £30.4 million in 2011 to £40.9 million in 2012.

Adjusted operating expenditure for the year, excluding exceptional items, was up 14% on 2011 to £22.7 million for 2012. This increase mainly relates to the increased investment in R&D, where headcount grew 50% in the year. R&D expenditure increased by 23% to £8.0 million.

Net exchange adjustments in the year within operating expenditure were neutral. A significant proportion of revenue (almost 40% in 2012) is generated in Euros. This exchange risk is managed using a combination of forward contracts and by the regular transfer of any excess Euros into Sterling.

Adjustments to financial measures (page 38) in the year of £2.7 million (2011: £1.4 million) include share-based payment charges of £1.5 million (2011: £1.3 million), foreign exchange gains associated with operating the Swedish plant of £0.3 million (2011: a loss of £0.3 million) and impairment of trade investments of £1.4 million (2011: £nil). The impairment charge related to the previously announced decision, made in June 2012, to fully impair the book value of a minority stake in an inkjet solutions provider. The impairment resulted in a one-off non-cash charge which has been excluded in the calculation of adjusted profit before tax.

Net interest income of £0.2 million was recorded in 2012 (2011: £nil), with interest income on cash and treasury deposits exceeding interest charges on a remaining finance lease.

The growth in revenue and gross margin resulted in a 74% increase in adjusted profit before tax for the year (see the reconciliation of adjusted financial measures) to £18.4 million (2011: £10.6 million). Adjusted profit before tax is the normal measure used by management for tracking the underlying profitability of the Group.

The tax charge on adjusted profit before tax was £3.4 million (2011: £2.6 million), representing an effective tax rate of 19% (2011: 25%). This tax charge is the product of the UK and Sweden corporation tax rates (24.5% and 26.3% respectively) reduced by the impact of R&D tax credits. The Group expects to benefit from future changes in UK tax legislation, including the patent box scheme.

The tax charge on unadjusted profit before tax was £3.1 million (2011: £1.5 million) representing an effective tax rate of 20% (2011: 16%). The low rate in 2011 was mainly the result of the release of a provision that was no longer required.

Adjusted profit after tax for 2012 (see note 12) was £15.0 million, up 90% from the £7.9 million recorded in 2011.

Adjusted diluted earnings per share increased 88% to 20.1 pence in 2012 (2011: 10.7 pence).

Financial position

The strong financial performance in 2012 drove an increase in net cash (cash and treasury deposits less financing arrangements) of £11.5 million to £28.9 million at 31 December 2012. The increase in net cash is below the £15.0 million figure for adjusted profit after tax, mainly due to a growth in working capital which increased by £4 million during 2012, including a £1.4 million increase in inventory, reflecting the higher level of trading. Total cash outflow relating to intangible and tangible assets was £7.8 million in the year, compared to a total amortisation and depreciation charge of £7.4 million.

Dividend

The Board will recommend a final dividend of 3 pence for 2012 at the forthcoming Annual General Meeting, giving a total dividend for the year of 4 pence (2011: 3 pence). An interim dividend of 1 pence was paid during the year (2011: 1 pence). Subject to approval by shareholders at the Annual General Meeting, the final dividend will be paid on 21 June 2013 to shareholders on the register on 24 May 2013.

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
- Gross margin
- Adjusted profit before tax
- Net cash position
- R&D expenditure

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
- Headcount – monthly

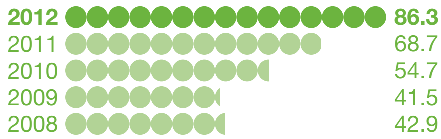
A number of the key performance indicators stated above are commercially sensitive and are therefore not publicly disclosed.

Annual General Meeting

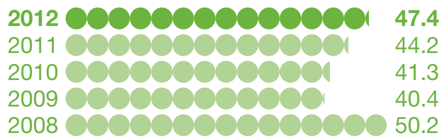
The Annual General Meeting will be held at 9.30am on Thursday 16 May 2013 at 316 Science Park, Cambridge, CB4 0XR.

Alex Bevis
Finance Director and Company Secretary
19 March 2013

Revenue £m

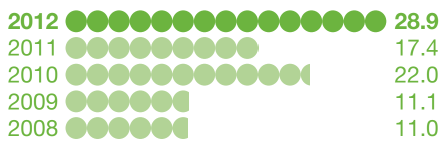


Gross margin %



Adjusted profit before tax £m

Net cash balance £m



Risks and uncertainties
Managing our key risks

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

Principal risk and uncertainty	Impact	Mitigation
Product sales into established applications fail to deliver sustained revenue growth due to competitor activity, and associated market share loss, market maturity or other market changes.	Lower than anticipated revenues are achieved resulting in excess production capacity and lower levels of profit.	Competitive pricing policies are employed. The product portfolios and pricing of competitors are constantly monitored. Manufacturing cost reduction programmes are established to ensure 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.
Product sales into new applications fail to achieve their targets.	Lower than anticipated revenues are achieved resulting in excess production capacity and lower levels of profit.	Regular reviews of OEM partners are held to ensure appropriate and extensive market coverage is achieved together with a focus on new equipment manufacture. New products and product variants are developed to meet market requirements. Competitive pricing policies are employed. Manufacturing cost reduction programmes are established to ensure products remain competitive.
New products fail to achieve their targets through either a failure to identify the appropriate products to meet future market requirements, or, the products are identified but are not successfully developed in time or to the required specification.	Longer term revenue and profit is impacted.	Regular, specific and detailed reviews are held to assess current and anticipated market requirements. These reviews include input from customers and other external sources. Product developments are selected on appropriate criteria. Product development activity is properly managed with regular reviews of progress against project plans, and gated milestone reviews. Appropriate resource is applied to product development activity.

Principal risk and uncertainty	Impact	Mitigation
Manufacturing output fails to meet demand due to supplier issues, an event at one of the manufacturing facilities, delays or problems associated with production equipment, a lack of manufacturing capacity, or for other reasons.	Demand is not satisfied resulting in lower levels of revenue and profit. Customers may start purchasing (or increase their level of purchasing) with Xaar's competitors, leading to a longer term reduction in market share, revenue and profit.	Detailed sales forecasts are prepared and reviewed regularly to minimise unexpected changes in short term demand. Suppliers are managed carefully. Appropriate sourcing, inspection and inventory holding policies are applied to ensure continuity and consistency of product supply. Appropriate contingency factors are applied to capacity planning. Manufacturing facilities are fitted with the appropriate safety and security systems. Staff are properly trained.
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.

Board of Directors
Dedicated Board with a clear vision

1. Phil Lawler
Chairman
Age 64

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 companies as well as a number of technology companies, private equity and venture capital investors. He is a Chartered Director.

2. Ian Dinwoodie
Chief Executive
Age 52

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 industries, he has held a variety of roles in engineering, quality assurance and operations within the semiconductor, electronics and electronic imaging sectors. Previous companies include Ferranti Electronics, Digital Equipment Corporation, and Crosfield Electronics. Immediately prior to joining Xaar, he held the position of director of manufacturing for Fujifilm Electronic Imaging Ltd.

3. Alex Bevis
Finance Director and Company Secretary
Age 37

Alex joined Xaar in February 2011 after 10 years at CSR plc (Cambridge Silicon Radio). He held a variety of key finance roles at CSR, supporting the growth of the business including the IPO in 2004 and multiple acquisitions. He was most recently employed as Vice President of Finance. He qualified as a Chartered Accountant with Deloitte prior to joining CSR in 2000.

4. Ramon Borrell
Research and Development Director
Age 49

Ramon joined Xaar in August 2007. He had previously been 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 an industrial engineer and has a Master's degree in Mechanical Engineering, 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.

5. Ted Wiggans
Operations Director
Age 57

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 and a member of the Manufacturing Industries Division Board of the IMechE.

6. Richard Barham
Sales and Marketing Director
Age 51

Richard joined Xaar in March 2012, and was previously Vice President of 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.

7. David Cheesman
Non-Executive Director
Age 69

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 K2 Optronics Inc.

8. Robin Williams
Non-Executive Director
Age 55

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 AH Worth & Company Ltd, Plasma Resources UK Ltd, Baronsmead VCT 4 plc and 26 Gledhow Gardens Ltd.

Corporate social responsibility

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

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

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 manner 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.

Xaar executive team during Movember.

Social responsibility

- Xaar entered a team into the BBC Children in Need fun run around the Cambridge Science Park in November 2012, and the Xaar Executive team and a number of Xaar employees took part in Movember in November 2012, raising money and awareness for men's health.
- A new charitable giving programme was launched by Xaar in the year, whereby employees could nominate and vote for six charities to each receive a £2,000 donation. The chosen charities for 2012 were The Arthur Rank Hospice, Stroke Association, Cancer Research UK, Special Care Baby Unit at Hinchingbrooke Hospital, Barncancer Fonden, and Cancerfonden. Xaar also made donations to Children in Need, Movember and the 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, sporting events, spa days, gliding evenings, paintball, ice skating and nights at the races.
- Xaar were delighted to become a sponsor of MakeIT! Ceramics during the year and continue to sponsor PrintIT!. MakeIT! Ceramics aims to enthuse and educate young people about the opportunities that are available to them in the exciting and dynamic ceramics industry. PrintIT! is a major initiative to encourage young people to embark on careers in the UK printing industry.
- Xaar represented UK manufacturing excellence in the Government's 'Make it in Great Britain' exhibition, at the Science Museum in the summer of 2012. Xaar joined over 40 British businesses at the event, including iconic brands such as Airbus, McLaren and BAE Systems.

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 2012. 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 financial 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 £86.3 million (2011: £68.7 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 £12.6 million (2011: £7.7 million). The Directors recommend the payment of a final dividend of 3.0p per ordinary share (2011: 2.0p), giving a total dividend of 4.0p per ordinary share (2011: 3.0p) for the full year. If approved at the forthcoming Annual General Meeting, the final dividend will be paid on 21 June 2013 to shareholders on the register at close of business on 24 May 2013.

Research and Development
Expenditure on R&D in the year was £8.0 million (2011: £6.5 million). R&D activity focused on both the development of existing products and technology and researching new technology 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 carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

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

Details of employee share schemes are set out in note 34.

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 2012 or 2011.

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 individual performance and Group business targets and, in the UK, have the opportunity to participate in an HMRC approved Share Save Scheme, and from 2013 an HMRC approved Share Incentive Plan.

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
Richard Barham – Sales and Marketing Director (appointed 5 March 2012)
Ramon Borrell – Research and Development Director
Ted Wiggans – Operations Director
Phil Lawler – Chairman
Robin Williams – Senior Independent Director
David Cheesman – Non-Executive Director

Phil Eaves (retired from the Board 31 March 2012)

Brief biographical descriptions of the Directors are set out on page 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 2012 are as follows:

Shareholdings in the Company

	Number of ordinary shares of 10p each 31 December 2012	Number of ordinary shares of 10p each 31 December 2011
Ian Dinwoodie	**207,449**	197,327
Alex Bevis	**32,737**	10,724
Richard Barham	**6,000**	—
Ramon Borrell	**168,717**	129,799
Ted Wiggans	**2,000**	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 2012 and 19 March 2013. Directors' interests in options over shares in the Company are shown in the Directors' remuneration report.

Directors' liabilities

The Company has granted an indemnity to 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 2012 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)	**12,340,278**	16.5%
Cazenove Capital Management	**11,761,347**	15.7%
Legal & General Investment Management	**7,658,711**	10.3%
AXA Framlington	**7,389,204**	9.9%
M&G Investments	**5,720,806**	7.7%
Artemis Fund Managers	**2,906,872**	3.9%

During the period between 31 December 2012 and 19 March 2013, 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
Aviva Investors	**2,289,501**	3.1%

Annual General Meeting

The notice convening the Annual General Meeting is set out on pages 78 to 80. Resolutions 1 to 5 set out in the notice of the meeting deal with the ordinary business to be transacted at the meeting. The special business at the meeting (Resolutions 6 to 9) is explained on pages 78 and 79.

Reappointment of Robin Williams and Ted Wiggans as Directors

Resolution 4 and 5

In line with provisions B.7.1 and B.7.2 of the UK Corporate Governance Code, the Board has considered the reappointment of Mr Williams and Mr Wiggans 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 Williams and Mr Wiggans continues to be effective and they continue to demonstrate commitment to their respective roles. The Board therefore supports the reappointment of Mr Williams and Mr Wiggans to the Board.

Approval of Directors' remuneration report

Resolution 6

As a matter of accepted best corporate governance practice for a company whose shares are listed on the London Stock Exchange, the Company is seeking shareholder approval at the Annual General Meeting for the Directors' remuneration report for the previous financial year, by Ordinary resolution. The Directors' remuneration report is set out on pages 28 to 33.

Authority to purchase own shares

Resolution 7

It is proposed by Resolution 7, 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 2012 was 2,275,956. This represents 3% 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 2012 would represent 4% of the reduced issued ordinary share capital.

Annual General Meeting continued

Power to issue securities

Resolution 8

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 8, 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 £4,982,554.73, which represented two-thirds of the Company's ordinary share capital as at 19 March 2013; and

(ii) in any other case, up to an aggregate nominal amount of £2,491,277.37, which represented one third of the Company's ordinary share capital as at 19 March 2013.

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

Resolution 9

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 £373,691.61, representing 5% of the ordinary share capital of the Company as at 19 March 2013. 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 8 and 9 will expire no later than 15 months after the passing of those resolutions.

Charitable contributions

The Group made charitable contributions to children's, local and national charities during the year totalling £16,806 (2011: £319). No political donations were made in the year (2011: £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 2012 were 34 days (2011: 20 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 2.0% 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 for the next four years, taking account of reasonably possible changes in trading performance. For this reason, we continue to adopt the going concern basis in preparing the financial statements.

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming 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 2013

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

Throughout the year ended 31 December 2012 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 page 17. Phil Eaves (Sales and Marketing Director) retired from the Board on 31 March 2012 and was replaced by Richard Barham (appointed as a Director on 5 March 2012).

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 2012.

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

There exists a clear division of responsibilities between the Chairman and the Chief Executive. The Chairman's primary role includes ensuring that the Board functions properly, that it meets its obligations and responsibilities and that its organisation and mechanisms are in place and are working effectively. The Chief Executive's primary role is to provide overall leadership and vision in developing, with the Board, the strategic direction of the Company. Additionally, the Chief Executive is responsible for the management of the overall business to ensure 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, Richard Barham, Ramon Borrell and Ted Wiggans), the Director of Marketing (Mark Alexander) and the Director of Quality (Mike Read).

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 2012

Ten Board meetings were held in 2012.

Name	Meetings attended
Phil Lawler	10 (10)
Robin Williams	10 (10)
David Cheesman	9 (10)
Ian Dinwoodie	10 (10)
Alex Bevis	10 (10)
Richard Barham	9 (9)
Phil Eaves	2 (2)
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
David Cheesman	Yes	Chairman	Chairman
Ian Dinwoodie	No	No	Yes

Summary of committee meeting attendance in 2012

Name	Audit committee	Remuneration committee	Nomination committee
Number of meetings held	**4**	**3**	**0**
Phil Lawler	4 (4)	3 (3)	0 (0)
Robin Williams	4 (4)	3 (3)	0 (0)
David Cheesman	3 (4)	3 (3)	0 (0)
Ian Dinwoodie	N/A	N/A	0 (0)

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.

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. External resource is applied to internal audit activities where appropriate.

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

The Audit Committee has performed actions to discharge its responsibilities, including reviewing the 31 December 2011 annual report and financial statements, the 30 June 2012 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 auditor, 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 reappointment following retirement by rotation. The committee meets as required. The written terms of reference of the committee are available on request from the Company Secretary 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.

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

Performance evaluation

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

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

Performance evaluation continued

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

Group structure

The Group has three main locations. The head office functions, research and development, Western 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, Hong Kong 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, and anti-bribery and corruption policies

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

Alex Bevis
Company Secretary
19 March 2013

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 arrangements, long term incentives and service contracts. The fees paid to the Non-Executive Directors are determined by the Chief Executive Officer and the Chairman. The fees paid to the Chairman are determined by the Chief Executive Officer and the Non-Executive Directors. Additionally, the Remuneration Committee makes recommendations to the Board on the framework of Executive 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 utilised such advice during the year.

Executive remuneration package

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

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.

The elements of Executive remuneration, together with their objectives, are summarised below.

Element	Objective
Base salary	To provide a competitive base package.
Base benefits	To provide a competitive base package.
Flexible benefits	To provide a competitive base package.
Pension	To provide a competitive base package.
Share Save	To encourage employee share ownership through the provision of a tax efficient monthly savings scheme.
Annual bonus	To reward both current year Company profit performance and individual performance. The rate of bonus payable for each participant in the bonus scheme is the product of the Company performance element and the individual performance element.
Bonus matching equity scheme	To encourage commitment to the Company through equity ownership, Executive Directors and key employees are invited to invest their annual bonus in Xaar plc shares in return for a matching LTIP share award.
Long term equity based incentives	To drive longer term Company performance. Targets are set for EPS growth over three years.

Base salaries

An Executive Director's base 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.

Base benefits

Base benefits represent Company cars, private medical insurance and basic levels of other insurances (such as critical illness cover).

Flexible benefits

All UK staff, including Executive Directors, are provided with an allowance of 5% of base salary which they can apply to a range of benefits.

Pension

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.

Unaudited information continued

Share Save

All UK staff, including Executive Directors, are entitled to participate in the Company's HMRC approved Share Save Scheme. The scheme provides an opportunity to save a set monthly amount (up to £250) over three years towards the exercise of a discounted share option, which is granted at the start of the three years.

Annual bonus

Bonuses are non-pensionable and based on a percentage of base salary. For the year commencing 1 January 2012 the maximum potential payment for Directors under the annual bonus scheme is 133% of base salary. Bonuses are payable based on annual Group profit targets and individual performance. Non-Executive Directors do not receive a bonus. The Company profit performance element achieved for 2012 was 78%, compared to a target rate of 50% and a maximum of 100%.

Bonus matching equity

To encourage commitment to the Company through equity ownership, Executive Directors and key employees are invited to invest their annual bonus in Xaar plc shares in return for a matching LTIP share award. The matching LTIP share award matures after three years, subject to the achievement of targets set for EPS growth, and the retention of the original shares purchased using the bonus.

Long term equity based incentives

Annual equity grants are made to each Executive Director based on a proportion of salary. The grants provide a nil priced share option under the Xaar plc 2007 Long Term Incentive Plan (LTIP). LTIP options vest after three years dependent on the achievement of targets set for EPS growth, and must be exercised within ten years of grant.

Legacy arrangements – share options

The LTIP scheme was established in 2007. Prior to this long term equity based arrangements were granted in the form of market priced share options (as opposed to the nil priced share options introduced under the LTIP scheme).

Only one Director, Ian Dinwoodie, has remaining legacy share options at 31 December 2012 (excluding those share options related to the Share Save scheme).

Termination

In the event of early termination, the Executive Directors' contracts provide for compensation up to a maximum of base 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.

Non-Executive Directors

Non-Executive Directors do not participate in the Company's remuneration schemes. Their remuneration operates on a fee basis. The fees paid to the Non-Executive Directors are determined by the Chief Executive Officer and the Chairman. The fees paid to the Chairman are determined by the Chief Executive Officer and the Non-Executive Directors.

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 Lawler	01.06.07
Ramon Borrell	21.08.07
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

Directors' remuneration report continued

Audited information

Directors' remuneration

The remuneration of Directors who served during the year is set out in the table below. This table excludes remuneration related to equity schemes.

	Base salary £'000	Fees £'000	Benefits £'000	Bonus payments £'000	Total (excluding pension contributions) £'000	Money purchase pension contributions £'000	**Total 2012 £'000**	Total (including pension contributions) 2011 £'000	Money purchase pension contributions 2011 £'000
Executive									
Ian Dinwoodie	207	—	36	145	388	22	**410**	457	18
Phil Eaves	85	—	11	42	138	9	**147**	357	11
Ramon Borrell	145	—	20	74	239	14	**253**	302	9
Alex Bevis	145	—	20	113	278	14	**292**	271	8
Ted Wiggans	155	—	20	121	296	15	**311**	309	9
Richard Barham	132	—	25	103	260	13	**273**	—	—
	869	—	132	598	1,599	87	**1,686**	1,696	55
Non-Executive									
Phil Lawler	—	80	—	—	80	—	**80**	80	—
David Cheesman	—	35	—	—	35	—	**35**	18	—
Robin Williams	—	38	—	—	38	—	**38**	37	—
	869	153	132	598	1,752	87	**1,839**	1,831	55

During 2012 Phil Eaves retired from the Board on 31 March 2012, but was employed by the Company until 29 June 2012.

Richard Barham was appointed as Director and joined the Board on 5 March 2012.

Share Save Scheme

Directors' emoluments disclosed above do not include any amounts for the value of shares granted to Directors under the Xaar plc 2007 Share Save Scheme.

All UK staff, including Executive Directors, are entitled to participate in the scheme. The scheme provides an opportunity to save a set monthly amount (up to £250) over three years towards the exercise of a discounted share option, which is granted at the start of the three years.

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.

Details of the options are as follows:

Name	As at 1 January 2012	Granted	Exercised	**As at 31 December 2012**	Grant date	Exercise price	Earliest date of exercise	Expiry date
Ian Dinwoodie	10,122	—	10,122[1]	**—**	01.06.09	46p	01.06.12	01.12.12
Ramon Borrell	10,122	—	10,122[1]	**—**	01.06.09	46p	01.06.12	01.12.12
	2,524	—	—	**2,524**	21.12.10	174p	21.12.13	21.06.14
	—	2,490	—	**2,490**	01.11.12	185p	01.11.15	01.05.16
	12,646	2,490	10,122	**5,014**				
Alex Bevis	4,245	—	—	**4,245**	01.11.11	212p	01.11.14	01.05.15
Ted Wiggans	4,245	—	—	**4,245**	01.11.11	212p	01.11.14	01.05.15

1 The date of exercise was 01.06.12 and the market price on the date of exercise was 218p.

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).

Grants under the LTIP are made under two arrangements described above; the bonus matching equity scheme and annual grants based on a percentage of salary.

Details of the LTIPs held are as follows:

Name	As at 1 January 2012	Granted	Exercised	**As at 31 December 2012**	Grant date	Share price at date of award	Earliest date of exercise	Expiry date
Ian Dinwoodie	330,357	—	330,357[1]	**—**	01.04.09	56.0p	01.04.12	01.04.19
	89,573	—	—	**89,573**	22.11.10	211.0p	22.11.13	22.11.20
	88,889	—	—	**88,889**	11.04.11	229.0p	11.04.14	11.04.21
	—	86,250	—	**86,250**	02.04.12	236.25p	02.04.15	02.04.22
	508,819	86,250	330,357	**264,712**				
Richard Barham	—	66,667	—	**66,667**	02.04.12	236.25p	02.04.15	02.04.22
Ramon Borrell	205,357	—	—	**205,357[2]**	01.04.09	56.0p	01.04.12	01.04.19
	56,872	—	—	**56,872**	22.11.10	211.0p	22.11.13	22.11.20
	60,844	—	—	**60,844**	11.04.11	229.0p	11.04.14	11.04.21
	40,000	—	—	**40,000[3]**	03.05.11	241.8p	03.05.14	03.05.21
	—	60,417	—	**60,417**	02.04.12	236.25p	02.04.15	02.04.22
	—	59,575	—	**59,575[3]**	01.05.12	227.55p	01.05.15	01.05.22
	363,073	119,992	—	**483,065**				
Alex Bevis	43,556	—	—	**43,556**	11.04.11	229.0p	11.04.14	11.04.21
	—	60,417	—	**60,417**	02.04.12	236.25p	02.04.15	02.04.22
	—	45,860	—	**45,860[3]**	01.05.12	227.55p	01.05.15	01.05.22
	43,556	106,277	—	**149,833**				
Ted Wiggans	43,556	—	—	**43,556**	11.04.11	229.0p	11.04.14	11.04.21
	—	64,583	—	**64,583**	02.04.12	236.25p	02.04.15	02.04.22
	43,556	64,583	—	**108,139**				

1 The date of exercise was 23.04.12 and the market price on the date of exercise was 225p.

2 Vested, not yet exercised.

3 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. All outstanding awards in the table above are in the forms of options. Following the vesting of an award, a participant has a period of seven years in which to exercise the option. 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.

As at 31 December 2012 all unvested LTIP share awards are subject to Earnings per Share performance conditions.

Audited information continued

Long Term Incentive Plan continued

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 Awards will vest if the Company's EPS growth does not exceed growth in the Retail Prices Index (RPI) by at least 4% compound p.a.

(2) 35% of the Awards will vest if the Company's EPS growth exceeds growth in the RPI by at least 4% compound p.a.

(3) All of the Awards will vest if the Company's EPS growth exceeds growth in the RPI by at least 10% compound p.a.

(4) Awards will vest on a straight-line basis for EPS growth in excess of growth in the RPI of between 4% and 10% compound p.a.

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 2012	Granted	Exercised	**As at 31 December 2012**	Grant date	Exercise price	Earliest date of exercise	Expiry date
Ian Dinwoodie	200,000	—	200,000[1]	**—**	06.10.03	36p	06.10.06	06.10.13
	100,000	—	—	**100,000**	20.05.04	84p	20.05.07	20.05.14
	50,000	—	—	**50,000**	28.10.04	109p	28.10.07	20.10.14
	350,000	—	200,000	**150,000**				

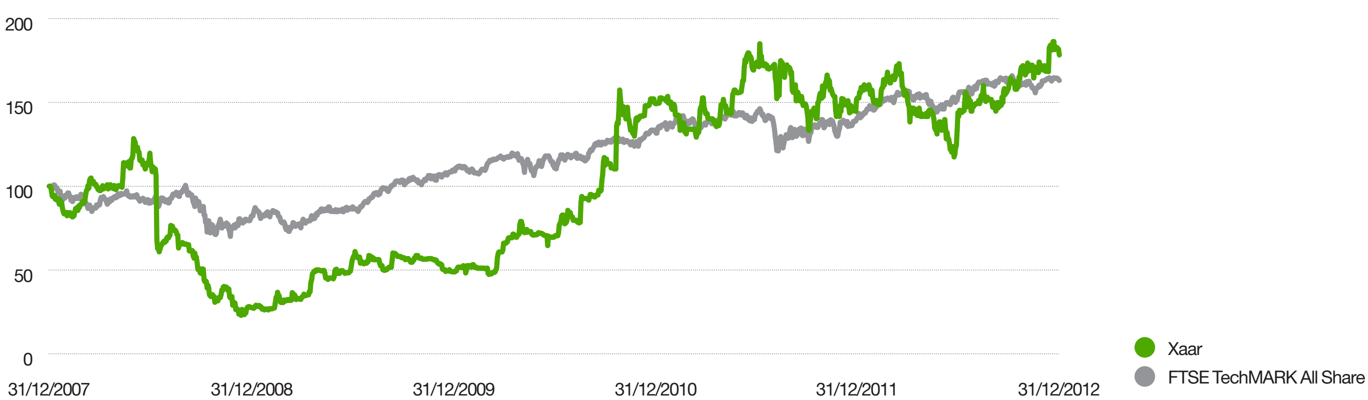
1 The date of exercise was 19.10.12 and the market price on the date of exercise was 255p.

All options in the table above represent share options which vested before 1 January 2012.

Unaudited information

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 2012, of £100 invested in Xaar plc on 31 December 2007 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.

Share price
The market value of the ordinary shares of the Company as at 31 December 2012 was 279.5p (2011: 242.5p) per share. The closing mid range price ranged from 185.0p to 292.65p per share (2011: from 207.5p to 295.0p) during the year.

Approval
This report was approved by the Board of Directors on 19 March 2013 and signed on its behalf by:

David Cheesman
Remuneration Committee Chairman
19 March 2013

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 2013

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 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the related notes 1 to 36, the Parent Company Balance Sheet and 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 2012 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.

Independent auditor's report (Group and Company) of the members of Xaar plc continued

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 2013

Consolidated income statement
for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Revenue	4	**86,304**	68,706
Cost of sales		**(45,356)**	(38,327)
Gross profit		**40,948**	30,379
Research and development expenses		**(8,032)**	(6,498)
Sales and marketing expenses		**(5,346)**	(4,606)
General and administrative expenses		**(12,022)**	(10,347)
Restructuring costs		**—**	169
Operating profit		**15,548**	9,097
Investment income	4, 8	**186**	91
Finance costs	9	**(33)**	(62)
Profit before tax		**15,701**	9,126
Tax	10	**(3,073)**	(1,450)
Profit for the year attributable to shareholders	6	**12,628**	7,676
Earnings per share			
Basic	12	**17.5p**	10.8p
Diluted	12	**16.9p**	10.4p

Dividends paid in the year amounted to £2,174,000 (2011: £1,773,000). Further disclosures are given in note 11.

All activities relate to continuing operations.

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Profit for the year attributable to shareholders		**12,628**	7,676
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of net investment	29	**(150)**	67
Other comprehensive (loss)/income for the year		**(150)**	67
Total comprehensive income for the year		**12,478**	7,743

Reconciliation of adjusted financial measures

for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Profit before tax		**15,701**	9,126
Share-based payment charges		**1,542**	1,274
Exchange differences relating to the Swedish operations		**(262)**	335
Loss on derivative financial instruments		**4**	—
Impairment of trade investments and associated loans		**1,401**	—
Release of accrued restructuring costs	25	**—**	(169)
Adjusted profit before tax		**18,386**	10,566

Share-based payment charges include the IFRS 2 charge for the period of £1,358,000, per note 34 (2011: £1,135,000) and the movement on the National Insurance provision on the outstanding potential share option gains.

Exchange differences relating to the Swedish operations represent exchange gains or losses recorded in the consolidated income statement as a result of operating in Sweden.

Loss on derivative financial instruments related to losses made on forward contracts in 2012.

The charge for the impairment of trade investments relates to a minority stake in an inkjet solutions provider and a convertible loan. The full value of these investments has been recognised as an impairment loss in the income statement in the period, within administrative expenses.

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

	2012 Pence per share	2011 Pence per share
Diluted earnings per share	**16.9p**	10.4p
Share-based payment charges	**2.1p**	1.7p
Exchange differences relating to the Swedish operations	**(0.3p)**	0.4p
Loss on derivative financial instruments	**—**	—
Impairment of trade investments and associated loans	**1.9p**	—
Release of accrued restructuring costs	**—**	(0.2p)
Tax effect of adjusting items	**(0.5p)**	(0.5p)
Tax provision release	**—**	(1.1p)
Adjusted diluted earnings per share	**20.1p**	10.7p

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

Consolidated statement of financial position
as at 31 December 2012

	Notes	2012 £'000	2011 £'000
Non-current assets			
Goodwill	13	**720**	720
Other intangible assets	14	**4,015**	4,408
Property, plant and equipment	15	**26,704**	27,558
Investments	17	**—**	1,261
Deferred tax asset	21	**946**	835
		32,385	34,782
Current assets			
Inventories	18	**13,203**	11,756
Trade and other receivables	19	**12,487**	9,375
Current tax asset	19	**654**	465
Treasury deposits	19	**4,000**	—
Cash and cash equivalents	19	**25,446**	18,274
		55,790	39,870
Total assets		**88,175**	74,652
Current liabilities			
Trade and other payables	23	**(10,399)**	(9,945)
Other financial liabilities	24	**(655)**	(61)
Current tax liabilities		**(854)**	(642)
Obligations under finance leases	22	**—**	(277)
Provisions	25	**(1,629)**	(991)
Derivative financial instruments		**(4)**	—
		(13,541)	(11,916)
Net current assets		**42,249**	27,954
Non-current liabilities			
Deferred tax liabilities	21	**(286)**	(484)
Other financial liabilities	24	**(229)**	(289)
Obligations under finance leases	22	**—**	(594)
Total non-current liabilities		**(515)**	(1,367)
Total liabilities		**(14,056)**	(13,283)
Net assets		**74,119**	61,369
Equity			
Share capital	26	**7,474**	7,280
Share premium	27	**24,406**	23,727
Own shares	28	**(4,215)**	(4,465)
Other reserves	30	**6,507**	5,149
Translation reserve	29	**357**	507
Retained earnings	30	**39,590**	29,171
Equity attributable to shareholders		**74,119**	61,369
Total equity		**74,119**	61,369

The financial statements of Xaar plc, registered number 3320972, were approved by the Board of Directors and authorised for issue on 19 March 2013.

They were signed on its behalf by:

Ian Dinwoodie
Chief Executive

Alex Bevis
Finance Director and Company Secretary

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Notes	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 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 1 January 2012		**7,280**	**23,727**	**(4,465)**	**5,149**	**507**	**29,171**	**61,369**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**12,628**	**12,628**
Exchange differences on retranslation of net investment		**—**	**—**	**—**	**—**	**(150)**	**—**	**(150)**
Total comprehensive income for the period		**—**	**—**	**—**	**—**	**(150)**	**12,628**	**12,478**
Issue of share capital		**194**	**679**	**—**	**—**	**—**	**(90)**	**783**
Own shares sold in the period		**—**	**—**	**250**	**—**	**—**	**—**	**250**
Dividends	11	**—**	**—**	**—**	**—**	**—**	**(2,174)**	**(2,174)**
Deferred tax on share option gains		**—**	**—**	**—**	**—**	**—**	**55**	**55**
Credit to equity for equity-settled share-based payments		**—**	**—**	**—**	**1,358**	**—**	**—**	**1,358**
Balance at 31 December 2012		**7,474**	**24,406**	**(4,215)**	**6,507**	**357**	**39,590**	**74,119**

Consolidated cash flow statement
for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Net cash from operating activities	31	**19,896**	12,787
Investing activities			
Investment income		**186**	91
Purchases of property, plant and equipment		**(7,541)**	(14,438)
Proceeds on disposal of property, plant and equipment		**560**	2
Expenditure on capitalised product development and software		**(345)**	(1,272)
Net cash used in investing activities		**(7,140)**	(15,617)
Financing activities			
Dividends paid		**(2,174)**	(1,773)
Treasury deposits		**(4,000)**	—
Proceeds from the sale of ordinary share capital		**250**	—
Proceeds from issue of ordinary share capital		**783**	218
Finance costs		**(35)**	(54)
Repayments of borrowings		**(277)**	(482)
Net cash used in financing activities		**(5,453)**	(2,091)
Net increase/(decrease) in cash and cash equivalents		**7,303**	(4,921)
Effect of foreign exchange rate changes on cash balances		**(131)**	(149)
Cash and cash equivalents at beginning of year		**18,274**	23,344
Cash and cash equivalents at end of year		**25,446**	18,274

Notes to the consolidated financial statements
for the year ended 31 December 2012

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

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value-in-use" of the cash-generating units to which the goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was £720,000 (2011: £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 as a result of continuing to hold the investment. An impairment review of trade investments was performed in 2012 and the carrying value of the trade investment held was deemed to be fully impaired and therefore as at 31 December 2012 the carrying value was £nil (2011: £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. Therefore the Group financial statements have been prepared in accordance with Article 4 of the EU IAS regulation.

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

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

The principal accounting policies adopted are set out below.

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

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

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

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 for the next four years, taking account of reasonably possible changes in trading performance. For this reason, we continue to adopt the going concern basis in preparing the financial statements.

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 are recognised when all of the following conditions are satisfied:

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

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 later in note 22). 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.

Notes to the consolidated financial statements for the year ended 31 December 2012 continued

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 page 46 for details of the Group's accounting policies in respect of such derivative financial instruments).

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

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

Government and EU grants

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

Government and EU grants relating to research and development are treated as income over the periods necessary to match them with the related costs. 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 be derived directly from the expense reported in the Consolidated Income Statement. The amount by which the deductible difference exceeds the cumulative charge to the Consolidated Income Statement is recorded in the Consolidated Statement of Comprehensive Income.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the 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 time frame established by the market concerned and are initially measured at fair value, equating to cost, including transaction costs. Investments are classified as available for sale, and on the basis that the investments have no active market and their fair values cannot be reliably determined using valuation techniques, the investments are carried at cost.

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

Cash and cash equivalents

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

Treasury deposits

Treasury deposits comprise demand deposits that are convertible to a known amount of cash with an original maturity of up to twelve months, which are due to mature more than three months after the balance sheet date 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 as the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

3. Significant accounting policies continued

Derivative financial instruments and hedge accounting continued

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

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

Provisions

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

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

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.

3. Significant accounting policies continued
New standards and interpretations
In the current year, the following new and revised Standards and Interpretations have been adopted:

- Amendments to IAS 1 Presentation of Financial Statements (amended June 2011)
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (amended December 2010)
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters (amended December 2010)
- IFRS 7 (amended) Disclosures – Offsetting Financial Assets and Financial Liabilities

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. 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)	Government Loans
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 10, IFRS 12 and IAS 27 (amended)	Investment Entities
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (amended)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures
IAS 32 (amended)	Offsetting Financial Assets and Financial Liabilities
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
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	2012 £'000	2011 £'000
Product sales, commissions and fees		80,091	61,480
Royalties		6,213	7,226
		86,304	68,706
Investment income	8	186	91
		86,490	68,797

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:

- product sales, commissions and 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 operations review.

Year ended 31 December 2012	Notes	Product sales, commissions and fees £'000	Royalties £'000	Unallocated £'000	Consolidated £'000
Revenue					
Total segment revenue		80,091	6,213	—	86,304
Result					
Adjusted profit before tax		12,020	6,213	153	18,386
Share-based payment charges	7	—	—	(1,542)	(1,542)
Exchange differences relating to the Swedish operations		262	—	—	262
Loss on derivative financial instruments		—	—	(4)	(4)
Impairment of trade investments		—	—	(1,401)	(1,401)
Profit/(loss) before tax		12,282	6,213	(2,794)	15,701

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 2011	Notes	Product sales, commissions and fees £'000	Royalties £'000	Unallocated £'000	Consolidated £'000
Revenue					
Total segment revenue		61,480	7,226	—	68,706
Result					
Adjusted profit before tax		3,311	7,226	29	10,566
Share-based payment charges	7	—	—	(1,274)	(1,274)
Exchange differences relating to the Swedish operations		(335)	—	—	(335)
Restructuring costs	25	169	—	—	169
Profit/(loss) before tax		3,145	7,226	(1,245)	9,126

5. Business and geographical segments continued

Segment assets

	2012 £'000	2011 £'000
Product sales, commissions and fees	**57,526**	54,473
Royalties	**1,203**	644
Total segment assets	**58,729**	55,117
Investments	**—**	1,261
Treasury deposits	**4,000**	—
Cash and cash equivalents	**25,446**	18,274
Total assets	**88,175**	74,652

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

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

Other segment information

Year ended 31 December 2012	Notes	Product sales, commissions and fees £'000	Royalties £'000	Unallocated £'000	Consolidated £'000
Depreciation and amortisation	14, 15	**7,386**	**—**	**—**	**7,386**
Share-based payment charges	7	**—**	**—**	**1,542**	**1,542**
Capital expenditure	14, 15	**7,322**	**—**	**—**	**7,322**

Year ended 31 December 2011	Notes	Product sales, commissions and fees £'000	Royalties £'000	Unallocated £'000	Consolidated £'000
Depreciation and amortisation	14, 15	5,975	—	—	5,975
Share-based payment charges	7	—	—	1,274	1,274
Capital expenditure	14, 15	16,263	—	—	16,263

Revenues from major products and services

	2012 £'000	2011 £'000
Product sales, commissions and fees	**80,091**	61,480
Royalties	**6,213**	7,226
Consolidated revenue (excluding investment income)	**86,304**	68,706

5. Business and geographical segments continued

Geographical information

The Group operates in three principal geographical areas: EMEA, the Asia and Americas. 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	
	2012 £'000	2011 £'000
EMEA	**49,959**	42,034
Asia		
– China	**21,134**	7,953
– Japan	**6,414**	7,643
– Other	**2,461**	3,673
The Americas (including USA)	**6,336**	7,403
	86,304	68,706

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

	Non-current assets	
	2012 £'000	2011 £'000
EMEA	**32,316**	34,731
Asia	**61**	42
The Americas (including USA)	**8**	9
	32,385	34,782

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 product sales, commissions and fees are revenues of approximately £9.3m (11% of revenues) (2011: £7.2m, 11% of revenues) which arose from sales to the Group's largest customer. In the year ended 31 December 2012 revenues of approximately £5.7m (7% of revenues) (2011: £7.2m, 11% of revenues) were included in the product sales, commissions and fees which arose from sales to the Group's second largest customer. In 2012, only the largest customer exceeded 10% of revenue in the period. In 2011 three customers including the largest customer exceeded 10% of revenue in the period. Revenue from the top five customers represents 34% of revenues (2011: 43%).

6. Profit for the year

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

	2012 £'000	2011 £'000
Net foreign exchange (gains)/losses (including exchange differences relating to the Swedish operations)	**(95)**	771
Research and development expenses	**8,032**	6,498
Grants towards research and development	**(63)**	(107)
Depreciation of property, plant and equipment	**6,648**	4,660
Amortisation of intangible assets included in administrative expenses	**738**	1,315
Loss on disposal of property, plant and equipment	**661**	9
Cost of inventories recognised as expense	**45,356**	38,327
Impairment of other financial assets	**172**	2
Impairment of trade investments	**1,401**	—
Total fees payable to the Company's auditor and its associates	**187**	238

6. Profit for the year continued

	2012 £'000	2011 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	19	17
Fees payable to the Company's auditor and its associates for other services to the Group		
The audit of the Company's subsidiaries	85	78
Total audit fees	**104**	95
– Interim review	23	20
– Tax services	49	112
– Recruitment and remuneration services	11	8
– Other services	—	3
Total non-audit fees	**83**	143
Total fees payable to the Company's auditor and its associates	**187**	238

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 the auditor's objectivity and independence is safeguarded when non-audit services are provided by the auditor.

The Group paid £7,000 (2011: £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:

	2012 Number	2011 Number
Research and development	71	50
Sales and marketing	47	44
Manufacturing and engineering	332	325
Business support	52	42
	502	461

Their aggregate remuneration comprised:

	Notes	2012 £'000	2011 £'000
Wages and salaries		21,754	21,693
Social security costs		2,715	2,583
Pension costs	35	847	739
Share-based payments	34	1,542	1,274
		26,858	26,289

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

	2012 £'000	2011 £'000
Interest receivable on cash and bank balances, and treasury deposits	186	91

9. Finance costs

	2012 £'000	2011 £'000
Interest payable on bank loans and overdrafts	—	8
Interest payable on obligations under finance leases	33	54
	33	62

10. Tax

	Note	2012 £'000	2011 £'000
Current tax – UK		3,197	1,923
Current tax – overseas		379	609
		3,576	2,532
Amounts overprovided in previous years		(249)	(801)
Total current income tax		3,327	1,731
Deferred tax – origination and reversal		(26)	(213)
Adjustment in respect of prior years		(228)	(68)
Total deferred tax credit	21	(254)	(281)
Total tax expense for the year		3,073	1,450

The blended standard rate of tax for the year, based on the UK standard rate of corporation tax, is 24.5% (2011: 26.5%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

In March 2012, the UK Government announced a reduction in the standard rate of UK Corporation tax to 24% effective 1 April 2012 and to 23% effective 1 April 2013. These rate reductions became substantively enacted in March 2012 and July 2012, respectively. In December 2012, the UK Government also proposed changes to further reduce the standard rate of UK Corporation tax to 21% effective 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:

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	15,701	9,126
Tax on ordinary activities at a blended standard rate of 24.5% (2011: 26.5%)	3,847	2,418
Effect of:		
Expenses not deductible for tax purposes	519	175
Effect of different tax rates of subsidiaries operating overseas	106	154
Enhanced tax deduction for research and development expenditure	(948)	(389)
Effect of change in UK corporation tax rate	26	(39)
Prior period adjustments	(477)	(869)
Total tax expense for the year	3,073	1,450

The effective tax rate for the year is 20% (2011: 16%).

Notes to the consolidated financial statements for the year ended 31 December 2012 continued

11. Dividends

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2011 of 2.0p (2010: 1.5p) per share	**1,446**	1,062
Interim dividend for the year ended 31 December 2012 of 1.0p (2011: 1.0p) per share	**728**	711
Total distributions to equity holders in the year	**2,174**	1,773
Proposed final dividend for the year ended 31 December 2012 of 3.0p (2011: 2.0p) per share	**2,242**	1,456

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:

	2012 £'000	2011 £'000
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**12,628**	7,676
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**72,151,589**	70,878,697
Effect of dilutive potential ordinary shares:		
Share options	**2,414,068**	3,015,999
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**74,565,657**	73,894,696

	2012 Pence per share	2011 Pence per share
Basic	**17.5p**	10.8p
Diluted	**16.9p**	10.4p

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

Share options granted over 477,752 shares (2011: 344,312) 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 nil shares (2011: 231,457) and share options granted over 35,191 shares (2011: 229,793) 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 relating to the Swedish operations, share-based payment charges, and the gain or loss on derivative financial instruments is based on earnings of:

	Notes	2012 £'000	2011 £'000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent		12,628	7,676
Share-based payment charges		1,542	1,274
Exchange differences relating to the Swedish operations		(262)	335
Loss on derivative financial instruments		4	—
Impairment of investments and associated loans		1,401	—
Release of accrued restructuring costs	25	—	(169)
Tax effect of adjusting items		(349)	(382)
Tax provision release		—	(812)
Adjusted profit after tax		14,964	7,922

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 of £1,358,000, as per note 34 (2011: £1,135,000) and the movement on the National Insurance provision on the outstanding potential share option gains.

Adjusted earnings per share is earnings per share excluding share-based payment charges, exchange differences relating to the Swedish operations, the gain or loss on derivative financial instruments, impairment of trade investments and associated loans, and release of accrued restructuring costs:

	2012 Pence per share	2011 Pence per share
Adjusted basic	20.7p	11.2p
Adjusted diluted	20.1p	10.7p

13. Goodwill

The carrying amount of goodwill at 31 December 2012 was £720,000 (2011: £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:

	2012 £'000	2011 £'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 8% (2011: 7%) 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 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 1 January 2012	4,565	4,896	533	2,147	12,141
Additions	—	30	—	315	345
At 31 December 2012	**4,565**	**4,926**	**533**	**2,462**	**12,486**
Amortisation					
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 1 January 2012	4,565	1,227	533	1,408	7,733
Charge for the year	—	494	—	244	738
At 31 December 2012	**4,565**	**1,721**	**533**	**1,652**	**8,471**
Carrying amount					
At 31 December 2012	**—**	**3,205**	**—**	**810**	**4,015**
At 31 December 2011	—	3,669	—	739	4,408

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 2012 the Group had not entered into any contractual commitments for the acquisition of intangible assets (2011: software of £47,000).

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 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 1 January 2012	9,303	36,491	2,529	7,495	26	55,844
Additions	206	1,214	489	5,068	—	6,977
Transfers	223	11,011	41	(11,275)	—	—
Exchange movements	16	86	2	14	—	118
Disposals	(820)	(5,663)	(356)	(26)	(26)	(6,891)
At 31 December 2012	**8,928**	**43,139**	**2,705**	**1,276**	**—**	**56,048**
Depreciation						
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 1 January 2012	3,743	22,968	1,549	—	26	28,286
Charge for the year	745	5,421	482	—	—	6,648
Exchange movements	18	61	1	—	—	80
Disposals	(812)	(4,489)	(343)	—	(26)	(5,670)
At 31 December 2012	**3,694**	**23,961**	**1,689**	**—**	**—**	**29,344**
Carrying amount						
At 31 December 2012	**5,234**	**19,178**	**1,016**	**1,276**	**—**	**26,704**
At 31 December 2011	5,560	13,523	980	7,495	—	27,558

Leased assets included in the above:

Carrying amount						
At 31 December 2012	**—**	**—**	**—**	**—**	**—**	**—**
At 31 December 2011	—	1,231	—	—	—	1,231

As at 31 December 2012 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1,913,000 (2011: £5,157,000).

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

	2012 £'000	2011 £'000
Trading investments at the beginning of the year	1,261	1,261
Impairment recognised in the year	(1,261)	—
Trading investments at the end of the year	—	1,261

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

The charge for the impairment of a trade investment relates to a minority stake in an inkjet solutions provider. The full value of this investment has been recognised as an impairment loss in the income statement in the period, within general and administrative expenses, as the value is no longer deemed recoverable.

18. Inventories

	2012 £'000	2011 £'000
Raw materials and consumables	6,775	5,847
Work in progress	1,264	1,541
Finished goods	5,164	4,368
	13,203	11,756

19. Other financial assets

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

Trade and other receivables

	2012 £'000	2011 £'000
Amount receivable for the sale of goods	7,786	6,159
Allowance for doubtful debts	(287)	(155)
	7,499	6,004
Other debtors	3,605	2,309
Prepayments	1,383	1,062
	12,487	9,375
Current tax asset	654	465

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 (2011: 32 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. Letters of credit may be used. Credit insurance has been taken out over the most significant customers. Of the trade receivables balance at the end of the year, seven customers each represented greater than 5% of the total receivables balance, totalling £5.3 million (2011: £4.0 million). The total due from these customers represents 38% (2011: 36%) of the Group's revenue; there are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivables balance are debtors with a carrying amount of £1.1 million (2011: £1.2 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 £818,000 (2011: £11,600) 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 34 days (2011: 11 days).

19. Other financial assets continued

Trade receivables continued

Ageing of past due but not impaired receivables:

	2012 £'000	2011 £'000
1–30 days overdue	770	1,070
30–60 days overdue	469	154
60–90 days overdue	131	9
90–120 days overdue	44	—
Over 120 days overdue	114	—
Total	1,528	1,233

Movement in the allowance for doubtful debts:

	2012 £'000	2011 £'000
Balance at the beginning of the year	155	190
Impairment losses recognised	172	2
Amounts written off as uncollectible	(40)	(37)
Balance at the end of the year	287	155

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:

	2012 £'000	2011 £'000
0–30 days overdue	102	26
30–60 days overdue	7	13
60–90 days overdue	2	62
90–120 days overdue	—	32
Over 120 days overdue	176	22
Total	287	155

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

Treasury deposits

Treasury deposits comprise bank deposits with an original maturity of six months or less, which do not mature until more than three months after the balance sheet date. The carrying amount of these assets approximates their fair value.

	2012 £'000	2011 £'000
Treasury deposits	4,000	—

Cash and cash equivalents

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

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

	2012 £'000	2011 £'000
Cash	17,424	9,333
Short term deposits	8,022	8,941
	25,446	18,274

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.

Notes to the consolidated financial statements for the year ended 31 December 2012 continued

20. Financial instruments

Categories of financial instruments

Financial assets of £11,759,000 (2011: £8,778,000) are categorised as loans and receivables. Financial liabilities of £13,770,000 (2011: £12,799,000) are categorised as measured at amortised cost. Derivative financial assets and liabilities are derived from quoted prices (unaudited) in active markets for identical assets and liabilities.

Financial risk management objectives

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

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

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 2012 would increase by £0.6 million or decrease by £0.2 million (2011: increase by £0.4 million/decrease by £0.1 million). This is mainly attributable to the Group's exposure to interest rates on its cash balances. There would be no effect on equity reserves.

Foreign currency risk

The Group receives approximately 7% of its revenues in US dollars and 39% of its revenue in Euros, which are partially naturally hedged by supplies in these currencies, but the remainder requires conversion into sterling in order to fund the remaining costs of the UK offices. The Group has a manufacturing facility in Sweden which necessitates the need for the Group to convert sterling into Swedish kronor in order to fund the running costs of this manufacturing facility. The Group may enter into a variety of derivative financial instruments to manage its exposure to foreign currency risk, including forward contracts.

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

	Euro currency impact		US dollar currency impact		Swedish kronor currency impact	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Effect of a 10% increase in relevant exchange rate on:						
Profit or loss	**(804)**	(478)	**(434)**	(132)	**(3)**	(2)
Other equity	**–**	–	**24**	35	**(658)**	(1,111)
Effect of a 10% decrease in relevant exchange rate on:						
Profit or loss	**983**	584	**531**	162	**3**	3
Other equity	**–**	–	**(29)**	(42)	**804**	1,357

20. Financial instruments continued

Forward foreign exchange contracts

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

At 31 December 2012, the Group had open currency derivative liabilities of £4,000 (2011: £nil).

As at 31 December 2012 the Group held outstanding forward contracts to cover a proportion of the expected monthly currency exposures for the period January 2013 to July 2013. In total the contracts represented a conversion of €14.5 million into £7.3 million and SEK 48.0 million.

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 2012, 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:

	2012 £'000	2011 £'000
Bank loans	**(594)**	—
Obligations under finance leases and hire purchase contracts	**—**	(871)
Net debt	**(594)**	(871)
Equity	**74,119**	61,369
Gearing ratio	**1%**	1%

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	Other temporary difference £'000	Total £'000
At 1 January 2011	427	—	(1,504)	722	55	(300)
Charge/(credit) to income	256	—	(57)	(366)	(114)	(281)
Charge to equity	—	—	230	—	—	230
At 1 January 2012	683	—	(1,331)	356	(59)	(351)
(Credit)/charge to income	(768)	—	646	(76)	(56)	(254)
Credit to equity	—	—	(55)	—	—	(55)
At 31 December 2012	**(85)**	**—**	**(740)**	**280**	**(115)**	**(660)**

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:

	2012 £'000	2011 £'000
Deferred tax liabilities	286	484
Deferred tax assets	(946)	(835)
	(660)	(351)

22. Obligations under finance leases

	Minimum lease payments	
	2012 £'000	2011 £'000
Amounts payable under finance leases:		
Within one year	–	277
In the second year	–	290
In the third to fifth years inclusive	–	304
	–	871
Less: amount due for settlement within twelve months (shown under current liabilities)	–	(277)
Amount due for settlement after twelve months	–	594

	Present value of minimum lease payments	
	2012 £'000	2011 £'000
Amounts payable under finance leases:		
Within one year	–	260
In the second year	–	254
In the third to fifth years inclusive	–	249
	–	763
Less: amount due for settlement within twelve months (shown under current liabilities)	–	(260)
Amount due for settlement after twelve months	–	503

It is the Group's policy to consider leasing certain of its fixtures and equipment under finance leases. In 2013 the decision was made to settle the finance lease liability remaining in full, following the disposal of the asset held under the finance lease in 2012, and therefore has converted to a current loan balance as at 31 December 2012 (see note 24). The average lease term was five years. For the year ended 31 December 2012, the average effective borrowing rate was 4.56% (2011: 4.56%). Interest rates are fixed at the contract date.

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

	2012 £'000	2011 £'000
Trade payables and accruals	10,399	9,945

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit taken for trade purchases is 34 days (2011: 20 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, and in 2012 a bank loan for £594,000 (2011: £nil).

The borrowings are repayable as follows:

	2012 £'000	2011 £'000
Within one year	**655**	61
In the second year	**41**	61
In the third to fifth years inclusive	**59**	60
Over five years	**129**	168
	884	350
Less: amount due for settlement within twelve months (shown under current liabilities)	**(655)**	(61)
Amount due for settlement after twelve months	**229**	289

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

In 2013 the decision was made to settle the finance lease liability remaining in full, following the disposal of the asset held under the finance lease in 2012, and therefore has converted to a current loan balance as at 31 December 2012 (see note 22). The loan balance was settled in full in 2013.

The Group had undrawn committed borrowing facilities at 31 December 2012 of £nil (2011: £3.0 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 and commercial disputes provision £'000	Closure of Swedish manufacturing facility £'000	Total £'000
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 1 January 2012	991	—	991
Additional provision in the year	1,780	—	1,780
Utilisation of provision	(893)	—	(893)
Release of provision	(249)	—	(249)
At 31 December 2012	**1,629**	**—**	**1,629**

The warranty and commercial disputes provision represents management's best estimate of the Group's liability related to claims against product warranties or commercial sales agreements. The timing of the utilisation of this provision is uncertain.

26. Share capital

	2012 £'000	2011 £'000
Issued and fully paid:		
74,738,321 (2011: 72,803,071) ordinary shares of 10.0p each	**7,474**	7,280

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

	2012 Number	2011 Number	2012 £'000	2011 £'000
At beginning of year	**72,803,071**	72,365,423	**7,280**	7,237
Exercise of share options	**1,935,250**	437,648	**194**	43
At end of year	**74,738,321**	72,803,071	**7,474**	7,280

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 2012	Number of shares under option as at 31 December 2011	Subscription price per share
Xaar plc 1997 Share Option Scheme	06.10.03	**—**	200,000	36.0p
		—	200,000	
Xaar plc 2004 Share Option Plan	20.05.04	**105,000**	105,000	84.0p
	28.10.04	**95,230**	159,726	109.0p
	15.03.05	**—**	119,791	192.0p
	13.04.05	**52,962**	52,962	208.5p
	15.09.05	**133,394**	133,394	274.0p
	17.04.07	**—**	40,000	242.0p
	23.10.07	**—**	175,000	202.0p
	21.08.08	**55,000**	200,000	108.25p
	05.09.08	**—**	10,000	110.75p
	01.04.09	**55,000**	210,000	56.0p
	29.09.09	**5,000**	30,000	94.5p
	26.08.10	**40,000**	40,000	149.5p
	22.11.10	**230,000**	260,000	211.0p
	01.06.11	**335,000**	345,000	250.0p
	27.10.11	**25,000**	25,000	243.0p
	01.05.12	**430,000**	—	226.5p
	18.10.12	**17,500**	—	249.75p
		1,579,086	1,905,873	

26. Share capital continued

Scheme	Date of grant	Number of shares under option as at 31 December 2012	Number of shares under option as at 31 December 2011	Subscription price per share
Xaar plc Share Save Scheme	01.06.09	**—**	343,743	46.28p
	21.12.10	**271,893**	295,305	174.0p
	01.11.11	**133,379**	164,857	212.0p
	01.11.12	**291,598**	—	185.0p
		696,870	803,905	
Options granted outside the 1997, 2004 and Share Save Schemes	15.03.05	**—**	130,209	192.0p
Total share options outstanding at 31 December		**2,275,956**	3,039,987	

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	238,839
22.11.10	223,865
11.04.11	299,242
03.05.11	74,769
02.04.12	389,084
01.05.12	183,784
	1,409,583

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 2011	23,534
Premium arising on issue of equity shares	180
Expenses of issue of equity shares	13
Balance at 1 January 2012	23,727
Premium arising on issue of equity shares	679
Balance at 31 December 2012	**24,406**

Notes to the consolidated financial statements for the year ended 31 December 2012 continued

28. Own shares

	£'000
Balance at 1 January 2012	(4,465)
Exercise of share options	250
Balance at 31 December 2012	**(4,215)**

Of this balance, £20,000 (2011: £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 £4,195,000 (2011: £4,445,000) represents the cost of 1,486,795 (2011: 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 2012 was £4,411,000 (2011: £4,107,000).

29. Translation reserve

	£'000
Balance at 1 January 2011	440
Exchange differences on retranslation of net investment	67
Balance at 1 January 2012	507
Exchange differences on retranslation of net investment	(150)
Balance at 31 December 2012	**357**

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 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 1 January 2012		1,105	3,559	485	5,149	29,171	34,320
Net profit for the year		—	—	—	—	12,628	12,628
Share issue related to LTIP awards		—	—	—	—	(90)	(90)
Dividends paid	11	—	—	—	—	(2,174)	(2,174)
Deferred tax asset taken directly to equity		—	—	—	—	55	55
Movement in valuation of share options		—	1,358	—	1,358	—	1,358
Balance at 31 December 2012		**1,105**	**4,917**	**485**	**6,507**	**39,590**	**46,097**

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

	2012 £'000	2011 £'000
Profit before tax	**15,701**	9,126
Adjustments for:		
Share-based payments	**1,542**	1,274
Depreciation of property, plant and equipment	**6,648**	4,660
Amortisation of intangible assets	**738**	1,315
Impairment loss on trade investments and associated loans	**1,401**	—
Investment income	**(186)**	(91)
Finance costs	**33**	62
Foreign exchange (gains)/losses	**(275)**	313
Loss on forward contracts	**4**	—
Loss/(profit) on disposal of property, plant and equipment	**661**	(9)
Increase in provisions	**639**	194
Operating cash flows before movements in working capital	**26,906**	16,844
Increase in inventories	**(1,436)**	(1,079)
Increase in receivables	**(3,111)**	(88)
Increase/(decrease) in payables	**840**	(1,654)
Cash generated by operations	**23,199**	14,023
Income taxes paid	**(3,303)**	(1,236)
Net cash from operating activities	**19,896**	12,787

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. Contingent asset

Xaar has a number of licensees who pay royalties for the use of the Group's intellectual property. Xaar's policy is to perform regular royalty audits to ensure that royalty payments are received in accordance with the licence agreements. At the date of approval of the financial statements several royalty audits are in progress, and initial indications are that royalties may have been underpaid in the past. At the date of signature of these financial statements the estimate of underpaid royalties is in the region of £1.0 million, however this amount may change as further investigations are concluded. The recoverability of this amount has been deemed probable, but not virtually certain, therefore an asset has not been recognised in the financial statements.

33. Operating lease arrangements

	2012 £'000	2011 £'000
Minimum lease payments under operating leases recognised as an expense in the year:		
Fixtures, fittings and equipment	**56**	50
Land and buildings	**1,673**	1,679
	1,729	1,729

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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Within one year	**52**	51	**1,647**	1,139
In the second to fifth years inclusive	**48**	77	**4,735**	2,663
After five years	**—**	—	**2,824**	2,937
	100	128	**9,206**	6,739

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

34. Share-based payments

Equity-settled share option scheme

The Company's share option schemes are open to all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The standard vesting period is three years.

An option granted under the Xaar plc 2004 share option plan before 2011 will be exercisable over shares with a market value at the date of grant not exceeding a person's annual salary if at the third anniversary of grant the EPS growth of the Company since grant has exceeded the growth in the 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 2004 share option plan from 2011 onwards, will be exercisable over shares with a market value at the date of grant not exceeding a person's annual salary, if at the third anniversary of grant, Xaar plc has achieved positive adjusted profit before tax as shown in the consolidated income statement in the company's annual report and accounts for any of the three years ending during the vesting period. One third of the shares subject to the option granted rounded to the nearest whole share, will vest based on the performance condition being met per year for each of the three years ending in the vesting period. If the adjusted profit before tax as shown in the consolidated income statement in Xaar plc's annual report and accounts for any relevant year is restated before the option becomes exercisable, the restated figure shall, unless the Remuneration Committee determines otherwise, be applied in determining whether the above targets are met. In addition, options shall only become exercisable in respect of any shares if the committee in its absolute discretion determines that the overall financial performance of Xaar plc over the performance period is satisfactory.

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:

	2012		2011	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	**3,039,987**	**1.54**	3,172,569	1.35
Granted during the year	**768,962**	**2.11**	534,857	2.38
Lapsed during the year	**(372,882)**	**1.99**	(403,573)	1.63
Exercised during the year	**(1,160,111)**	**0.89**	(263,866)	0.78
Outstanding at the end of the year	**2,275,956**	**1.99**	3,039,987	1.54
Exercisable at the end of the year	**501,586**	**1.52**	901,082	1.43

The weighted average share price at the date of exercise for share options exercised during the period was £2.38 (2011: £2.48). The options outstanding at 31 December 2012 had a weighted average remaining contractual life of six years (2011: five years). In 2012, options were granted on 1 May, 18 October and 1 November. The aggregate of the estimated fair values of the options granted on those dates is £0.76 million. 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.

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:

	2012	2011
Weighted average share price	**£2.29**	£2.54
Weighted average exercise price	**£2.11**	£2.38
Weighted average expected volatility	**41%**	53%
Expected life	**5 years**	5 years
Risk-free rate	**3.16%**	3.66%
Weighted average expected dividends	**0.31%**	0.25%

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.

34. Share-based payments continued
Long Term Incentive Plan
The Company's Long Term Incentive Plan is open to all employees of the Group. As at 31 December 2012 all unvested LTIP share awards are subject to the achievement of the Earnings per Share performance condition for LTIPs, the details of which are shown on pages 31 to 32.

Awards that will vest will be calculated on a straight-line basis.

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

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

	2012	2011
Awards outstanding at start of year	**1,790,406**	1,981,093
Granted during the year	**572,868**	410,585
Lapsed during the year	**(48,343)**	(427,490)
Exercised during the year	**(905,348)**	(173,782)
Awards outstanding at end of year	**1,409,583**	1,790,406
Exercisable at the end of the year	**238,839**	–

In 2012, performance share awards were made on 2 April and 1 May. The aggregate of the estimated fair values of grants made on those dates is £1.3m. 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 £0.9m.

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:

	2012	2011
Weighted average exercise price	**£nil**	£nil
Weighted average expected volatility	**41%**	56%
Weighted average expected life	**7 years**	3 years
Weighted average expected dividend yield	**0.32%**	0.27%

The Group recognised total expenses of £1,358,000 and £1,135,000 related to all equity-settled share-based payment transactions in 2012 and 2011, respectively.

35. Retirement benefit schemes
Defined contribution schemes
The UK-based employees of the Group's UK companies have the option to be members of a defined contribution pension scheme managed by a third party pension provider. For each employee who is a member of the scheme the Company will contribute a fixed percentage of each employee's salary to the scheme. The only obligation of the Group with respect to this scheme is to make the specified contributions.

The employees of the Group's subsidiaries in Sweden are members of a state managed retirement benefit scheme operated by the Government of Sweden. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the income statement in respect of these schemes during 2012 was £847,000 (2011: £739,000). As at 31 December 2012 contributions of £100,000 (2011: £79,000) due in respect of the current reporting period had not been paid over to the schemes.

36. Related party transactions

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

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.

	2012 £'000	2011 £'000
Short term employee benefits	**1,751**	1,960
Post-employment benefits	**87**	58
Share-based payments	**829**	588
	2,667	2,606

Company balance sheet (UK GAAP)
as at 31 December 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments in subsidiaries	3	12,445	12,445
Trade investments	3	–	1,261
		12,445	13,706
Current assets			
Debtors – due within one year	4	98,106	77,784
Debtors – due after one year	4	211	503
Cash at bank and in hand		19,841	13,816
		118,158	92,103
Creditors: amounts falling due within one year	5	(72,923)	(51,726)
Net current assets		45,235	40,377
Total assets less current liabilities		57,680	54,083
Net assets		57,680	54,083
Capital and reserves			
Called up share capital	6	7,474	7,280
Share premium account	6	24,406	23,727
Other reserves	6	25,333	25,333
Own shares	6	(4,195)	(4,445)
Share-based payment reserve	6	1,482	1,086
Profit and loss account	6	3,180	1,102
Equity shareholders' funds	8	57,680	54,083

The financial statements of Xaar plc, registered number 3320972, were approved by the Board of Directors and authorised for issue on 19 March 2013 and signed on its behalf by:

Ian Dinwoodie
Chief Executive
19 March 2013

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 2012

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 2012 of £4,342,000 (2011: profit of £55,000), which includes a dividend received from Xaar Technology Limited of £6,000,000 and impairment losses of £1,401,000.

The average number of employees throughout 2012 was 32 (2011: 25). Staff costs amounted to £2.6 million (2011: £2.0 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 audit of the Company’s annual accounts in 2012 was £19,000 (2011: £17,000).

3. Fixed asset investments

	2012 £’000	2011 £’000
Subsidiary undertakings		
At beginning and end of the year	12,445	12,445
Trade investments		
At beginning of the year	1,261	1,261
Impairment loss recognised in the year	(1,261)	—
At end of the year	—	1,261

4. Debtors

	2012 £'000	2011 £'000
Amounts receivable within one year		
Amounts owed by Group undertakings	**98,003**	77,483
Prepayments and accrued income	**8**	47
Other debtors	**91**	231
VAT	**4**	23
	98,106	77,784
Amounts receivable after more than one year		
Deferred tax asset	**211**	503
	98,317	78,287

5. Creditors

	2012 £'000	2011 £'000
Amounts falling due within one year		
Trade creditors	**–**	78
Amounts owed to Group undertakings	**72,578**	50,906
Accruals	**345**	742
	72,923	51,726

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 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
Credit to equity for share-based payments		—	—	—	—	328	—	328
At 1 January 2012		7,280	23,727	25,333	(4,445)	1,086	1,102	54,083
New shares issued		194	679	—	—	—	(90)	783
Own shares sold in the period		—	—	—	250	—	—	250
Dividends paid	7	—	—	—	—	—	(2,174)	(2,174)
Profit for the financial year		—	—	—	—	—	4,342	4,342
Credit to equity for share-based payments		—	—	—	—	396	—	396
At 31 December 2012		**7,474**	**24,406**	**25,333**	**(4,195)**	**1,482**	**3,180**	**57,680**

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

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2011 of 2.0p (2010: 1.5p) per share	**1,446**	1,062
Interim dividend for the year ended 31 December 2012 of 1.0p (2011: 1.0p) per share	**728**	711
Total distributions to equity holders in the period	**2,174**	1,773
Proposed final dividend for the year ended 31 December 2012 of 3.0p (2011: 2.0p) per share	**2,242**	1,456

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

	2012 £'000	2011 £'000
Profit for the financial year	**4,342**	55
Credit to equity for share-based payments	**396**	328
Deferred tax asset taken directly to equity	**—**	(124)
Dividends paid	**(2,174)**	(1,773)
Own shares sold in the period	**250**	—
Share issue of LTIP award	**(90)**	(18)
New shares issued	**873**	236
Net addition to/(reduction in) shareholders' funds	**3,597**	(1,296)
Opening shareholders' funds	**54,083**	55,379
Closing shareholders' funds	**57,680**	54,083

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, and note 34. 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:

	2012		2011	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	566,061	0.98	681,015	0.80
Granted during the year	94,151	2.20	64,305	2.38
Lapsed during the year	(8,396)	2.06	(14,259)	0.83
Exercised during the year	(273,444)	0.44	(165,000)	0.79
Outstanding at the end of the year	378,372	1.66	566,061	0.98
Exercisable at the end of the year	148,638	0.93	350,000	0.60

The weighted average share price at the date of exercise for share options exercised during the period was £2.52 (2011: £2.50). The options outstanding at 31 December 2012 had a weighted average remaining contractual life of five years (2011: four years). In 2012, options were granted on 1 May, 18 October and 1 November. The aggregate of the estimated fair values of the options granted on those dates is £97,000. 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.

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 34 to the consolidated accounts.

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

	2012	2011
Weighted average share price	£2.28	£2.54
Weighted average exercise price	£2.20	£2.38
Expected volatility	40%	53%
Expected life	5.93 years	5.52 years
Risk-free rate	4.1%	3.7%
Expected dividends	0.3%	0.3%

Expected volatility was determined by calculating the historical volatility of the Company's share price over periods ranging from the previous one to three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Notes to the (UK GAAP) Company balance sheet for the year ended 31 December 2012 continued

9. Share-based payments continued

Long Term Incentive Plan

The Company's Long Term Incentive Plan is open to all employees of the Company. Vesting of performance share awards made under this scheme is conditional upon the achievement of two separate performance conditions. Full details of the performance conditions are shown on pages 31 and 32 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:

	2012	2011
Awards outstanding at start of year	679,624	823,289
Granted during the year	208,348	146,755
Lapsed during the year	—	(217,353)
Exercised during the year	(443,296)	(73,067)
Awards outstanding at end of year	444,676	679,624

No LTIP awards were exercisable as at 31 December 2012 (2011: nil).

In 2012, performance share awards were made on 2 April 2012 and 1 May 2012. The aggregate of the estimated fair values of grants made on those dates is £0.5 million.

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.

	2012	2011
Weighted average exercise price	£nil	£nil
Expected volatility	41%	56%
Expected life	6.5 years	3 years
Expected dividend yield	0.3%	0.3%

The Company recognised total expenses of £0.4 million (2011: £0.3 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 shares of £1 each	100%
XaarJet Limited	England	Manufacturing, research and development and sales and marketing	2 ordinary shares of £1 each	100%
XaarJet (Overseas) Limited	England	Sales and marketing	1 ordinary £1 share	100%
Xaar Trustee Limited[1]	England	Trustee	2 ordinary shares of £1 each	100%
Xaar Digital Limited	England	Treasury	1 ordinary £1 share	100%
Xaar Group AB	Sweden	Holding company	1,137,000 ordinary shares of SEK 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

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Summarised consolidated results					
Results					
Revenue	**86,304**	68,706	54,678	41,497	42,882
Gross profit	**40,948**	30,379	22,593	16,777	21,533
Adjusted profit before tax	**18,386**	10,566	5,560	2,089	3,709
Adjusted profit after tax	**14,964**	7,922	4,082	2,037	2,968
Dividends pence per share	**4.0p**	3.0p	2.5p	2.5p	2.5p
Adjusted diluted earnings per share	**20.1p**	10.7p	6.2p	3.3p	4.8p
Assets employed					
Net cash*	**28,853**	17,403	21,991	11,080	10,950

* Net cash is made up of cash and cash equivalents, treasury deposits less borrowings.

Notice of the Annual General Meeting

Notice is hereby given that the sixteenth Annual General Meeting (AGM) of Xaar plc (the "Company") will be held at 316 Science Park, Cambridge CB4 0XR on 16 May 2013 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 2012 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 2012 of 3.0p per ordinary share.
4. To reappoint as a Director in accordance with the Company's Articles of Association Robin Williams, who is retiring by rotation.
5. To reappoint as a Director in accordance with the Company's Articles of Association Ted Wiggans, who is retiring by rotation.

Special business

To consider and, if thought fit, pass the following resolutions which will be proposed in the case of Resolutions 6 and 8 as Ordinary Resolutions and in the case of Resolutions 7 and 9 as Special Resolutions:

6. To approve the Directors' remuneration report in accordance with section 439 of the Companies Act 2006.
7. 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 11,136,010 (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.
8. 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 £2,491,277.37; and

   (b) up to an aggregate nominal amount of £4,982,554.73 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 2014 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

9. Subject to the passing of Resolution 8 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 9(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 £373,691.61;

   (b) pursuant to authority conferred by Resolution 9(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 2014 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 2013

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 14 May 2013 (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 14 May 2013 (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.

Notes to the (UK GAAP) Company balance sheet for the year ended 31 December 2012 continued

9. Share-based payments continued

Long Term Incentive Plan

The Company's Long Term Incentive Plan is open to all employees of the Company. Vesting of performance share awards made under this scheme is conditional upon the achievement of two separate performance conditions. Full details of the performance conditions are shown on pages 31 and 32 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:

	2012	2011
Awards outstanding at start of year	679,624	823,289
Granted during the year	208,348	146,755
Lapsed during the year	–	(217,353)
Exercised during the year	(443,296)	(73,067)
Awards outstanding at end of year	444,676	679,624

No LTIP awards were exercisable as at 31 December 2012 (2011: nil).

In 2012, performance share awards were made on 2 April 2012 and 1 May 2012. The aggregate of the estimated fair values of grants made on those dates is £0.5 million.

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.

	2012	2011
Weighted average exercise price	£nil	£nil
Expected volatility	41%	56%
Expected life	6.5 years	3 years
Expected dividend yield	0.3%	0.3%

The Company recognised total expenses of £0.4 million (2011: £0.3 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 shares of £1 each	100%
XaarJet Limited	England	Manufacturing, research and development and sales and marketing	2 ordinary shares of £1 each	100%
XaarJet (Overseas) Limited	England	Sales and marketing	1 ordinary £1 share	100%
Xaar Trustee Limited[1]	England	Trustee	2 ordinary shares of £1 each	100%
Xaar Digital Limited	England	Treasury	1 ordinary £1 share	100%
Xaar Group AB	Sweden	Holding company	1,137,000 ordinary shares of SEK 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.

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