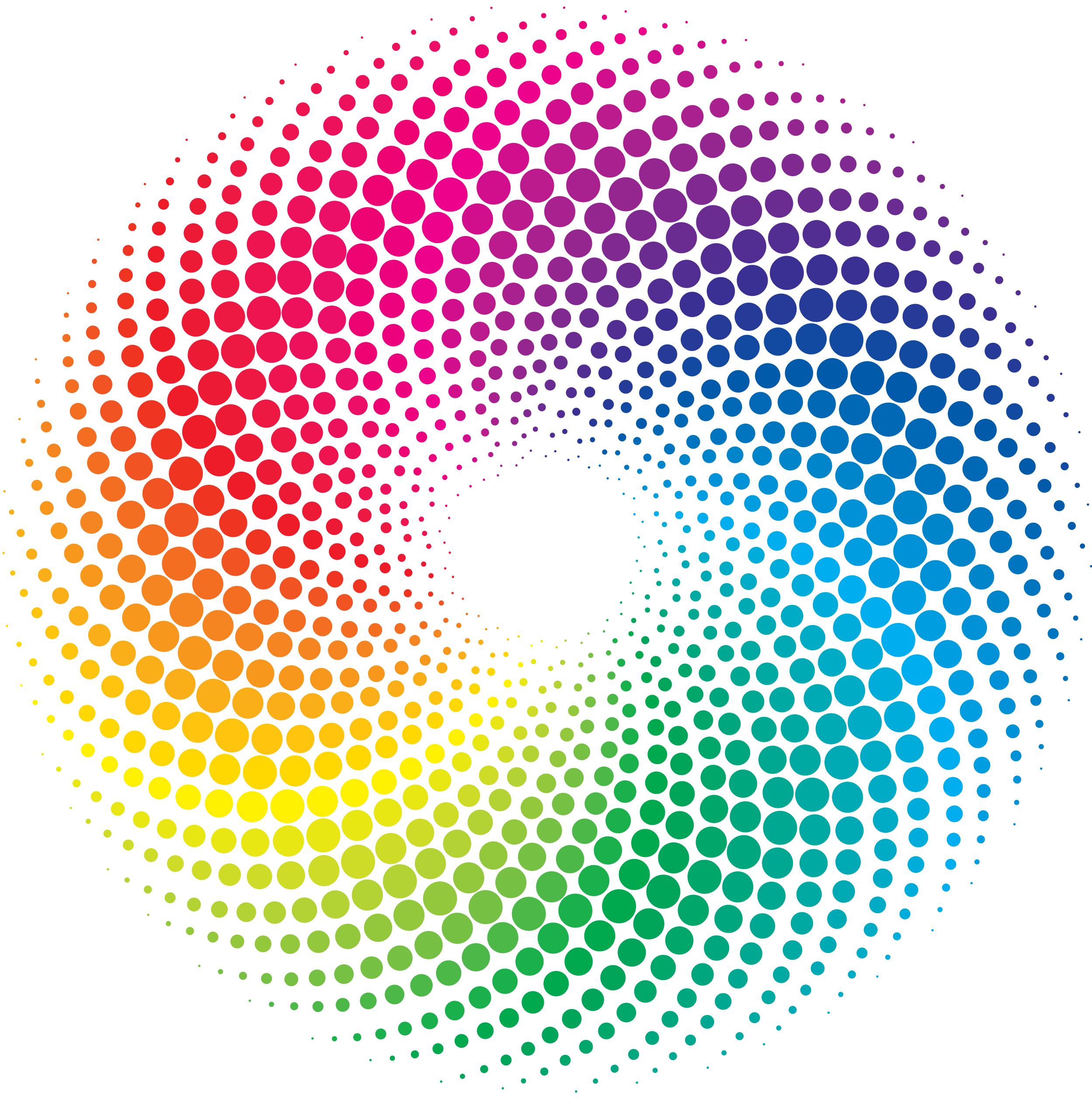
XAAR®

Interim Report 2013

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.

Contents

Our performance
Highlights

Strong growth in adjusted revenue;

- 78% vs. H1 2012
- 39% vs. H2 2012
- Sales growth across all market segments

Significant increases in profitability;

- Adjusted gross margin up to 54% (H1 2012: 46%)
- Adjusted operating margin of 33% (H1 2012: 18%)
- Adjusted diluted EPS more than trebled to 23.5p (H1 2012: 7.0p)

Acceleration of investment;

- R&D expenditure up 94% to £6.7 million (10% of adjusted revenue)
- Total headcount increased by 44% vs. 30 June 2012 to 681
- Xaar 1001 production capacity being increased by a further 75% by mid-2014 (vs. December 2012)

Cash resources increased;

- Net cash* of £49.4 million (June 2012: £15.7 million; December 2012: £28.9 million)
- Interim dividend of 2.5 pence (2012 interim: 1.0 pence)

*Net cash includes cash and cash equivalents, treasury deposits, less obligations under finance leases and loan liabilities.

Adjusted revenue £m

H1 2013	**67.2**
H2 2012	48.4
H1 2012	37.9
H2 2011	37.1
H1 2011	31.6

Adjusted gross margin %

H1 2013	**54.3**
H2 2012	48.6
H1 2012	46.0
H2 2011	44.5
H1 2011	43.9

Adjusted profit before tax £m

H1 2013	**22.3**
H2 2012	11.7
H1 2012	6.7
H2 2011	6.3
H1 2011	4.3

Net cash balance £m

H1 2013	**49.4**
H2 2012	28.9
H1 2012	15.7
H2 2011	17.4
H1 2011	20.6

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.

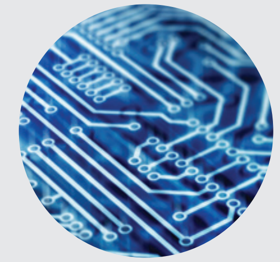

The printhead is the heart of the digital process, depositing fluids, including inks and coatings, in precisely the right quantity and in the right place on the substrate, without even touching the surface.

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 future
Maximising our opportunity

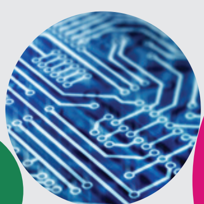
Xaar's strategic plan is focussed on delivering long term growth through the conversion of multiple markets to industrial inkjet technology. Our tactics are to become the primary enabler of change in our target markets, leading the initial wave of conversion, and then to protect our position through replacement product sales enabled by continuous product development. The size of the conversion opportunity, the rate of change, and the key characteristics enabling that change will vary from market to market. Original Equipment Manufacturers (OEMs) are mostly market specific which means we work with a number of OEM customers in developing their inkjet solutions for a discrete market.

Developing new products & new technology

- We invested £8 million in R&D in 2012 which represented 9% of revenue. We expect to invest at least £14 million in 2013 (£6.7 million spent in H1 2013) with a further increase in 2014 and beyond.
- We manage our product development programmes across three horizons: short term by delivering updates and improvements; medium term by developing new products or derivatives using existing technologies; and longer term through research and development of novel technologies.
- We develop and maintain a range of skills and processes to successfully execute our technology and product programmes, and we balance our programme portfolio to achieve long term profitable growth.

Developing products that address multiple markets

- The markets and applications that use Xaar's printheads can be diverse but tend to have similar product characteristics and general imaging requirements.
- Xaar's products are designed to provide benefits across multiple applications. The Xaar 1001 is the market-leading printhead in the ceramics sector but is also used for printing primary labels, decorative laminates and packaging.
- This strategy means we can offer solutions across multiple applications through efficiency in development and implementation. We also continuously enhance product performance which allows our OEMs to take advantage of upgrades with minimal changes at the system level.



"We expect to invest at least £14 million in R&D in 2013."

"The success of our business depends on our people so we recruit only the best."

"The market-leading Xaar 1001 is used across multiple applications."

"By July 2014 our manufacturing capacity will have grown 15x in 4 years."

Developing the eco-system

- To successfully penetrate a market, an eco-system of technical and commercial partnerships must be formed to drive and support market conversion.
- We actively partner and co-develop with OEMs, fluid suppliers, hardware and software integrators, and substrate suppliers to deliver a robust and attractive total solution to the end user.

Investing in people

- The success of our business depends on our people so we recruit only the best. We offer competitive salary and benefits packages as well as share incentive plans and our employees benefit from extensive training and development opportunities.
- In 2012 we increased headcount by more than 80 staff and as at 30 June 2013 we had already recruited 120 people this year.

Investing in manufacturing & quality

- At 30 June 2013 we had already invested over £40 million in our Huntingdon facility since it opened in 2006, and we'll be investing a further £25 milion before the end of 2014.
- By July 2014 our manufacturing capacity will have grown 15x in 4 years.
- We constantly monitor and improve our production processes using advanced quality and process control techniques. Both our manufacturing plants are ISO 9001 and ISO 14001 certified.

Chairman's statement
Significant progress

Introduction

Once again I am pleased to report continuing and significant progress in the development of our business. During the first half of 2013 revenues on a comparable basis increased 78% compared to the first half of 2012. This has been driven by the continued success of our digital inkjet solutions which are transforming industrial applications through the achievement of cost, efficiency and end-product improvements when compared to traditional analogue manufacturing techniques. Demand for our products in the first six months of the year fully utilised our manufacturing facility at Huntingdon where we continue to invest in additional capacity.

Demand from the ceramic tile industry has accelerated as tile manufacturers in China, the world's largest producer and consumer of ceramic tiles, have rapidly adopted Xaar as the solution of choice for the digital printing of ceramic tiles. Our patented TF Technology™ continues to demonstrate its advantages over both traditional analogue printing techniques and competitor inkjet offerings. Xaar is now the clear world leader in this market as the major ceramic tile manufacturers realise the considerable economic and aesthetic advantages provided by Xaar's digital inkjet technology.

The geographical balance of our revenue in H1 2013, based on the location of our customers, shifted towards Asia (45% of adjusted sales versus 29% in H1 2012) with revenue from this region growing 172% compared to H1 2012. The Europe, Middle East and Africa (EMEA) region grew by more than 40% but reduced as a proportion of total revenue (50% of adjusted sales against 62% in H1 2012). The Americas (5% of adjusted sales, 9% in H1 2012) remains little changed in terms of actual sales, reflecting the lower number of Original Equipment Manufacturers (OEMs) present in that region compared to either EMEA or Asia.

Whilst the demand from ceramic tile digital conversion is the major factor driving growth, it is pleasing to see applications in the packaging market generating additional growth and some recovery in the graphics market from the low point of a year ago.

The Group's further strong sales growth continues to drive profitability. Adjusted profit before tax more than trebled against the same period last year. Similarly strong cash generation continues with an operational cash flow of over £20 million for the first half of the year. Net cash has grown significantly despite an increased dividend payment and further manufacturing and R&D infrastructure investments. Gross margin improvements reflect greater operational leverage and very high levels of manufacturing equipment utilisation.

Royalty revenue has continued at similar rates to 2012, although results reported under IFRS include £3.0 million of non-recurring incremental revenue (and profit before tax) related to the settlement of under-reported royalties payable by licensees for the period 2006 to 2012.

Despite exporting the majority of our production, we continue to manage currency risk carefully with the majority of our sales denominated in sterling.

Results

Adjusted revenues (excluding the non-recurring royalty settlement) for the six months ended 30 June 2013 were £67.2 million (H1 2012: £37.9 million; H2 2012: £48.4 million). Product sales were £63.9 million (H1 2012: £34.3 million; H2 2012: £45.8 million). Adjusted royalty revenue was £3.3 million (H1 2012: £3.6 million; H2 2012 : £2.6 million).

Adjusted gross margin further improved to 54% (H1 2012: 46%; H2 2012: 49%). Adjusted profit before tax for the period was £22.3 million (H1 2012: £6.7 million; H2 2012: £11.7 million).

After payment of the final dividend for 2012 of £2.2 million and £5.6 million of capital investment, net cash (including cash, cash equivalents and treasury deposits) increased by £20.5 million to £49.4 million (30 June 2012: £15.7 million; 31 December 2012: £28.9 million).

Business commentary

Xaar has developed a significant opportunity for its technology in the ceramic tile decoration market. The last few years have seen the Company maximise the potential from this global market through a focused approach and relentless attention to execution. This success has been clearly visible to our competitors and the level of competitive activity in this market has increased substantially. Our ability to maintain our market leading position in ceramics whilst bringing on applications in new markets is critical to our growth over the next few years.

Manufacturing capacity at our Huntingdon facility is fully utilised and we are continuing to invest heavily in further specialised assets to meet market demand, with capital spend in this area expected to exceed £30 million in 2013/2014. Some of this increased capacity will become operational in H2 2013, with the majority coming on-stream during 2014. This continued expansion has of course resulted in an on-going hiring campaign across many disciplines such that our headcount at the end of the period exceeded 680 people, almost double the headcount of just three years ago.

Revenue from the industrial market more than doubled over the same period last year and now accounts for 71% (H1 2012: 59%) of adjusted Group revenue with the ceramic application being the primary driver of growth. Whilst the ceramic market takes the limelight, I am pleased to report further progress in other areas where we are growing our revenue. Particularly noteworthy is the 36% growth in our sales into the packaging market, driven primarily by the continued adoption of digital label printing, to £8.3 million which accounts for 12% of first half year adjusted revenue. More than half of this figure now comes from applications other than the original Coding and Marking segment. Development activity in the 'direct-to-shape' application (where the label substrate is eliminated) continues to show interesting results, and I look forward to reporting more progress in this application over the medium term.

Although progress in the decorative laminate market has been slower than anticipated we continue to work with our OEM partners in this space and still expect to generate material revenues from this application over the coming years. Advanced manufacturing developments are also continuing across applications such as semiconductor, display screen, and photovoltaic, and whilst revenues are currently still modest these opportunities show promise over the longer term.

Chairman's statement continued

We have continued our recovery in the graphics market, traditionally a Xaar stronghold, where we have considerable brand awareness and where we are targeting recovery of the market share lost in recent years. This now makes up 11% (H1 2012: 16%) of adjusted Group revenue and achieved 28% growth in sales albeit against a very weak period last year. A new product, the Xaar 501 GS10, is scheduled for release which we anticipate will give us renewed impetus in this mature but significant market.

While Xaar's recent growth has been significant, adoption of industrial inkjet remains at a very early stage across many markets, providing us with a major opportunity. In order to maximise this opportunity over the long term we are substantially increasing our R&D spend with a view to significantly enhancing both our technology portfolio and product range. R&D spend increased by 94% over H1 2012 and will continue to increase during the second half of this year.

In order to maximise the efficiency and focus of our significantly enlarged technical community we have split R&D into two divisions, the first focused on Bulk Piezo Technology (previously referenced as P1, P2 and P3), and the second focused on Thin Film Piezo Technology (previously referenced as P4). We are significantly expanding our R&D team through an international recruitment drive.

Our Thin Film Piezo programme remains on track with early test structures being evaluated and core technology architecture decisions due to be made before the end of the year, with first revenues from this technology targeted for 2016.

Development of new industrial inkjet technology is a challenging exercise but we are confident that as a company focused exclusively on this area, we have the experience and knowledge to deliver continued success. Meeting these challenges will also represent a significant barrier to entry for new entrants to the market in the future.

Corporate Governance

The Group was fully compliant with the UK Corporate Governance Code 2010 for the year ended 31 December 2012. Given changes in the corporate governance code for the upcoming year end, management is working to ensure that the Group is fully compliant with respect to these changes. The Group constantly looks to improve governance based on measurement against internal objectives and external audits. We continue to give serious attention to risk management despite the difficulty of accurately predicting events in a very unpredictable world.

Dividend

We are pleased to announce that an interim dividend of 2.5 pence per share will be paid on 4 October 2013 to shareholders on the register at close of business on 6 September 2013.

Board

There have been no changes to the Board during the first half of 2013. There have been five Board meetings in the period, all fully supported with detailed papers distributed in advance and recorded by appropriate minutes. The Board has spent one additional full day devoted to strategy review and development. Board sub-committees have also met four times in the period.

Outlook

Xaar is now clearly recognised as an industrial inkjet technology leader and has made significant gains in certain markets. Competitive pressure will no doubt continue to increase but the Company is positioned to continue to grow over the longer term, albeit at a slower rate than experienced over the last few years. Our decision to accelerate our investment in product development and technology research is intended to strengthen our competitive position and develop major new opportunities on a global stage. We remain optimistic and excited about Xaar's long-term potential.

Phil Lawler
Chairman
29 August 2013

“Our decision to accelerate our investment in product development and technology research is intended to strengthen our competitive position and develop major new opportunities on a global stage.

Directors' responsibilities statement

We confirm that to the best of our knowledge:

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

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R:

(i) an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and

(ii) a description of principal risks and uncertainties for the remaining six months of the year

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R:

(i) related parties transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the Group in that period, and

(ii) any changes in the related parties transactions described in the Annual Report 2012 that could have a material effect on the financial position or performance of the group in the current period.

By order of the board

Ian Dinwoodie
Chief Executive

Alex Bevis
Finance Director and Company Secretary
29 August 2013

Condensed consolidated income statement
for the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 (reviewed) £'000	Six months ended 30 June 2012 (reviewed) £'000	Twelve months ended 31 December 2012 (audited) £'000
Revenue	2	**70,230**	37,877	86,304
Cost of sales		**(30,735)**	(20,443)	(45,356)
Gross profit		**39,495**	17,434	40,948
Research and development expenses		**(6,661)**	(3,437)	(8,032)
Sales and marketing expenses		**(2,780)**	(2,694)	(5,346)
General and administrative expenses		**(6,844)**	(6,655)	(12,022)
Operating profit		**23,210**	4,648	15,548
Investment income		**192**	62	186
Finance costs		**(40)**	(15)	(33)
Profit before tax		**23,362**	4,695	15,701
Tax	3	**(4,642)**	(1,142)	(3,073)
Profit for the period attributable to shareholders		**18,720**	3,553	12,628
Earnings per share				
Basic	4	**25.5p**	5.0p	17.5p
Diluted	4	**24.6p**	4.8p	16.9p

Dividends paid in the period amounted to £2,211,000 or 3.0p per share 2012 final dividend (six months to 30 June 2012: £1,446,000 or 2.0p per share 2011 final dividend; twelve months to 31 December 2012: £2,174,000 or 3.0p per share being 2.0p per share 2011 final dividend and 1.0p per share 2012 interim dividend).

Condensed consolidated statement of comprehensive income
for the six months ended 30 June 2013

	Six months ended 30 June 2013 (reviewed) £'000	Six months ended 30 June 2012 (reviewed) £'000	Twelve months ended 31 December 2012 (audited) £'000
Profit for the period	**18,720**	3,553	12,628
Exchange differences on translation of net investment	**56**	29	(150)
Other comprehensive income for the period	**56**	29	(150)
Total comprehensive income for the period	**18,776**	3,582	12,478

Reconciliation of adjusted financial measures

for the six months ended 30 June 2013

	Six months ended 30 June 2013 (reviewed) £'000	Six months ended 30 June 2012 (reviewed) £'000	Twelve months ended 31 December 2012 (audited) £'000
Revenue	**70,230**	37,877	86,304
Non-recurring royalty income	**(2,994)**	–	–
Adjusted revenue	**67,236**	37,877	86,304
Profit before tax	**23,362**	4,695	15,701
Share-based payment charges	**2,014**	625	1,542
Exchange differences relating to the Swedish operations	**(161)**	195	(262)
Unrealised losses/(gains) on derivative financial instruments	**107**	(48)	4
Non-recurring royalty income	**(2,994)**	–	–
Impairment of trade investment	**–**	1,261	1,401
Adjusted profit before tax	**22,328**	6,728	18,386

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.

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.

Unrealised losses and gains on derivative financial instruments relate to the unrealised losses and gains on forward currency contracts outstanding at the end of the period.

Non-recurring royalty income related to the settlement of under-reported royalties payable by licensees for the period 2006 to 2012.

	Six months ended 30 June 2013 (reviewed) Pence per share	Six months ended 30 June 2012 (reviewed) Pence per share	Twelve months ended 31 December 2012 (audited) Pence per share
Diluted earnings per share	**24.6p**	4.8p	16.9p
Share-based payment charges	**2.6p**	0.8p	2.1p
Exchange differences relating to the Swedish operations	**(0.2p)**	0.3p	(0.3p)
Unrealised losses/(gains) on derivative financial instruments	**0.1p**	(0.1p)	–
Non-recurring royalty income	**(3.9p)**	–	–
Impairment of trade investment	**–**	1.7p	1.9p
Tax effect of adjusting items	**0.3p**	(0.5p)	(0.5p)
Adjusted diluted earnings per share	**23.5p**	7.0p	20.1p

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

Condensed consolidated statement of financial position

as at 30 June 2013

	As at 30 June 2013 (reviewed) £'000	As at 31 December 2012 (audited) £'000
Non-current assets		
Goodwill	**720**	720
Other intangible assets	**3,725**	4,015
Property, plant and equipment	**30,095**	26,704
Deferred tax asset	**3,193**	946
	37,733	32,385
Current assets		
Inventories	**11,285**	13,203
Trade and other receivables	**17,567**	12,487
Current tax asset	**1,109**	654
Treasury deposits	**12,000**	4,000
Cash and cash equivalents	**37,393**	25,446
	79,354	55,790
Total assets	**117,087**	88,175
Current liabilities		
Trade and other payables	**(15,881)**	(10,399)
Other financial liabilities	**(65)**	(655)
Current tax liabilities	**(4,156)**	(854)
Provisions	**(1,386)**	(1,629)
Derivative financial instruments	**(110)**	(4)
	(21,598)	(13,541)
Net current assets	**57,756**	42,249
Non-current liabilities		
Deferred tax liabilities	**(267)**	(286)
Other financial liabilities	**(250)**	(229)
Total non-current liabilities	**(517)**	(515)
Total liabilities	**(22,115)**	(14,056)
Net assets	**94,972**	74,119
Equity		
Share capital	**7,523**	7,474
Share premium	**25,040**	24,406
Own shares	**(4,066)**	(4,215)
Other reserves	**7,474**	6,507
Translation reserve	**413**	357
Retained earnings	**58,588**	39,590
Equity attributable to shareholders	**94,972**	74,119
Total equity	**94,972**	74,119

Condensed consolidated statement of changes in equity

for the six months ended 30 June 2013

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2013	7,474	24,406	(4,215)	6,507	357	39,590	74,119
Profit for the period	–	–	–	–	–	18,720	18,720
Exchange differences on translation of net investment	–	–	–	–	56	–	56
Total comprehensive income for the period	–	–	–	–	56	18,720	18,776
Issue of share capital	49	634	–	–	–	(3)	680
Own shares sold in the period	–	–	149	–	–	(24)	125
Dividends	–	–	–	–	–	(2,211)	(2,211)
Deferred tax benefit on share option gains	–	–	–	–	–	2,516	2,516
Credit to equity for equity-settled share-based payments	–	–	–	967	–	–	967
Balance at 30 June 2013	7,523	25,040	(4,066)	7,474	413	58,588	94,972

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2012	7,280	23,727	(4,465)	5,149	507	29,171	61,369
Profit for the period	–	–	–	–	–	3,553	3,553
Exchange differences on translation of net investment	–	–	–	–	29	–	29
Total comprehensive income for the period	–	–	–	–	29	3,553	3,582
Issue of share capital	122	228	–	–	–	(73)	277
Dividends	–	–	–	–	–	(1,446)	(1,446)
Deferred tax benefit on share option gains	–	–	–	–	–	(469)	(469)
Credit to equity for equity-settled share-based payments	–	–	–	591	–	–	591
Balance at 30 June 2012	7,402	23,955	(4,465)	5,740	536	30,736	63,904

Condensed consolidated cash flow statement

for the six months ended 30 June 2013

	Note	**Six months ended 30 June 2013 (reviewed) £'000**	Six months ended 30 June 2012 (reviewed) £'000	Twelve months ended 31 December 2012 (audited) £'000
Net cash from operating activities	5	**27,259**	4,177	19,896
Investing activities				
Investment income		**64**	62	186
Purchases of property, plant and equipment		**(5,592)**	(4,513)	(7,541)
Proceeds on disposal of property, plant and equipment		**2**	19	560
Expenditure on capitalised product development		**(17)**	(111)	(345)
Net cash used in investing activities		**(5,543)**	(4,543)	(7,140)
Financing activities				
Dividends paid		**(2,211)**	(1,446)	(2,174)
Movement in treasury deposits		**(8,000)**	(4,000)	(4,000)
Proceeds from the sale of ordinary share capital		**125**	–	250
Proceeds from issue of ordinary share capital		**680**	277	783
Finance costs		**(40)**	(19)	(35)
Repayments of borrowings		**(594)**	(137)	(277)
Net cash used in financing activities		**(10,040)**	(5,325)	(5,453)
Net increase/(decrease) in cash and cash equivalents		**11,676**	(5,691)	7,303
Effect of foreign exchange rate changes		**271**	(118)	(131)
Cash and cash equivalents at beginning of period		**25,446**	18,274	18,274
Cash and cash equivalents at end of period		**37,393**	12,465	25,446

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

Notes to the interim financial information

for the six months ended 30 June 2013

1. Basis of preparation and accounting policies

Basis of preparation

These interim financial statements have been prepared in accordance with the accounting policies set out in the Group's annual report and accounts 2012 on pages 42 to 48 and were approved by the board of directors on 29 August 2013. The interim financial statements for the six months ended 30 June 2013 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The interim financial statements do not include all the information and disclosures in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

The financial information in these interim financial statements for the six months ended 30 June 2013, does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The Group's annual report for the year ended 31 December 2012 has been delivered to the Registrar of Companies and the auditor's report on those financial statements was not qualified and did not contain statements made under section 498(2) or (3) of the Companies Act 2006.

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

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

Risks and uncertainties

An outline of the key risks and uncertainties faced by the Group was outlined in the 2012 financial statements on pages 14 to 15, including anticipating technology trends, retaining key staff and successfully executing business growth initiatives. It is anticipated that the risk profile will not significantly change for the remainder of the year. Risk is an inherent part of doing business and the strong cash position of the Group along with the underlying profitability of the core business leads the directors to believe that the Group is well placed to manage business risks successfully.

Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis of preparation has been adopted in preparing the interim financial statements.

2. Business segments

For management reporting purposes, the Group's operations are currently analysed according to the two operating segments of 'product sales, commissions and fees' and 'royalties'. These two operating segments are the basis on which the Group reports its primary segment information and on which decisions are made and resources allocated.

Segment information is presented below:

	Six months ended 30 June 2013 (reviewed) £'000	Six months ended 30 June 2012 (reviewed) £'000	Twelve months ended 31 December 2012 (audited) £'000
Revenue			
Product sales, commissions and fees	**63,953**	34,272	80,091
Royalties	**6,277**	3,605	6,213
Total revenue	**70,230**	37,877	86,304

2. Business segments continued

	Six months ended 30 June 2013 (reviewed) £'000	Six months ended 30 June 2012 (reviewed) £'000	Twelve months ended 31 December 2012 (audited) £'000
Result			
Product sales, commissions and fees	**18,893**	2,881	12,282
Royalties	**6,277**	3,605	6,213
Total segment result	**25,170**	6,486	18,495
Net unallocated corporate expense	**(1,960)**	(1,838)	(2,947)
Operating profit	**23,210**	4,648	15,548
Investment income	**192**	62	186
Finance costs	**(40)**	(15)	(33)
Profit before tax	**23,362**	4,695	15,701
Tax	**(4,642)**	(1,142)	(3,073)
Profit for the period attributable to shareholders	**18,720**	3,553	12,628

Unallocated corporate expense relates to administrative activities which cannot be directly attributed to any of the principal product groups, including impairment of trade investment, share-based payment charges, and unrealised gains or losses on derivative financial instruments.

Assets in the 'product sales, commissions and fees' segment have increased by £5.5 million over the period and assets in the 'royalties' segment have increased by £3.5 million over the period; there have been no other material movements in segment assets during the period.

3. Income tax

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

	Six months ended 30 June 2013 (reviewed) £'000	Six months ended 30 June 2012 (reviewed) £'000	Twelve months ended 31 December 2012 (audited) £'000
Current income tax			
Income tax charge	**4,391**	1,393	3,327
Deferred income tax			
Relating to origination and reversal of temporary differences	**251**	(251)	(254)
Income tax expense	**4,642**	1,142	3,073

4. Earnings per ordinary share – basic and diluted

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

	Six months ended 30 June 2013 (reviewed) £'000	Six months ended 30 June 2012 (reviewed) £'000	Twelve months ended 31 December 2012 (audited) £'000
Earnings			
Earnings for the purposes of earnings per share being net profit attributable to equity holders of the parent	**18,720**	3,553	12,628
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**73,383,574**	71,495,334	72,151,589
Effect of dilutive potential ordinary shares:			
Share options	**2,777,281**	2,740,724	2,414,068
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**76,160,855**	74,236,058	74,565,657

5. Notes to the cash flow statement

	Six months ended 30 June 2013 (reviewed) £'000	Six months ended 30 June 2012 (reviewed) £'000	Twelve months ended 31 December 2012 (audited) £'000
Profit before tax	**23,362**	4,695	15,701
Adjustments for:			
Share-based payments	**2,014**	625	1,542
Depreciation of property, plant and equipment	**3,585**	3,148	6,648
Amortisation of intangible assets	**308**	328	738
Impairment of trade investment	**–**	1,261	1,401
Investment income	**(192)**	(62)	(186)
Finance costs	**40**	15	33
Foreign exchange (gains)/losses	**(362)**	193	(275)
Unrealised losses/(gains) on forward contracts	**107**	(48)	4
Loss on disposal of property, plant and equipment	**39**	407	661
(Decrease)/increase in provisions	**(243)**	183	639
Operating cash flows before movements in working capital	**28,658**	10,745	26,906
Decrease/(increase) in inventories	**1,970**	(336)	(1,436)
Increase in receivables	**(5,021)**	(1,459)	(3,111)
Increase/(decrease) in payables	**3,045**	(3,068)	840
Cash generated by operations	**28,652**	5,882	23,199
Income taxes paid	**(1,393)**	(1,705)	(3,303)
Net cash from operating activities	**27,259**	4,177	19,896

6. Date of approval of interim financial statements

The interim financial statements cover the period 1 January 2013 to 30 June 2013 and were approved by the board on 29 August 2013.

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

Independent review report to Xaar plc
for the six months ended 30 June 2013

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes 1 to 6. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

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

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

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom
29 August 2013

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