Xaar plc
Interim Report 2014

XAAR®

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 manufacture of piezoelectric drop-on-demand industrial inkjet printheads

Contents

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Highlights

Solid financial performance:

- Strong financial performance versus exceptional comparatives
- A return to normal seasonality around Chinese New Year
- Profit margins reduced due to increased manufacturing capacity and competition

Market sectors:

- Ceramics market leadership retained despite increased competition
- Disappointing slowdown in labels following progress made in 2013
- Pre-production activities in 'Direct-to-Shape' continue

Delivery from investments:

- Multiple new products will start to contribute during H2 2014
- Bulk piezo manufacturing capacity expansion programme nearing completion
- Thin Film programme (Platform 4) remains on track; manufacturing strategy defined

Strong balance sheet:

- Net cash* of £48.1 million
- Sustainable and progressive dividend policy established. Interim dividend up 20% to 3 pence

Adjusted measures exclude items from the IFRS results, such as share-based payment charges, exchange differences relating to Swedish operations, unrealised gains/losses on derivative financial instruments, research and development (R&D) expenditure credit, non-recurring royalty income in H1 2013, impairment on trade investments, and commercial agreement costs, per the reconciliation of adjusted financial measures in note 2.

*Net cash includes cash, cash equivalents and treasury deposits.

Commentary in the rest of this report is based on adjusted measures.

Adjusted revenue £m

H1 2014	**60.4**
H2 2013	66.9
H1 2013	67.2
H2 2012	48.4
H1 2012	37.9

Adjusted operating margin %

H1 2014	**26.1**
H2 2013	27.7
H1 2013	33.0
H2 2012	23.9
H1 2012	17.6

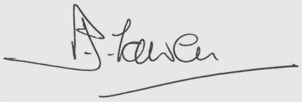
Adjusted profit before tax £m

H1 2014	**16.1**
H2 2013	18.8
H1 2013	22.3
H2 2012	11.7
H1 2012	6.7

Net cash balance £m

H1 2014	**48.1**
H2 2013	53.5
H1 2013	49.4
H2 2012	28.9
H1 2012	15.7

Solid performance following an exceptional 2013



Phil Lawler
Chairman
28 August 2014

Introduction

Following the exceptional experience of 2013, our business reverted to more typical trading patterns in the first half of 2014, characterised by limited visibility of short term demand and the usual seasonal lull around Chinese New Year. Sales volumes into ceramic tile decoration, our largest application, stabilised in the first half of the year as expected, following the explosive growth of the last few years. In other applications, whilst the expected growth in sales has not yet materialised, future progress is expected as our partners continue to develop their solutions.

The geographic split of our revenue based on the location of our customers (and not necessarily end users) shifted in line with the Chinese seasonality referred to above; sales to Asia reduced to 41% of the total for H1 2014 (H1 2013: 45%), EMEA increased to 54% (H1 2013: 50%) and the Americas remained unchanged at 5% of Group sales.

In terms of market segmentation, Industrial remains dominant at 73% (H1 2013: 71%), Graphic Arts 10% (H1 2013: 11%), Packaging 11% (H1 2013: 12%) and the legacy licensee royalty income at 6% (H1 2013: 6%).

The Group continues to maintain a strong balance sheet with net cash at 30 June 2014 of £48.1 million (31 December 2013: £53.5 million). As expected, cash balances reduced during the first half of the year due to investment in manufacturing and development assets, increased working capital and dividend payments.

Results

Revenue for the six months ended 30 June 2014 was £60.4 million (H1 2013: adjusted £67.2 million; H2 2013: £66.9 million). Product sales were £57.1 million (H1 2013: £63.9 million; H2 2013: £63.3 million). Royalty revenue was £3.3 million (H1 2013: adjusted £3.3 million; H2 2013: £3.6 million).

As previously stated, the profit margins achieved in 2013 were flattered by levels of asset utilisation that were unsustainable over the longer term. Profit margins in 2014 have therefore reduced as a result of an increase in manufacturing capacity. Gross margin declined to 47% (H1 2013: adjusted 54%; H2 2013: 52%) reflecting both the increased manufacturing capacity and also lower pricing. Similarly, adjusted operating margin reduced to 26% (H1 2013: 33%; H2 2013: 28%).

Adjusted profit before tax for the period was £16.1 million (H1 2013: £22.3 million; H2 2013: £18.8 million).

Adjusted profit before tax is stated after capitalisation of £3.3 million of internal development costs on the Group's Thin Film programme (Platform 4). Following the internal technology demonstration in December 2013, the programme met all of the criteria under IAS 38, requiring development costs to be capitalised from January 2014. The programme differs from normal Xaar product developments because the programme will establish a technology platform for a portfolio of new products, which is expected to be a very substantial investment and will take several years to complete. There has been no change in accounting policy; capitalisation of development costs on specific product developments will continue to be assessed prudently against the IAS 38 criteria.

Outlook

We remain entirely focused on our market of industrial and commercial inkjet. This will always be technologically and operationally challenging, and that of course provides a significant barrier to entry. Our considerable experience can only help Xaar remain a leader in this market that offers enormous potential. To capitalise on that we must continue to develop technology and products that can successfully convert printing applications from analogue to digital processes.

We continue to lead the market in ceramic tile decoration and remain excited by the future potential offered by tile decoration and a number of other ceramic tile processes. In addition, our partners continue to develop solutions with our technology across multiple applications in both the packaging and industrial markets. As highlighted in June, pre-production activities within the 'Direct-to-Shape' application continue, and our expectations of this opportunity for the longer term have strengthened. Despite being long lived, Grand and Wide-Format Graphics remains an opportunity and we are targeting to regain share. Our Thin Film programme, we believe, will open up multiple further markets to Xaar, significantly broadening the total opportunity over the long term.

During the third quarter, demand from the ceramic tile decoration sector has softened, which we believe relates to a slowdown in construction activity in China. In light of this, the Board's expectation for 2014 revenue has reduced to £115-125 million, with adjusted operating margin projected to be broadly in line with the 26% achieved in the first half of the year.

Business commentary

Our rapid progress over the last few years can largely be attributed to our success in transforming the decoration process of ceramic tiles. It is estimated that approximately half of the world's 10 billion square metres of annual ceramic tile output is now decorated using digital inkjet, with Xaar's technology leading the way. Our dominant position has, as expected, attracted competition which has impacted pricing, but we have announced new products to maintain our market leadership. The ceramic tile market remains a significant opportunity for Xaar, in terms of imaging onto tiles and also other decorative and structural processes.

In May 2014, three new printheads were announced: the Xaar 1002 GS40; the Xaar 1002 SBX; and the Xaar 001, targeting ceramic tile applications beyond the current digital decoration process. Xaar's extended printhead range provides the technology to deliver even bigger advantages by achieving: higher levels of colour intensity; digital secondary glaze and special effects; and volume digital deposition for base glaze and structure. We believe that enhanced colour intensity will be very attractive to the tile industry and their customers, and this has been borne out by the reaction from our OEM (original equipment manufacturer) partners. The structure, glazing and finishing processes are all aspects of tile decoration that have yet to be 'digitalised', and provide further examples of Xaar bringing its disruptive technology to new areas, giving significant advantages to our OEMs and end customers.

In July 2014, the Group announced the Xaar 501; a product built on the success of the 1002, aimed at providing higher levels of performance in graphics and packaging. Field trials are currently in progress, which have resulted in a final round of product bug fixes. We anticipate this product will enable us to recapture some market share in the Grand and Wide-Format Graphics sector.

The labels market has not yet shown the progress we might have expected, but the potential remains strong. We remain excited about the possibilities with 'Direct-to-Shape', a process that eliminates labels and allows printing on non-flat surfaces such as bottles. This is technologically challenging and our partners have been investigating this opportunity over the past number of years. The first field trials are being undertaken during 2014 and Xaar is at the heart of these developments.

Progress continues with our Thin Film development to deliver Platform 4 (P4) aimed at opening up further market opportunities including commercial print and textiles. As previously reported, we have substantially increased R&D headcount and this has resulted in an increasingly talented international workforce, where efforts are clearly segregated between Bulk technology and Thin Film technology.

The Company has now finalised its strategy for the production of the first Thin Film piezo (P4) products, with sales expected to commence in late 2016. A hybrid manufacturing model combining both outsourced and in-house processing has been selected. The initial capital investment of approximately £10 million required to support the model, will be funded from existing cash resources.

Our latest manufacturing capacity expansion programme for Bulk piezo products is nearing completion ensuring we have the resources to continue with our anticipated future growth. Meanwhile we continue to host and impress our customers and partners at our excellent main manufacturing facility at Huntingdon.

Dividend

Based on the Group's long term growth potential and the decision reached on the manufacturing plan for the Thin Film piezo programme, the Board has decided to adopt a sustainable and progressive dividend policy which takes into account the Group's future prospects, its underlying profitability and the future cash requirements of the business.

The Board has declared a 2014 interim dividend of 3 pence, a 20% increase over the 2013 interim dividend, which will be paid on 3 October 2014 to shareholders on the register at close of business on 5 September 2014.

For 2014 and future periods, the Board expects the ratio of interim dividend to the final dividend to be around 1:2, implying a total dividend of 9 pence for 2014, which would be a 12.5% increase over the 8 pence paid for 2013.

Board

We were pleased to welcome Edmund Creutzmann to the Board during April 2014 as Chief Technical Officer. He has over 30 years of digital printing R&D experience spanning LED, electrophotographic and inkjet imaging technologies. He received his degree in physics and engineering from the University of Applied Sciences, Munich. Most recently he was Vice President, Printer Technology at Océ Printing Systems GmbH (Canon Group) in Germany.

As a consequence, Ramon Borrell, Director of R&D, has stepped down from the Board to fully focus his efforts on Thin Film development (P4). I take this opportunity to thank Ramon for all his contributions to the Board over the past seven years and wish him all success in bringing our next generation of technology (P4) to market dominance.

As previously announced, our Chief Executive of over 11 years, Ian Dinwoodie, announced his intention to retire next year. Consequently a global search has commenced to locate the right calibre individual and we are confident of a timely replacement. We have also decided to increase the number of Board members and are in the process of recruiting a further Non-Executive Director to complement the existing three (including myself as Chairman).

Principal risks and uncertainties

The Directors do not consider that Xaar's principal risks and uncertainties have changed since those detailed on pages 24 and 25 of the Xaar plc Annual Report and Accounts 2013 (available at www.xaar.com), as summarised below:

- 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;
- Product sales into new applications fail to achieve their targets;
- 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;
- 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;
- Significant and sustained quality problems are identified with products which have been sold or which are held in inventory.

Going concern

As stated in note 1 to the condensed financial statements, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

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 2013 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
28 August 2014

Condensed consolidated income statement

for the six months ended 30 June 2014

	Notes	**Six months ended 30 June 2014 (reviewed) £'000**	Six months ended 30 June 2013 (reviewed) £'000	Twelve months ended 31 December 2013 (audited) £'000
Revenue	3	**60,444**	70,230	137,128
Cost of sales		**(31,920)**	(30,735)	(63,114)
Gross profit		**28,524**	39,495	74,014
Research and development expenses		**(5,865)**	(7,075)	(16,389)
Research and development expenditure credit		**241**	–	586
Sales and marketing expenses		**(2,809)**	(3,069)	(6,114)
General and administrative expenses		**(5,046)**	(6,141)	(12,398)
Operating profit		**15,045**	23,210	39,699
Investment income		**247**	192	443
Finance costs		**–**	(40)	(55)
Profit before tax		**15,292**	23,362	40,087
Tax	4	**(2,797)**	(4,642)	(8,226)
Profit for the period attributable to shareholders		**12,495**	18,720	31,861
Earnings per share				
Basic	5	**16.7p**	25.5p	43.3p
Diluted	5	**16.2p**	24.6p	41.6p

Dividends paid in the period amounted to £4,124,000 or 5.5p per share 2013 final dividend (six months to 30 June 2013: £2,211,000 or 3.0p per share 2012 final dividend; twelve months to 31 December 2013: £4,059,000 or 5.5p per share being 3.0p per share 2012 final dividend and 2.5p per share 2013 interim dividend).

Condensed consolidated statement of comprehensive income

for the six months ended 30 June 2014

	Six months ended 30 June 2014 (reviewed) £'000	Six months ended 30 June 2013 (reviewed) £'000	Twelve months ended 31 December 2013 (audited) £'000
Profit for the period attributable to shareholders	**12,495**	18,720	31,861
Exchange differences on translation of net investment	**(46)**	56	(7)
Tax benefit on share option gains	**850**	–	1,379
Other comprehensive income for the period	**804**	56	1,372
Total comprehensive income for the period	**13,299**	18,776	33,233

Condensed consolidated statement of financial position

as at 30 June 2014

	As at 30 June 2014 (reviewed) £'000	As at 31 December 2013 (audited) £'000
Non-current assets		
Goodwill	**720**	720
Other intangible assets	**6,407**	3,387
Property, plant and equipment	**38,818**	38,452
Investments	**1,000**	1,000
Deferred tax asset	**1,287**	4,308
	48,232	47,867
Current assets		
Inventories	**17,401**	15,285
Trade and other receivables	**16,732**	15,441
Current tax asset	**1,164**	782
Treasury deposits	**16,000**	22,000
Cash and cash equivalents	**32,141**	31,485
Derivative financial instruments	**–**	6
	83,438	84,999
Total assets	**131,670**	132,866
Current liabilities		
Trade and other payables	**(11,665)**	(19,225)
Other financial liabilities	**(45)**	(57)
Current tax liabilities	**(168)**	(1,848)
Provisions	**(549)**	(1,074)
	(12,427)	(22,204)
Net current assets	**71,011**	62,795
Non-current liabilities		
Deferred tax liabilities	**(368)**	(328)
Other financial liabilities	**(341)**	(292)
	(709)	(620)
Total liabilities	**(13,136)**	(22,824)
Net assets	**118,534**	110,042
Equity		
Share capital	**7,655**	7,589
Share premium	**26,158**	25,484
Own shares	**(3,796)**	(4,066)
Other reserves	**9,668**	8,610
Translation reserve	**304**	350
Retained earnings	**78,545**	72,075
Equity attributable to shareholders	**118,534**	110,042
Total equity	**118,534**	110,042

Condensed consolidated statement of changes in equity

for the six months ended 30 June 2014

	Share capital £'000	**Share premium £'000**	**Own shares £'000**	**Other reserves £'000**	**Translation reserve £'000**	**Retained earnings £'000**	**Total £'000**
Balance at 1 January 2014	**7,589**	**25,484**	**(4,066)**	**8,610**	**350**	**72,075**	**110,042**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**12,495**	**12,495**
Exchange differences on translation of net investment	**–**	**–**	**–**	**–**	**(46)**	**–**	**(46)**
Tax benefit on share option gains	**–**	**–**	**–**	**–**	**–**	**850**	**850**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(46)**	**13,345**	**13,299**
Issue of share capital	**66**	**674**	**–**	**–**	**–**	**(28)**	**712**
Own shares sold in the period	**–**	**–**	**270**	**–**	**–**	**(9)**	**261**
Dividends (note 6)	**–**	**–**	**–**	**–**	**–**	**(4,124)**	**(4,124)**
Deferred tax charge on share options	**–**	**–**	**–**	**–**	**–**	**(2,714)**	**(2,714)**
Credit to equity for equity-settled share-based payments	**–**	**–**	**–**	**1,058**	**–**	**–**	**1,058**
Balance at 30 June 2014	**7,655**	**26,158**	**(3,796)**	**9,668**	**304**	**78,545**	**118,534**

	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 (note 6)	–	–	–	–	–	(2,211)	(2,211)
Deferred tax benefit on share options	–	–	–	–	–	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

Condensed consolidated cash flow statement

for the six months ended 30 June 2014

	Note	**Six months ended 30 June 2014 (reviewed) £'000**	Six months ended 30 June 2013 (reviewed) £'000	Twelve months ended 31 December 2013 (audited) £'000
Net cash from operating activities	8	**9,010**	27,259	45,093
Investing activities				
Investment income		**197**	64	278
Acquisition of investment bond		**–**	–	(1,000)
Purchases of property, plant and equipment		**(7,793)**	(5,592)	(16,713)
Proceeds on disposal of property, plant and equipment		**8**	2	42
Expenditure on capitalised product development and software		**(3,453)**	(17)	(245)
Net cash used in investing activities		**(11,041)**	(5,543)	(17,638)
Financing activities				
Dividends paid	6	**(4,124)**	(2,211)	(4,059)
Movement in treasury deposits		**6,000**	(8,000)	(18,000)
Proceeds from the sale of ordinary share capital		**261**	125	125
Proceeds from issue of ordinary share capital		**712**	680	1,147
Finance costs		**–**	(40)	(55)
Repayments of borrowings		**–**	(594)	(594)
Net cash from/(used in) financing activities		**2,849**	(10,040)	(21,436)
Net increase in cash and cash equivalents		**818**	11,676	6,019
Effect of foreign exchange rate changes		**(162)**	271	20
Cash and cash equivalents at beginning of period		**31,485**	25,446	25,446
Cash and cash equivalents at end of period		**32,141**	37,393	31,485

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 2014

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 2013 on pages 79 to 85 and were approved by the Board of Directors on 28 August 2014. The interim financial statements for the six months ended 30 June 2014 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 2013.

The financial information in these interim financial statements for the six months ended 30 June 2014, 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 2013 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 13.

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 2013.

Risks and uncertainties

An outline of the key risks and uncertainties faced by the Group was outlined in the 2013 financial statements as summarised in the Chairman's statement on page 3. It is anticipated that the risk profile will not significantly change for the remainder of the year. Risk is an inherent part of doing business and the strong cash position of the Group along with the underlying profitability of the core business leads the Directors to believe that the Group is well placed to manage business risks successfully.

Going concern

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

2. Reconciliation of adjusted financial measures

	Six months ended 30 June 2014 (reviewed) £'000	Six months ended 30 June 2013 (reviewed) £'000	Twelve months ended 31 December 2013 (audited) £'000
Revenue	**60,444**	70,230	137,128
Non-recurring royalty income	**–**	(2,994)	(2,994)
Adjusted revenue	**60,444**	67,236	134,134
Profit before tax	**15,292**	23,362	40,087
Share-based payment charges	**472**	2,014	4,204
Exchange differences relating to the Swedish operations	**523**	(161)	416
Losses/(gains) on derivative financial instruments	**6**	107	(9)
Non-recurring royalty income	**–**	(2,994)	(2,994)
Research and development expenditure credit	**(241)**	–	(586)
Adjusted profit before tax	**16,052**	22,328	41,118

Share-based payment charges include an IFRS 2 charge for the period of £1,058,000 (H1 2013: £968,000) and a credit relating to National Insurance on outstanding potential share option gains of £586,000 (H1 2013: charge of £1,046,000). The National Insurance credit in the period reflects a reduction in the potential liability due to the lower Xaar plc share price as at 30 June 2014 compared to as at 31 December 2013.

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.

Losses and gains on derivative financial instruments relate to the losses and gains made on forward currency contracts in 2014 and 2013.

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

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

Notes to the interim financial information continued

for the six months ended 30 June 2014

2. Reconciliation of adjusted financial measures continued

	Six months ended 30 June 2014 (reviewed) Pence per share	Six months ended 30 June 2013 (reviewed) Pence per share	Twelve months ended 31 December 2013 (audited) Pence per share
Diluted earnings per share	**16.2p**	24.6p	41.6p
Share-based payment charges	**0.6p**	2.6p	5.5p
Exchange differences relating to the Swedish operations	**0.7p**	(0.2p)	0.5p
Losses/(gains) on derivative financial instruments	**–**	0.1p	–
Non-recurring royalty income	**–**	(3.9p)	(3.9p)
Tax effect of adjusting items	**(0.3p)**	0.3p	(0.5p)
Adjusted diluted earnings per share	**17.2p**	23.5p	43.2p

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

3. Business segments

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

Segment information is presented below:

	Six months ended 30 June 2014 (reviewed) £'000	Six months ended 30 June 2013 (reviewed) £'000	Twelve months ended 31 December 2013 (audited) £'000
Revenue			
Product sales, commissions and fees	**57,165**	63,953	127,210
Royalties	**3,279**	6,277	9,918
Total revenue	**60,444**	70,230	137,128
Result			
Product sales, commissions and fees	**12,767**	18,893	33,976
Royalties	**3,279**	6,277	9,918
Total segment result	**16,046**	25,170	43,894
Net unallocated corporate expense	**(1,001)**	(1,960)	(4,195)
Operating profit	**15,045**	23,210	39,699
Investment income	**247**	192	443
Finance costs	**–**	(40)	(55)
Profit before tax	**15,292**	23,362	40,087
Tax	**(2,797)**	(4,642)	(8,226)
Profit for the period attributable to shareholders	**12,495**	18,720	31,861

Unallocated corporate expense relates to administrative activities which cannot be directly attributed to any of the principal product groups, including 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 £4.0 million over the period and assets in the 'royalties' segment have increased by £0.1 million over the period; there have been no other material movements in segment assets during the period.

4. Income tax

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

	Six months ended 30 June 2014 (reviewed) £'000	Six months ended 30 June 2013 (reviewed) £'000	Twelve months ended 31 December 2013 (audited) £'000
Current income tax			
Income tax charge	**2,448**	4,391	8,172
Deferred income tax			
Relating to origination and reversal of temporary differences	**349**	251	54
Income tax expense	**2,797**	4,642	8,226

5. Earnings per ordinary share – basic and diluted

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

	Six months ended 30 June 2014 (reviewed) £'000	Six months ended 30 June 2013 (reviewed) £'000	Twelve months ended 31 December 2013 (audited) £'000
Earnings			
Earnings for the purposes of earnings per share being net profit attributable to equity holders of the parent	**12,495**	18,720	31,861
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**74,667,645**	73,383,574	73,652,808
Effect of dilutive potential ordinary shares:			
Share options	**2,538,590**	2,777,281	2,989,912
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**77,206,235**	76,160,855	76,642,720

6. Dividends

	Six months ended 30 June 2014 (reviewed) £'000	Six months ended 30 June 2013 (reviewed) £'000	Twelve months ended 31 December 2013 (audited) £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2013 of 5.5p (2012: 3.0p) per share	**4,124**	2,211	2,211
Interim dividend for the year ended 31 December 2013 of 2.5p per share	**–**	–	1,848
Total distributions to equity holders in the period	**4,124**	2,211	4,059

The interim dividend of 3.0 pence per share has been approved by the Board and will be paid on 3 October 2014 to shareholders on the register at close of business on 5 September 2014. The interim dividend has not been included as a liability at 30 June 2014.

Notes to the interim financial information continued

for the six months ended 30 June 2014

7. Share capital

During the six months ended 30 June 2014 a total of 654,249 new ordinary shares of 10 pence each were issued under the Company's share option schemes for £712,000.

8. Notes to the cash flow statement

	Six months ended 30 June 2014 (reviewed) £'000	Six months ended 30 June 2013 (reviewed) £'000	Twelve months ended 31 December 2013 (audited) £'000
Profit before tax	**15,292**	23,362	40,087
Adjustments for:			
Share-based payments	**472**	2,014	4,204
Depreciation of property, plant and equipment	**4,700**	3,585	7,410
Amortisation of intangible assets	**433**	308	889
Research and development expenditure credit	**(241)**	–	(586)
Investment income	**(247)**	(192)	(443)
Finance costs	**–**	40	55
Foreign exchange losses/(gains)	**537**	(362)	(26)
Unrealised losses/(gains) on forward contracts	**6**	107	(9)
Loss on disposal of property, plant and equipment	**42**	39	250
Decrease in provisions	**(526)**	(243)	(555)
Operating cash flows before movements in working capital	**20,468**	28,658	51,276
(Increase)/decrease in inventories	**(2,255)**	1,970	(2,121)
Increase in receivables	**(1,301)**	(5,021)	(2,945)
(Decrease)/increase in payables	**(4,569)**	3,045	4,091
Cash generated by operations	**12,343**	28,652	50,301
Income taxes paid	**(3,333)**	(1,393)	(5,208)
Net cash from operating activities	**9,010**	27,259	45,093

9. Date of approval of interim financial statements

The interim financial statements cover the period 1 January 2014 to 30 June 2014 and were approved by the Board on 28 August 2014.

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 2014

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 2014 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 9. 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 2014 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
28 August 2014

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