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If you are in any doubt about the contents of this document or the action you should take, you are recommended to seek your own financial advice immediately from a stockbroker, solicitor, bank, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000 (as amended) if you are in the United Kingdom, or from another appropriately authorised independent financial adviser in a territory outside the United Kingdom. Where in this document a summary is provided in respect of certain financial information, Shareholders should read the whole document and not rely solely on the summarised financial information.

If you have sold or otherwise transferred all of your Ordinary Shares please forward this document at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. This document should not, however, be forwarded or transmitted in or into any jurisdiction in which such act would constitute a violation of the relevant laws of such jurisdiction. If you have sold or transferred only part of your holding of Ordinary Shares, you should retain this document and consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

This document does not constitute, or form part of, an offer or invitation to any person to sell, or any solicitation of any offer to purchase or subscribe for any securities in the Company in any jurisdiction.

The contents of this document should not be construed as legal, business or tax advice. Each Shareholder should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

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## **Xaar plc**

*(incorporated under the laws of England & Wales with registered number 03320972)*

### **Proposed sale by Xaar of 20 per cent. of the enlarged share capital of Xaar 3D Grant of an option to dispose of Xaar's remaining interest in Xaar 3D**

**and**

### **Notice of General Meeting**

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**This document should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out at Part 1 of this document and which recommends you to vote in favour of the Resolution to be proposed at the General Meeting referred to below. Please also see Part 2 of this document for a discussion of certain risk factors that you should consider carefully when deciding whether or not to vote in favour of the Resolution to be proposed at the General Meeting. The whole of this document should be read in light of these risk factors.**

A notice convening the General Meeting of Xaar plc, to be held at Xaar plc, 316 Science Park, Cambridge, CB4 0XR, UK, at 10:00 a.m. on 27 November 2019, is set out at the end of this document.

If a Shareholder wishes to appoint a proxy (or multiple proxies) they may do so at [www.signalshares.com](http://www.signalshares.com) and if paper proxy forms are required, the Shareholder should contact the Company's registrar's using the details provided in the notes to the Notice of General Meeting set out in Part 8 of this document. Submission of a proxy vote shall not preclude a member from attending and voting in person at the meeting in respect of which the proxy is appointed or at any adjournment thereof. To be effective, the proxy vote must be submitted at [www.signalshares.com](http://www.signalshares.com) so as to have been received by the Company's registrars not less than 48 hours (excluding weekends and public holidays) before 10:00 a.m. on 27 November 2019. Any power of attorney or other authority under which the proxy is submitted must be returned to the Company's registrars within the time periods and in line with the instructions set out in the Notice of General Meeting set out in Part 8 of this document.

Jefferies, which is authorised and regulated in the United Kingdom by the FCA, is acting for the Company and for no one else in connection with the Transaction and will not be responsible to any person other than the Company for providing the protections afforded to customers of Jefferies or for providing advice in relation to the Transaction, the contents of this document or any transaction, arrangement or other matter referred to in this document.

Jefferies does not accept any responsibility whatsoever for the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company or the Transaction. Jefferies accordingly disclaims, to the fullest extent permitted by applicable law, all and any liability, whether arising in tort, contract or otherwise, which it might otherwise have in respect of this document or any such statement. No representation or warranty, express or implied, is made by Jefferies or any of its respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this document, and nothing in this document will be relied upon as a promise or representation in this respect, whether or not to the past or future, provided that nothing in this paragraph shall seek to exclude or limit any responsibilities or liabilities which may arise under the FSMA or the regulatory regime established thereunder.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such representations must not be relied on as having been so authorised. The delivery of this document shall not, under any circumstances, create any implication that there has been no change to the affairs of the Company since the date of this document or that the information is correct as of any subsequent time.

This document is dated 8 November 2019.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The following indicative timetable sets out expected dates for the implementation of the Transaction:

|  | <b>Time and date</b>           |
|--|--------------------------------|
| <b>Event</b>   |                                |
| Date of issue of this document   | 8 November 2019                |
| Latest time and date for receipt of proxy vote from Shareholders for the General Meeting | 10:00 a.m. on 25 November 2019 |
| Latest time and date for receipt of CREST proxy instructions from Shareholders           | 10:00 a.m. on 25 November 2019 |
| Time and date of General Meeting   | 10:00 a.m. on 27 November 2019 |
| Expected date of Completion  | 4 December 2019                |

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### Notes

1. Reference to times in this document are to London times unless otherwise stated.
2. The dates and times given in this document are based on the Company's current expectations and may be subject to change.
3. Any changes to the timetable set out above will be announced via a Regulatory Information Service.

## IMPORTANT INFORMATION

Completion of the Transaction is subject to conditions which are described in detail in Part 5 of this document.

All times referred to in this document are, unless otherwise stated, references to London time.

### Reference to defined terms and incorporation of terms

Certain terms used in this document, including capitalised terms and certain technical and other terms, are explained in Part 7 of this document.

### Forward-looking statements and the risks associated with them

This document includes statements that are, or may be deemed to be, forward looking statements. These forward looking statements can be identified by the use of forward looking terminology, including the terms “**anticipates**”, “**believes**”, “**estimates**”, “**expects**”, “**intends**”, “**may**”, “**plans**”, “**projects**”, “**should**” or “**will**”, or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding Xaar’s and/or the Group’s intentions, beliefs or current expectations concerning, amongst other things, Xaar’s results of operations, financial position, prospects, growth, strategies and expectations for the industry in which it operates. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward looking statements are not guarantees of future performance and the actual results of Xaar’s operations, financial position, and the development of the markets and the industry in which Xaar operates may differ materially from those described in or suggested by, the forward looking statements contained in this document. In addition, even if the results of operations, financial position, and the development of the markets and the industry in which Xaar and/or the Group operates, are consistent with the forward looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments of Xaar and/or the Group to differ materially from those expressed or implied by the forward looking statements including, without limitation, general economic and business conditions, industry trends, competition, changes in regulation, currency fluctuations, changes in its business strategy, political and economic uncertainty.

Forward looking statements may, and often do, differ materially from actual results. Any forward looking statements in this document reflect Xaar’s and/or the Group’s current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to Xaar’s and/or the Group’s operations, results of operations and growth strategy.

Save as required by the Prospectus Regulation Rules, the Listing Rules, the Market Abuse Regulation and the Disclosure Guidance and Transparency Rules, Xaar undertakes no obligation to update these forward looking statements and will not publicly release any revisions it may make to these forward looking statements that may occur due to any change in Xaar’s and/or the Group’s expectations or to reflect events or circumstances after the date of this document. Shareholders should note that the contents of these paragraphs relating to forward looking statements are not intended to qualify the statements made as to sufficiency of working capital in this document.

## **CORPORATE DETAILS AND ADVISERS**

|   |   |
|---|---|
| <b>Directors</b>                                    | Andrew Herbert<br>Shomit Kenkare<br>John Mills<br>Christopher Morgan<br>Margaret Rice-Jones<br>Robin Williams |
| <b>Company secretary</b>                            | Camila Cottage  |
| <b>Registered office</b>                            | Science Park<br>Cambridge<br>CB4 0XR  |
| <b>Financial Adviser and Sponsor to the Company</b> | Jefferies International Limited<br>Vintners Place<br>68 Upper Thames Street<br>London<br>EC4V 3BJ             |
| <b>Legal adviser to the Company</b>                 | Mills & Reeve LLP<br>Botanic House<br>100 Hills Road<br>Cambridge<br>CB2 1PH                                  |
| <b>Legal adviser to the Sponsor</b>                 | Simmons & Simmons LLP<br>Citypoint<br>One Ropemaker Street<br>London<br>EC2Y 9SS                              |
| <b>Reporting Accountants to the Company</b>         | Grant Thornton UK LLP<br>101 Cambridge Science Park<br>Milton Road<br>Cambridge<br>CB4 0FY                    |
| <b>Registrars</b>                                   | Link Asset Services<br>The Registry<br>34 Beckenham Road<br>Beckenham<br>Kent<br>BR3 4TU                      |
| <b>Auditors</b>                                     | Ernst & Young LLP<br>One Cambridge Business Park<br>Cowley Road<br>Cambridge<br>CB4 0DZ                       |

## PART 1

### LETTER FROM THE CHAIRMAN OF XAAR PLC

*(incorporated in England and Wales with registered number 03320972)*

#### Directors

Robin Williams (Chairman)  
John Mills (Chief Executive Officer)  
Shomit Kenkare (Chief Financial Officer)  
Andrew Herbert (Non-Executive Director)  
Christopher Morgan (Non-Executive Director)  
Margaret Rice-Jones (Senior Independent Director)

#### Registered office

Science Park  
Cambridge  
CB4 0XR

8 November 2019

Dear Shareholder,

**Proposed sale by Xaar of 20 per cent. of the enlarged share capital of Xaar 3D  
Grant of an option to dispose of Xaar's remaining interest in Xaar 3D  
and  
Notice of General Meeting**

#### 1. Introduction

On 12 September 2019, Xaar announced that it had entered into an agreement ("**Additional Investment Agreement**") with SSYS, its partner in Xaar 3D, to sell 20 per cent. of the enlarged share capital of Xaar 3D to SSYS for US\$10 million and grant SSYS a call option to acquire the remaining 55 per cent. of Xaar 3D not held by SSYS for at least US\$33 million, which is exercisable over three years (together, the "**Transaction**").

The key terms of the Transaction are as follows.

- SSYS will part exercise its existing option, which was granted to SSYS under the terms of the Initial Transaction, to acquire additional Xaar 3D Shares in return for a US\$4 million investment in Xaar 3D, increasing its shareholding in Xaar 3D to 25 per cent.
- Xaar will sell to SSYS, 20 per cent. of the enlarged share capital of Xaar 3D for US\$10 million.
- Subsequently, Xaar and SSYS will together invest US\$3.25 million in Xaar 3D on a fully-pre-emptive basis as follows:
  - Xaar will re-invest US\$1.79 million into Xaar 3D by way of an additional share subscription; and
  - SSYS will invest US\$1.46 million into Xaar 3D by way of an additional share subscription.

Following such share subscriptions, Xaar will hold 55 per cent. of the enlarged issued share capital of Xaar 3D, and SSYS will hold 45 per cent. of the enlarged issued share capital of Xaar 3D.

- As a result of the Transaction, Xaar will receive total proceeds of US\$15.46 million, US\$7.25 million of which will be exclusively for use by Xaar 3D and the remaining cash proceeds of US\$8.21 million will be available for use by Xaar.
- In addition, Xaar will grant SSYS a call option to acquire its remaining 55 per cent. shareholding in Xaar 3D for at least US\$33 million, which option is exercisable during the three-year period following completion of the Additional Investment Agreement ("**Call Option**"). Exercising such Call Option will entitle Xaar to receive royalties on products and services sales for up to 15 years, subject to a US\$ 10 million cap.

- Completion of the Transaction is subject to Xaar's shareholder approval and is expected to occur on 4 December 2019.

The purpose of this document is to:

- provide you with information on the Transaction and the use of funds to be received from the Transaction;
- explain the background to, and reasons for, the Transaction and why the Board believes the Transaction is in the best interests of the Shareholders taken as a whole; and
- explain why the Board unanimously considers the Transaction to be in the best interests of Xaar and its Shareholders as a whole and recommends that Shareholders vote in favour of the Resolution at the General Meeting.

Shareholders should read the whole of this document and not only rely on the summarised information set out in this letter. You will find definitions for capitalised terms used in this letter and the rest of this document in Part 7 of this document.

## **2. General Meeting**

Due to the size of the Transaction, the Transaction constitutes a class 1 transaction under Chapter 10 of the Listing Rules. In addition, SSYS Ltd is regarded as a related party in relation to the Company for the purposes of Chapter 11 of the Listing Rules by virtue of its shareholding in Xaar 3D and accordingly the Transaction constitutes a related party transaction for the purposes of Chapter 11 of the Listing Rules.

Accordingly, the Transaction is conditional upon, amongst other things, the approval of Shareholders at the General Meeting. The General Meeting is to be held at Xaar plc, 316 Science Park, Cambridge, CB4 0XR at 10:00 a.m. on 27 November 2019 for the purpose of seeking your approval and a notice convening the General Meeting is set out in Part 8 of this document. The notice contains the Resolution to be proposed at the General Meeting, the passing of which will require more than 50 per cent. of the votes cast voting in favour of the Resolution.

Neither SSYS nor its associates are Shareholders and accordingly all Shareholders are entitled to vote on the Resolution.

## **3. Background to and reasons for the Transaction**

Xaar initiated its 3D printing programme with Neil Hopkinson and a small team in 2016. Xaar increased its commitment in December 2016 by taking on additional resource in Copenhagen, including individuals with expertise in designing and building the 3D printing machines to serve the market that Xaar 3D has targeted since its incorporation.

The high speed sintering ("HSS") segment of the 3D printing market is one which aims to provide a low cost and high quality replacement for the medium volume production of components which may previously have been manufactured via injection moulding techniques, with associated high tooling costs. It is therefore not aiming at the low volume prototype market where much of the 3D focus has been in recent years. Neil Hopkinson and his team are acknowledged leaders in this area of HSS, and it was always the intention that Xaar 3D (once incorporated) would develop printers for the medium volume component production market, but would need to source expertise to ensure it had effective access to the market via both distribution and subcontract manufacturing partners, as both of these areas would need investment that was beyond the reach of Xaar's budget and area of expertise.

After discussions with some of the leading players in 3D printing, in July 2018, Xaar formed Xaar 3D and entered into the Existing Investment Agreement with SSYS. Following the Existing Investment Agreement, SSYS held a 15 per cent. stake in Xaar 3D and Xaar remained the majority shareholder, holding 85 per cent. of the issued share capital of Xaar 3D. SSYS was given an option at that time to subscribe for more equity in Xaar 3D on certain terms, which, if exercised in full, would take its stake in Xaar 3D to 30 per cent. in return for an additional investment of US\$6 million.

SSYS is one of the world's leading 3D printing companies, with revenues in the financial year ending in 2018 of approximately \$660 million across many areas of the 3D printing market and a

strong distribution network which could be of great benefit to Xaar 3D as its products become ready for commercial launch.

Since its inception, Xaar 3D has made significant progress in advancing the commercialisation of the HSS technology, however Xaar 3D requires further investment over the next 12 months before Xaar 3D is anticipated to be able to start to generate cash through its operating activities. Some additional investment was anticipated when the Existing Investment Agreement was entered into and, so as to provide that additional investment, SSYS was granted the option which enables SSYS to increase its stake in Xaar 3D in return for a cash injection. The Board notes however that the level of investment contemplated by the Existing Investment Agreement is unlikely to be sufficient to enable Xaar 3D to take advantage of the progress it has made and the opportunities available to it and so the business would benefit from further investment.

As a result of the continued progress made by Xaar 3D and, given its potential, SSYS has expressed an interest to provide further investment capital for, and to materially increase its stake in, Xaar 3D, further than would be possible pursuant to the options granted pursuant to the Existing Investment Agreement. However, SSYS is only willing to make such a further investment in Xaar 3D if the Company enters into a package of measures which will see the Company also make a further equity investment into Xaar 3D as well as the Company granting SSYS an option to acquire the remainder of the Company's stake in Xaar 3D in the future.

The Board believes that the proposed terms with SSYS represent good value for Shareholders as they allow:

- Xaar 3D to benefit from increased financial resources with which to accelerate its development;
- Xaar 3D to benefit to a greater degree from SSYS' knowledge of the 3D market and go-to-market expertise; and
- Xaar to crystallise significant value and an excellent return for its Shareholders on its investment in Xaar 3D, while giving Shareholders continued exposure to an attractive business with the potential for further value realisation in the future if the Call Option is exercised.

It is the opinion of the Board, that Xaar's investment in Xaar 3D is worth considerably more with immediate additional investment and support from SSYS than it would be if Xaar were attempting to develop this technology under its current ownership structure.

#### **4. Information on SSYS and SSYS Ltd**

SSYS Ltd, (NASDAQ : SSYS) is a leading global provider of applied additive technology solutions for industries including aerospace, automotive, healthcare, consumer products and education. For nearly 30 years, it has focused on customers' business requirements and has sought to create new value for its customers across their product lifecycle processes, from design prototypes to manufacturing tools and final production parts. That customer-centric focus is reflected in their innovation, which is exemplified by their 1,400 granted and pending additive technology patents. They operate a 3D printing ecosystem of solutions and expertise, comprised of advanced materials; software with voxel level control; precise, repeatable and reliable fused deposition modeling 3D printers (utilizing proprietary FDM® technology) and inkjet-based 3D printers (utilising proprietary PolyJet™ technology) and stereolithography printers; application-based services; on-demand parts and key partnerships. SSYS Ltd and its wider group strives to ensure that its solutions are integrated seamlessly into each customer's evolving workflow. The applications are industry-specific and geared towards accelerating business processes, optimizing value chains and driving business performance improvements. Its customers range from individuals and smaller businesses to large, global enterprises, and include a number of Fortune 100 companies.

#### **5. Financial effects of the Transaction and use of proceeds**

As Xaar 3D is in the early stages of its life cycle it is therefore yet to deliver meaningful revenues. In the year ended 31 December 2018, the Xaar 3D business contributed an operating reported loss before tax and finance costs of £0.9 million. As at 31 December 2018, the Xaar 3D business had total gross assets of £12.9 million.

On Completion the Board believes it should continue to consolidate Xaar 3D due to the control that it will retain owing to its majority equity holding, its number of Board seats and other criteria. The

Board however continues to evaluate the application of IFRS 10 including potential or implied voting rights associated with the call option and if on completion of the Transaction the criteria under which Xaar should consolidate Xaar 3D are no longer met, Xaar would deconsolidate Xaar 3D, reflecting this in its 2019 full year financial statements. In any case, the Board will continue to monitor and review the criteria for consolidation on an ongoing basis and if any changes occur which mean it no longer retains control of Xaar 3D this will be reflected in the financial statements in later years.

The *pro forma* impact of the disposal on the net assets of the Group as at 30 June 2019, which has been prepared for illustrative purposes only, is set out in Part 4 (Unaudited *Pro Forma* Financial Information) of this document.

The Board believes that it is appropriate for Xaar to retain a strong balance sheet and thus Xaar will retain the gross proceeds of US\$8.2 million (£6.4 million translated using the 7 November 2019 foreign exchange rate of 1.28726). As previously announced, the Board has decided to cease its Thin Film activities and is in the process of exploring options to derive income from licensing IP. The Company is also in the process of consulting with employees, customers and suppliers to implement these changes and on completion of this consultation, will evaluate its ongoing cash requirements and the optimal shape of its balance sheet.

In the immediate-term, Xaar will continue to focus its efforts on developing its strategy around its printhead, product print and 3D print businesses. Should SSYS decide to exercise its Call Option, the proceeds will give the Board additional resources to potentially further invest in the printhead business (for example by widening the applications and segments it participates in or by developing a range of more integrated products than simply printheads) and also to explore options to acquire other businesses in the product print space (similar to the Company's acquisition of EPS in Vermont, USA in 2016).

## **6. Principal terms of the Transaction**

The principal terms of the Additional Investment Agreement, entered into between Xaar and the Purchaser on 11 September 2019, are set out in Part 5 of this document.

At the same time as entering into the Additional Investment Agreement, Xaar 3D also entered into:

- the Supply Agreement relating to the supply of printheads to Xaar 3D; and
- the Master Distribution Agreement relating to the distribution of 3D printers,

the key terms of which are set out in Part 5 of this document.

## **7. Current trading and future prospects of the Group**

The Group's revenue in the first half of 2019 declined by £12.8 million compared to the first half of 2018. Excluding one-time Seiko royalties in H1 2018 and the prior year's Xaar 1201 revenue reversal, in H1 2019 revenue grew by 5 per cent. Underlying trading in the printhead business stabilised in the first half after the decline of 2018.

Product Print systems business revenue grew by £1.2 million (22 per cent.) in the first half of 2019 driven by growth in inkjet and pad printing equipment as well as consumables.

The Group's net cash at 30 June 2019 was £21.6 million, which includes £5.1 million ring fenced for use by the Xaar 3D Business only (31 December 2018: £27.9 million, which includes £8.4 million ring fenced for use by the Xaar 3D Business only).

Xaar continued to experience trading losses in the first half of the year, albeit with some stability in the "bulk printhead" business and good progress with the "product print" and "3D" businesses. The trading losses faced by the Company were primarily to do with the development programme associated with its "thin film" activities, which were still not close to achieving commercial levels of revenue and using a considerable amount of cash.

The Board completed a thorough advisor-led process to identify a partner who will provide the scale and funding that the thin film technology requires, being the final step in our strategic review of the printhead business. Despite interest from a number of parties and recognition that the technology has potential, no deliverable proposal was received that either shares or acquires this activity in a way that brings the cost of development down to a level which Xaar can sustain within its cash

flows. In the absence of additional external investment being available, the Board announced on 26 September 2019 that it has decided to cease further investment in its thin film programme. Consequently, a balance sheet write-off of the associated capitalised R&D, plant assets and working capital of £39 million was recorded in the first half 2019 results. This action significantly improves the financial position of the Company going forward in terms of reduced losses and cash burn. More specifically, this decision results in annual recurring cost savings of around £8 million, with associated one-time restructuring costs expected to be up to £2.5 million as the Board intends to embark upon further restructuring of the Company's printhead business. The Group is also working with its vendors to settle its obligations as a result of ceasing its thin film investment. Additionally, the decision gives the Company the flexibility to rebalance its strategic direction and invest in its areas of strength.

The Group comprises:

- a printhead business operating across Asia, Europe and the Americas focusing on the graphics, packaging and industrial segments to grow its share of market in these areas;
- a growing product print business based out of Vermont in the United States in a market that is rapidly converting to digital; and
- until such point that the Call Option is exercised, an interest in a high-potential 3D printing business that has a strong technological advantage alongside a strong go-to-market partner, SSYS.

## **8. Risk factors**

Shareholders should consider fully and carefully the risk factors associated with the Transaction. Your attention is drawn to the risk factors set out in Part 2 of this document.

## **9. Action to be taken**

You are invited to attend the General Meeting of the Company to be held at Xaar plc, 316 Science Park, Cambridge, CB4 0XR, at 10:00 a.m. on 27 November 2019.

If you would like to appoint a proxy (or multiple proxies) you may do so at [www.signalshares.com](http://www.signalshares.com) and if paper proxy forms are required, the Shareholder should contact the Company's registrars using the details provided in the notes to the Notice of General Meeting set out in Part 8 of this document. Submission of a proxy vote shall not preclude a member from attending and voting in person at the meeting in respect of which the proxy is appointed or at any adjournment thereof. To be effective, the proxy vote must be submitted at [www.signalshares.com](http://www.signalshares.com) so as to have been received by the Company's registrars not less than 48 hours (excluding weekends and public holidays) before 10:00 a.m. on 27 November 2019. Any power of attorney or other authority under which the proxy is submitted must be returned to the Company's registrars within the time periods and in line with the instructions set out in the Notice of General Meeting set out in Part 8 of this document.

If you hold your Ordinary Shares in CREST, you may appoint a proxy by completing and transmitting a CREST proxy instruction form so that it is received by Link Asset Services (under CREST participant ID RA10) by no later than 10:00 a.m. on 25 November 2019. The time of receipt will be taken to be the time from which Link Asset Services is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The completion and return of a proxy vote (electronically or otherwise) or completion and transmission of a CREST proxy instruction will not prevent you from attending the General Meeting and voting in person if you wish to do so.

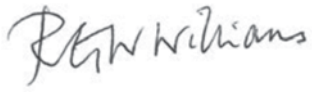
Further explanation of the procedures in respect of the General Meeting are set out in paragraph B of Part 5 of this document.

## **10. Recommendations**

The Board considers that the Resolution is in the best interests of Shareholders as a whole and, accordingly, unanimously recommends that all Shareholders vote in favour of the Resolution at the General Meeting as the Directors intend to do in respect of their own beneficial shareholdings.

The Board, which has been so advised by Jefferies as sponsor, considers the terms of the Transaction to be fair and reasonable so far as Shareholders are concerned. In providing financial advice to the Board, Jefferies has taken into account the commercial assessment of the Directors.

Yours sincerely

A handwritten signature in dark ink, appearing to read "Robin Williams". The signature is fluid and cursive, with the first name "Robin" and last name "Williams" clearly distinguishable.

**Robin Williams**  
Chairman

## PART 2

### RISK FACTORS

Prior to making any decision to vote in favour of the proposed Resolution at the General Meeting, Shareholders should carefully consider, together with all other information contained in this document, the specific risk factors described below. The Directors consider the following to be all the material risks of which the Directors are currently aware. There may be other risks of which the Board is not aware or which it believes to be immaterial which may have an adverse effect on the business, financial condition, results or future prospects of the Group after the Transaction. The majority of the risk factors set out below are contingencies which may or may not occur.

#### **1. Risks relating to the Transaction not proceeding**

##### ***Possible financial effects of the Transaction not proceeding***

If the Transaction does not complete, the Group will not receive the cash proceeds from the Transaction and consequently may need to pursue other fundraising options to allow it to enable adequate invest for Xaar 3D and its 3D printing business.

##### ***Possible effect on Xaar's relationship with SSYS***

If the Transaction does not proceed, SSYS may lose interest in supporting the Xaar 3D printing business and distributing Xaar 3D's products. SSYS may even seek to wind down its contribution to Xaar 3D, reduce its shareholding in Xaar 3D, or even seek to fully exit Xaar 3D. If this were to happen, Xaar would lose SSYS as a partner in the 3D printing business of Xaar 3D. Xaar considers SSYS to be the best possible partner for it in the 3D printing business in order to take the 3D printing product(s) to market successfully. Without the support of SSYS, Xaar's ability to exploit the business of Xaar 3D and achieve a successful market launch would be reduced and Xaar would need to identify a suitable (but likely lesser) alternative partner. Overall, the Group would expect to lose the value it would otherwise have been able to lock-in as part of the Transaction.

##### ***Effect on the 3D printing business and Xaar 3D***

If the Transaction does not proceed there is a risk that the go-to-market channel provided by SSYS will be lost. The impact of this could be that Xaar 3D's highly skilled and currently very motivated management team may become demotivated and therefore be more open to approaches from competitors and/or generally pursuing opportunities elsewhere. These factors may adversely affect the Group's future prospects, financial position and/or results of operations.

##### ***Inability to realise value if the Transaction does not complete***

The Board believes that the Transaction is in the best interests of Shareholders taken as a whole and that the Transaction currently provides the best opportunity to potentially realise an attractive and certain value for Xaar's stake in Xaar 3D based on current projections. If the Transaction does not complete, the subsequent value of Xaar's interest in Xaar 3D may be lower than can be realised by way of the Transaction (assuming the ultimate exercise by SSYS of its Call Option). This could result in the financial position of the Group being materially worse than the position it would be in if the Transaction completed.

##### ***Potential inability to dispose of Xaar 3D in the future***

If the Transaction is not approved by Shareholders, it will become incapable of completion. If this were to occur, there would be no assurance that Xaar would be able to dispose of its interest in Xaar 3D at a later date.

##### ***There may be an adverse impact on the Company's reputation***

If the Transaction does not proceed, there may be an adverse impact on the reputation of the Group due to amplified media scrutiny arising in connection with the attempted Transaction. Any such reputational risk could adversely affect the Group's business, financial condition and results of operations.

## **2. Risks relating to the Transaction**

### ***Warranties in the Additional Investment Agreement***

The Additional Investment Agreement contains customary warranties given by Xaar in favour of SSYS, details of which are set out in Part 5 of this document. Whilst the Company is of the view that it can give such warranties on an unqualified basis, were Xaar to breach any such warranties, it would face the possibility of a claim against it for contractual damages.

### ***Xaar may not realise all of the perceived benefits of the Transaction***

Xaar may not be able to realise the perceived benefits of the Transaction set out in Part 1 (Letter from the Chairman of Xaar) of this document – for instance achieving value from Xaar 3D on exercise of the Call Option by SSYS in the event that the Xaar 3D Business fails to delivery sufficient financial performance.

### ***Ability to achieve the Earn Out Revenue***

If SSYS is less successful than expected in selling Xaar 3D products as exclusive distribution partner, Xaar 3D will only have limited options for generating revenue through other channels. If after exercising its Call Option SSYS is unable to generate revenues from the 3D printing business, then payment to Xaar plc of the \$10 million Earn-Out Revenue may be delayed or reduced.

If SSYS exercises its Call Option, resulting in Xaar 3D being transferred out of the Group completely, Xaar 3D will stop benefitting from being part of the Group and will receive less support from the Group. This could impact on the level of revenue achieved by Xaar 3D, and therefore impact on the Earn-Out Revenue payable to Xaar, which would be outside of its control.

If SSYS exercises its Call Option and obtains full control of Xaar 3D, it could takes steps to consolidate the business of Xaar 3D in such a way as would potentially make it difficult to work out what the revenue of the 3D printing business is for the purposes of determining the Earn-Out Revenue payable to Xaar. Additionally, in a position of control over the 3D printing business, SSYS could alter its performance in such a way as to depress the value of Xaar 3D for the purposes of calculating the Earn-Out Revenue payable to Xaar as SSYS' performance directly impacts on the value Xaar will receive from Xaar 3D.

### ***Relationship with SSYS***

Completion of the Transaction would tie Xaar more closely to SSYS and therefore Xaar's ability to target other routes to market in relation to the 3D printing business is reduced. As a result of increasing is shareholding in Xaar 3D, SSYS could seek to impose greater levels of control over the operation and direction of Xaar 3D.

## **3. Risks associated with the Group**

### ***Loss of diversification***

Following Completion, the Group will be less diverse. On Completion, the Group would retain only 55% of the issued share capital of Xaar 3D and should the Call Option be exercised by SSYS, the Group will have no presence in the 3D printing sector except for the potential to supply printheads. In addition to its core printhead business, the 3D printing business of Xaar 3D provides the Group with a much broader addressable market to tap into in the future. Following Completion and the subsequent exercise of the Call Option, the Group will no longer benefit from this opportunity and its overall financial performance will depend more on the performance of its continuing operations and interests.

### ***Relationship with employees***

The implementation of Xaar's strategic plan may strain relations with employees and specific proposals in connection with the implementation may be opposed. In this context, the Group may incur redundancy or other costs and may be subject to labour conflicts which could result in a disruption to the Group's business, operations or financial condition.

### ***Recruitment and retention of key employees***

The success of the Group depends on the efforts, abilities, experience and expertise of its senior management teams, and on recruiting, retaining, motivating and developing highly skilled and

competent people at all levels of their organisations. There can be intense competition for personnel from other companies and organisations and there may at any time be shortages in the availability of appropriately skilled people at all levels. The reduction in size and diversification of the Group following the Transaction may make it more difficult to attract and retain talented employees, which could have a material adverse effect on its business.

***Law, regulation and legal proceedings***

The Xaar 3D business could be subject to future legal claims which could impact its ability to do business and may have an impact on SSYS willingness to exercise its Call Option.

***The market price of the Ordinary Shares may go down as well as up***

Shareholders should be aware that the value of an investment in the Group may go down as well as up and can be highly volatile. The price at which the Ordinary Shares may be quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its operations, and some which may affect the Group's sector as a whole, other comparable companies or publicly traded companies as a whole. The sentiments of the stock market regarding the Transaction will be one such factor and this, together with other factors, including the actual or anticipated fluctuations in the financial performance of the Group and its competitors, market fluctuations, and legislative or regulatory changes in the Group's sector, could lead to the market price of Ordinary Shares going up or down.

## PART 3

### HISTORICAL FINANCIAL INFORMATION ON THE XAAR 3D BUSINESS

#### 1. Basis of preparation

The unaudited financial information contained in Sections 2 and 3 of this Part 3 (Historical Financial Information on the Xaar 3D Business) represents financial information relating to the Xaar 3D Business. The Xaar 3D Business has not previously prepared consolidated financial statements.

The following financial information has been extracted without material adjustment from the consolidation schedules and supporting accounting records that underlie the Group's audited consolidated financial statements for the year ended 31 December 2017, the year ended 31 December 2018 and the Group's published unaudited consolidated interim financial information for the six months ended 30 June 2019. No financial information has been presented for the year ended 31 December 2016 on the basis that the Xaar 3D business did not substantially commence until January 2017.

This financial information for the year ended 31 December 2017, the year ended 31 December 2018 and for the six months ended 30 June 2019 has been prepared applying the IFRS accounting principles adopted in the Group's consolidated financial statements for the year ended 31 December 2018, (except that for the six months ended 30 June 2019, IFRS 16 'Leases' was applied from 1 January 2019 and IFRS 15 'Revenue from Contracts with Customers' was applied from 1 January 2018). The Group chose to adopt IFRS 15 and IFRS 16 on the 'modified retrospective' basis and hence no restatement of periods prior to the adoption of IFRS 15 or IFRS 16 was required under this transition method. The adoption of IFRS 15 and IFRS 16 did not have a material impact on the Xaar 3D Business's financial performance, position or cash flows.

It is not possible to present a meaningful allocation of finance costs and tax expenses for all periods presented as these items are managed centrally by the Group. Therefore, the financial information presented has only been prepared to an operating profit before tax and finance costs level.

The financial information does not constitute statutory accounts for the Xaar 3D Business within the meaning of section 434 of the Companies Act 2006. The statutory accounts of the Group for the year ended 31 December 2017 and 31 December 2018 have been delivered to the Registrar of Companies. The auditor's reports in respect of those statutory accounts were issued by Deloitte LLP and were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Shareholders should read the whole of this document and not rely solely on the summarised financial information in this Part 3 (Historical Financial Information on the Xaar 3D Business).

#### 2. Consolidated income statements of the Xaar 3D business for the year ended 31 December 2017, 31 December 2018 and six months ended 30 June 2019

|  | Year ended<br>31 December<br>2017<br>£m<br>unaudited | Year ended<br>31 December<br>2018<br>£m<br>unaudited | Six months<br>ended<br>30 June 2019<br>£m<br>unaudited |
|--|--|--|--|
| <b>Revenue</b>                                     | 0.1  | 0.1  | —  |
| Research and development expenses                  | (0.7)  | (0.2)  | (0.1)  |
| Sales and marketing expenses                       | —  | (0.2)  | (0.1)  |
| General and administrative expenses                | (0.1)  | (0.2)  | (0.2)  |
| Restructuring and investment expenses              | —  | (0.4)  | 0.3  |
| <b>Operating loss before tax and finance costs</b> | <b>(0.7)</b>   | <b>(0.9)</b>   | <b>(0.1)</b>   |

**3. Consolidated net asset statement of the Xaar 3D business as at 31 December 2018 and 30 June 2019**

|                                      | As at<br>31 December<br>2018<br>£m<br>unaudited | As at<br>30 June 2019<br>£m<br>unaudited |
|--------------------------------------|---|--|
| <b>Non-current assets</b>            |   |  |
| Other intangible assets              | 3.0   | 4.1                                      |
| Property, plant and equipment        | 0.6   | 1.4                                      |
| Deferred tax asset                   | —   | 0.1                                      |
|                                      | <u>3.6</u>                                      | <u>5.6</u>                               |
| <b>Current assets</b>                |   |  |
| Inventories                          | 0.8   | 0.6                                      |
| Trade and other receivables          | —   | 0.1                                      |
| Current tax asset                    | 0.1   | 0.1                                      |
| Treasury deposits                    | 2.5   | 2.5                                      |
| Cash and cash equivalents            | 5.9   | 2.6                                      |
|                                      | <u>9.3</u>                                      | <u>5.9</u>                               |
| <b>Total assets</b>                  | <u><u>12.9</u></u>                              | <u><u>11.5</u></u>                       |
| <b>Current liabilities</b>           |   |  |
| Trade and other payables             | (2.0)   | (0.5)                                    |
| Lease liabilities                    | —   | (0.1)                                    |
| Derivative financial instruments     | (1.3)   | (1.0)                                    |
|                                      | <u>(3.3)</u>                                    | <u>(1.6)</u>                             |
| <b>Net current assets</b>            | <u><u>6.0</u></u>                               | <u><u>4.3</u></u>                        |
| <b>Non-current liabilities</b>       |   |  |
| Deferred tax liabilities             | (0.1)   | —  |
| Lease liabilities                    | —   | (0.4)                                    |
| <b>Total non-current liabilities</b> | <u><u>(0.1)</u></u>                             | <u><u>(0.4)</u></u>                      |
| <b>Total liabilities</b>             | <u><u>(3.4)</u></u>                             | <u><u>(2.0)</u></u>                      |
| <b>Net assets</b>                    | <u><u>9.5</u></u>                               | <u><u>9.5</u></u>                        |

## PART 4

### UNAUDITED *PRO FORMA* FINANCIAL INFORMATION

#### 1. Unaudited *pro forma* statement of net assets of the Xaar Group and of the Non-Xaar 3D Group

The following unaudited *pro forma* statement of net assets of the Group has been prepared to illustrate the effect of the Transaction on the net assets of the Group as if the Transaction had occurred on 30 June 2019.

Part 1(a) shows the immediate impact of the Transaction as if it had occurred at 30 June 2019.

If the Call Option was not exercised immediately by SSYS, and Xaar were to retain a 55 per cent. interest in Xaar 3D on completion, although it is still classed as a disposal under the Listing Rules, Xaar would evaluate the application of IFRS 10 and determine whether to control and consolidate the results and net assets of the Xaar 3D Business in full, and Net Cash Proceeds from the Transaction would be £11.7 million, which is US\$15.5 million translated using the 30 June 2019 foreign exchange rate of 1.269, less expenses of £0.5 million.

From the agreements entered into for the Transaction, the Board is of the opinion it will continue to consolidate Xaar 3D due to the control that it will retain owing to its equity holdings, its number of Board seats and other criteria. The Board however continues to evaluate the application of IFRS 10 including potential voting rights associated with the call option and if on completion of the Transaction the criteria under which Xaar would consolidate Xaar 3D are no longer met Xaar would deconsolidate Xaar 3D reflecting this in its 2019 full year financial statements. The Board will continue to monitor and review the criteria for consolidation on an ongoing basis and if any changes occur which mean it no longer retains control of Xaar 3D this will be reflected in the financial statements. Further details are provided in part 1(a).

No adjustment has been made to reflect the financial results of either the Group or the Xaar 3D Business since 30 June 2019.

Part 1(b) shows a further unaudited *pro forma* statement of net assets of the Non-Xaar 3D Group has been prepared to illustrate the effect of the Call Option following the Transaction on the net assets of the Group as if the Transaction and the Call Option had occurred on 30 June 2019.

The unaudited *pro forma* statement of net assets is for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the Group's or the Non-Xaar 3D Group's actual financial position or results.

The unaudited *pro forma* financial information is based on the unaudited half year financial statements of the Group as at 30 June 2019 and the unaudited historical financial information of the Xaar 3D Business as at 30 June 2019 contained in Part 3 (Historical Financial Information on the Xaar 3D Business) of this document, with the addition of the cash from the Transaction and for the unaudited *pro forma* statement of net assets of the Non-Xaar 3D Group as at 30 June 2019 – cash received on the exercise of the Call Option.

A *pro forma* income statement has not been presented on the basis that removing the income statement for the Xaar 3D Business for the six months ended 30 June 2019, as included in Part 3 Historical Financial Information on the Xaar 3D Business, would not have a material impact on the Non-Xaar 3D Group.

The unaudited *pro forma* financial information has been prepared on the basis set out in the notes below and in accordance with Annex 20 of the Commission Delegated Regulation (EU) No 2019/980, as applied by Listing Rule 13.3.3R and has been prepared in a manner consistent with the accounting policies of the Group for the six month period ended 30 June 2019. The unaudited *pro forma* financial information does not constitute financial statements within the meaning of section 434 of the Companies Act 2006.

All *pro forma* adjustments are directly attributable to the Transaction. No *pro forma* adjustments have been made to reflect any matters not directly attributable to the Transaction.

Shareholders should read the whole of this document and not rely solely on the summarised financial information in this Part 4 (Unaudited *Pro Forma* Financial Information).

Grant Thornton UK LLP's report on the unaudited *pro forma* financial information is set out in Section 2 of this Part 4 (Unaudited *Pro Forma* Financial Information) of this document.

**1(a) Unaudited *pro forma* statement of net assets of the Group as at 30 June 2019 – following the Transaction**

|                                      | The Group<br>As at<br>30 June 2019<br>£m | Adjustments<br>As at<br>30 June 2019<br>£m | The Group<br>following the<br>Transaction<br>as at<br>30 June 2019<br><i>pro forma</i><br>unaudited<br>£m |
|--------------------------------------|--|--|---|
|                                      | Note 1                                   | Note 2                                     | Note 5  |
| <b>Non-current assets</b>            |  |  |   |
| Goodwill                             | 5.5                                      | —  | 5.5   |
| Other intangible assets              | 4.4                                      | —  | 4.4   |
| Property, plant and equipment        | 24.1                                     | —  | 24.1  |
| Deferred tax asset                   | 0.3                                      | —  | 0.3   |
|                                      | 34.3                                     | —  | 34.3  |
| <b>Current assets</b>                |  |  |   |
| Inventories                          | 22.9                                     | —  | 22.9  |
| Trade and other receivables          | 14.0                                     | —  | 14.0  |
| Current tax asset                    | 2.8                                      | —  | 2.8   |
| Treasury deposits                    | 3.3                                      | —  | 3.3   |
| Cash and cash equivalents            | 18.3                                     | 11.7                                       | 30.0  |
|                                      | 61.3                                     | 11.7                                       | 73.0  |
| <b>Total assets</b>                  | 95.6                                     | 11.7                                       | 107.3   |
| <b>Current liabilities</b>           |  |  |   |
| Trade and other payables             | (8.5)                                    | —  | (8.5)   |
| Lease liabilities                    | (0.9)                                    | —  | (0.9)   |
| Provisions                           | (1.5)                                    | —  | (1.5)   |
| Derivative financial instruments     | (1.0)                                    | —  | (1.0)   |
|                                      | (11.9)                                   | —  | (11.9)  |
| <b>Net current assets</b>            | 49.4                                     | 11.7                                       | 61.1  |
| <b>Non-current liabilities</b>       |  |  |   |
| Deferred tax liabilities             | (0.1)                                    | —  | (0.1)   |
| Lease liabilities                    | (1.9)                                    | —  | (1.9)   |
| <b>Total non-current liabilities</b> | (2.0)                                    | —  | (2.0)   |
| <b>Total liabilities</b>             | (13.9)                                   | —  | (13.9)  |
| <b>Net assets</b>                    | 81.7                                     | 11.7                                       | 93.4  |

**Notes:**

- (1) The consolidated net assets of the Group have been extracted from the unaudited half year condensed financial statements of the Group for the six months ended 30 June 2019. Included in Treasury deposits and Cash and cash equivalents is £2.5 million and £2.6 million respectively, ring fenced for use by the Xaar 3D Business only.
- (2) Net cash proceeds from the Transaction are expected to be approximately £11.7 million (\$15.46 million translated using the 30 June 2019 foreign exchange rate of 1.269), after adjustment for estimated transaction costs of £0.5 million, of which £5.7 million is ring fenced for use by the Xaar 3D Business only.
- (3) On Completion the Board believes, in accordance with IFRS 10, it should continue to consolidate Xaar 3D due to the control that it will retain owing to its majority equity holding, its number of Board seats and control over the majority of the relevant activities of the Xaar 3D Business. Relevant activities are those that the Board considers to be most likely to impact investor returns. This is an area of significant judgement. The Board continues to evaluate the application of IFRS 10 including potential voting rights associated with the call option and if in future the criteria under which Xaar would consolidate Xaar 3D are no longer met Xaar would deconsolidate Xaar 3D. The Board will continue to evaluate the application of IFRS 10 as future events may result in changes to the respective weightings associated with the Board's current assessment of control.
- (4) In the next financial statements, the Call Option will be valued and a non-cash liability is expected to be recognised. However this cannot be quantified at this time and accordingly is not included in the *Pro forma* Statement of Net Assets.
- (5) Included in Treasury deposits and Cash and cash equivalents is £2.5 million and £8.3 million respectively, ring fenced for use by the Xaar 3D Business only.
- (6) No adjustment has been made to reflect the financial results of either the Group or the Xaar 3D business since 30 June 2019.

**1(b) Unaudited *pro forma* statement of net assets of the Non-Xaar 3D Group as at 30 June 2019 – following the exercise of the Call Option**

|                                      | The Group<br>following the<br>Transaction<br>As at<br>30 June 2019<br><i>Pro forma</i><br>unaudited<br>£m | Xaar 3D<br>Business<br>following the<br>Transaction<br>As at<br>30 June 2019<br><i>Pro forma</i><br>unaudited<br>£m | Adjustments<br>As at<br>30 June 2019<br>£m | The Non-<br>Xaar 3D<br>Group<br>As at<br>30 June 2019<br><i>Pro forma</i><br>unaudited<br>£m |
|--------------------------------------|---|---|--|--|
|                                      | Note 1  | Note 2  | Note 3                                     |  |
| <b>Non-current assets</b>            |   |   |  |  |
| Goodwill                             | 5.5   | —   | —  | 5.5  |
| Other intangible assets              | 4.4   | (4.1)   | —  | 0.3  |
| Property, plant and equipment        | 24.1  | (1.4)   | —  | 22.7   |
| Deferred tax asset                   | 0.3   | (0.1)   | —  | 0.2  |
|                                      | 34.3  | (5.6)   | —  | 28.7   |
| <b>Current assets</b>                |   |   |  |  |
| Inventories                          | 22.9  | (0.6)   | —  | 22.3   |
| Trade and other receivables          | 14.0  | (0.1)   | —  | 13.9   |
| Current tax asset                    | 2.8   | (0.1)   | —  | 2.7  |
| Treasury deposits                    | 3.3   | (2.5)   | —  | 0.8  |
| Cash and cash equivalents            | 30.0  | (8.3)   | 26.0                                       | 47.7   |
|                                      | 73.0  | (11.6)  | 26.0                                       | 87.4   |
| <b>Total assets</b>                  | 107.3   | (17.2)  | 26.0                                       | 116.1  |
| <b>Current liabilities</b>           |   |   |  |  |
| Trade and other payables             | (8.5)   | 0.5   | —  | (8.0)  |
| Lease liabilities                    | (0.9)   | 0.1   | —  | (0.8)  |
| Provisions                           | (1.5)   | —   | —  | (1.5)  |
| Derivative financial instruments     | (1.0)   | 1.0   | —  | —  |
|                                      | (11.9)  | 1.6   | —  | (10.3)   |
| <b>Net current assets</b>            | 61.1  | (10.0)  | 26.0                                       | 77.1   |
| <b>Non-current liabilities</b>       |   |   |  |  |
| Deferred tax liabilities             | (0.1)   | —   | —  | (0.1)  |
| Lease liabilities                    | (1.9)   | 0.4   | —  | (1.5)  |
| <b>Total non-current liabilities</b> | (2.0)   | 0.4   | —  | (1.6)  |
| <b>Total liabilities</b>             | (13.9)  | 2.0   | —  | (11.9)   |
| <b>Net assets</b>                    | 93.4  | (15.2)  | 26.0                                       | 104.2  |

**Notes:**

- (1) The consolidated net assets of the Group are per the 'Unaudited *pro forma* statement of net assets of the Xaar Group as at 30 June 2019 – following the Transaction', as stated in 1(a) above.
- (2) The net assets of the Xaar 3D Business have been extracted without material adjustment from the historical financial information of Xaar 3D set out in Part 3 (Historical financial information on the Xaar 3D Business) of this document, except for the inclusion of £5.7 million cash resulting from the Transaction and ring fenced for use by the Xaar 3D Business.
- (3) Net cash proceeds from the exercise of the Call Option are expected to be approximately £26.0 million, which is the US\$33.0 million translated using the 30 June 2019 foreign exchange rate of 1.269, and settlement of minor intercompany balances due from the Xaar 3D Business to the Non-Xaar 3D Group. The net cash proceeds from the exercise of the Call Option includes the minimum amount receivable for the exercise of the Call Option of US\$33.0 million but does not include any earn-out payments receivable following the exercise of the Call Option, which are capped at US\$10.0 million over 15 years.
- (4) No adjustment has been made to reflect the financial results of either the Group or the Xaar 3D Business since 30 June 2019.

## 2. Accountants' report on the unaudited *pro forma* statement of net assets of the Non-Xaar 3D Group



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The Directors  
Xaar Plc  
316 Science Park  
Milton Road  
Cambridge  
CB4 0XR

8 November 2019

Dear Sir/Madam

### **Xaar plc (the Company) and its Subsidiary Undertakings (together the Group) – Report On *Pro Forma* Financial Information**

We report on the unaudited *pro forma* statements of net assets of the Xaar Group and the Non-Xaar 3D Group (the ***Pro Forma*** Financial Information) set out in Section 1 parts (a) and (b) of this Part 4 of the Company's Class 1 circular dated 8 November 2019 (the **Circular**), which have been prepared on the bases described in notes 1 to 5 to Part 1a and notes 1 to 4 to Part 1b to the *Pro Forma* Financial Information, for illustrative purposes only, to provide information about how the Transaction and associated call option might have affected the financial information presented on the basis of the accounting policies adopted by Xaar plc in preparing the Group consolidated financial statements for the period ended 30 June 2019.

This report is required by the Commission Delegated Regulation (EU) 2019/980 (the **PD Regulation**) as applied by LR 13.3.3R of the Listing Rules of the Financial Conduct Authority (the **Listing Rules**), and is given for the purpose of complying with that requirement and for no other purpose.

### **Responsibilities**

It is the responsibility of the directors of the Company (the **Directors**) to prepare the *Pro Forma* Financial Information in accordance with Annex 20 Sections 1 and 2 of the PD regulation as applied by LR 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by Annex 20 Section 3 of the PD Regulation as applied by LR 13.3.3R of the Listing Rules, as to the proper compilation of the *Pro Forma* Financial Information and to report that opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the *Pro Forma* Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

### **Basis Of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *Pro Forma* Financial Information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the *Pro Forma* Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion:

- a the *Pro Forma* Financial Information has been properly compiled on the basis stated; and
- b such basis is consistent with the accounting policies of the Company.

Yours faithfully

GRANT THORNTON UK LLP

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## PART 5

### PRINCIPAL TERMS OF THE TRANSACTION

#### A. The Transaction

On 12 September 2019 the Company announced that it had entered into the Additional Investment Agreement in relation to the Transaction. The principal terms of the Transaction, as documented in the Additional Investment Agreement, are summarised in paragraph A.1 of this Part 5.

Completion is conditional upon the passing of the Resolution at the General Meeting, as is more particularly described in paragraph B of this Part 5, and your particular attention is, accordingly, drawn to that paragraph.

#### 1. *Additional Investment Agreement*

The Additional Investment Agreement was entered into on 11 September 2019 between SSYS, SSYS Ltd, Xaar 3D Holdings Limited ("**Xaar 3D Holdings**"), Xaar and Xaar 3D.

Subject to the terms and conditions of the Additional Investment Agreement, SSYS agrees to exercise its option granted under clause 4.1 of the Existing Investment Agreement to subscribe for 226 Xaar 3D Shares for an aggregate subscription price of US\$4 million ("**Subscription**"). The unexercised part of the Initial Option will be cancelled.

Subject to the Subscription, Xaar 3D Holdings agrees to sell a further 454 Xaar 3D Shares to SSYS for US\$10 million ("**Share Sale**").

Subject to completion of both the Subscription and the Share Sale:

- XAAR 3D Holdings agrees to subscribe for a further 74 Xaar 3D Shares for an aggregate subscription price of US\$1.79 million; and
- SSYS agrees to subscribe for 60 Xaar 3D Shares for an aggregate subscription price of US\$1.46 million,

(together the "**Additional Subscriptions**").

Immediately following completion of the Subscription, the Share Sale and the Additional Subscriptions, Xaar 3D Holdings will hold 55 per cent. of the entire issued share capital of Xaar 3D and SSYS will hold 45 per cent. of the entire issued share capital of Xaar 3D.

The following is a summary of the principal terms of the Additional Investment Agreement.

##### a. Conditions and Completion

Completion of the transactions referred to in the Additional Investment Agreement are subject to the satisfaction of the following conditions which are yet to be met:

- Xaar obtaining shareholder approval to enter into the transactions set out in the Additional Investment Agreement; and
- each of the warranties provided by Xaar 3D, Xaar 3D Holdings and SSYS being true and accurate at Completion.

The following documents were entered into on 11 September 2019:

- the Supply Agreement for the supply of Xaar printheads to the Xaar 3D business; and
- the Master Distribution Agreement for the supply of 3D printers, accessories, software, consumables (powder and ink) and services.

Entry into the Supply Agreement and Master Distribution Agreement were conditions to Completion contained in the Additional Investment Agreement that have already been satisfied. The key terms of these agreements are set out in paragraph A.2 and A.3 of this Part 5.

b. Warranties

The Additional Investment Agreement contains customary warranties given on behalf of Xaar 3D, Xaar 3D Holdings and SSYS which will be deemed to be repeated at Completion.

c. Call Option

Xaar 3D Holdings grants to SSYS the Call Option. The Call Option may be exercised by SSYS at any time during the period beginning on the Completion Date and ending on the third anniversary of such date. If SSYS exercises the Call Option the consideration payable for the Xaar 3D Shares held by Xaar 3D Holdings shall be the base exercise price and the earn-out payments, each calculated as set out below:

- (i) The “**base exercise price**” shall be calculated as follows:

$$\text{Company Valuation} \times \frac{\text{Call Option Shares}}{\text{Total Share number}}$$

where:

**Company Valuation** is the greater of (i) the GBP equivalent of \$60 million and (ii) two times the amount of gross revenue of Xaar 3D which is recognised as earned during the 12 month period ending on the last day of the calendar month which immediately precedes the calendar month during which SSYS serves notice to exercise the Call Option; and

**Total Share Number** is the entire issued number of Xaar 3D Shares which are issued and outstanding at the date on which SSYS serves notice to exercise the Call Option.

- (ii) The “**Earn-Out Revenue**” shall be calculated as set out below.

For the year in which Completion occurs, SSYS shall pay Xaar an amount equal to two per cent. of the gross revenue of SSYS, Xaar 3D and their affiliates which is recognised as earned during the period between Completion and the first 31 December after Completion from the supply, leasing or rental of 3D printers using or leveraging HSS technology (or other derivative technology) to third parties as well as technical and maintenance services relating to those products.

For each of the 14 subsequent calendar years commencing on the first 1 January after Completion, SSYS shall pay Xaar an amount equal to two per cent. of the gross revenue of SSYS, Xaar 3D and their affiliates which is recognised as earned in each calendar year from the supply, leasing or rental of 3D printers using or leveraging HSS technology (or other derivative technology developed by Xaar 3D) to third parties and technical and maintenance services relating to those products.

The obligation on SSYS to make earn-out payments will cease on the (i) termination of the Supply Agreement by XaarJet Limited or Xaar 3D; or (ii) a breach by Xaar or any of its affiliates of the restrictive covenants set out in the Existing Investment Agreement; or (iii) the earn-out payments reaching the specified US\$10 million cap.

d. Board of Xaar 3D

From Completion the board of Xaar 3D shall be made up of three directors appointed by Xaar 3D Holdings and two directors appointed by SSYS.

For as long as Xaar 3D Holdings holds (i) more than 50 per cent. of the issued share capital of Xaar 3D, Xaar 3D Holdings shall have the right to appoint and remove three directors of Xaar 3D, (ii) 50 per cent. or less but more than 25 per cent. of the issued share capital of Xaar 3D, Xaar 3D Holdings shall have the right to appoint and remove two directors of Xaar 3D, and (iii) 25 per cent. or less but more than five per cent. of the issued share capital of Xaar 3D, Xaar 3D Holdings shall have the right to appoint and remove one director of Xaar 3D.

For as long as SSYS holds (i) more than 50 per cent. of the issued share capital of Xaar 3D, SSYS shall have the right to appoint and remove three directors of Xaar 3D, (ii) 50 per cent. or less but more than 25 per cent. of the issued share capital of Xaar

3D, SSYS shall have the right to appoint and remove two directors of Xaar 3D, and (iii) 25 per cent. or less but more than five per cent. of the issued share capital of Xaar 3D, SSYS shall have the right to appoint and remove one director of Xaar 3D.

The quorum at any board meeting of Xaar 3D shall be at least two Xaar 3D Holdings-appointed directors and one SSYS-appointed director.

These appointment rights and quorum provisions would cease to apply following the exercise by SSYS of the Call Option.

e. Product function

With effect from Completion, Xaar 3D shall establish a committee responsible for overseeing Xaar 3D's product development and 'go to market' functions. This committee shall comprise two members, one being Xaar 3D's managing director and the other shall be either a SSYS-appointed director, or such person as a SSYS-appointed director may appoint.

**2. Supply Agreement**

XaarJet Limited shall supply Xaar 3D with Xaar printheads, consumables, spare parts, software and services under the terms of the Supply Agreement. The agreement shall continue for an initial term of five years and thereafter it shall automatically renew on an annual basis unless either party serves notice to terminate (provided that XaarJet Limited shall not be able to give such notice to terminate if the Group retain a majority stake in Xaar 3D). If (a) XaarJet Limited exercises its termination right or (b) there is a change of control of Group, Xaar 3D shall be afforded continuity of supply via a last time option to buy to purchase a volume of products and spare parts post-termination.

Conditional upon Xaar retaining an ownership stake in Xaar 3D or still receiving earn-out payments under the Additional Investment Agreement, XaarJet Limited shall offer preferential printhead pricing to Xaar 3D.

**3. Master Distribution Agreement**

Xaar 3D appoints SSYS Ltd as exclusive distributor of 3D printers using HSS technology and associated spare parts and consumables and SSYS Ltd shall distribute those products and provide technical and maintenance services in relation to them. Transfer prices for all products will be calculated and agreed between Xaar 3D and SSYS Ltd based on the list price with a targeted allocation of gross margin between the parties.

SSYS Ltd's exclusive distributor status shall remain for as long as (a) SSYS Ltd or SSYS does not significantly reduce its shareholding in Xaar 3D by a sale, or sales, of shares from its pre-sale shareholding; or (b) SSYS is actively investing in and supporting the go-to-market plan determined by the Xaar 3D board of directors.

SSYS Ltd has the right to terminate the Master Distribution Agreement if Xaar 3D has been unable to demonstrate that at least one initial product is ready for commercial launch within 24 months.

**B. The General Meeting and voting information**

**1. Shareholder approval**

The Transaction constitutes a Class 1 transaction for the purposes of paragraph 10.5.1(2)R of the Listing Rules and a related party transaction for the purposes of paragraph 11.1.7 of the Listing Rules. Accordingly, the Transaction is conditional upon the approval of the Company's Shareholders voting in favour of it. Accordingly, the Resolution, which is an ordinary resolution, is being proposed at the General Meeting to seek this approval.

**2. Voting information**

The General Meeting is being convened for 10:00 a.m on 27 November 2019 at Xaar plc, 316 Science Park, Cambridge, CB4 0XR, UK, to ask Shareholders to consider, and if they think fit, pass the Resolution.

The passing of the Resolution will require not less than 50 per cent. of the votes cast.

Shareholders have the right to attend, speak and vote at the General Meeting (or, if they are not attending the General Meeting, to appoint someone else as their proxy to attend, speak and vote on their behalf) if they are on the Register at the voting record time. Changes to entries in the Register after that time will be disregarded in determining the rights of any person to attend and/or vote at the General Meeting. If the General Meeting is adjourned, only those Shareholders on the Register at 10:00 a.m. on the day which is two days before the date of the adjourned General Meeting are entitled to attend, speak and vote or to appoint a proxy.

The number of Ordinary Shares a Shareholder holds as at the above deadline will determine how many votes a Shareholder or his/her proxy will have in the event of a poll.

### **3. *Shareholders not attending the General Meeting***

Please refer to paragraph 9 of Part 1 of this document for details of how to appoint a proxy (online (including for CREST users) or by the return of a paper proxy form).

In the event that a Shareholder votes in person, any proxy votes lodged with the Registrar by that Shareholder will be excluded.

### **4. *Joint Shareholders***

All joint Shareholders may attend and speak at the General Meeting or appoint a proxy. If more than one joint Shareholder votes or appoints a proxy, the only vote or appointment which will count is the vote or appointment of the first joint Shareholder listed on the Register.

### **5. *Overseas Shareholders***

This document does not constitute an offer to sell or issue or a solicitation of an offer to buy or subscribe for any security, nor shall there be any sale, issuance or transfer of the securities referred to in this document in any jurisdiction in contravention of applicable law.

## PART 6

### ADDITIONAL INFORMATION

#### 1. Responsibility

The Company and the Directors, whose names appear on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. The Company

The Company was incorporated and registered in England and Wales as a private company on 19 February 1997 under the Companies Act 1985 with company registration number 03320972 and the name Harbourjet Limited. Pursuant to special resolutions passed on 15 September 1997, the name of the Company was changed to Xaar plc and it was re-registered as a public company. The principal legislation under which the Company operates is the Companies Acts and the regulations made thereunder.

The Company is domiciled in the United Kingdom and has its registered office and principal place of business at Science Park, Cambridge, CB4 0XR. The telephone number of the Company's registered office is +44(0)1223 423663. The website of the Company is [www.xaar.com](http://www.xaar.com).

#### 3. Directors' interests

##### (a) Ordinary Shares

As at 8 November 2019 (being the latest practicable date prior to the publication of this document) the interests of each Director, any member of their immediate families, related trusts and any other persons connected with them (within the meaning of section 252 of the 2006 Act) in the share capital of the Company and which have been notified by each Director to the Company pursuant to the Disclosure and Transparency Rules were as follows:

| Name of Director    | As at 8 November 2019  |                                    |
|---------------------|------------------------|------------------------------------|
|                     | No. of Ordinary Shares | Percentage of issued share capital |
| Andrew Herbert      | 0                      | 0.00%                              |
| Shomit Kenkare      | 0                      | 0.00%                              |
| John Mills          | 0                      | 0.00%                              |
| Christopher Morgan  | 0                      | 0.00%                              |
| Margaret Rice-Jones | 5,700                  | 0.01%                              |
| Robin Williams      | 10,000                 | 0.01%                              |

##### (b) LTIP and LTIP 2007

As at 8 November 2019 (being the latest practicable date prior to the publication of this document) the following share options/awards granted to certain Directors under the LTIP are outstanding:

| Name of Director | No. of Ordinary Shares over which options granted | Exercise price (pence) | Issue date     | Scheme |
|------------------|---|------------------------|----------------|--------|
| John Mills       | 180,328   | £0.00                  | 4 October 2019 | LTIP   |
| Shomit Kenkare   | 10,000  | £0.00                  | 1 June 2018    | LTIP   |
|                  | 103,293   | £0.00                  | 30 April 2019  | LTIP   |

#### 4. Directors' service agreements

##### (a) *Executive Directors*

The current terms and conditions relating to the employment of the Chief Financial Officer, are set out in the Directors' Remuneration Report on pages 56 to 76 of the 2018 Annual Report and Accounts, which is hereby incorporated by reference into this document.

The current terms and conditions relating to the employment of the Chief Executive Officer, including his remuneration are as follows:

- **Date of service agreement:** 31 May 2019 and effective from John Mills' start date of 1 August 2019, detailing the succession of John's role to Chief Executive Officer thereafter.
- **Remuneration:** £300,000 salary plus 50% on target bonus (100% maximum).
- **Notice period:** 12 months.

##### (b) *Non-Executive Directors*

The current terms and conditions relating to the employment of the Non-Executive Directors are set out in the Directors' Remuneration Report on pages 56 to 76 of the 2018 Annual Report and Accounts, which is hereby incorporated by reference into this document.

#### 5. Key individuals

The following individuals are deemed by the Company to be key to the operation of Xaar 3D.

| Name of individual | Position                          |
|--------------------|-----------------------------------|
| Ronen Cohen        | General Manager, Xaar 3D          |
| Neil Hopkinson     | Chief Technology Officer, Xaar 3D |
| Torben Lange       | Director of Operations, Xaar 3D   |

#### 6. Major interests in shares

The Company has received notifications in accordance with paragraph 5.1.2R of the Disclosure and Transparency Rules of the following interests in three per cent. or more of the voting rights attaching to the Company's issued share capital as at 29 October 2019 (being the latest practicable date prior to the publication of this document):

| Rank | Shareholder                    | 29-Oct-19<br>Shares | % Issued<br>Capital |
|------|--------------------------------|---------------------|---------------------|
| 1    | AXA Investment Mgrs            | 10,827,769          | 13.82               |
| 2    | M&G Investments                | 7,722,541           | 9.86                |
| 3    | Schroder Investment Mgt        | 7,430,555           | 9.49                |
| 4    | Aberforth Partners             | 6,820,333           | 8.71                |
| 5    | T Rowe Price International     | 6,331,045           | 8.08                |
| 6    | Lombard Odier Asset Mgt        | 4,409,400           | 5.63                |
| 7    | FIL Investment International   | 4,341,812           | 5.54                |
| 8    | Legal & General Investment Mgt | 4,067,402           | 5.19                |
| 9    | OppenheimerFunds               | 4,000,000           | 5.11                |
| 10   | Canaccord Genuity Wealth Mgt   | 2,454,910           | 3.13                |
| 11   | River & Mercantile Asset Mgt   | 2,371,917           | 3.03                |

#### 7. Related party transactions

Save as disclosed in the notes to the audited consolidated financial statements of the Company for the financial years ended 31 December 2016, 2017 and 2018 and the consolidated financial statements of the Company for the half-year ended 30 June 2019, which are hereby incorporated by reference into this document, the Company has not entered into any related party transaction during the period covered by the historical financial information incorporated by reference up to the date of this document.

## **8. Material contracts**

### **(a) Transaction Documents**

Details of the Transaction Agreements are set out in Part 5 of this document.

### **(b) Existing Investment Agreement**

The Company entered into the Existing Investment Agreement with SSYS, Xaar 3D Holdings and Xaar 3D on 11 July 2018. Under the terms of the Existing Investment Agreement, the Company subscribed for 600 Xaar 3D Shares for an aggregate subscription price of £6 million and SSYS subscribed for 300 Xaar 3D Shares for an aggregate subscription price of £3 million.

SSYS was granted an option for a period of three years from completion of the Existing Investment Agreement to subscribe for Xaar 3D shares equal to up to ten per cent. (following such issue) of the issued share capital of Xaar 3D for an aggregate subscription price of US\$4 million (the “**Initial Option**”).

SSYS was granted a further option to subscribe for Xaar 3D shares equal to up to a further 5 per cent. (following such issue) of the issued share capital of Xaar 3D for an aggregate subscription price of US\$2 million.

Under the terms of the Existing Investment Agreement, the Company, Xaar 3D and SSYS set out their intention to work together to develop the marketing strategy for 3D printers using or leveraging the HSS technology. The Existing Investment Agreement also set out the basis on which SSYS and Xaar 3D would negotiate the terms of (a) a proposed supply agreement by which Xaar 3D Holdings supplied Xaar 3D with print head system for 3D printers and (b) an exclusive supply agreement by which Xaar 3D supplies 3D printers leveraging HSS technology exclusively to SSYS for distribution and sale by SSYS.

The Existing Investment Agreement also set out the entitlement for SSYS and Xaar 3D Holdings to appoint directors to the board of Xaar 3D. For so long as SSYS has not sold or transferred 50 per cent. of its initial subscription of shares in Xaar 3D, SSYS shall be entitled to appoint one director to the board of Xaar 3D.

For as long as Xaar 3D Holdings holds (i) at least 60 per cent. of the issued share capital of Xaar 3D, Xaar 3D Holdings shall have the right to appoint and remove four directors of Xaar 3D, (ii) less than 60 per cent. or less but more than 15 per cent. of the issued share capital of Xaar 3D, Xaar 3D Holdings shall have the right to appoint and remove one director of Xaar 3D for each full 15 per cent. of the issued share capital held by Xaar 3D Holdings, and (iii) more than five per cent. but less than 15 per cent. of the issued share capital of Xaar 3D, Xaar 3D Holdings shall have the right to appoint and remove one director of Xaar 3D.

In addition, Xaar and SSYS agreed to certain restrictive covenants to last for the period during which SSYS held exclusivity rights under the arrangements described above. Xaar agreed that Xaar and its Group (other than Xaar 3D Holdings and Xaar 3D) will not be engaged or interested in a business that competes with Xaar 3D. SSYS agreed that it will not carry on or be engaged or interested in any other business which primarily utilises HSS Technology. Each of Xaar and SSYS also agreed to standard non-solicit arrangements in relation to Xaar 3D's employees.

## **9. Litigation**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this document, significant effects on the financial position or profitability of the Company and/or the Group.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this document, significant effects on the financial position or profitability of the Xaar 3D Business.

## 10. Significant change

There has been no significant change in the financial position or financial performance of the Group since 30 June 2019, being the end of the last financial period for which the Company has published financial information.

There has been no significant change in the financial position or financial performance of the Xaar 3D Business since 30 June 2019, the date at which the historical financial information in Part 3 of this document has been prepared.

## 11. Working capital

Subject to Completion and receipt of the Net Proceeds, the Company is of the opinion that the Group has sufficient working capital available to it for its present requirements, that is, for at least the next 12 months following the date of this document.

## 12. Information incorporated by reference

The table below sets out the various information incorporated by reference into this document, so as to provide the information required pursuant to the Listing Rules:

| Documents containing information incorporated by reference | Page number(s) in reference document | Type of information | Where the information can be accessed by Shareholders   |
|--|--------------------------------------|---------------------|---|
| Xaar's Annual Report and Accounts 2016                     | Entire document                      | Financial           | <a href="https://www.xaar.com/en/investor-centre/results-centre/">https://www.xaar.com/en/investor-centre/results-centre/</a> |
| Xaar's Annual Report and Accounts 2017                     | Entire document                      | Financial           | <a href="https://www.xaar.com/en/investor-centre/results-centre/">https://www.xaar.com/en/investor-centre/results-centre/</a> |
| Xaar's Annual Report and Accounts 2018                     | Entire document                      | Financial           | <a href="https://www.xaar.com/en/investor-centre/results-centre/">https://www.xaar.com/en/investor-centre/results-centre/</a> |
| Xaar's Interim Report 2019                                 | Entire document                      | Financial           | <a href="https://www.xaar.com/en/investor-centre/results-centre/">https://www.xaar.com/en/investor-centre/results-centre/</a> |

## 13. Consents

Jefferies has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which it is included.

Grant Thornton UK LLP has given and not withdrawn its written consent to the inclusion of its report relating to the *pro forma* financial information, as presented in Part 4 of this document, in the form and context in which it appears.

## 14. Documents available for inspection

The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (public holidays in the United Kingdom excepted) from the date of this document until the conclusion of the General Meeting (including at the General Meeting itself, from half an hour before its commencement until its conclusion), and will be accessible to verified shareholders via the Company's website at <https://www.xaar.com/sia>:

- the memorandum and articles of association of the Company;
- financial information contained within the documents containing information incorporated by reference, as listed in paragraph 12 above;
- a copy of the Additional Investment Agreement;
- a copy of this document;
- a copy of the GT consent letter relating to this document; and
- a copy of the Jefferies consent letter relating to this document.

## PART 7

### DEFINITIONS

|  |   |
|--|---|
| <b>“2006 Act”</b>                          | the Companies Act 2006, as amended;   |
| <b>“Additional Investment Agreement”</b>   | Has the meaning given in paragraph 1 of the Chairman's letter in Part 1 of this document;   |
| <b>“Additional Subscriptions”</b>          | has the meaning given in Part 5;  |
| <b>“Board”</b>                             | the board of directors of the Company;  |
| <b>“Call Option”</b>                       | has the meaning given in Part 5;  |
| <b>“Company” or “Xaar”</b>                 | Xaar plc;   |
| <b>“Companies Acts”</b>                    | has the meaning given to it in section 2 of the 2006 Act;   |
| <b>“Completion”</b>                        | completion of the Subscription, Share Sale, Additional Subscriptions and grant (but not necessarily exercise) of the Call Option in accordance with the terms of the Additional Investment Agreement; |
| <b>“Completion Date”</b>                   | the day on which Completion takes place;  |
| <b>“CREST”</b>                             | the paperless settlement procedure operated by Euroclear enabling system securities to be evidenced otherwise than by certificates and transferred otherwise than by written instrument;              |
| <b>“CREST Manual”</b>                      | the rules governing the operation of CREST as published by Euroclear;   |
| <b>“CREST member”</b>                      | a person who has been admitted by Euroclear as a system-member (as defined in the CREST Regulations);   |
| <b>“CREST participant”</b>                 | a person who is, in relation to CREST, a system participant (as defined in the CREST Regulations);  |
| <b>“CREST Proxy Instruction”</b>           | a proxy appointment or instruction made via CREST, authenticated in accordance with Euroclear's specifications and containing the information set out in the CREST Manual;                            |
| <b>“CREST Regulations”</b>                 | the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended;  |
| <b>“CREST sponsor”</b>                     | a CREST participant admitted to CREST as a CREST sponsor;   |
| <b>“Directors”</b>                         | the directors of the Company whose names are set out on page 6 of this document;  |
| <b>“Disclosure and Transparency Rules”</b> | the Disclosure Rules and Transparency Rules made by the FCA as amended from time to time;   |
| <b>“Earn-Out Revenue”</b>                  | has the meaning set out in paragraph A1(a)(ii) of Part 5;   |
| <b>“EBITDA”</b>                            | earnings before interest, tax, depreciation and amortisation;   |
| <b>“Existing Investment Agreement”</b>     | means the investment agreement entered into between SSYS, Xaar 3D Holdings, Xaar and Xaar 3D on 11 July 2018;   |
| <b>“Euroclear”</b>                         | Euroclear UK & Ireland Limited, as the CREST operator (as defined in the CREST Regulations);  |
| <b>“Form of Proxy”</b>                     | the form of instruction accompanying this document for use by Shareholders as described herein;   |
| <b>“FCA”</b>                               | the Financial Conduct Authority of the United Kingdom, and any of its successor authorities;  |
| <b>“FSMA”</b>                              | the Financial Services and Markets Act 2000, as amended from time to time;  |

|  |  |
|--|--|
| <b>“General Meeting”</b>               | the general meeting of the Company to be held at 10:00 a.m. on 27 November 2019 at Xaar plc, 316 Science Park, Cambridge, CB4 0XR, UK, a notice of which is set out in Part 8 of this document, and any adjournment thereof;   |
| <b>“Group”</b>                         | the Company and any subsidiary of the Company and, for the avoidance of doubt, if Completion occurs and the Call Option is subsequently exercised, Xaar 3D and its wholly-owned subsidiary Xaar 3D ApS shall no longer form part of the Group once the exercise of the Call Option has been implemented; |
| <b>“HSS”</b>                           | has the meaning given in paragraph 3 of the Chairman’s letter in Part 1 of this document;  |
| <b>“Jefferies”</b>                     | the Company’s sponsor, Jefferies International Limited of Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ;  |
| <b>“Initial Option”</b>                | has the meaning set out in section (b) of paragraph 8 of Part 6 of this document.  |
| <b>“Initial Transaction”</b>           | the completion of the Existing Investment Agreement;   |
| <b>“Listing Rules”</b>                 | the Listing Rules published by the FCA as amended from time to time;   |
| <b>“LTIP”</b>                          | the Xaar plc 2017 Long Term Incentive Plan;  |
| <b>“LTIP 2007”</b>                     | the Xaar plc 2007 Long Term Incentive Plan;  |
| <b>“Master Distribution Agreement”</b> | the distribution agreement between SSYS and Xaar 3D dated 11 September 2019, as amended on 15 October 2019;  |
| <b>“Net Proceeds”</b>                  | the net proceeds of the Transaction due to the Company on Completion of £5.9 million (being gross proceeds of \$8.21 million, translated using the 7 November 2019 foreign exchange rate of 1.28726, less expenses of £0.5 million).   |
| <b>“Non-Xaar 3D Group”</b>             | the Company and any subsidiary of the Company excluding for this purpose, Xaar 3D and its wholly-owned subsidiary Xaar 3D ApS on the assumption that the Call Option has been exercised and implemented;   |
| <b>“Notice of General Meeting”</b>     | the notice of the General Meeting set out on page 33 in Part 8 of this document;   |
| <b>“Ordinary Shares”</b>               | ordinary shares of 10p each in the capital of the Company;   |
| <b>“Prospectus Rules”</b>              | the Prospectus Rules published by the FCA as amended from time to time;  |
| <b>“Register”</b>                      | the register of members of the Company;  |
| <b>“Resolution”</b>                    | the resolution set out in the Notice of General Meeting to be proposed at the General Meeting;   |
| <b>“Share Sale”</b>                    | has the meaning given in Part 5;   |
| <b>“Shareholders”</b>                  | holder(s) of Ordinary Shares;  |
| <b>“SSYS”</b>                          | Stratasys Solutions Limited, a company incorporated under the laws of England and Wales with registered number 08857563 and whose registered office is at Suite 1, 3rd Floor 11-12 St. James’s Square, London, United Kingdom, SW1Y 4LB;   |
| <b>“SSYS Ltd”</b>                      | Stratasys Limited, a company incorporated under the laws of the State of Israel and whose registered office is at Science Park, 1 Haim Holtzman Street, Rehovot, Israel;   |
| <b>“Subscription”</b>                  | has the meaning given in Part 5;   |

|                                 |   |
|---------------------------------|---|
| <b>“Supply Agreement”</b>       | the supply agreement between XaarJet Limited and Xaar 3D dated 11 September 2019;   |
| <b>“subsidiary”</b>             | a subsidiary, as that term is defined in section 1159 of the 2006 Act;  |
| <b>“Transaction”</b>            | has the meaning given in the Introduction of the Chairman’s letter in Part 1 of this document;  |
| <b>“Transaction Agreements”</b> | the Additional Investment Agreement, the Supply Agreement and the Master Distribution Agreement;  |
| <b>“Xaar 3D”</b>                | Xaar 3D Limited a company registered in England and Wales with company number 11389105 whose registered office is at 316 Science Park, Milton Road, Cambridge, United Kingdom, CB4 0XR; |
| <b>“Xaar 3D Business”</b>       | Xaar 3D and its subsidiary undertaking Xaar 3D ApS; and   |
| <b>“Xaar 3D Shares”</b>         | ordinary shares of £0.01 each in the capital of Xaar 3D.  |

**PART 8**  
**NOTICE OF GENERAL MEETING**

**Xaar plc**

*(incorporated in England and Wales with registered number 03320972)*

**NOTICE IS HEREBY GIVEN** that a **GENERAL MEETING** of Xaar plc (the “**Company**”) will be held at 10:00 a.m. on 27 November 2019 at Xaar plc, 316 Science Park, Cambridge, CB4 0XR, UK for the purposes of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution:

**ORDINARY RESOLUTION**

**THAT** the entry by the Company into arrangements which are likely to result in the sale of the Company’s interest in Xaar 3D Limited as described in the circular to the Company’s shareholders dated 8 November 2019 (the “**Transaction**”) of which this notice of general meeting forms part, a copy of which is produced to the meeting and, for the purposes of identification only, is initialled by the Chairman (the “**Circular**”) be and it is hereby approved as a class 1 transaction for the purposes of Chapter 10 of the Listing Rules (as defined in the Circular) and a related party transaction for the purpose of Chapter 11 of the Listing Rules, and the directors of the Company (the “**Directors**”) be and they are hereby authorised to do or procure to be done all such acts and things on behalf of the Company as they consider necessary or expedient for the purpose of giving effect to the Transaction and this resolution and to carry the same into effect with such modifications, variations, revisions, waivers or amendments as the Directors may in their absolute discretion think fit, provided such variations, revisions, waivers or amendments are not of a material nature.

By order of the Board.

**Camila Cottage**

Company Secretary  
8 November 2019

Registered Office:  
Science Park  
Cambridge  
CB4 0XR

**Notes**

- 1) A member entitled to attend and vote at the meeting may appoint one or more proxies to exercise all or any of the member’s rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company but must attend the meeting for the member’s vote to be counted. If a member appoints more than one proxy to attend the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by the member. If a member wishes to appoint more than one proxy they may do so at [www.signalshares.com](http://www.signalshares.com) and if paper proxy forms are required, the member should contact the registrars’ helpline on 0871 664 0300 (calls cost 12p per minute plus network extras). If you are outside the United Kingdom, please call +44 371 664 0300 (calls will be charged at the applicable international rate). Lines are open between 9.00 a.m. – 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Submission of a proxy vote shall not preclude a member from attending and voting in person at the meeting in respect of which the proxy is appointed or at any adjournment thereof.
- 2) To be effective, the proxy vote must be submitted at [www.signalshares.com](http://www.signalshares.com) so as to have been received by the Company’s registrars not less than 48 hours (excluding weekends and public holidays) before the time appointed for the meeting or any adjournment of it. Any power of attorney or other authority under which the proxy is submitted must be returned to the Company’s registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF. If a paper form of proxy is requested from the registrar, it should be completed and returned to Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF to be received not less than 48 hours before the time of the meeting.
- 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 member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the 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 member as to the exercise of voting rights.
- 4) The statement of the rights of members 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 members of the Company.
  - 5) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered on the register of members of the Company as at close of business on 25 November 2019 (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 close of business on 25 November 2019 (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) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that: (i) if a corporate member has appointed the Chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate members are referred to in the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (i) above.
  - 7) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
  - 8) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 10:00 a.m. on 25 November 2019. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
  - 9) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
  - 10) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
  - 11) On 8 November 2019 (the date of publication of this Notice), the Company's issued share capital comprised 78,334,296 ordinary shares of 10p each. Each ordinary share carries the right to one vote at a general meeting of the Company, except for the shares held in trust for the Xaar Share Incentive Plan totalling 111,478 ordinary shares and, therefore, the total number of voting rights in the Company on 8 November 2019 is 78,222,818.
  - 12) 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, the Xaar plc 2017 Share Save Plan, Xaar plc 2007 Long Term Incentive Plan, the Xaar Share Incentive Plan and the Xaar 2017 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.
  - 13) Any member attending the meeting has the right to ask questions. The Company must answer any such question relating to the business being dealt with at the meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
  - 14) You may vote your shares electronically at [www.signalshares.com](http://www.signalshares.com). On the home page, search "Xaar plc" and then log in or register, using your Investor Code. To vote, click on the "Vote Online Now" button.
  - 15) A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found at [www.xaar.com](http://www.xaar.com).