

FOR IMMEDIATE RELEASE

15 September 2004

## Xaar plc

### INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2004

Xaar plc ("Xaar"), the inkjet printing technology group headquartered in Cambridge, has announced its unaudited results for the six months ended 30 June 2004.

#### KEY POINTS :

- The interim results continue the strong improvement in performance which began during the second half of last year and show a sharp turn round from the losses reported in the first half of 2003.
  - Sharply increased trading profits were achieved by increased sales, higher production yields and tightly controlled costs.
  - The financial results for the half year were :
    - Turnover: up by 25% to £16.9m (2003: £13.6m);
    - Operating profit before interest and tax: £2.4m (2003: loss of £3.3m);
    - Profit before tax: £1.2m (2003: loss of £2.1m);
    - Earnings per share\*: 3.5p (2003: loss of 4.6p);
    - Net cash and liquid resources at 30 June 2004: £9.9m (2003: £5.9m).
- \* *stated before non-trading foreign exchange loss of £1.3m on the inter-company loan (2003: gain of £1.2m).*
- Sales increases were achieved in each principal territory and industry segment despite adverse currency movements. Asia showed particularly strong growth.
  - Clear evidence at the recent Drupa international trade exhibition that digital inkjet is now maturing into a mainstream printing technology.
  - Xaar has a strong pipeline of new products and has formed a number of new strategic partnerships to open new applications and additional markets.

#### On outlook, Chairman, Arie Rosenfeld stated :

*"All of our core markets performed well during the period and, although there are concerns about the ability of the Chinese economy to maintain its current level of growth, we saw no slow down in our business during the first half of the year. Third quarter performance remains in line with expectations and we expect to be cash generative over the remainder of the year."*

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## CHAIRMAN'S STATEMENT

### Introduction

I am pleased to report that the strong performance seen in the second half of last year has continued into the first half of this year, with further progress in sales, manufacturing costs and profitability.

Sales improved across the range of Xaar products, in particular for our industry-standard XJ128 printhead which dominates the wide format graphic arts market. We are also developing an impressive pipeline of new products for the future. The OmniDot range of printheads, co-developed with Agfa, will be in production in the first half of 2005; our new peripheral products will be on customer trials during the second half of 2004, and we continue to make good progress with our third generation HSS printhead which is due to begin field testing next year.

We continue to see opportunities for geographic growth, and recently opened a new sales office in India. We have also seen an increase in the number of Xaar-based printers being exported from Asia to growing markets such as South America and Eastern Europe; we will be reviewing the opportunities for direct product sales to these markets over the coming months. Asia, and in particular China, continues to show strong demand.

In line with our plans to enter the packaging and industrial markets we recently announced strategic relationships and joint development agreements with a range of new partners, including MAN Roland, Rohm and Haas Electronic Materials, Xennia and imaging Technology international (iTi). These developments are expected to open up new applications for our technology over the longer-term.

### Results and Finance

Total group revenue was £16.9 million (2003: £13.6 million) for the period, an increase of 25% over the same period last year, and 8% over the second half of last year. The results were adversely affected by weakness in the US Dollar which reduced reported revenues by £1.5 million compared to the same period last year, and £0.6 million compared to the second half of last year. The business has, however, demonstrated its ability to operate profitably at these less favourable rates of exchange, should they continue.

Sales of printheads and inks were £15.7 million (2003: £13.0 million) with licensee royalties of £0.6 million (2003: adjusted, £0.2 million) and development fees of £0.6 million (2003: £0.4 million).

Trading profit before interest and tax for the period was £2.4 million (2003: £3.3 million loss). There was a book loss on translation of the Swedish Kronor denominated inter-company loan between Xaar's UK operations and the group's Swedish holding company, Xaar Group AB, of £1.3 million (2003: £1.2 million gain). Under SSAP20 this movement must be reported through the profit and loss account rather than through reserves.

After accounting for this translation movement, profit before tax was £1.2 million (2003: £2.1 million loss), with a tax charge for the period of £0.4 million (2003: credit of £0.6 million). Adjusted earnings per share, excluding currency translation movements on the inter-company loan, were 3.5p (2003: 4.6p loss) and including currency translation movements on the inter-company loan were 1.4p (2003: 2.5p loss).

Our financial position remains robust, with net cash at the half-year standing at £9.9 million (2003: £5.9 million) after providing for capital investment of £1.1 million and an increase in working capital of £0.5 million. A final tax payment in Sweden of £0.7 million, relating to 2002, was also paid during the period.

Looking forward, reporting of results in 2005 will be made in accordance with International Accounting Standards (IAS) which, under EU legislation, become applicable for accounting periods commencing from 1 January 2005. We are currently reviewing how this will affect the way we report the group's results. There will be further discussion of these issues in our Annual Report for 2004.

## **Business Review**

### ***The digital printing marketplace***

During May of this year Xaar attended the Drupa 2004 tradeshow in Dusseldorf, Germany, the world's largest printing tradeshow, held once every four years. The clear message from this year's show was that digital inkjet is now maturing into a mainstream printing technology.

Xaar and its technology were particularly well received at the show, both in terms of our own exhibition stand and those of our licensees and customers, on which printing equipment incorporating Xaar technology was widely exhibited. The high level of interest resulted in a large number of new enquiries and opportunities.

### ***Printheads and related products***

Sales of the XJ128 printhead almost doubled over the same period last year reflecting strong demand for the printing equipment into which this product is integrated. To consolidate the product's leadership position, an upgraded model has been introduced. The 'XJ128 Plus' offers a 30% increase in speed over the standard product and is expected to become the core XJ128 product of the future. Demand for this product continues to come primarily from the graphic arts manufacturing market in Asia, with many of the machines produced in Asia being sold into western markets and, increasingly, into new markets such as Eastern Europe, South America and India.

Sales of the Mk2 XJ500 also increased in the period. In addition to wide format graphics, this product is becoming increasingly successful in coding and marking applications, where its wider print width is a key advantage. Again, an upgraded version of the product was launched in the period in order to increase penetration of this growing market; the 'XJ500 CM' offers an 80% increase in speed over the standard product.

Progress towards full-scale production of the OmniDot remains on schedule for the first half of 2005, with the Agfa-purchased equipment for our Swedish plant being delivered in the second half of this year. Development of Xaar's third generation product, the HSS, is also progressing well. Prototypes are expected to be available for initial customer tests during 2005. Our new range of peripheral products, including ink supply systems and driver boards, is also nearing completion.

Our US subsidiary, Vivid Print Innovations Inc., now has projects underway with a total value of over \$1.0 million, including the integration of inkjet into applications as diverse as printing onto children's sweets and specialised pharmaceutical packaging.

### ***Technology Revenues***

Royalties received from Xaar licensees increased during the period. In particular, Toshiba TEC and Konica-Minolta both continue to build commercial printhead businesses based on Xaar's technology. Our ink licensees have also seen increasing levels of ink sales based on the overall rise in printhead sales.

With the changes made to the business model for ink, announced in last year's Annual Report, sales commissions received from ink partners on their direct shipments of Xaar-approved inks are increasing. Prior to the change in the business model, such commission payments were less significant and were reported within Technology Revenues, alongside royalties from licensees. In order to ensure that revenues arising from the company's patent portfolio are separately identified from trading revenues, only income arising from licensees is now reported within Technology Revenues. Comparative figures for 2003 have been adjusted to reflect this change.

### ***Business Development***

Following the announcement in last year's Annual Report of our intention to deploy Xaar's technology into new markets we have been working on a range of collaborative and commercial agreements with leading industry players. In traditional printing markets we are collaborating with MAN Roland, of Germany, the world's second largest manufacturer of traditional printing systems and presses, to offer digital print capability on existing and new offset presses. In printed circuit board (PCB) production we have entered a joint development agreement with the electronic materials division of Rohm and Haas Company of the US, one of the world's largest suppliers of materials to the PCB industry, to inkjet print etch masks, solder masks and eventually conductive metal inks. In Xennia Ltd. we have found an innovative ink partner offering a range of metal inks for conductive and decorative purposes.

For newly emerging technologies we have formed a partnership with iTi Corporation, of the US, which offers a sophisticated XY deposition system for polymer and other functional fluids, as well as web transport and optical measurement systems for development purposes. Introducing Xaar's technology into these products will provide us with laboratory and commercial equipment with which to demonstrate the benefits of inkjet to potential users in these emerging markets.

Whilst these initiatives will take time to develop we have made a good start to address these new market opportunities.

### **Outlook**

All of our core markets performed well during the period and, although there are concerns about the ability of the Chinese economy to maintain its current level of growth, we saw no slow down in our business during the first half of the year. Third quarter performance remains in line with expectations and we expect to be cash generative over the remainder of the year.

**Arie Rosenfeld**  
CHAIRMAN

**15 September 2004**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE SIX MONTHS ENDED 30 JUNE 2004**

	<b>6 months to 30 June 2004 (unaudited) £'000</b>	6 months to 30 June 2003 (unaudited) £'000	12 months to 31 Dec 2003 (audited) £'000
<b>Turnover</b> (Note 1)	<b>16,881</b>	13,552	29,230
<b>Cost of Sales</b>			
Exceptional XJ500 Cost	-	(1,068)	(1,068)
Exceptional Production Cost	-	(767)	(767)
Non-exceptional cost of sales	<b>(7,305)</b>	(7,507)	(13,920)
<b>Total Cost of Sales</b>	<b>(7,305)</b>	(9,342)	(15,755)
<b>Gross profit</b>	<b>9,576</b>	4,210	13,475
Other operating expenses (net)	<b>(7,161)</b>	(7,467)	(14,775)
<b>Operating profit/(loss) on ordinary activities before interest</b>	<b>2,415</b>	(3,257)	(1,300)
<b>Interest receivable and similar income</b>			
Foreign exchange (loss)/gain on inter- company loan	<b>(1,250)</b>	1,241	1,791
Interest receivable	<b>97</b>	74	135
<b>Total interest receivable and similar income</b>	<b>(1,153)</b>	1,315	1,926
Interest payable	<b>(67)</b>	(127)	(180)
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>1,195</b>	(2,069)	446
Tax on profit/(loss) on ordinary activities	<b>(359)</b>	570	501
<b>Retained profit/(loss) for the financial period</b>	<b>836</b>	(1,499)	947
Earnings/(loss) per share excluding foreign exchange (loss)/gain on inter- company loan – basic (Note 2)	<b>3.5p</b>	(4.6)p	(1.4)p
Earnings/(loss) per share – basic (Note 2)	<b>1.4p</b>	(2.5)p	1.6p
Earnings/(loss) per share – diluted (Note 2)	<b>1.4p</b>	(2.5)p	1.6p

**Consolidated statement of total recognised gains and losses  
for the six months ended 30 June 2004**

	<b>6 months to 30 June 2004 (unaudited) £'000</b>	6 months to 30 June 2003 (unaudited) £'000	12 months to 31 Dec 2003 (audited) £'000
Retained profit/(loss) for the financial period	<b>836</b>	(1,499)	947
(Gain)/loss on foreign currency translation	<b>746</b>	(965)	(1,290)
<b>Total recognised gains and losses relating to the period</b>	<b>1,582</b>	(2,464)	(343)

**CONSOLIDATED BALANCE SHEET  
AS AT 30 JUNE 2004**

	As at 30 June 2004 (unaudited) £'000	As at 30 June 2003 (unaudited) £'000	As at 31 Dec 2003 (audited) £'000
<b>Fixed Assets</b>			
Intangible assets	1,398	1,216	1,576
Tangible assets	5,335	6,787	6,090
	<b>6,733</b>	8,003	7,666
<b>Current assets</b>			
Stocks	2,226	2,671	2,592
Debtors	6,323	6,741	6,424
Short term investments	2,945	1,400	2,325
Cash at bank and in hand	6,946	4,917	6,133
	<b>18,440</b>	15,729	17,474
<b>Creditors:</b>			
amounts falling due within one year	(4,550)	(6,579)	(5,968)
<b>Net current assets</b>	<b>13,890</b>	9,150	11,506
<b>Total assets less current liabilities</b>	<b>20,623</b>	17,153	19,172
<b>Creditors:</b> amounts falling due after more than one year	(1,446)	(2,155)	(1,833)
<b>Provision for liabilities and charges</b>	<b>(496)</b>	(124)	(345)
<b>Net assets</b>	<b>18,681</b>	14,874	16,994
<b>Capital and reserves</b>			
Called-up share capital	6,004	5,984	5,983
Share premium account	8,648	11,129	11,129
Own shares	(20)	(20)	(20)
Other reserves	1,105	1,105	1,105
Profit and loss account (Note 4)	2,944	(3,324)	(1,203)
<b>Shareholders' funds – all equity</b>	<b>18,681</b>	14,874	16,994

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2004**

	6 months to 30 June 2004 (unaudited) £'000	6 months to 30 June 2003 (unaudited) £'000	12 months to 31 Dec 2003 (audited) £'000
Net cash inflow/(outflow) from operating activities	4,050	(2,867)	182
Returns on investments and servicing of finance	6	(59)	(49)
Taxation	(1,010)	(505)	(564)
Acquisitions and disposals	-	-	(5)
Capital expenditure and financial investment	(1,095)	(821)	(1,083)
<b>Cash inflow/(outflow) before management of liquid resources and financing</b>	<b>1,951</b>	(4,252)	(1,519)
Management of liquid resources	(620)	(1,400)	(2,325)
Financing	(213)	(194)	(587)
<b>Increase/(decrease) in cash in the period</b>	<b>1,118</b>	(5,846)	(4,431)

**NOTES TO THE INTERIM FINANCIAL INFORMATION****1. Segmental analysis**

The segmental analysis of turnover is:

		<b>6 months to 30 June 2004</b>	6 months to 30 June 2003	12 months to 31 Dec 2003
		<b>£'Million</b>	£'Million	£'Million
Geographic:	Europe & Middle East	<b>5.9</b>	5.7	11.1
	Americas	<b>1.6</b>	1.5	3.2
	Asia	<b>9.4</b>	6.4	14.9
	<b>Total</b>	<b>16.9</b>	13.6	29.2
Industry segment:	Graphic arts	<b>12.3</b>	10.2	22.5
	Packaging printing	<b>2.9</b>	2.4	4.5
	Industrial printing	<b>0.5</b>	0.4	0.6
	Development fees	<b>0.6</b>	0.4	1.1
	Licence fees and royalties	<b>0.6</b>	0.2	0.5
	<b>Total</b>	<b>16.9</b>	13.6	29.2

**2. Earnings/(loss) per ordinary share - basic and diluted**

The calculation of earnings/(loss) per share is based upon the profit/(loss) for the period after taxation and the weighted average number of ordinary shares in issue during the period. For basic earnings/(loss) per share, this is 60,003,648 (30 June 2003: 59,737,053, 31 December 2003: 59,783,345) and for diluted earnings/(loss) per share, this is 61,260,066 (30 June 2003: 59,737,053, 31 December 2003: 60,027,840), the only difference being in relation to movements in share options.

Basic earnings/(loss) per share excluding foreign exchange loss/(gain) on the inter-company loan is based on earnings of:

	<b>6 months to 30 June 2004 (unaudited)</b>	6 months to 30 June 2003 (unaudited)	12 months to 31 Dec 2003 (audited)
	<b>£'000</b>	£'000	£'000
Retained profit/(loss) for the financial period	<b>836</b>	(1,499)	947
Foreign exchange loss/(gain) on the inter-company loan	<b>1,250</b>	(1,241)	(1,791)
Retained earnings for the financial period excluding foreign exchange loss/(gain) on the inter-company loan	<b>2,086</b>	(2,740)	(844)

**3. Comparative figures**

These interim financial statements do not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985. The results for the year ended 31 December 2003 have been extracted from the statutory financial statements, which have been filed with the Registrar of Companies and upon which the auditors reported without qualification. The accounting policies that have been applied to these interim figures are consistent with those applied in the preceding annual accounts.

#### 4. Reduction of share premium account

A special resolution was passed at the Company's 2004 Annual General Meeting allowing the Company to reduce its Share Premium Account by £2,565,000 in order to create a reserve that may be transferred to the profit and loss account of the Company. Court approval was gained for this transfer on 19 May 2004 and the creation of the reserve and the transfer to the profit and loss account were made accordingly. The effect on the consolidated profit and loss account of this transfer is shown below:

	<b>£'000</b>
<b>Retained loss at 31 December 2003</b>	<b>(1,203)</b>
Retained profit for the 6 months to 30 June 2004	836
Loss on foreign currency translation	746
Transfer of reserve from Share Premium account	2,565
<b>Retained profit at 30 June 2004</b>	<b>2,944</b>

## **INDEPENDENT REVIEW REPORT TO XAAR PLC**

### **Introduction**

We have been instructed by the company to review the financial information for the six months ended 30 June 2004 which comprises the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and related notes 1 to 4. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### **Review work performed**

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

### **Deloitte & Touche LLP**

Chartered Accountants  
Cambridge  
14 September 2004