



Xaar plc
interim report 2011



Xaar plc is the world-leading independent supplier of industrial inkjet printheads.

We offer the widest product range to deliver industrial strength inkjet performance, which in turn provides our customers with the flexibility and choice required to address a diversity of applications.



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Review of the period

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“The group has achieved significant growth in revenue and profit.”



Phil Lawler
Chairman

Summary of Chairman's statement

- Revenues have continued to increase, up 33% compared with H1 2010
- Adjusted profit before tax trebled against the same period last year, to £4.3m (H1 2010: £1.4m)
- An unchanged interim dividend of 1.0p per share will be paid on 23 September 2011 to shareholders on the register at close of business on 26 August 2011

INTRODUCTION

During the first half of 2011, revenues have continued to increase and were up 33% compared with H1 2010. The growth over H1 2010 reflects the substantial demand for Platform 3 ("P3") for industrial applications, which has been satisfied through a combination of productivity gains and the completion of the early stages of the capacity expansion programme at our Huntingdon facility. Against the same period, Platform 1 ("P1") sales have fallen, reflecting market maturity and some loss of market share.

The geographic spread of our sales has continued to shift towards continental Europe through the growth in P3. Our increasing exposure to Euro-denominated revenues (37% of H1 sales versus 25% of sales in 2010) is partly mitigated by Euro capital expenditures related to capacity expansion, as well as normal Euro-denominated costs.

Royalty revenue from our licensees has increased slightly (6% over H1 2010).

The group is profitable and growing. Adjusted profit before tax trebled against the same period last year to £4.3m (H1 2010 restated: £1.4m).

The group's net cash reduced as expected during the period as a result of capital investment related to the capacity expansion programme which remains on track to deliver further incremental P3 capacity during the second half of 2011 and first half of 2012.

RESULTS

Revenues for the six months ended 30 June 2011 were £31.6m (H1 2010 restated: £23.8m; H2 2010: £30.9m). Product sales were £28.2m (H1 2010 restated: £20.5m; H2 2010: £26.7m). Royalty revenue was £3.3m (H1 2010: £3.1m; H2 2010: £3.9m). Development income continues to be immaterial.

Adjusted gross margin at 44% has continued to improve (H1 2010 restated: 41%; H2 2010: 43%), reflecting production efficiencies and revenue growth.

Adjusted profit before tax for the period was £4.3m (H1 2010 restated: £1.4m; H2 2010: £4.2m). Reported profit before tax was £4.1m (H1 2010 restated: £1.9m; H2 2010: £3.5m).

Chairman's statement continued

RESULTS (CONTINUED)

After payment of the final dividend for 2010 of £1.1m and £5.2m of capital investment (excluding capitalised development costs), net cash reduced by £1.4m during the period to £20.6m (31 December 2010: £22.0m; 30 June 2010: £8.2m).

BUSINESS COMMENTARY

The geographic spread of our business, in terms of revenue, is now EMEA 57% (H1 2010 restated: 42%; H2 2010: 48%), Asia 32% (H1 2010 restated: 43%; H2 2010: 39%), and the Americas 11% (H1 2010 restated: 15%; H2 2010: 13%). Whilst we have benefited during the past few years from the majority of sales coming from a high growth region (Asia), this also increased the risks associated with more volatile markets. We have now established reasonable volume in both Asia and EMEA and expect to capitalise on the improved balance that now exists in the business.

Continued success with P3 in industrial applications has enabled us to establish a major market for that product family in EMEA, with potential for other regions. Manufacturing efficiencies and increased shift patterns coupled with the first deliveries of new processing equipment, have all helped to achieve a better than expected P3 revenue in the first half of the year. Platform 2 ("P2") sales remain a small proportion of our business although they increased over the same period last year. As already announced, this product family has been largely superseded by P3 and hence further volume increases are not expected. P1 sales have been disappointing and have declined more quickly than planned. This reflects a number of factors including reduced product replacement orders as older P1 based printers are superseded by newer versions, not always with Xaar printheads. This market is very mature and the P1 product family refreshes have not been as successful or as dominant as we had planned. Royalty revenues have increased over the same period last year, reflecting a switch of P1 market share to some licensees.

Industrial sector growth continues with sales increasing by 132% over H1 2010. Growth in the Packaging sector was a more modest 12% over H1 2010, reflecting the adoption of P3 in one sub sector and maturing market decline of P1 in another. Graphic Arts growth of 1% compared to

with H1 2010, which also represents a decline against H2 2010 sales, is disappointing. Work continues in this area to improve results.

Good progress has been made with the expansion programme which we began in November 2010, with all constituent elements going according to plan. This involves a major development of our facility in Huntingdon, including the construction of a full third clean-room. In addition to the facilities upgrade and expansion, we have ordered a range of high value, sophisticated processing, test and measurement equipment, some of it unique to Xaar.

The successful installation and commissioning of this equipment continues to receive a high degree of focus and attention and is fundamental to our being able to increase P3 manufacturing capacity as planned. Inevitably, such changes are not without their challenges but we are on track and remain confident that this expansion programme will be successfully concluded during 2012 as previously announced.

Aligned with this physical expansion has been a significant increase in employee recruitment. This increase covers many disciplines and we have been successful in attracting the skill sets and calibre of people required. Headcount increases of this size require a great deal of effort, not just in recruitment but also in the resulting organisational expansion, integration and training. We have been successful in this area which continues to receive the appropriate attention.

Progress has been made in improving the management of new product development, manufacturing and integration. This in turn has enabled a refocusing of resource back on to future product versions and technologies that will sustain our growth for the longer term. We continue to manage our patent portfolio closely, and we regularly monitor possible conflicts and competitive activity.

As a result of our formal strategy review, held early this year, we confirmed that our approach remains niche with our commercial focus entirely on a few applications and leading OEMs where we can make the most impact.

DIVIDEND

Based on the continuing cash generation of the business, an unchanged interim dividend of 1.0p per share will be paid on 23 September 2011 to shareholders on the register at close of business on 26 August 2011.

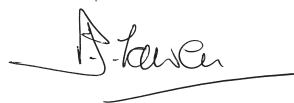
BOARD

As previously reported Rob Eckelmann, non-executive and senior independent director, decided to retire from the board at the company's Annual General Meeting in May of this year, and was replaced by David Cheesman. I would like to thank Rob for the benefit of his considerable experience and almost six years of wise counsel. Robin Williams, non-executive director, was appointed Senior Independent Director in May.

Also as previously reported, Phil Eaves, Sales and Marketing Director, has notified the company of his intention to retire in mid 2012. A process is underway to ensure an appropriate successor is in place during the second quarter of 2012.

OUTLOOK

We continue to live in an economically challenged world where growth is uncertain. For Xaar, the successful expansion of our manufacturing capacity, as planned, will represent a major milestone achieved. Although uncertainties remain, we believe that the market for P3 products will continue to be strong and that our new manufacturing capacity will enable us to capitalise on this demand. Our competitive advantage is the result of supplying a product capable of delivering significant benefits to our customers in selected segments of the inkjet printing market. Although we assume that competition will develop over time, the barriers to entry are high and we believe that our disruptive technology, combined with our management experience, technical skill, talent and resources, will enable us to maintain our competitive edge for a sustained period.



PHIL LAWLER
CHAIRMAN
18 AUGUST 2011

Directors' responsibilities statement

- We confirm that to the best of our knowledge:
- (a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.
 - (b) the interim management report includes a fair review of the information required by DTR 4.2.7R:
 - (i) an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and
 - (ii) a description of principal risks and uncertainties for the remaining six months of the year.
 - (c) the interim management report includes a fair review of the information required by DTR 4.2.8R:
 - (i) related parties transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the group in that period; and
 - (ii) any changes in the related parties transactions described in the Annual Report 2010 that could have a material effect on the financial position or performance of group in the current period.

By order of the board



IAN DINWOODIE
CHIEF EXECUTIVE



ALEX BEVIS
FINANCE DIRECTOR
18 AUGUST 2011

Condensed consolidated income statement for the six months ended 30 June 2011

	Notes	Six months ended 30 June 2011 (reviewed) £'000	Six months ended 30 June 2010 (reviewed, restated, note 2) £'000	Twelve months ended 31 December 2010 (audited) £'000
Revenue	3	31,593	23,820	54,678
Cost of sales		(17,732)	(14,338)	(32,085)
Restructuring costs		—	(111)	—
Gross profit		13,861	9,371	22,593
Distribution costs		(2,161)	(1,863)	(3,623)
Administrative expenses		(7,615)	(6,771)	(14,596)
Restructuring costs		—	1,172	1,107
Operating profit		4,085	1,909	5,481
Investment income		34	14	42
Finance costs		(48)	(50)	(92)
Profit before tax		4,071	1,873	5,431
Tax	4	(1,048)	(449)	(1,442)
Profit for the period attributable to shareholders		3,023	1,424	3,989
Earnings per share				
Basic	5	4.3p	2.3p	6.3p
Diluted	5	4.1p	2.2p	6.1p

Dividends paid in the period amounted to £1,062,000 or 1.5p per share 2010 final dividend (six months to 30 June 2010: £928,000 or 1.5p per share 2009 final dividend; twelve months to 31 December 2010: £1,545,000 or 2.5p per share being 1.5p per share 2009 final dividend and 1.0p per share 2010 interim dividend).

Reconciliation of adjusted financial measures for the six months ended 30 June 2011

	Six months ended 30 June 2011 (reviewed) £'000	Six months ended 30 June 2010 (reviewed, restated, note 2) £'000	Twelve months ended 31 December 2010 (audited) £'000
Gross profit	13,861	9,371	22,593
Restructuring costs	—	111	—
Exceptional commercial agreement costs	—	192	271
Gross profit (adjusted)	13,861	9,674	22,864
Profit before tax	4,071	1,873	5,431
Restructuring costs	(5)	(1,061)	(1,107)
Exceptional commercial agreement costs	—	382	461
Exchange differences on intra-group transactions	(353)	207	(462)
Gain on derivative financial instruments	—	(39)	(39)
Share-based payments	573	46	1,276
Profit before tax (adjusted)	4,286	1,408	5,560
	Six months ended 30 June 2011 (reviewed) Per share	Six months ended 30 June 2010 (reviewed, restated) Per share	Twelve months ended 31 December 2010 (audited) Per share
Diluted earnings per share	4.1p	2.2p	6.1p
Restructuring costs	—	(1.6p)	(1.7p)
Exceptional commercial agreement costs	—	0.6p	0.7p
Exchange differences on intra-group transactions	(0.5p)	0.3p	(0.7p)
Gain on derivative financial instruments	—	(0.1p)	(0.1p)
Share-based payment charges	0.8p	0.1p	2.0p
Tax effect of adjusting items	(0.1p)	0.2p	(0.1p)
Diluted earnings per share (adjusted)	4.3p	1.7p	6.2p

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

Condensed consolidated statement of comprehensive income for the six months ended 30 June 2011

	Six months ended 30 June 2011 (reviewed) £'000	Six months ended 30 June 2010 (reviewed, restated) £'000	Twelve months ended 31 December 2010 (audited) £'000
Profit for the period	3,023	1,424	3,989
Exchange differences on translation of net investment	(245)	(65)	(391)
Gain/(loss) on cash flow hedges	—	74	(87)
Tax relating to components of other comprehensive income	—	242	14
Other comprehensive income for the period	(245)	251	(464)
Total comprehensive income for the period	2,778	1,675	3,525

Condensed consolidated statement of changes in equity for the six months ended 30 June 2011

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Hedging and translation reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2011	7,237	23,534	(4,465)	4,014	440	23,516	54,276
Profit for the period	—	—	—	—	—	3,023	3,023
Exchange differences on translation of net investment	—	—	—	—	(245)	—	(245)
Total comprehensive income for the period	—	—	—	—	(245)	3,023	2,778
Issue of share capital	26	188	—	—	—	—	214
Dividends	—	—	—	—	—	(1,062)	(1,062)
Deferred tax benefit on share option gains	—	—	—	—	—	113	113
Credit to equity for equity-settled share-based payments	—	—	—	520	—	—	520
Balance at 30 June 2011	7,263	23,722	(4,465)	4,534	195	25,590	56,839
	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Hedging and translation reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2010 (as reported in 2010 interim report)	6,351	10,525	(4,465)	3,140	904	20,769	37,224
Prior period adjustment (note 2)	—	—	—	—	—	(761)	(761)
Balance at 1 January 2010 as restated in 2010 annual report)	6,351	10,525	(4,465)	3,140	904	20,008	36,463
Profit for the period	—	—	—	—	—	1,424	1,424
Exchange differences on translation of net investment	—	—	—	—	(65)	—	(65)
Gains on cash flow hedges	—	—	—	—	74	—	74
Tax on items taken directly to equity	—	—	—	—	13	—	13
Tax benefit taken directly to equity	—	—	—	—	—	229	229
Total comprehensive income for the period	—	—	—	—	22	1,653	1,675
Dividends	—	—	—	—	—	(928)	(928)
Credit to equity for equity-settled share-based payments	—	—	—	46	—	—	46
Balance at 30 June 2010 (restated)	6,351	10,525	(4,465)	3,186	926	20,733	37,256

Condensed consolidated statement of financial position as at 30 June 2011

	As at 30 June 2011 (reviewed) £'000	As at 31 December 2010 (audited) £'000
Non-current assets		
Goodwill	720	720
Other intangible assets	4,048	4,349
Property, plant and equipment	20,800	17,385
Investments	1,261	1,261
Deferred tax asset	996	995
	27,825	24,710
Current assets		
Inventories	11,438	10,715
Trade and other receivables	7,887	9,301
Current tax asset	—	381
Cash and cash equivalents	21,665	23,344
	40,990	43,741
Total assets	68,815	68,451
Current liabilities		
Trade and other payables	(8,301)	(10,969)
Other financial liabilities	(100)	(217)
Current tax liabilities	(776)	—
Obligations under finance leases	(271)	(265)
Provisions	(770)	(797)
	(10,218)	(12,248)
Net current assets	30,772	31,493
Non-current liabilities		
Deferred tax liabilities	(693)	(695)
Other financial liabilities	(331)	(361)
Obligations under finance leases	(734)	(871)
Total non-current liabilities	(1,758)	(1,927)
Total liabilities	(11,976)	(14,175)
Net assets	56,839	54,276
Equity		
Share capital	7,263	7,237
Share premium	23,722	23,534
Own shares	(4,465)	(4,465)
Other reserves	4,534	4,014
Hedging and translation reserves	195	440
Retained earnings	25,590	23,516
Equity attributable to shareholders	56,839	54,276
Total equity	56,839	54,276

Condensed consolidated cash flow statement for the six months ended 30 June 2011

	Note	Six months ended 30 June 2011 (reviewed) £'000	Six months ended 30 June 2010 (reviewed, restated) £'000	Twelve months ended 31 December 2010 (audited) £'000
Net cash from operating activities	6	4,687	1,004	5,524
Investing activities				
Investment income		34	14	42
Purchases of property, plant and equipment		(5,195)	(2,843)	(6,488)
Proceeds on disposal of property, plant and equipment		—	1	10
Expenditure on capitalised product development		(220)	(48)	(359)
Net cash used in investing activities		(5,381)	(2,876)	(6,795)
Financing activities				
Dividends paid		(1,062)	(928)	(1,546)
Loan financing		—	1,388	1,389
Proceeds from issue of ordinary share capital		214	—	15,025
Fees for issue of ordinary share capital		—	—	(1,130)
Finance costs		(30)	(81)	(80)
Repayments of borrowings		(248)	(298)	(537)
Net cash (used in)/from financing activities		(1,126)	81	13,121
Net (decrease)/increase in cash and cash equivalents		(1,820)	(1,791)	11,850
Effect of foreign exchange rate changes		141	48	(27)
Cash and cash equivalents at beginning of period		23,344	11,521	11,521
Cash and cash equivalents at end of period		21,665	9,778	23,344

Notes to the interim financial information for the six months ended 30 June 2011

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with the accounting policies set out in the group's annual report and accounts 2010 on pages 40 to 45 and were approved by the board of directors on 18 August 2011. The interim financial statements for the six months ended 30 June 2011 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The interim financial statements do not include all the information and disclosures in the annual financial statements and should be read in conjunction with the group's annual financial statements as at 31 December 2010.

The financial information in these interim financial statements does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The group's annual report for the year ended 31 December 2010 has been delivered to the Registrar of Companies and the auditor's report on those financial statements was not qualified and did not contain statements made under section 498(2) or (3) of the Companies Act 2006.

The interim financial statements are unaudited but have been reviewed by the auditor Deloitte LLP. The report of the auditor to the group is set out on page 15.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the group's annual financial statements for the year ended 31 December 2010.

RISKS AND UNCERTAINTIES

An outline of the key risks and uncertainties faced by the group was outlined in the 2010 financial statements on page 15, including anticipating technology trends, retaining key staff and successfully executing business growth initiatives. It is anticipated that the risk profile will not significantly change for the remainder of the year. Risk is an inherent part of doing business and the strong cash position of the group along with the underlying profitability of the core business leads the directors to believe that the group is well placed to manage business risks successfully.

GOING CONCERN

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

2. RESTATEMENT OF PRIOR PERIODS

The financial statements for the period 1 January 2010 to 30 June 2010 include a prior period restatement, as also presented in the 2010 annual report, in relation to the recognition of revenue from a distributor. In prior periods revenue (and associated profits) was recognised at the point of receipt of goods by the distributor. The restated financial statements recognise revenue (and associated profits) at the point of resale by the distributor which is when risk and rewards of ownership of inventory has transferred.

Segment results in note 3 reflect this restatement which only impacted printheads and related products.

Outlined below are the corrections made for each financial statement line affected.

CONDENSED CONSOLIDATED INCOME STATEMENT (EXTRACTS)

	30 June 2010 as reported £'000	30 June 2010 adjustment £'000	30 June 2010 restated £'000
Revenue	23,863	(43)	23,820
Cost of sales	(14,468)	130	(14,338)
Restructuring costs	(111)	—	(111)
Gross profit	9,284	87	9,371
Operating profit	1,822	87	1,909
Profit before tax	1,786	87	1,873
Tax	(425)	(24)	(449)
Profit for the period attributable to shareholders	1,361	63	1,424
Earnings per share			
Basic	2.2p		2.3p
Diluted	2.1p		2.2p

NOTES TO THE CASH FLOW STATEMENT (EXTRACTS)

	30 June 2010 as reported £'000	30 June 2010 adjustment £'000	30 June 2010 restated £'000
Profit before tax	1,786	87	1,873
Operating cash flows before movements in working capital	2,472	87	2,559
Increase in inventories	(452)	(130)	(582)
Increase in receivables	(1,223)	(7)	(1,230)
Increase in payables	727	—	727

Notes to the interim financial information for the six months ended 30 June 2011 continued

3. BUSINESS SEGMENTS

For management reporting purposes, the group's operations are currently analysed according to product type. These product groups are the basis on which the group reports its primary segment information.

Segment information about these product types is presented below:

	Six months ended 30 June 2011 (reviewed) £'000	Six months ended 30 June 2010 (reviewed, restated) £'000	Twelve months ended 31 December 2010 (audited) £'000
Revenue			
Printheads and related products	28,174	20,546	47,237
Development fees	81	126	459
Licence fees and royalties	3,338	3,148	6,982
Total revenue	31,593	23,820	54,678
Result			
Printheads and related products	94	(861)	(1,029)
Development fees	—	43	179
Licence fees and royalties	3,338	2,565	5,999
Total segment result	3,432	1,747	5,149
Net unallocated corporate income	653	162	332
Operating profit	4,085	1,909	5,481
Investment income	34	14	42
Finance costs	(48)	(50)	(92)
Profit before tax	4,071	1,873	5,431
Tax	(1,048)	(449)	(1,442)
Profit for the period attributable to shareholders	3,023	1,424	3,989

Unallocated corporate income relates to administrative activities which cannot be directly attributed to any of the principal product groups.

Assets in the printheads and related products segment have increased by £1.3m over the period and assets in the licence fees and royalties segment have increased by £0.8m over the period; there have been no other material movements in segment assets during the period.

4. INCOME TAX

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

	Six months ended 30 June 2011 (reviewed) £'000	Six months ended 30 June 2010 (reviewed, restated) £'000	Twelve months ended 31 December 2010 (audited) £'000
Current income tax			
Income tax charge	938	49	1,244
Deferred income tax			
Relating to origination and reversal of temporary differences	110	400	198
Income tax expense	1,048	449	1,442

5. EARNINGS PER ORDINARY SHARE – BASIC AND DILUTED

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

	Six months ended 30 June 2011 (reviewed) £'000	Six months ended 30 June 2010 (reviewed, restated) £'000	Twelve months ended 31 December 2010 (audited) £'000
Earnings			
Earnings for the purposes of earnings per share being net profit attributable to equity holders of the parent	3,023	1,424	3,989
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	70,722,976	61,797,389	63,009,082
Effect of dilutive potential ordinary shares:			
Share options	3,007,608	1,548,756	2,311,031
Weighted average number of ordinary shares for the purposes of diluted earnings per share	73,730,584	63,346,145	65,320,113

Notes to the interim financial information for the six months ended 30 June 2011 continued

6. NOTES TO THE CASH FLOW STATEMENT

	Six months ended 30 June 2011 (reviewed) £'000	Six months ended 30 June 2010 (reviewed, restated, note 2) £'000	Twelve months ended 31 December 2010 (audited) £'000
Profit before tax	4,071	1,873	5,431
Adjustments for:			
Share-based payments	520	46	874
Depreciation of property, plant and equipment	2,230	1,859	3,686
Movements on cash flow hedge valuations	—	47	(39)
Finance costs	48	31	92
Amortisation of intangible assets	521	540	1,119
Investment income	(34)	—	(42)
Foreign exchange losses	(585)	—	(649)
Loss on disposal of property, plant and equipment	—	25	25
Decrease in provisions	(27)	(1,862)	(1,209)
Operating cash flows before movements in working capital	6,744	2,559	9,288
Increase in inventories	(626)	(582)	(3,988)
Decrease/(increase) in receivables	1,407	(1,230)	(3,621)
(Decrease)/increase in payables	(3,041)	727	5,389
Cash generated by operations	4,484	1,474	7,068
Income taxes refunded/(paid)	203	(470)	(1,544)
Net cash from operating activities	4,687	1,004	5,524

Cash and cash equivalents (which are presented as a single class of asset on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

7. DATE OF APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim financial statements cover the period 1 January 2011 to 30 June 2011 and were approved by the board on 18 August 2011.

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

Independent review report for the six months ended 30 June 2011

INTRODUCTION

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the condensed consolidated income statement, reconciliation of adjusted financial measures, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes 1 to 7. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

DIRECTORS' RESPONSIBILITIES

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

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

OUR RESPONSIBILITY

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

DELOITTE LLP

CHARTERED ACCOUNTANTS AND STATUTORY AUDITOR
CAMBRIDGE, UK
18 AUGUST 2011

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