Dear Shareholders

This corporate governance section of the Annual Report sets out what governance means to Xaar and to the Board, both in itself and in terms of its impact on decision making in the business, and looks to assure shareholders and others we have embedded the values that they would expect to see in place.

Corporate governance is not just a set of guidelines but a framework which underpins the core values of the business. It sets standards against which we can judge whether we are acting in the right way and for the right reasons when we make decisions, while ensuring we have all the appropriate and necessary safeguards, checks and balances in place.

Purpose, culture and values

A healthy corporate culture is a valuable asset, a source of competitive advantage and vital to the creation and protection of long-term value. It is the Board’s role to determine the purpose of the Company and ensure that the Company’s values, strategy and business model are aligned to it.

In September 2020, when we announced our new brand identity and launched the ImagineX platform, we also launched a new set of values to reflect the true essence of Xaar and which we use to guide the way we behave towards our customers, our partners and each other.

These values are our guiding principles:

+ We do everything with passion
+ We are creative
+ We are innovative
+ We have integrity
+ We are collaborative

We all lead with integrity, passion and courage to inspire everyone to live our values. We overcome our challenges through innovation and deliver on promises to our customers, winning together.

Andrew Herbert
Chairman

The past 12 months have seen much change at Xaar, with a new brand identity and set of values launched in 2020.

2021 focus areas

- Continue the development and rollout of new products and solutions under the ImagineX platform
- Conclude negotiations in amendment of the Call Option for disposal of Xaar 3D Group to be submitted to shareholder approval
- Improvements to internal control and financial reporting environment within EPS
- Task Force for Climate-related Financial Disclosures (TCFD) to be incorporated into 2021 reporting
- Identify non-organic growth opportunities across the business environment.

Board changes

This year saw significant changes to Board membership including a new Chair, a new CFO and a new Non-Executive Director.

The Nomination Committee has reviewed and concluded that, in the initial period of implementation of the new business strategy, and in the face of stringent cost measures implemented elsewhere in the business, it is appropriate to maintain three rather than the previously four independent Non-Executive Board members. This position remains under review by the Committee to ensure the Board and its Committees maintain appropriate skills and experience and that the majority of the Board remains independent.

Looking ahead

The past 12 months have seen much change at Xaar.

The Board continues to provide effective and independent oversight of the Company’s strategy and its broad business operation, within a framework of effective controls and prudent risk assessment.

Additional work will be undertaken in 2021 to address internal control issues raised during the external audit within EPS, and to identify the roadmap for compliance with the TCFD reporting requirements by end of 2021.

Andrew Herbert
Chairman

27 April 2021
Section 172 Statement

Decisions of the Board take into account not just short-term, but also medium and long-term consequences, which are carefully considered and balanced, having regard to the sometimes conflicting needs and priorities of the business, its customers, partners, employees and other stakeholders.

The decision to potentially divest the 3D business will create a cash funding pool available for investment into targeted development of the ImagineX platform to strengthen both the existing product portfolio and existing customer relationships, but also to develop new product solutions and new revenue streams in new customer sectors.

The Directors’ report and Corporate governance report set out in greater detail Xaar’s policy towards its employees. Xaar’s value is created through innovation, which is a product of motivated employees. They are of central importance to Xaar’s success, and the Directors believe that the Xaar culture and core values create an environment for engaged and successful employees. The Xaar HR team supports managers to look after employee needs, and the Directors review an annual employee engagement survey, which ensures that employee interests and needs are at the kept forefront of the Board agenda.

Three virtual ‘Meet the NEDs’ employee sessions took place in 2020, hosted by each of the Non-Executive Directors. Topics discussed were wide ranging with discussions around the new strategy and direction of the business, remuneration, employee training and opportunities for development.

Regular communication sessions were organised with the Executive Directors, including presentation of the three year business plan via webinar to all employees, with a question and answer session. Xaar’s success depends on strategic relationships with key partners, OEM customers and suppliers, so the Board maintains ongoing oversight of these. Monthly management packs report to the Board on the status of key relationships, which have Board-level engagement from an operational perspective. Product performance is constantly monitored, and customer feedback continuously captured through regular account meetings, which are always attended by management-level, and often Director-level, representatives.

Xaar seeks to make a positive contribution to its community, at local and global levels, and to minimise as far as possible its impact on the environment. Xaar backs its employees’ interests in community activities, supporting them in terms of time to attend to these commitments and financial backing.

Further details on practical steps Xaar has taken during the COVID pandemic can be found in the Strategy update (page 12) and Sustainable and Responsible business report (page 35).

We are pleased to confirm that throughout the year ended 31 December 2020, the Company has followed the provisions of the UK Corporate Governance Code 2018 (‘the Code’), and has either complied or explained why a provision has not been followed. An explanation of non-compliance in post employment shareholdings is provided in the Directors’ Remuneration report (page 71).

Xaar works with the global leaders of the digital inkjet technology industry. Accordingly, the highest standards of business are demanded. Xaar works with these global leaders, at the forefront of business, industry and technological innovation, to ensure these standards are constantly challenged and improved. The competing needs of the various stakeholders of the Company are monitored and reviewed at management and Board level. Where conflicting needs arise, advice is sought from the wider Board and, as necessary, from Xaar advisors. Through the careful balancing of stakeholder needs, Xaar seeks to promote success for the long-term benefit of shareholders.

Governance highlights at a glance

Key governance activities
- Establish new Executive and Non-Executive Board membership following significant personnel changes in 2020
- Undertake a review of the way the Board works and identify improvements in both agenda and delivery of Board material
- Conduct an internal review of Board effectiveness and performance during the year.

Board attendance

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<th>Director</th>
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<td>Andrew Herbert</td>
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<td>Chairman</td>
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<td>John Mills</td>
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<td>Chief Executive Officer</td>
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<td>Ian Tichias</td>
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<td>CFO</td>
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<td>Chris Morgan</td>
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<td>Non Executive Director</td>
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<td>Alison Littley</td>
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<td>Senior Independent Director</td>
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This year saw significant changes to Board membership, with a new executive management team, including a new CEO and CFO.

User Developer Integrators are turning to Xaar’s technology because it goes beyond the typical capabilities of inkjet.

John Mills
CEO

What attracted you to Xaar?
Of all the inkjet businesses in the Cambridge area, Xaar was top of the list of companies I’d like to run, so when the opportunity arose, obviously I was delighted. I have always been aware of the fundamental benefits of Xaar’s technology but also some of the limitations. In my previous role at Inca I would never have adopted Xaar technology because the limitations outweighed the benefits for our application. Moving to Xaar has given me the chance to eliminate those limitations and to showcase the compelling benefits of Xaar’s technology, which is very exciting.

What do you bring to the role of CEO?
A technical background and many years in inkjet companies has certainly been useful to quickly get to grips with the complex nature of Xaar’s products and to see the unique advantages and potential of the technology. My five years as CEO of OEM Inca Digital gave me a great understanding of what our customers need from Xaar in order to drive success in their own businesses. It was clear to me that Xaar’s business model and route to market created confusion, specifically with our OEM customers.

We have now adopted a clear single route to market through our OEM and UDI customers and are already starting to see the impact of the changes made.

What do you see as the main opportunities for Xaar in the coming year?
The progress made to date has allowed us to regain customer trust which opens new business opportunities. We are starting to gain more interest from User Developer Integrators looking to build print systems for their own specific applications which might fall outside of the typical capabilities of inkjet. UDIs are turning to Xaar’s technology because it goes beyond the typical, offering the widest application window, handling a broader range of fluids, viscosities and printing modes.

We will also progress the roadmap to deliver products that offer real value propositions to our customers, which will in turn enable them to drive the success of their own businesses with our technology.

In addition, we are developing integrated solutions to enable our customers to easily adopt inkjet technology and get to market more quickly and efficiently.
It’s an exciting challenge – to rebuild the Company and be involved in shaping a new, better Xaar.

Ian Tichias CFO

What attracted you to Xaar?
The main thing that attracted me to Xaar was the opportunity and potential of the Company and what Xaar could achieve. Huge potential such as this is really exciting and motivating. In addition, Xaar is an established business and has had such a good reputation for innovation and expertise in its field which presents me with an exciting challenge – to rebuild the Company and to be involved in shaping a new, better Xaar.

What do you bring to the role of CFO?
Having spent 17 years in the pharma industry, I bring to Xaar substantial experience gained in successful, well managed and organised businesses. My career has been built across a number of functions, not just finance, and I have a good track record of building successful teams and driving high performance through strong leadership and direction.

Knowing what good looks like and applying best practice gives confidence to know what needs to be done to make the most of Xaar’s potential. Overall, it’s quite a broad leadership background which means I can easily adapt to deliver what the business needs as it develops and grows.

What do you see as the main opportunities for Xaar in the coming year?
We’re at the start of an exciting opportunity for Xaar. We have a lot of ambition and determination. We will move forward in careful, measured steps, embedding quality process and behaviours across the Company. We will make sure we have the right teams focused on the right goals and that the whole Company is aligned. The result will be a structured, stable and sustainable business. The good news is we are already making steady progress! Over the next year we will continue to build on this, to put in place a stable platform to successfully develop Xaar into the foreseeable future.