

Directors' report

Report on the affairs of the Group

The Directors present their Annual Report together with the financial statements and auditor's report for the year ended 31 December 2020.

The Company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include matters of strategic importance in the Strategic Report which otherwise would be required to be disclosed in the Directors' report. An indication of likely future developments in the business of the Company and details of research and development activities and important events since the financial year-end are included in the Strategic Report. The following cross-referenced material is incorporated into this Directors' report.

Non-financial information statement – Subject Matter	Section/Page
Principal Risks and uncertainties	Risk Management on pages 40-49
Business model	Strategic Report on page 14
Employee engagement	Strategic Report on page 15 Stakeholder engagement on page 32 Directors' Remuneration report on page 79
Equality, Diversity, Inclusion and Human Rights	Sustainable and responsible business on page 35
Disabled employees	Sustainable and responsible business on page 35
Supplier engagement	Stakeholder engagement on page 32
Engagement with customers and other business relationships (including community engagement)	Strategic Report on page 15 Stakeholder engagement on page 32 Sustainable and responsible business on page 34
Greenhouse gas emissions and environmental policies	Sustainable and responsible business (TCFD) on page 36 GHG statement on page 50
Political donations	Sustainable and responsible business on page 34
Ethics and Governance, including Code of Conduct, Anti-bribery and corruptions policies	Sustainable and responsible business on page 35 Corporate Governance section on page 68

Branches

In addition to the subsidiaries disclosed in note 11 of the Company's separate financial statements on page 165, there is a branch in Stockholm, Sweden through which research and development activities are conducted. Xaarjet Overseas Limited also has sales branches in Haryana, India (closed in 2021) and Hong Kong.

Dividends

No interim or final dividend was proposed or paid for the year ended 31 December 2020.

 Details on dividends are set out in note 13 on page 134.

Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 26. The Company has one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company, except for shares held in the Xaar Share Incentive Plan trust, which hold no voting rights.


There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

There are a number of employee share schemes, namely, Employee Share Option Schemes ('ESOP'), Long-Term Incentive Plans ('LTIPs'), Share Incentive Plans ('SIP'), and Share Save Schemes ('SAYE').

- Details of the shareholding held in trust by Xaar Trustee Ltd and held by the Xaar plc ESOP trust are provided in note 28. These have voting rights exercised by the Trustees
- Details of other share-based payment schemes are set out in note 32. Shares held in Xaar plc SIP do not hold voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

The business of the Company is managed by the Board, which may exercise all the powers of the Company subject to the Articles and the Companies Act.

 The powers of Directors are described in the Main Board terms of reference, copies of which are available on request, and the Corporate Governance statement, division of responsibilities on page 69.

Directors' report (cont.)

Treasury

The Group's policy enables it to use financial instruments to hedge foreign currency exposures. The main trading currency of the Group is GBP Sterling. The Group's use of financial instruments and the related risks are discussed further in notes 21 and 22.

At the 2020 AGM held on 2 June 2020, the Company's shareholders granted the Company authority to make one or more market purchases (within the meaning of section 693(4) of the Companies Act 2006) of ordinary shares of 10 pence each in the capital of the Company.

The Company did not purchase any shares for cancellation or to be held as treasury shares in 2020 or 2019.

Directors and their interests

The Directors who served during the year, and subsequent to the year-end, unless otherwise stated, were as follows:

Robin Williams

Chairman (retired 31 March 2020)

Andrew Herbert

Non-Executive Director (appointed Chairman 1 April 2020)

John Mills

Chief Executive Officer

Ian Tichias

Chief Finance Officer (appointed 1 March 2020)

Margaret Rice-Jones

Senior Independent Director (retired 30 June 2020)

Chris Morgan

Non-Executive Director

Alison Littley

Senior Independent Director (appointed 1 May 2020, Senior Independent Director 1 July 2020)

 Brief biographical descriptions of the Directors are set out on pages 56 and 57.

 Full details of their interests in shares of the Company and its subsidiary undertakings are included in the Directors' Remuneration report on page 90.

Shareholdings in the Company

The interests of the Directors in the shares of the Company and its subsidiaries (all of which are beneficial) as at 31 December 2020 are as follows:

	Number of ordinary shares of 10p each 31 December 2020	Number of ordinary shares of 10p each 31 December 2019
Andrew Herbert	100,000	—
John Mills	125,000	—
Ian Tichias	50,000	—
Chris Morgan	—	—
Alison Littley	—	—

There have been no changes in the Directors' interests in shares of the Company between 31 December 2020 and 27 April 2021. Directors' interests in options in the Company and in deferred bonuses (in shares) are shown in the Directors' Remuneration report. The Executive Directors are required to receive a portion of their bonus in deferred shares. At the point in which the bonus is approved each year, the shareholding is then increased accordingly.

Directors' liabilities

Xaar plc, the ultimate parent company, and its subsidiaries have granted an indemnity to all of the Directors of Xaar plc and of its subsidiaries against liability in respect of any potential proceedings that may be brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in place during the year and remains in force as at the date of approving the Directors' report.

Share capital

As at 31 December 2020 the Company had been notified in accordance with Chapter 5 of the Financial Conduct Authority's ('FCA's') Disclosure and Transparency Rules of the following material interests in its share capital:

Top 10 shareholders (by parent company) – at 31 December 2020	Number of ordinary shares held	Percentage of issued share capital
Schroders	22,238,789	28.39%
Aberforth Partners	8,461,333	10.80%
Hargreaves Lansdown PLC	5,508,346	7.03%
Invesco	4,070,814	5.20%
Interactive Investor Trading	3,618,360	4.62%
Columbia Threadneedle Investments	3,520,252	4.49%
Fidelity Worldwide Investment (FIL)	2,836,253	3.62%
Barclays Bank	2,395,398	3.06%
Chelverton Asset Mgt	2,331,826	2.98%
River & Mercantile Asset Mgt	2,211,608	2.82%
Total	57,192,979	73.01%

During the period 31 December 2020 to 26 April 2021, the Company had been notified in accordance with Chapter 5 of the Financial Conduct Authority's ('FCA's') Disclosure and Transparency Rules of the following material interests in its share capital:

Changes in material shareholdings since 31 December 2020	Number of ordinary shares held	Percentage of issued share capital
Schroder Investment Mgt (London) (decrease in shareholding from 28.39% to 27.33%)	21,406,643	27.33%
Columbia Threadneedle Investments (increase in shareholding from 4.49% to 6.69%)	5,241,342	6.69%
Hargreaves Lansdown PLC (decrease in shareholding from 7.03% to 6.54%)	5,119,423	6.54%
Odyssean Capital LLP (increase in shareholding from 2.69% to 5.09%)	3,982,500	5.09%
Interactive Investor Trading (decrease in shareholding from 4.62% to 3.57%)	2,796,503	3.57%
Fidelity Worldwide Investment (FIL) (decrease in shareholding from 3.62% to 3.23%)	2,534,063	3.23%
Barclays Bank (decrease in shareholding from 3.06% to 2.80%)	2,190,041	2.80%
River & Mercantile Asset Mgt (decrease in shareholding from 2.82% to 1.77%)	1,389,995	1.77%

COVID-19 statement

The health and wellbeing of our colleagues, shareholders and the wider community in which our Company operates is a priority for us. The Directors have carefully considered the impact on the meeting of the constantly evolving COVID-19 situation and the UK Government's restrictions and guidance on, amongst other things, public gatherings and social distancing. As at the date of publication of the notice of the Annual General Meeting, it is anticipated that this year's AGM will be held as a closed meeting. Accordingly, save for the Chairman of the Meeting and such other persons as the Chairman of the Meeting may decide should be admitted for the purposes of forming a quorum, shareholder attendance in person at the AGM will not be permitted.

The Company will continue to closely monitor the developing impact of COVID-19 and the latest legislation and guidance issued by the UK Government. If circumstances evolve such that the Directors consider that, within safety constraints and in accordance with government guidance, arrangements regarding attendance at the Annual General Meeting can change, the Company will notify shareholders as soon as reasonably practicable of any such changes via a Regulatory Information Service and on our website. We encourage shareholders to monitor the Company's website and regulatory news services for any updates in relation to this year's AGM.

Given the uncertainty around whether shareholders will be able to attend the AGM, we strongly recommend that shareholders exercise their votes by submitting their proxy as set out in the Notice of Meeting. This will ensure that your vote will be counted if attendance at the meeting is restricted (which is likely to be the case due to the ongoing COVID-19 restrictions). All shareholders are strongly recommended to vote electronically at www.signalshares.com as your vote will automatically be counted. In addition, should a shareholder have a question that they would have raised at the meeting, we ask that they send it by email to investor.relations@xaar.com before 5.00 pm on 9 June 2021. Answers to the questions will be published on our corporate website (www.xaar.com) after the AGM.

Annual General Meeting

 The notice convening the Annual General Meeting is set out on pages 167 to 170.

Resolutions 1 to 9 set out in the notice of the meeting deal with the ordinary business to be transacted at the meeting. The special business to be transacted at the meeting is set out in Resolutions 10 to 13.

Directors' report (cont.)

Re-election of Directors

Resolutions 4 to 8

The Company's Articles of Association require the Directors to retire by rotation at least once every three years, with the number to retire by rotation at each Annual General Meeting being the number nearest to but not exceeding one third of the Board. However, the UK Corporate Governance Code provides that all Directors should be subject to re-election by their shareholders every year. In accordance with this provision of the UK Corporate Governance Code and in keeping with the Board's aim of following best corporate governance practice, the Board has, in recent years, decided that all Directors should retire at each Annual General Meeting and offer themselves for re-election.

Directors' Remuneration report

Resolution 9

This Resolution seeks shareholder approval for the Directors' Remuneration report.

 **The Directors' Remuneration report can be found on pages 78 to 96 (inclusive) of the Annual Report and Financial Statements.**

In accordance with regulations which came into force on 1 October 2013, Resolution 9 offers shareholders an advisory vote on the implementation of the Company's existing remuneration policy.

Power to issue securities

Resolutions 10, 11 and 12

Under section 551 of the Companies Act 2006 (the 'Act'), the Directors may only allot shares or grant rights to subscribe for or convert any securities into shares if authorised by the shareholders to do so.

Resolution 10, which complies with guidance issued by the Investment Association, will, if passed, authorise the Directors to allot ordinary shares or grant rights to subscribe for or convert any securities into ordinary shares, up to an aggregate nominal value of £2,611,143 (corresponding to approximately one third of the issued share capital at 26 April 2021) and up to an additional aggregate nominal value of £5,222,286 (corresponding to approximately two thirds of the issued share capital at 26 April 2021) in the case of allotments only in connection with a fully pre-emptive rights issue. The Directors have no present intention to exercise the authority sought under this Resolution. However, the Directors may consider doing so if they believe it would be appropriate in respect of business opportunities that may arise consistent with the Company's strategic objectives.

This authority will expire no later than 15 months after the passing of the Resolution. It is the Board's current intention to seek renewal of such authority at each future Annual General Meeting of the Company.

Disapplication of pre-emption rights Resolutions 11 and 12

Under section 561(1) of the Act, if the Directors wish to allot equity securities (as defined in section 560 of the Act) they must in the first instance offer them to existing shareholders in proportion to their holdings. In addition, there may be occasions when the Directors will need the flexibility to finance business opportunities by the issue of shares without a pre-emptive offer to existing shareholders. This cannot be done under the Act unless the shareholders have first waived their pre-emption rights.

In accordance with institutional guidelines, under Resolution 11, to be proposed as a Special Resolution, authority is sought to allot shares:

- (i) in relation to a pre-emptive rights issue only, up to an aggregate nominal amount of £5,222,286 (being the nominal value of approximately two thirds of the issued share capital of the Company); and
- (ii) in any other case, up to an aggregate nominal amount of £391,672 (representing 5% of the issued share capital of the Company).

The Directors do not currently have an intention to exercise the authority.

In addition, Resolution 12, which is also to be proposed as a Special Resolution, asks the shareholders to waive their pre-emption rights in relation to the allotment of equity securities or sale of treasury shares up to a further aggregate nominal amount of £391,672 (representing 5% of the issued share capital of the Company), with such authority to be used only for the purpose of financing (or refinancing, if the authority is to be used in the six months after the original transaction) a transaction which the Directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Pre-emption Group's Statement of Principles on Disapplying Pre-emption Rights.

The Directors will also have regard to the guidance in the Statement of Principles concerning cumulative usage of authorities within a three-year period. Accordingly, the Board confirms that it does not intend to issue shares for cash representing more than 7.5% of the Company's issued ordinary share capital in any rolling three-year period other than to existing shareholders, save as permitted in connection with an acquisition or specified capital investment as described above, without prior consultation with shareholders.

If Resolutions 11 and 12 are passed, the authorities will expire at the conclusion of the next Annual General Meeting of the Company, or, if earlier, the date which is 15 months after the date of passing of the Resolutions. It is the Board's current intention to seek renewal of such authorities at each future Annual General Meeting of the Company.

Authority to purchase own shares

Resolution 13

It is proposed by Resolution 13, by Special Resolution, to authorise the Company generally and unconditionally to purchase its own shares at a price of not less than the par value of the shares and not more than the higher of:

- (i) 5% above the average of the middle market quotations of the shares as derived from the London Stock Exchange Daily Official List for the five dealing days immediately preceding the day on which the purchase is made; and
- (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out (in each case exclusive of any expenses payable by the Company).

The authority will be for a maximum of 14.9% of the Company's issued share capital and will expire at the earlier of the next Annual General Meeting of the Company or within 15 months from the date of the passing of this Resolution. The Directors currently have no intention to exercise the authority and will only purchase shares if it is in the best interests of shareholders as a whole.

The total number of ordinary shares under option, which remain unexercised and outstanding as at 26 April 2021 (including options awarded under LTIP which may be satisfied by subscription for new shares) was 3,480,593. This represents 4.4% of the issued ordinary share capital at that date. If the Company was to buy back the maximum number of ordinary shares permitted pursuant to the passing of this Resolution, then the total number of ordinary shares under option which remain unexercised and outstanding as at 31 December 2020 would represent 5.2% of the reduced issued ordinary share capital.

Additional information for shareholders

The following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK law.

The structure of the Company's issued share capital is shown in note 26.

Details of ordinary shares held in trust owned by the Company can be found in note 28.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

The Directors are authorised to issue and allot shares and to undertake purchases of the Company's shares. Appropriate resolutions to renew these authorities are proposed to be passed at the Annual General Meeting as detailed above and notice of which is on pages 167 to 170.

 **The notice of the Annual General Meeting is on pages 167 to 170.**

Ordinary shares

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote for every ordinary share held and, on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the Annual General Meeting on pages 167 to 170 specifies deadlines for exercising voting rights either by proxy notice or present in person or by proxy in relation to resolutions to be passed at the Annual General Meeting.

All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are made available at the Annual General Meeting and are published on the Company's website after the meeting. No person holds securities carrying special rights with regard to control of the Company.

Directors' report (cont.)

Restrictions

There are no restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws and market requirements relating to close periods); and
- pursuant to the Listing Rules of the FCA whereby all employees of the Company require the approval of the Company to deal in the Company's securities.

Articles of Association

The Company's Articles of Association may only be amended by a Special Resolution at a general meeting of the shareholders. Directors are reappointed by Ordinary Resolution at a general meeting of the shareholders.

Action to be taken

As detailed in the notes to the notice convening the Annual General Meeting, you will not receive a Form of Proxy for the Annual General Meeting in the post. Instead, you can vote online at www.signalshares.com. To register, you will need your Investor Code, which can be found on your share certificate; once logged on, click on the "Vote Online Now" button to vote. Proxy votes should be submitted as early as possible and in any event, no later than 48 hours before the start of the meeting (excluding weekends and public holidays). Shareholders attempting to attend the meeting will be refused admission.

You may request a hard copy proxy form directly from the registrars, Link Asset Services on 0871 664 0300. (Calls cost 12 pence per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate.) Lines are open between 9.00a.m. to 5.30p.m., Monday to Friday, excluding public holidays in England and Wales.

Appointment and replacement of Directors

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and prevailing legislation.

The Board can appoint a Director but anyone so appointed must be elected by an Ordinary Resolution at the next general meeting.

All Directors are required to submit themselves for reappointment every year at the AGM (see: Re-election of Directors, above) in line with the UK Corporate Governance Code.

A Director may be removed by the Company in certain circumstances set out in the Articles of Association or by an Ordinary Resolution of the Company.

Significant interests

 **Directors' interests in the share capital of the Company are shown in the table on page 60.**

 **Major interests (i.e. those greater than 3%) of which the Company has been notified are shown on page 61.**

Company share schemes

The Xaar plc ESOP Trust holds 0.9% (2019: 1.2%) of the issued share capital of the Company in trust for the benefit of employees of the Group and their dependants. The voting rights in relation to these shares are exercised by the Trustees.

Change of control

The Company is not party to any agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid. Depending on the achievement of performance conditions, share-based payment arrangements may vest on change of control but this is subject to the approval and exercise of the discretion of the Remuneration Committee.

Going concern

 **The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 9 to 13 and Business performance on pages 28 to 31.**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 6 to 19. The Group reported a loss after tax for the year ended 31 December 2020 of £14.7 million, of which £10.3 million related to discontinued operations, being the final costs relating to Thin Film and the Xaar 3D business which is expected to be sold. Notes 21 and 22 include a description of the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk. The Group's day to day working capital requirements are expected to be met through the current cash and cash equivalent resources (including Treasury deposits) at the balance sheet date of 31 December 2020 of £18.1 million. The Group was debt free as at 31 December 2020 and across each of the going concern scenarios described below.

Whilst the impact of COVID-19 on the performance of the business over the last year has not been significant, the long-term implications of the spread of the virus remain uncertain making it difficult to determine the impact on the 2021 financial performance. The Board has therefore considered the performance of the different businesses across the Group and each of their funding requirements before performing a number of stress tests. The base going concern case assumes that the disposal of Xaar 3D completes as described in note 37 and the Strategic update on page 11, however excludes the anticipated consideration. Conservatively, a second case which excludes the disposal of Xaar 3D has been applied. In both cases the downturn in revenue across the entire Group required to prevent the business continuing as a going concern would have to be severe and is not plausible given the nature and size of the order book and the trading experience of the printhead and EPS segments during COVID-19 conditions to date. Notwithstanding this, the Group has further options to mitigate a cash shortfall which have not been factored into the above forecasts, such as staffing reductions, further delaying/stopping capital and research and development expenditure and aligning performance related pay to actual results.

The Group continues to enjoy a strong cash position and is well positioned to cope with the current situation. The Board remains confident in the long-term future prospects for the Group and its ability to continue as a going concern for the foreseeable future.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, based on the Group's forecasts and projections for the period to 30 April 2022, taking account of reasonably possible changes in trading performance. For this reason, we continue to adopt the going concern basis in preparing the financial statements.

Viability Statement

The long-term viability of the Group is assessed by the Directors as part of the risk management process and regular strategic reviews.

The Company has undertaken a thorough strategic review of all three business units which has resulted in a three-year plan which takes into consideration the principal risks, product portfolios and R&D roadmaps, the market opportunities, our competitive position, core capabilities, and the cost structure, effectiveness and efficiency of the organisation.

 **Details of which are outlined in the CEO report and in the strategic review on pages 9 to 13.**

The plan forms the basis for strategic actions to be taken across the Company and the key objectives for each business. These objectives, and the key performance metrics associated with these, are regularly reviewed by the Directors.

The Company is aware that it operates in an uncertain environment and faces risks both internally and externally that could potentially impact on the Company's ability to achieve its strategy.

 **The principal risks and uncertainties faced by the Company are included on pages 40 to 49.**

As part of the process of reviewing these risks, and other potential risks, the Board assigns responsibility for these to members of the Executive Committee. It is the responsibility of the Executive Committee members to manage the risk and the mitigating actions. This process is supplemented with strong internal controls and processes. This combination ensures that the Company manages the risks it face appropriately and that these are considered in all of the financial models.

The Board has assessed the viability of the Group over a three-year timeframe based on the development cycles of our competitors and that of our customers and the probability this could lead to technological advancements that disrupt the markets that Xaar operates in. In practice the combined development time to produce a new printhead and subsequently a new printer is longer than this. The major risks to the Group in the three-year timeframe considered predominantly relate to existing competition displacing Xaar with their current product portfolios and macro-economic events, such as the COVID-19 pandemic, that cause a significant downturn in the global economy.

A reverse stress test of the business based on the business having insufficient liquidity to continue trading was modelled. The scenarios run focused predominantly on significant declines in revenue. In these scenarios, the Directors have considered the actions that would be taken if these events were to become a reality. These actions include reduced capital expenditure, suspension of bonus plans, and a delay in R&D programmes. These results confirmed the Group would be able to withstand these scenarios.

Taking account of the Company's current financial position, operating performance, and the principal risks and uncertainties, the Directors have assessed the prospects of the Company, and confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for the next three years, to December 2023.

Directors' report (cont.)

Auditor

Ernst & Young LLP were re-appointed in 2020 and have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming AGM.

Directors' statement as to disclosure of information to auditor

 The Directors who were members of the Board at the time of approving the Directors' report are listed on page 51.

Having made enquiries of fellow Directors, each of these Directors confirm that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditor is unaware
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditor is aware of that information
- If any independent Director does not agree to support this statement this must be disclosed.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approval

The Directors' report was approved by the Board on 27 April 2021 and is signed on its behalf by:



John Mills
Chief Executive Officer