

Corporate Governance statement

The Board's primary objective remains the acceleration of the transformation strategy, ensuring long-term, sustainable growth for the benefit of the Company's shareholders and wider stakeholders. This includes an ongoing commitment to the highest standards of corporate governance.

The 2018 UK Corporate Governance Code is an updated set of principles and provisions that emphasise the value of good corporate governance to long-term sustainable success and achievement of wider objectives.

Application of the main principles of the Code

The Board has considered and implemented the provisions of the 2018 Code effective 1 January 2019.

We are pleased to confirm that throughout the year ended 31 December 2020, the Company has followed the principles and provisions of the UK Corporate Governance Code 2018 ('the Code'), which applies to all companies with a premium listing on the London Stock Exchange, and has either complied with the provision or explained why the provision has not been followed.

The current policy post-employment shareholding do not fully comply with the Code, and an explanation is provided in the Directors' Remuneration report on page 71.

The terms of reference for the Audit, Nomination and Remuneration Committees reflect the changes in the 2018 Code, with the Committees addressing additional requirements of them.

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to factors (a) to (f):

- a) The likely consequences of any decision in the long-term,
- b) The interests of the company's employees,
- c) The need to foster the company's business relationships with suppliers, customers and others,
- d) The impact of the company's operations on the community and the environment,
- e) The desirability of the company maintaining a reputation for high standards of business conduct, and
- f) The need to act fairly as between members of the company.

The governance report gives:

- A clear and honest view of progress throughout the year
- The outcome of our Board evaluation
- Disclosure of Board discussions and the resulting actions
- Our approach to ensuring long-term viability of the business
- Our approach to risk and mitigation.

This statement outlines the processes the Company has undertaken throughout the year to apply the Code and demonstrates compliance with each provision. An explanation of how the main principles have been applied during 2020 is set out below.

The disclosures in respect of the Takeovers Directive (as implemented in the UK) are included in the Directors' report and form part of this report.

1. Board leadership and Company purpose

The Board's role is to promote the long-term sustainable success of the Company, generating value for the shareholders and contributing to wider society:

The Group has three main locations. The head office functions, R&D, EMEA sales, marketing, human resources, finance, IT and facilities are based in Cambridge and Nottingham, UK. The Group has two manufacturing facilities: one in Huntingdon, UK, and the other in Vermont, USA. The Group also has representatives in other global locations including Italy, India, Hong Kong, Sweden and Denmark.

 **Refer to page 14 for the Xaar business model.**

In accordance with the Directors' duties in Section 172 of the Companies Act 2006, the Board considers the likely consequences of any decision in the long-term. The Board incorporates the basis on which the Company generates and preserves value in formation of the strategy and strategic decision-making.

Corporate Governance statement (cont.)

During 2020, the Board transformation progressed with the executive Board incorporating the new CEO, CFO and Chair being appointed, the continuation in the business turnaround in developing a more customer-centric business model and a change in the go-to-market strategy to increase the product offering to original equipment manufacturers and progress development of new technological solutions to address customers' requirements, with a clear product roadmap leading to the launch of ImagineX platform and new IP and product launches.

In the year ended 31 December 2020, the Company invested approximately £7.0 million in Xaar 3D. Due to delays caused by the impact of the COVID-19 pandemic on the development of Xaar 3D products, the Directors believe there was a risk that the Xaar 3D programme might take longer than anticipated when it entered into the original Call Option with Stratasy, and subsequently the Company would be required to commit additional funds to Xaar 3D. Following a re-evaluation of the further cash investment required and extended timescales to full commercialisation of the product, we have determined that it is in Xaar's best interests to bring forward the planned sale of Xaar's shares in Xaar 3D.

The terms of the proposed revised option arrangement will be published in due course and are subject to Xaar shareholder approval.

Such an arrangement would provide Xaar 3D with the best opportunity to complete the commercialisation of the HSS product range in the shortest time, would lead to an immediate injection of cash and would enable Xaar to focus on its core business.

The Board is responsible for establishing, assessing and monitoring the Company's purpose, values, strategy, and culture. In doing so, the Board ensures the alignment of the Company's culture and the transformation programme.

The Board and Directors seek to build on a mutual understanding of objectives between the Group and its institutional shareholders by meeting at least twice per year, following interim and annual results, to provide an update on trading and obtain feedback.

 **See Shareholder communications as part of the Directors' Remuneration report on page 80.**

The Group's financial public relations advisors and lead brokers give all investors and potential investors who have met with the Group's investor relations team the opportunity to provide feedback on the meetings. Additionally, the Chief Executive Officer and the Chief Financial Officer provide feedback to the Board at the meeting following shareholder meetings to ensure that the Board, and in particular the Non-Executive Directors, possess an understanding of the views of the Company's major shareholders. Both the Chairman and the Senior Independent Director are available to meet with shareholders as required.

The Board uses the AGM to communicate with investors and to encourage their participation.

Following a general meeting, voting results are published on the Company's website. If the votes against a resolution exceeded 20%, an explanation would also be published on the website. At the most recent AGM in 2020, there were no resolutions with more than 1% of votes cast against the Board's recommendation. The Company engages with shareholders both throughout the year and specifically in respect of new or significantly amended resolutions in order to ensure the Board's recommendation is aligned with the members' views.

Shareholders can access up-to-date Company information from the Investors section of the Xaar website at www.xaar.com.

The Board has worked closely with executive management to redefine the Group's mission, vision and values which will underpin the Group's evolving culture under the new leadership team. Further information is in Directors' Remuneration report page 78 and Sustainable and responsible business page 34.

The Board has formally introduced workforce engagement sessions to be held at least three times a year. With the impact of COVID, the three sessions taking place in 2020 were held virtually, hosted by each of the Non-Executive Directors. Topics discussed were wide ranging but focused mainly around the new strategy and direction of the business, remuneration, employee training and opportunities for development

The Company conducts its business with the highest standards of integrity and honesty at all times and expects its employees to maintain the same standards in everything they do. Employees are therefore required to report any wrongdoing by Xaar or its members of staff that falls short of these principles. The whistle-blowing, and anti-bribery and corruption policies are available and communicated to all employees via the Company intranet, and all employees confirm in writing that they have read and comply with the whistle-blowing and anti-bribery and corruption policies. All reported incidences of actual or suspected bribery or corruption will be promptly and thoroughly investigated and dealt with appropriately by the Board. The purpose of the anti-bribery and corruption policy is to protect Xaar and its employees from breaches of anti-bribery and corruption laws. Xaar does not tolerate any employee or third party being involved in any level of bribery or corruption. Xaar is committed to complying with applicable anti-bribery and corruption laws in all countries in which it conducts business.

Following the changes made to the Company's Articles of Association to incorporate the provisions of section 175 of the Companies Act 2006 which gave boards the statutory power to authorise conflicts of interest, any potential conflict of interest is approved by the Board in advance of any action or appointment that could result in a conflict of interest arising. Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Each member of the Board is familiar with the procedure to follow in relation to conflicts of interest and the process is operated efficiently.

2. Division of responsibilities

The Board discharges its responsibilities by providing strategic and entrepreneurial leadership of the Company, within a framework of strong governance, effective controls and a strong culture emphasising openness and transparency, which enables opportunities and risks to be assessed and managed appropriately. In addition, the Board sets the Company's strategic direction; ensures that the necessary financial and human resources are in place for the Company to meet its objectives; and reviews management performance.

The Chairman, Andrew Herbert, was deemed independent on appointment in 2020. There exists a clear division of responsibilities between the Chair and the Chief Executive Officer, which is exercised by John Mills. The Chair's primary role includes ensuring the Board functions properly, that it meets its obligations and responsibilities, and that its organisation and mechanisms are in place and are working effectively.

The Board delegates management of the business to the Executive Committee, comprising Executive Directors and senior operational managers, headed by the Chief Executive Officer. The Executive Committee meets weekly and is responsible for implementing Group strategy, monitoring business performance, preparing the operating and capital expenditure budgets for recommendation to the Board, and ensuring efficient management of the Group.

The Non-Executive Directors attend the Board meetings, and form the Audit, Remuneration and Nomination Committees. They are responsible for scrutinising the performance of management and determining appropriate levels of remuneration of Executive Directors. They also have a key role in appointing and, where required, removing Executive Directors.

The Non-Executive Directors are identified on pages 56 and 57 of the Annual Report and a short biography provided. The Board has determined that each Non-Executive Director is independent in character and judgement; commits sufficient time and energy to the role; and continues to make a valuable contribution to the Board and its Committees. The Board keeps under review whether there are relationships or circumstances which are likely to affect, or could appear to affect, their independence.

The Company Secretary is the secretary to the Board and its Committees and is also the secretary to the Executive Committee. All Directors have access to the services of the Company Secretary and Directors may take independent legal and other professional advice at the expense of the Company. Camila Cottage was re-appointed as Company Secretary on 1 February 2021.

3. Composition, succession and evaluation

The Nomination Committee is responsible for regularly reviewing the composition of the Board. In recommending appointments to the Board, the Nomination Committee considers the range of skills, knowledge and experience required, with due regard for the benefits of diversity on the Board, including gender.

The Board continues to consider that diversity quotas at Board level are inappropriate, and is committed to recruiting the best talent available, assessed against objective criteria of skills, knowledge, independence and experience. All candidates are therefore considered on merit but without reference to a specific diversity policy and without any established measurable objectives in respect of diversity quotas (e.g. age, gender, ethnicity, disability, religion or educational and professional background). More information on the Group's gender profile is reported in Sustainable and responsible business on 35.

The Board of Directors comprises the Chairman, two Executive Directors and two Non-Executive Directors.

The Board considers Alison Littley, Chris Morgan and Andrew Herbert to be independent within the meaning of the Code. To be considered independent each Non-Executive Director is sufficiently separate to management and free from any business or other relationships which could affect their judgement, impartiality or objectivity.

All the Non-Executive Directors are deemed to be independent members of the Board having no financial relationship or significant links with related parties. Chris Morgan maintains his independence, having departed Stratasys in 2015. All Directors complete a disclosure document prior to appointment.

The appointment of new Directors is led by the Nomination Committee. The year was a less active one for the Nomination Committee, with the appointment of Alison Littley as Senior Independent Director following the retirement of Margaret Rice-Jones in June 2020.

The Board conducted an internal review of the effectiveness of itself, with each Non-Executive Director, the Chairman and the Board Committees in December 2020. From the review and conclusion process areas of improvement were identified, in summary:

1. Preparation of material, content and frequency of meetings
2. Delegation of authority and matters requiring Board approval to be extended to commercial contracts with long-term consequences
3. Insight into and interaction with the operating management
4. Access to off-Board management and focus on succession planning.

 **Further details of the activities of the Nomination Committee can be found on page 76.**

As part of the selection process for any potential Directors, any significant external time commitments are considered before an appointment is agreed. All Directors are required to consult with the Chair of the Board and obtain the approval of the Board, before taking on additional appointments.

Corporate Governance statement (cont.)

Executive Directors are not permitted to take on more than one significant appointment as a director of a FTSE 100 company or any other substantial appointment.

The responsibilities of the Chair, Chief Executive, Senior Independent Director, Board and Committees are clear, set out in writing, agreed by the Board and made publicly available, with terms of reference for the Committees available on request.

The Board's policy for individual Director performance review is for a formal and rigorous appraisal process based on performance by the individual Director against specific targets. Individual Director performance is reviewed at least annually. The Senior Independent Director, in consultation with the other Non-Executive Directors and taking into account the views of the other Directors, appraises the performance of the Chairman. The Executive Directors, in consultation with the Chairman, appraise the performance of the Non-Executive Directors.

It is the Board's intention to review its own performance, and that of its Committees, at least once a year. All Directors were subject to shareholder election or re-election at the 2020 AGM, with the exception of Alison Littlely who was appointed just prior to the AGM and whose appointment was confirmed by the Board. All Directors will stand for re-election at the 2021 AGM.

The biographies of the Directors, set out on pages 56 to 57, contain the evaluation of skills and experience beneficial to the Company so that the Board recommends the re-election or election of each Director.

4. Audit, risk and internal control

The role and responsibilities of the Audit Committee are set out in the Audit Committee section on pages 72 to 75.

The Directors' assessment of the Group's internal control environment as required under the UK Corporate Governance Code is set out on page 74 under 'Internal controls and compliance'.

The Audit Committee, led by Chris Morgan, plays a key role in monitoring and evaluating our compliance and risk management processes, providing independent oversight of our external audit and internal control programmes, accounting policies and business transformation projects, and in assisting the Board in reporting in a fair, balanced and understandable manner to our shareholders. The Board has satisfied itself that Chris Morgan has recent and relevant financial experience and that the Audit Committee as a whole has competence relevant to the sectors in which the Company operates.

The significant accounting judgements and estimation uncertainties that the Audit Committee has considered in relation to the financial statements are set out in the Audit Committee section on pages 72 to 73 and in note 2 to the accounts on pages 115 to 116.

All of the Audit Committee members are independent Non-Executive Directors and have financial and/or related business experience due to the senior positions they hold or have held in other listed or publicly traded companies and/or similar large organisations.

The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable. The Strategic Report, set out on pages 8 to 31, provides information about the performance of the Group, the business model, the Group's strategy and the risks and uncertainties relating to the Group's future prospects.

The Board has confirmed on page 41 of the Annual Report that it has carried out a robust assessment of the principal and emerging risks facing the Company, including those that could threaten its values, reputation, business model, future performance, solvency or liquidity. Descriptions of those risks and how they are mitigated are set out on pages 42 to 49.

The Group's policies relating to risk management and internal control can be found in the 'Risk management' section of the Strategic Report on pages 40 to 49.

The Board explains on pages 64 and 65 of the Annual Report how it has assessed the prospects of the Company over the longer term and why it considers a three-year period to be appropriate for the purposes of this assessment. The Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over this period.

The Committee has formally identified the Chief Executive Officer as responsible for health and safety and the Chief Financial Officer as responsible for risk assessment.

5. Remuneration

The Remuneration Committee sets levels of remuneration which are designed to promote the long-term success of the Group and structures remuneration so as to link it to both corporate and individual performance, thereby aligning management's interests with those of shareholders.

The Remuneration Committee's primary role is to recommend to the Board the senior remuneration strategy and framework, giving due regard to the financial and commercial health of the Company and to ensure the Executive Directors and senior management are fairly rewarded for their individual contributions to the Company's overall performance. The remit of the Committee also includes considering the appropriateness of the senior remuneration framework when reviewed against arrangements throughout the rest of the organisation, determining the terms of employment and remuneration for Executive Directors and senior managers, including recruitment and termination arrangements, approving the design, targets and payments for all annual incentive schemes that include Executive Directors and senior managers and agreeing the design, targets and annual awards made for all share incentive plans requiring shareholder approval.

Details of the activities of the Remuneration Committee can be found in the Remuneration Committee section on page 78 and in the Directors' Remuneration report on pages 78 to 96.

Summary of Board meeting attendance in 2020

Eleven Board meetings were held in 2020.

Name	Meetings attended
John Mills	11 (11)
Ian Tichias ¹	11 (11)
Robin Williams ²	3 (3)
Andrew Herbert	11 (11)
Margaret Rice-Jones ³	8 (8)
Alison Littley ⁴	6 (6)
Chris Morgan	11 (11)

¹ Ian Tichias was appointed to the Board on 1 March 2020.

² Robin Williams retired from the Board on 31 March 2020.

³ Margaret Rice-Jones stepped down from the Board on 30 June 2020.

⁴ Alison Littley was appointed to the Board on 1 May 2020, and appointed Senior Independent Director on 1 July 2020.

Board Committees

Summary of Committee membership:

Name	Audit Committee	Remuneration Committee	Nomination Committee
Andrew Herbert	No	Yes	Chair
Alison Littley	Yes	Chair	Yes
Chris Morgan	Chair	Yes	Yes
John Mills ¹	No	No	Yes

¹ The Committee invites the CEO to attend meetings when the subject matter deems their presence appropriate.

Summary of Committee meeting attendance in 2020:

Name	Audit Committee	Remuneration Committee	Nomination Committee
Andrew Herbert	4 (4)	9 (9)	1 (1)
Robin Williams	n/a	3 (3)	n/a
Alison Littley	3 (3)	5 (5)	n/a
Margaret Rice-Jones	1 (1)	5 (5)	1 (1)
Chris Morgan	4 (4)	9 (9)	1 (1)
Ian Tichias	3 (3)	5 (5)	1 (1)
John Mills	4(4)	9 (9)	1 (1)

Figures in brackets denote the maximum number of meetings that could have been attended.

Statement of compliance with the Code

Throughout the year ended 31 December 2020 the Company has followed the provisions set out in the Code, and has either complied with the provisions of the 2018 Code or explained why the provision has not been followed.

The current policy post-employment shareholding do not comply fully with the UK Code, as it doesn't include a minimum two-year post-employment holding. This is partially mitigated through applying the leaver provisions set out on page 84. The Committee will keep this under review and will update the guideline when a new remuneration policy is introduced.

The Board confirms the 2020 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the position, performance, strategy, and business model of the Company.

Approval

The Corporate Governance statement was approved by the Board on 27 April 2021 and is signed on its behalf by:



John Mills

Chief Executive Officer