

Notes to the Company financial statements for the year ended 31 December 2020

1. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 and in accordance with FRS 101 ('Financial Reporting Standard 101') 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. The results of Xaar plc are included in the consolidated financial statements of Xaar plc.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements of Xaar plc.

The financial statements have been prepared under the historical cost convention.

The principal accounting policies adopted are the same as those set out in note 3 of the consolidated financial statements except as noted below. They have all been applied consistently throughout the year and the preceding year.

Share-based payments

The share-based payment reserve represents the cumulative charge made under IFRS 2 in relation to share options and LTIP awards. The costs related to employees contracted with other Group entities are recharged from Xaar plc to the related entity.

Going concern

The Company'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 8 to 31. Notes 21 and 22 to the consolidated financial statements include a description of the Company'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.

After making enquiries, and having regard to the principal risks the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, the Directors have assessed the Company's forecasts and cash flow projections for the next 12 months, which have undergone reverse stress tests by significantly reducing revenue across the period, and identified cost mitigations. For this reason, we continue to adopt the going concern basis in preparing the financial statements.

Please refer to Directors' report on pages 64 and 65 for going concern.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment and include capital contributions arising from share-based payments. Each year, the Company carries out impairment tests of its investments which require estimates to be made of the value in use of its CGUs and groups of CGUs. The value in use calculations are dependent on estimates of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows. Having modelled a number of sensitivities, it was concluded that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored. Utilising transition rules, as the merger relief arose from transactions before the introduction of FRS101, the transaction has utilised grandfathering relief rather than recalculating and presenting under appropriate FRS101 treatment.

Dividends

Dividend income is recognised when an irrevocable right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

2. Profit/(loss) for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year.

The average number of employees throughout 2020 was 32 (2019: 31). Staff costs amounted to £1.9 million (2019: £1.9 million). Information about the remuneration of Directors is provided in the audited part of the Directors' Remuneration report on page 87. For the remuneration of key management personnel of the Company see note 34 Related party transactions of the consolidated financial statements.

 The Directors' Remuneration report can be found **on page 87**.

The audit fee for the audit of the Company's financial statements in 2020 was £20,000 (2019: £20,000).

The figures for the auditor's remuneration for the Company required by regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 are not presented as the consolidated financial statements comply with this regulation on a consolidated basis.

Notes to the Company financial statements (cont.)

for the year ended 31 December 2020

3. Leases

| | Building £'000 |
|----------------------------|-------------------|
| Cost | |
| At 1 January 2020 | – |
| Additions | 45 |
| Exchange movements | (1) |
| At 31 December 2020 | 44 |
| Depreciation | |
| At 1 January 2020 | – |
| Charge for the year | (6) |
| Exchange movements | 1 |
| At 31 December 2020 | (5) |
| Carrying amount | |
| At 31 December 2020 | 39 |
| At 31 December 2019 | – |

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

| | 2020 £'000 |
|-----------------------|---------------|
| At 1 January | – |
| Additions | 45 |
| Payments | (9) |
| Exchange movement | (1) |
| At 31 December | 35 |
| Current | 16 |
| Non-current | 19 |
| | 35 |

The table below summarises the maturity profile of the Group's financial liabilities based upon the contractual undiscounted payments for the year.

| | 2020 £'000 |
|------------------------|---------------|
| On demand | – |
| Less than three months | – |
| Four to 12 months | 17 |
| One to five years | 19 |
| More than five years | – |
| | 36 |

The following are the amounts recognised in profit or loss:

| | 2020 £'000 |
|--|---------------|
| Depreciation expense of right-of-use assets | 6 |
| Interest expense on lease liabilities | – |
| Total amount recognised in profit or loss | 6 |

4. Fixed asset investments

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Subsidiary undertakings held at cost | | |
| At beginning of the year | 32,893 | 32,062 |
| Additions in the year | 49,000 | – |
| Capital contributions arising from share-based payments | 162 | 831 |
| At end of the year | 82,055 | 32,893 |

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

As described in note 5, an exercise was performed in the year to simplify the intra-group position. This resulted in a capital contribution of £49,000,000, which has been included as an additional investment in the table above.

5. Debtors

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Amounts receivable within one year | | |
| Amounts owed by Group undertakings | 5,572 | 50,159 |
| Amounts receivable after more than one year | | |
| Deferred tax asset (see below) | – | – |
| | 5,572 | 50,159 |

Amounts owed by Group undertakings are trading balances and interest is not charged.

During 2020 an exercise took place to simplify the intra-group position and historic trading balances, with certain Group debtors being waived which has been accounted for as a capital contribution.

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Deferred tax asset at 1 January | – | 44 |
| Effect of initial application of IFRS 16 | – | [4] |
| Restated Deferred tax asset at 1 January | – | 40 |
| Deferred tax movement on IFRS 16 | – | 4 |
| Deferred tax movement on share option | – | [44] |
| Deferred tax asset at 31 December | – | – |
| Deferred tax asset due after more than one year | – | – |

For additional disclosures relating to current and deferred taxation, see notes 12 and 23 to the consolidated financial statements.

Notes to the Company financial statements (cont.) for the year ended 31 December 2020

6. Creditors

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year | | |
| Amounts owed to Group undertakings | 9,124 | 8,593 |
| Accruals | 156 | 53 |
| | 9,280 | 8,646 |

Amounts owed to Group undertakings are trading balances under normal commercial terms and interest is not charged.

7. Provisions

| | 2020 £'000 | 2019 £'000 |
|----------------------------------|---------------|---------------|
| At 1 January | 119 | 78 |
| Additional provision in the year | – | 119 |
| Utilisation of provision | (119) | – |
| Release of provision | – | (78) |
| At 31 December | – | 119 |

Provision movements relate to restructuring costs arising in Xaar plc. Further details of provisions are provided in note 25 to the consolidated financial statements.

8. Dividends

There were no dividends declared or paid during the current and preceding year.

9. Share capital and share premium account

Full details of movements in share capital, share premium account, other reserves, own shares and the share option payment reserve are given in notes 26, 27, 28 and 30 to the consolidated financial statements.

10. Share-based payments

Equity-settled share option scheme

The Company's share option schemes are open to all employees of the Company. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. The vesting criteria of these options are disclosed in note 32 to the consolidated financial statements. If the options remain unexercised after a period of ten years from the date of grant, 42 months in the case of the Share Save Scheme, or five years in the case of the Share Incentive Plan, the options expire. Save as permitted in the share option scheme rules, options lapse on an employee leaving the Company.

The weighted average share price at the date of exercise for share options exercised during the period was £0.53 (2019: £1.32). The options outstanding at 31 December 2020 had a weighted average remaining contractual life of two and a half years (2019: three years), and a range of exercise prices between 0 pence and 344 pence (2019: 0 pence and 403 pence).

The performance conditions relating to the above share options and the exercise prices of options outstanding at the year-end are given in note 32 to the consolidated financial statements.

Long-Term Incentive Plan

The Company's Long-Term Incentive Plan is open to all employees of the Company. Vesting of Performance Share Awards made under this scheme is conditional upon the achievement of performance conditions. Full details of the performance conditions are shown in note 32 of the consolidated financial statements. All awards made under this scheme are exercisable within three to ten years after the date of grant. Save as permitted in the Long-Term Incentive Plan rules, awards lapse on an employee leaving the Company.

The weighted average share price at the date of exercise for awards exercised during the period was £0.45 (2019: £0.73). The awards outstanding at 31 December 2020 had a weighted average remaining contractual life of nine years (2019: nine years). All awards have a Nil exercise price.

11. Subsidiary undertakings

The following entities are the subsidiary undertakings of the Company:

| Name | Country of incorporation | Address of registered office | Principal activity | Issued and fully paid up share capital | Proportion of ordinary share capital held by the Company |
|--|--------------------------|---|---|--|--|
| Xaar Technology Limited | England & Wales | Science Park, Cambridge, CB4 0XR | Research and development | 4,445,322 ordinary £1 shares | 100% |
| XaarJet Limited | England & Wales | Science Park, Cambridge, CB4 0XR | Manufacturing, research and development and sales and marketing | 2 ordinary £1 shares | 100% |
| XaarJet (Overseas) Limited | England & Wales | Science Park, Cambridge, CB4 0XR | Sales and marketing | 1 ordinary £1 share | 100% |
| Xaar Trustee Limited ¹ | England & Wales | Science Park, Cambridge, CB4 0XR | Trustee | 2 ordinary £1 shares | 100% |
| Xaar Digital Limited | England & Wales | Science Park, Cambridge, CB4 0XR | Treasury | 100 ordinary £1 shares | 100% |
| Xaar 3D Holdings Limited | England & Wales | Science Park, Cambridge, CB4 0XR | Holding Company | 1,100 ordinary shares of £0.01 each | 100% |
| Xaar 3D Limited ² | England & Wales | Science Park, Cambridge, CB4 0XR | Manufacturing, research and development | 2,400 ordinary shares of £0.01 each | 55% |
| Xaar 3D ApS ³ | Denmark | c/o Bygning OBV 028, Otto Busses Vej 7, 1. sal., 2450 Kobenhavn SV, Denmark | Research and development | 500 ordinary shares of DKK 100 each | 55% |
| Xaar Group AB (in liquidation) ⁴ | Sweden | Science Park, Cambridge, CB4 0XR | Holding Company | 1,137,000 ordinary shares of SEK 0.09 each | 100% |
| XaarJet AB (in liquidation) ⁴ | Sweden | Science Park, Cambridge, CB4 0XR | Manufacturing | 1,000 ordinary shares of SEK 100 each | 100% |
| Xaar US Holdings Inc. | USA | 1209 Orange Street, Wilmington, New Castle County, Delaware, USA | Holding Company | 6,000 shares of common stock \$1 each | 100% |
| Engineered Printing Solutions ⁵ | USA | 201 Tennis Way, East Dorset, VT 05253, USA | Manufacturing, sales and marketing | 100 shares of common stock \$1 each | 100% |
| Xaar Americas Inc. ⁵ | USA | 1000 Post and Paddock, Suite 405, Grand Prairie, TX 75050, USA | Sales and marketing | 10,000 shares of common stock US\$1 each | 100% |
| Xaar Inkjet Technology (Shenzhen) Company Limited ⁶ | China | Room 409, Floor 4, Building 13, Fuhai Industrial Zone, Fuzhou Avenue, Shenzhen, China | Sales and marketing | - | - |

¹ Xaar Trustee Limited shares are held by Xaar Technology Limited.

² Xaar 3D Limited shares are held by Xaar 3D Holdings Limited.

³ Xaar 3D ApS shares are held by Xaar 3D Limited.

⁴ Xaar Group AB and XaarJet AB, companies incorporated in Sweden were liquidated on EGM on 21 December 2020.

⁵ Xaar Americas Inc and Engineering Printing Solutions are held by Xaar US Holdings Inc.

⁶ Xaar Inkjet Technology (Shenzhen) was granted a trading licence and legally incorporated in China in December 2020 but no share capital was in issue at year end.