# Independent auditor's report
to the members of Xaar plc

## Opinion

In our opinion:

- Xaar plc's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Xaar plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise:

| Group | Parent company |
|---|---|
| Consolidated balance sheet as at 31 December 2021 | Balance sheet as at 31 December 2021 |
| Consolidated income statement for the year then ended | Statement of changes in equity for the year then ended |
| Consolidated statement of comprehensive income for the year then ended | Related notes 1 to 11 to the financial statements including a summary of significant accounting policies |
| Consolidated statement of changes in equity for the year then ended | |
| Consolidated statement of cash flows for the year then ended | |
| Related notes 1 to 39 to the financial statements, including a summary of significant accounting policies | |

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the Group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We understood the process undertaken by management to perform the going concern assessment, including the evaluation of the ongoing impact of COVID-19 on the Group and the Group's access to available sources of liquidity;
- We obtained management's going concern assessment, including the cash flow forecasts for the going concern period to 30 June 2023. The Group has modelled a base case uses the same board approved forecasts as used in the Group's impairment assessments (adjusted to exclude the contingent consideration expected to be received on the 3D disposal); a second scenario which factors in the consideration payable to acquire Megnajet Ltd and Technomation Ltd but not the forecast trading cash inflows; and a reverse stress test based on liquidity in order to determine how much additional downside in trading could be absorbed before the cash and cash equivalents run out. No debt facilities are in place, nor required in any of these scenarios.
- We evaluated the key assumptions underpinning the Group's forecasts. In particular, we compared the trading projections in management's two scenarios to the Group's performance including in respect of EPS ,the contracted order book, pipeline and margin performance since the onset of the COVID-19 pandemic;
- We considered the results of management's reverse stress test scenario and independently calculated what changes to key assumptions would result in the Group having insufficient cash and cash equivalents. We also considered mitigating actions such as reducing non-essential capital expenditure, assessing whether they were within management's control and whether they were supported by the actual mitigation achieved in response to COVID-19, to date. We considered whether the combination of changes to key assumptions that would lead to the Group's liquidity being eliminated within the period assessed were plausible;
- We tested the clerical accuracy of the models used to prepare the Group's going concern assessment; and
- We assessed the appropriateness of the Group's disclosures concerning the going concern basis of preparation.

We observed that the Group reported a profit after tax for the year ended 31 December 2021 of £14.2m (2020: £14.7m loss). This included a profit from continuing operations after tax of £1.7m (2020: £4.4m loss), reflecting the progress made in the printhead and product print segments, acquisition of FFEI Limited and no longer incurring development costs for the disposed 3D business unit. The discontinued result was due to the gain on disposal of the 3D business. At the Balance Sheet date, the Group was debt free and had cash and cash equivalents of £25.1m (2020: £20.1m). The reverse stress testing performed by management demonstrates revenue would need to reduce by more than 30% compared to the base case for the cash and cash equivalents to be fully consumed over the going concern period. This is considered remote 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for the period to 30 June 2023.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## Overview of our audit approach

| | |
|---|---|
| **Audit scope** | • We performed an audit of the complete financial information of 3 components and audit procedures on specific balances for a further 5 components.<br>• The components where we performed full or specific audit procedures accounted for 100% of Revenue, 89% of Adjusted Profit Before Tax and 100% of Total assets. |
| **Key audit matters** | • Revenue recognition<br>• Impairment of non-current assets (EPS)<br>• Contingent consideration (3D)<br>• Inventory provisioning (EPS)<br>• Acquisition accounting (FFEI) |
| **Materiality** | • Overall Group materiality of £300k which represents 0.5% of revenue. |

## An overview of the scope of the parent company and Group audits

**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 13 reporting components of the Group, we selected 8 entities within the UK and US, which represent the principal business units within the Group.

Of the 8 components selected, we performed an audit of the complete financial information of 3 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 5 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2020: 100%) of the Group's Revenue, 89% (2020: 100%) of the Group's Adjusted Profit Before Tax and 100% (2020: 100%) of the Group's Total assets. For the current year, the full scope components contributed 82% (2020: 93%) of the Group's Revenue, 73% (2020: 95% loss) of the Group's Adjusted Profit Before Tax and 78% (2020: 97%) of the Group's Total assets. The specific scope component contributed 18% (2020: 7%) of the Group's Revenue, 16% (2020: 5% loss) of the Group's Adjusted Profit Before Tax and 22% (2020: 3%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The remaining five components were not revenue generating. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

**Changes from the prior year**

As a result of the disposal of the 3D business in the year, we performed specific scope procedures over the result from discontinued operations from 1 January 2021 through to the date of disposal. Given the disposal, there were no Balance Sheet audit requirements as at 31 December 2021. In the prior year, this was a full scope component.

Following the acquisition of FFEI Limited during the year, this was included as a specific scope component.

**Involvement with component teams**

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Revenue recognition (£59.3 million – continuing operations, 2020: £48.0 million – continuing operations)**<br><br>Refer to the Audit Committee Report (page 78); Accounting policies (page 122); and Note 5 of the Consolidated Financial Statements (page 131)<br><br>Given the difficult trading environment and investor focus on the Group's revenue, we consider there to be a risk in relation to the manipulation by central management of the amount of revenue recorded through manual journal entries. Management reward and incentive schemes are based on achieving profit targets which may also place pressure on management to manipulate revenue recognition.<br><br>As part of the financial statement close process, certain manual adjustments are required to account for contracts with customers. There is risk that the manual adjustments are incorrectly recorded in the period.<br><br>In the Product Print segment (EPS) and Digital Imaging (FFEI's) R&D revenue, judgement is required to determine whether revenue should be recognised over time or at a point in time. Where revenue is recognised over time, estimation is required to establish how much of the performance obligation has been satisfied and how much is recorded as a contract liability. A significant deficiency in the control environment was identified with respect to revenue recognition at EPS in the prior year, which represents an increased risk if not appropriately remediated. | We understood the Group's revenue recognition policies and how they are applied, including the relevant controls, and performed a walkthrough to validate our understanding.<br><br>In respect of the main UK trading entity, which comprised 68% of the Group's revenue, we used data analytics to analyse the whole population of transactions from invoicing to cash journals, including adjustments to arrive at revenue recognised in the year.<br><br>Where the journal postings did not follow our expectation, we investigated and assessed the integrity of these entries and tested a sample to assess their validity by agreeing the transactions back to source documentation.<br><br>We performed tests of detail for a sample of revenue transactions to confirm the transactions had been appropriately recorded in the income statement in accordance with IFRS 15 and corroborated that control of the products had been transferred to the customer by:<br>• analysing the contract and/or terms of the sale to determine that the Group had fulfilled the requirements of the contract;<br>• confirming revenue could be reliably measured by reference to underlying documentation; and<br>• confirming collectability of the revenue was reasonably assured by considering recent collection history and the ageing of receivables.<br><br>We performed cut-off testing by tracing a sample of revenue items recorded either side of year-end to delivery note to determine whether revenue was recognised in the same period in which the performance obligations have been fulfilled.<br><br>We selected a sample of post year-end credit notes to assess whether, where the credit note relates to the audit period, these credit notes were appropriately provided for in the financial statements.<br><br>We tested journal entries posted to revenue accounts, applying parameters designed to identify entries that were not in accordance with our expectations. This included analysing and selecting journals for testing which appeared unusual in nature either due to size, preparer or being manually posted. To assess their validity, we verified the journals to validate originating documentation. | Revenue was recognised in accordance with the Group's accounting policies and we identified no evidence of management override in respect of inappropriate manual journals recorded in revenue.<br><br>In respect of the revenue recognised over time we identified the IFRS 15 criteria were fulfilled for each item selected and the stage of completion was appropriately reflected within the accounting entries. |

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Revenue recognition (£59.3 million – continuing operations - of risk, 2020: £48.0 million – continuing operations)** continued | We performed full and specific scope audit procedures over this risk area in 3 components which covered 100% of the revenue from continuing operations.<br><br>**Revenue recognised over time**<br>For a sample of items, we reviewed the respective sales contract to determine whether the contract met the criteria for being revenue recognised over time.<br><br>Where any of these criteria are fulfilled, revenue should be recognised over time in accordance with IFRS 15. For these items, we evaluated judgements made by management regarding the expected costs to complete and the timing and recognition of variation orders, by obtaining and reviewing the variation order and comparing the cost assumptions to similar projects. We also verified a sample of actual costs incurred to date through to purchase invoice or timesheet records.<br><br>To further assess the stage of completion at year end we also physically inspected a sample of work in progress projects and reviewed the impact of post year-end changes on labour hour and cost estimates.<br><br>Where the criteria for over time recognition were not met we confirmed management has recognised revenue at a point in time, when the relevant performance obligation has been satisfied.<br><br>We performed full scope audit procedures over this risk area in 2 locations which covered 100% of the risk amount. | |

# Independent auditor’s report continued

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Impairment of non-current assets – EPS (£7.6 million, 2020: £7.8 million)**<br><br>Refer to the Audit Committee Report (page 78); Accounting policies (page 125); and Note 15 of the Consolidated Financial Statements (page 141)<br><br>IFRS requires impairment testing to be undertaken when there are indicators that an impairment may exist, and in the case of goodwill at least annually. Given the significant balances in respect of goodwill and recent trading losses, there is a risk that the Group’s cash generating units (‘CGUs’) may not achieve the anticipated business performance to support their respective carrying values. In particular the Group has goodwill of £5.2 million in relation to EPS, which we have designated as a significant risk given the limited headroom in management’s impairment testing model in prior year. | We examined management’s impairment assessment methodology and model to understand the composition of management’s future cash flow forecasts, and the process and related controls undertaken to prepare them. This included confirming the underlying cash flows were consistent with the Board approved budget and strategic plan, and did not include reorganisations and enhancements not committed at the balance sheet date. We also assessed the identified CGUs for appropriateness. We also re-performed the calculations in the model to test the mathematical integrity.<br><br>We assessed the cash flow forecasting models, including consistency with the strategic plans for the Group and assessment of historical forecast accuracy and impact of COVID-19 to date and over the forecast period.<br><br>We tested the key inputs to management’s impairment models by:<br>• analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience;<br>• assessing the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against an EY range derived from comparable organisations and market data, involving EY internal specialists to assist us with this assessment; and<br>• comparing the forecast growth rates to the order backlog/pipeline using observable market data to validate the addressable market and challenging whether the forecast growth rates have been appropriately adjusted to reflect the changes in the Group’s strategy.<br><br>We calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the EPS forecasts and determined whether adequate headroom remained.<br><br>We assessed whether there were any other indicators of impairment, which would give rise to the impairment of an individual asset.<br><br>We audited the related disclosures with reference to the requirements of IAS 36 and confirmed their consistency with the audited impairment models. | We agree with management’s conclusion that no impairment of goodwill is required in the current year.<br><br>We have concluded that the methodology applied is reasonable, that the forecast period is appropriate and that management’s models are mathematically accurate.<br><br>The additional sensitivity disclosures in note 15 of the Group financial statements adequately reflect that a reasonably possible change in certain key assumptions could lead to a different conclusion in respect of the recoverability of goodwill. |

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Contingent consideration (3D) (£11.9 million, 2020: £nil)**<br><br>Refer to the Audit Committee Report (page 78); Accounting policies (page 127); and Note 11 of the Consolidated Financial Statements (page 135)<br><br>Stratasys Solutions Limited acquired the remaining 55% equity stake held by Xaar 3D Holdings Limited in Xaar 3D on 6 October 2021. The consideration included £9.3m paid in cash and a further amount of up to $15.5m which is contingent on the achievement of certain milestones and a 3% earn-out consideration in respect of the future revenues of Xaar 3D.<br><br>The Group recorded a financial asset of £10.9m on the date of the transaction (remeasured to £11.9m at 31 December 2021) in respect of the contingent earn-out consideration. Estimation of the fair value of this consideration is complex and relies on significant unobservable inputs. The Group engaged an external specialist to estimate the fair value of the contingent consideration.<br><br>For this valuation, management's external specialist used a Monte Carlo Simulation model given the complex conditions associated with the contingent consideration. | We have used EY internal valuation specialists to review the methodology and reasonableness of key assumptions used within management's Monte Carlo Simulation.<br><br>We have engaged a separate EY internal specialist to assess the discount rates assumed within the Monte Carlo Simulation, by obtaining the underlying data used in the calculation and benchmarking it against an EY range derived from comparable organisations and market data.<br><br>We have assessed the consistency of the forecasts with the strategic plans for Xaar 3D and impact of COVID-19 through validating the forecast with Stratasys management.<br><br>Given the contingent consideration is held at fair value, we have performed these procedures at both the date of disposal and at year end and recalculated the fair value movement recorded in the income statement.<br><br>We have audited the related disclosures with reference to the requirements of IFRS and confirmed they are consistent with the specialist's valuation report. | The methodology used by management to establish the fair value of the contingent consideration is appropriate and the resulting valuation based upon key inputs is within our independently established range. |

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Inventory provisioning (EPS) (£2.0 million including provision of £0.9 million, 2020: £2.6 million including provision of £1.4 million)**<br><br>Refer to the Audit Committee Report (page 78); Accounting policies (page 126); and Note 20 of the Consolidated Financial Statements (page 145)<br><br>In the prior year Annual Report and Accounts, management reported a significant deficiency in the control environment in relation to inventory management at the EPS business.<br><br>During the period management took steps to remediate the significant deficiencies identified in the prior year. The steps taken are described on page 79 and included a full review of existing inventory provisions and provisioning methodology. As a result of these steps, a significant write-off of EPS inventory was recorded. As a result of our subsequent challenge this write off of £0.6m has been recorded as a prior year adjustment.<br><br>Given the significance of these two matters, we have upgraded this to a significant risk in the current year (specific to the EPS segment), reflecting the overall risk that the provision recorded by management does not accurately reflect the level of exposure and that inventory is incorrectly valued. | We have obtained an understanding of the Group's policies on inventory provisions and how they are applied, including the relevant controls, and performed a walkthrough to validate our understanding. We have assessed the remediation of controls previously reported as deficient at EPS and found them to be appropriately remediated.<br><br>We performed procedures on the standard costs calculations to assess whether only normal production variances have been capitalised in the year-end inventory balance and material abnormal inefficiencies have been appropriately expensed. We have checked that inventory was appropriately revalued to an estimate of actual cost.<br><br>We have performed tests of clerical accuracy on management's inventory provision calculations.<br><br>We have performed procedures to validate the appropriateness of any management judgements applied in calculating the inventory provision.<br><br>For a sample of inventory lines, we have reviewed post year-end selling prices in comparison to the values assumed in the book values recorded. Where the book value exceeds realisable value, we have confirmed that management has recorded an appropriate provision.<br><br>We have discussed the latest sales and marketing strategies including implications for the level of provision recorded. This included comparing forecast product usage to customer orders, considering historical usage, historical accuracy of provisioning and understanding management's future plans to utilise the inventory.<br><br>We attended management's year-end wall to wall inventory count at EPS and also for each of the other key locations (Printhead and FFEI). This comprised 100% of all stocks of the Group.<br><br>We have audited the related disclosures with reference to the requirements of IFRS. | Following the posting of the prior year restatement (see note 37), the provisions reflect the adjustment required to ensure that inventory balances reflect the lower of cost or NRV. |

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Acquisition accounting (FFEI)**<br><br>Refer to the Audit Committee Report (page 77); Accounting policies (page 122); and Note 36 of the Consolidated Financial Statements (page 161)<br><br>FFEI Limited was acquired in July 2021 for £9.1m (£3.9 million cash consideration with the remaining £5.2m to be paid out as a deferred consideration over three years). Management have up to 12 months from the date of acquisition to finalise the acquisition accounting in accordance with IFRS 3 – Business Combinations. Our risk focus is around:<br><br>• Classification and measurement of deferred consideration and conditions attached<br>• Fair value estimation for acquired intangibles<br>• Opening balance sheet testing<br>• Transition from FRS 102 to IFRS<br>• Resulting updates to tax balances | We have reviewed the sale and purchase agreement and due diligence report to determine the completeness of the identified acquired assets and liabilities.<br><br>We have reviewed the journals posted to transition the opening balances from FRS 102 to IFRS. We have also performed a walkthrough of the significant processes to determine any further areas that require consideration in terms of IFRS transition adjustments that were not previously considered by management.<br><br>We have reviewed management's accounting paper and reporting received from management's specialist in relation to the fair value of intangible assets and useful economic life assigned and engaged our EY internal valuation specialists to review the methodology and key assumptions.<br><br>We have engaged our EY internal tax specialists to assess the tax methodology and rates applied by management when calculating the associated deferred tax adjustments arising from the acquisition accounting; and<br><br>We have audited the disclosures within the annual report and accounts in relation to the business combination and resulting changes. | We concluded that the transaction was properly accounted for in accordance with IFRS 3, and the fair value adjustments and Purchase Price Allocation were appropriate. The relevant tax considerations have been recorded and disclosed appropriately in the financial statements. |

In the prior year, our auditor's report included a key audit matter in relation to recoverability of receivables, consolidation of Xaar 3D and the EPS business. In the current year:

- Recoverability of receivables no longer represents a key audit matter following improvements in the ageing profile of receivables, resolution of legacy matters and reduced exposure of the customer base to the economic impact of COVID-19;
- Consolidation of Xaar 3D no longer represents a key audit matter given the business was disposed of during the year; and
- The EPS business no longer represents a key audit matter given the steps management have taken to remediate the previously reported significant deficiencies and the ongoing risk factors are incorporated within other Key Audit Matters, namely revenue recognition, impairment of non-current assets and inventory provisioning.

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £300k (2020: £240k), which is 0.5% (2020: 0.5%) of revenue. We believe that revenue provides us with the most appropriate basis given it is the main KPI for the Group, whilst the Group reports an adjusted loss before tax.

We determined materiality for the Parent Company to be £300k (2020: £240k), which we capped at the Group materiality.

During the course of our audit, we reassessed initial materiality and updated for the final result for the year.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £150k (2020: £120k). We have maintained performance materiality at this percentage reflecting our observations of the Group's systems and processes, susceptibility of the financial statements to management override and historical audit findings.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £30k to £112k (2020: £24k to £91k).

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £15k (2020: £12k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance statement and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the company

## Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 67;
- Directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 68;
- Directors' statement on whether they have a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 68;
- Directors' statement on fair, balanced and understandable set out on page 76;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 45;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 45; and
- The section describing the work of the audit committee set out on page 77.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 102, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those regulations relating to health and safety and employee matters.
- We understood how Xaar plc is complying with those frameworks by making enquiries of management, the Company Secretary, and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee, discussion with the Audit Committee and any correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by audit. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk including revenue recognition as discussed above. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of the Company Secretary, head of legal, audit committee, management; and focussed testing, as referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 16 June 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 2019 to 2021.
- The audit opinion is consistent with the additional report to the audit committee.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Adrian Bennett**
Senior statutory auditor
for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge

29 March 2022