

Corporate Governance statement

The Board's primary objective remains 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 as set out in the Financial Reporting Council ('FRC') 2018 UK Corporate Governance Code ('the Code').

The 2018 UK Corporate Governance Code is a set of principles and provisions that emphasise the value of good corporate governance to long-term sustainable success and achievement of wider objectives. The Code can be found on the FRC's website at www.frc.org.uk.

Application of the main principles of the Code

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

We are pleased to confirm that throughout the year ended 31 December 2021, the Company has followed the principles and provisions of the 2018 UK Corporate Governance 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 terms of reference for the Audit, Nomination and Remuneration Committees were reviewed during 2021 to address the requirements of the Code, and updated as of 1 January 2022.

The governance report gives:

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

Statement of compliance with the Code

Throughout the year ended 31 December 2021 the Company has followed the provisions set out in the Code, and has either complied with the provisions of the Code or explained why the provision has not been followed, as outlined below. The FRC expects companies to provide a clear and meaningful explanation for any departures from the Code.

A copy of the Code can be found on the FRC website at www.frc.org.uk.

Provision 36: The current policy on post-employment shareholdings do not comply fully with the Code, as it doesn't include a minimum two-year post-employment holding. This is partially mitigated through applying the leaver provisions under the Company's share plans. We intend to introduce a post-employment shareholding for future LTIP grants from 2023 onwards and will update the guideline when a new remuneration policy is introduced.

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 is responsible for leading the Group, focusing primarily upon strategic and policy issues, and is responsible for ensuring the long-term sustainable success of the Group. It is responsible for effective risk assessment and management. In performance of these duties, the Board has regard to the interests of the Group's key stakeholders, generating value for the shareholders and contributing to the benefit of wider society.

In order to achieve this the Board has established a clear vision: "A world where you can print anything you can imagine", with our mission being "we help companies and industries be more colourful, creative and productive through our world-class technology and printheads".

The Board has updated the core values which shape our culture and contribute to our success, which are EPIICC:

- We do Everything with Passion
- We are Innovative
- We have Integrity
- We are Creative
- We are Collaborative.

Corporate Governance statement continued

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. Other than their normal attendance and participation in discussions at Board meetings, the Executive Directors are responsible for the day-to-day running of the Group and the implementation of the agreed strategy.

 **Refer to page 5 for the Strategy review and page 32 for Company values**

The Group has four main locations. The head office functions, R&D, marketing, human resources, legal and finance are based in Cambridge, UK. The Group has three manufacturing facilities with offices: one in Huntingdon, UK, one in Hemel Hempstead, UK and the other in Vermont, USA. The Group also has representatives in other global locations including Italy, Spain, China, Hong Kong, and Sweden.

 **Refer to page 8 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.

 **Refer to page 69 for the s.172 disclosure**

The key focus this year was to maintain the progress made by the business in recent years while navigating the unpredictable impacts of a global pandemic. The Board has focused on ensuring the financial position of the Company is secured whilst also looking forward to the longer-term strategic options for the Group, including identifying potential further acquisitions that would bring additional value. In particular, the main Board decisions during the year were:

- Continuing to invest in R&D and the product roadmap, leading to two further product launches from the ImagineX platform:
 - April 2021 – launch of the Xaar Nitrox printhead attracting new customers and increased opportunities.
 - September 2021 – launch of the Xaar Irix printhead, strengthening our product offering in the Coding & Marking sector.
- Concluded the divestment of the remaining shareholding of Xaar 3D to Stratasys generating a positive cash inflow of £9.3 million (before transaction costs of £0.3 million) to enable Xaar to focus on its core business.
- Completed the acquisition of FFEI, a leading integrator and manufacturer of industrial digital inkjet systems and digital life science technology, as part of the vertical integration strategy to grow Xaar's capability and help accelerate customer adoption of our printhead technology.
- Initiated operational changes within the EPS business unit to strengthen management and internal controls, to take advantage of the compelling growth opportunity in the market.
- Relocated the corporate headquarters in Cambridge, UK which is expected to deliver £0.7 million of annual cost savings.
- Opened a new Customer Service Centre in Shenzhen, China.
- Established an ESG Committee to develop a Sustainability Roadmap to 2030.
- Presented a pandemic response during 2021 to ensure the safety and wellbeing of our people, security of supply chain and provision of finished goods to our customers.

The Board worked closely with executive management to redefine the Group's mission, vision and values which will underpin the Group's evolving culture under the executive leadership team. Further information is in the Directors' Remuneration report on page 83 and Sustainable and responsible business on page 32.

Engagement with shareholders

The Board and Directors seek to build on a mutual understanding of objectives between the Group and its institutional shareholders by providing the opportunity to meet 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 85**

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 2021, the majority of resolutions had less than 1% of votes cast against the Board's recommendation. The exceptions being resolutions 4, 5 & 10 with c. 8% of votes cast against the Board's recommendation.

The Company engaged with shareholders both throughout the year and specifically in respect of resolutions where noteworthy votes were against the Board's recommendation, in order to better understand shareholders' thoughts and align resolutions with the members' views.

Feedback from brokers and financial PR

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.

Annual Report and Accounts

We review feedback from shareholders and other stakeholders and take this into consideration when drafting our Annual Report and Accounts. We make our Annual Report and Accounts available on our website as soon as it is practicable following our final earnings release. Shareholders can access up-to-date Company information, including video presentations, from the Investors section of the Xaar website at www.xaar.com.

Workforce engagement

Workforce engagement has been increasingly important during 2021 due to the second year of the COVID-19 pandemic and changes to working patterns. Despite the restrictions on international travel, we have endeavoured to stay close to our employees and support them during this difficult time. We have ensured that our managers have taken additional time to check on the wellbeing of their teams, for those individuals working on site and those who are working from home.

The Board continued to hold employee engagement sessions which are held recurrently throughout the year. With the impact of COVID-19, the three Non-Executive Directors hosted two sessions each during 2021, which were held either virtually via video call or in person, i.e. a total of six sessions in total. Topics discussed were wide ranging but focused mainly around the strategy and direction of the business, acquisitions and divestments, sustainability, executive remuneration and alignment with the wider workforce, employee training, opportunities for development, and the workings of the Board and governance.

Conflict of interest and time commitment

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. There were deemed to be no such conflicts of interests in 2021.

The only change to Directors' outside commitments during 2021 related to Senior Independent Director Alison Littlely, who resigned as a Non-Executive Director from Headlam plc, Osborne Group Holdings Ltd and Rosewood Holdings Ltd, and was appointed as Senior Independent Director and Chair of the Remuneration Committee of musicMagpie plc in April 2021. Each Director devoted significant time to their Xaar Board responsibilities during 2021, with all Directors attending all Board meetings (see page 76).

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, 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 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 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 60 and 61 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. 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

Board composition

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 maintained his independence, having departed Stratasys in 2015. All Non-Executive Directors complete a disclosure document prior to appointment, and submit an annual declaration.

Succession

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. When recruiting, search firms are appointed to secure a strong and diverse list of candidates.

The appointment of new Directors is led by the Nomination Committee. The year was a less active one for the Nomination Committee, with no Board appointments, resignations or changes during 2021 for Executive and Non-Executive Directors.

The Committee has considered succession planning and the good progress made on building an executive management team and focusing on senior management development during the past two years. The Nomination Committee has recommended that during 2022 the Board be broadened and that the number of independent Non-Executive Directors be increased to four including the Chair. In making any future appointment the Nomination Committee will consider both diversity and succession as a matter of course as it seeks to further equip the Board in its role of overseeing future business growth and expansion.

Diversity

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 page 33.

As the Company grows, the Board will keep under consideration the requirements of the Parker Review (2017) to improve the ethnic and cultural diversity of the UK boards to better reflect their employee base and communities they serve.

Board evaluation

The Board conducted an internal review of the effectiveness of itself, with each Non-Executive Director, the Chairman and the Board Committees in December 2021. From the review and conclusions drawn, areas of improvement were identified as follows:

1. Board membership diversity, skills and experience to be reviewed and an additional NED appointment to be considered
2. Improve the balance of time spent in Board meetings considering strategic as compared to operational issues, allowing sufficient time for in depth discussion, debate and challenge
3. Further develop the approach to succession planning and talent management in the business to create greater opportunity for progression and increased diversity among senior management and the Board

Areas of improvement identified in 2020 were addressed and actions taken and implemented during 2021.

 **Further details of the activities of the Nomination Committee can be found on pages 81 and 82**

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.

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 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 re-election at the 2021 AGM.

 **The biographies of the Directors, set out on pages 60 to 61, 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 and Risk and Internal Controls

 **The role and responsibilities of the Audit Committee are set out in the Audit Committee section on pages 77 to 80**

- The Audit Committee review of the effectiveness of the external audit is set out on page 80
- The auditors Ernst and Young LLP were appointed following a tender process in July 2019, and provide no non-audit services; the Audit Committee assessment of the auditor's independence is disclosed on page 80.

 **The Directors' assessment of the Group's internal control environment as required under the UK Corporate Governance Code is set out on page 79 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 establishing arrangements to ensure that we are 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 page 78 and in note 2 to the accounts on pages 119 and 120**

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 2 to 57, 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.

Principal and emerging risks

The Board has confirmed on page 44 of the Annual Report that it has carried out a robust assessment of the principal and emerging risks facing the Company during the year, including those that could threaten its values, reputation, business model, future performance, solvency or liquidity.

As a consequence of the risk assessment review:

- Climate change, was escalated from an emerging to a principal risk.
- IT and Cyber risks, following the progress of the transformation programme has seen the risk probability reduced.

 **Descriptions of principal and emerging risks and how they are mitigated and any changes are set out on pages 44 to 55**

 **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 44 to 46**


The Board explains on pages 67 and 68 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. During 2022 the Remuneration Policy will be reviewed ahead of being put to a shareholder vote in 2023, and as part of this review we will consider how our ESG priorities should be reflected in the reward framework. The Remuneration Committee has not exercised any discretion in relation to remuneration outcomes in 2021.

 **Details of the activities of the Remuneration Committee can be found in the Remuneration Committee section on page 83 and in the Directors' Remuneration report on pages 86 to 101**

Corporate Governance statement continued

- The alignment of executive remuneration with Company purposes and values is set out on page 86
- The award of long-term incentives and their performance conditions are set out on page 88
- How the Remuneration Committee addresses the principles set out in the UK Corporate Governance Code in respect of the Directors Remuneration Policy is set out on page 91
- The discretionary powers of the Remuneration Committee are on page 88
- The alignment of executive pensions with those of the workforce are on page 87
- Recovery and withdrawal provisions (malus/clawback), and the circumstances under which the provisions may apply, are on page 89.

Summary of Board meeting attendance in 2021

Eleven Board meetings were held in 2021, with three additional unscheduled meetings for specific items:

Name	Scheduled Board meetings	Additional meetings
Andrew Herbert	11 (11)	3 (3)
Alison Littley	11 (11)	3 (3)
Chris Morgan	11 (11)	3 (3)
John Mills	11 (11)	3 (3)
Ian Tichias	11 (11)	3 (3)

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	No	No	Yes
Ian Tichias	No	No	No

Summary of Committee meeting member attendance in 2021:

Name	Audit Committee ¹	Remuneration Committee ¹	Nomination Committee ¹
Andrew Herbert	n/a	5 (5)	1 (1)
Alison Littley	7 (7)	5 (5)	1 (1)
Chris Morgan	7 (7)	5 (5)	1 (1)
John Mills	n/a	n/a	1 (1)

¹ The Committees may invite Board Directors who are not Committee members to attend Committee meetings when the subject matter deems their presence appropriate.

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

Approval

The Board confirms the 2021 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.

The Corporate Governance statement was approved by the Board on 29 March 2022 and is signed on its behalf by:



John Mills

Chief Executive Officer