

Risk management

Managing our risks

Key risk areas

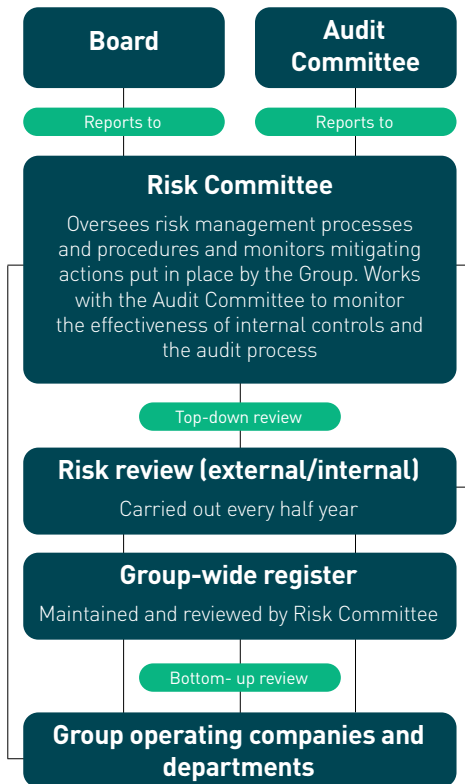
The risks around our business are set out in more detail on pages 52 to 57, but the key risk areas can be identified as being associated with the following:

Market		Risk owner: CEO John Mills	
<p>1. Competition Monitoring and adjusting to competitive dynamics such as pricing/promotion, innovation, resource investments and market share changes.</p>	<p>2. Identification of market requirements Successfully developing products with the characteristics that meet market requirements within the necessary timescale.</p>	<p>3. Commercialising and maintaining products with cutting edge technology Creating value by generating innovative products that deliver significant customer benefit.</p> <p>4. Merger and acquisition opportunities Seek opportunities to expand, create synergies and generate greater shareholder value.</p>	<p>5. Coronavirus (COVID-19 and variants) – External Tracking and adjusting to the potential global impact and external risks arising from pandemic response and impact on customers/supply chain.</p>
Operational		Risk owner: COO Graham Tweeddale	
<p>6. Climate change Identifying risks and scenario planning of physical and transition impact upon operations and developing mitigating actions.</p> <p>7. Organisational capability Having the right people in the right roles.</p>	<p>8. Partnerships and alliances Working with the right companies, at the right time on the right terms to deliver long-term value.</p>	<p>9. Supply chain Optimising sourcing and supply chain relationships to drive performance and minimise operational issues.</p> <p>10. War in Ukraine and the world economy Staying resilient in the face of challenging world economy and a recession in the UK.</p>	<p>11. Laws and regulations Compliance with key laws and regulations in all countries Group operates in.</p>
IT		Risk owner: CFO Ian Tichias & Group IT Director Graeme Smith	
<p>12. IT systems and control environment Strengthen IT infrastructure and key IT systems. Enhance and build resilience by investing in and implementing new IT infrastructure or IT systems.</p>	<p>13. Cyber security risk Loss of systems or confidential data due to a malicious cyber-attack, leading to disruption to business operations and loss of data.</p>		
Financial		Risk owner: CFO Ian Tichias	
<p>14. Ability to access sufficient capital Ability to access sufficient capital to fund growth opportunities.</p>	<p>15. Customer credit exposure Offering credit terms ensuring recoverability is reasonably assured.</p>	<p>16. Inventory obsolescence Holding excess inventory levels when compared to demand, that leads to increased risk of obsolescence and write-off before consumption.</p>	<p>17. Exchange rates Monitoring global economic events and mitigating any resulting significant exchange rate impacts.</p>

Risk management

Effective risk management is key to our success against the dynamics of the industry that we operate in and the characteristics of our chosen business model.

Risk management responsibilities



Risk management strategy and framework

To safeguard the assets of the Group and to ensure the Group's resources are appropriately managed, we should have effective processes to identify key risks and mitigate them. This is achieved through having appropriate policies and internal control frameworks.

Starting from 2022, the structure and the processes around risk management have been formalised. A formal Risk Committee has been created, which comprises the CEO, CFO, COO and Director of Risk, Controls and Audit. The Risk Committee meets twice a year and reviews the principal risks and key changes within the past six months.

Before each Risk Committee meeting, all departmental risk meetings take place, where all relevant risks are discussed, ratings re-evaluated, and current and future mitigating actions are considered. The risk register updated after all these meetings is reviewed and considered by the Risk Committee as part of its principal risks evaluation.

This year, a risk benchmarking exercise has also been performed to identify any key risks not already covered in the principal risks of the Group. FTSE 100 and FTSE 250 companies in similar industries have been analysed and their risks were compared against the existing risks reported by the Group. As a result of this exercise, the risk around laws and regulations has been introduced as a principal risk.

Please note that this risk had already been captured in the risk register, but was not disclosed as a principal risk before.

Another risk which was added to principal risks as a result of the benchmarking exercise is the risk around the loss of key entity personnel. Although there is an existing wider risk referred as Organisational Capabilities, the Risk Committee considered it necessary to explicitly state the 'loss of key entity personnel' within the wider risk to acknowledge a significant dependence of the Group on its key leaders.

After all risks and proposals are approved by the Risk Committee, the principal risks are then presented to the Board and the Audit Committee for their final review and approval.

Key updates since Half-year

Coronavirus (COVID-19) – Internal/ Operations – removed

As already indicated in the Half-year report, this risk has significantly reduced due to a mature vaccination programme in the countries Xaar operates in, as well as well-established and well-functioning hybrid working arrangements which have been operating for many months by now. We do not consider this risk to be key for our operations any longer.

IT transformation – removed

As already indicated in the Half-year report, the risk around IT transformation has become very low considering we're far advanced in this journey. The second half of the year demonstrated continued success and meeting of timetables, which led us to downgrade this risk to removal.

Laws and regulations – new risk

There is a risk that the Group may not be compliant with existing laws and regulations in the UK and other countries the Group operates in. This could be manifested through liabilities around employee accidents or consequences of environmental damage, breaches of export controls and customs, lack of awareness of economic sanctions and product liability claims.

We must continually review and update our operations and procedures, and ensure our colleagues are fully informed and educated in all applicable legal requirements.

Breaching any of these laws or regulations could have serious consequences for the Group.

Climate change – update

The risk was introduced in 2021 and in 2022 we have conducted a formal assessment of climate-related scenarios to identify risks and opportunities and the potential impact of both physical and transition risks on the Group's operations, strategy and financial planning. After the analysis was performed, our assessment of the risk for the Group is medium to low. Physical risks are low based on the locations where we operate and transition risks will also remain low assuming we meet our target of Net Zero by 2030, which will be much sooner than most of the industry.

Cyber security – update

Cyber risks continue to be a significant area of focus for the Group following the cyber security incident in October 2020 (systems were recovered without disruption to Operations and Customer Shipments, and costs and damages were disclosed in the Annual Report in 2021). There have been no known incidents since 2020.

All mitigating actions to this risk are disclosed in the relevant section of this report. The key updates in 2022 were establishing an independent external audit of Xaar IT Security & IT Security Technical Controls on an annual basis and achieving compliance with the Xaar Security Standard (Minimum Baseline), or acceptable alternatives, across all business units.

Additional plans for 2023 are establishing a more comprehensive IT Security and Data Protection training and education programme for all employees and reviewing cyber security insurance policy proposals with the Board of Directors.

Emerging risks

The Board periodically reviews emerging risks, to consider and evaluate the potential impact of newly identified risks against current principal risks, and monitor developing issues. The most recent report from Gartner (Q4 2022) highlighted the Top 5 emerging risks relevant for the UK, and these were mapped against existing principal risks (please see below).

Compliance

The Board has applied principle O of the 2018 UK Corporate Governance Code by establishing a continuous process for identifying, evaluating, and managing the significant risks the Group faces which has operated throughout the year and up to the date of this report. The internal control and risk management system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance with respect to the preparation of financial information and the safeguarding of assets against material misstatement or loss.

This also complies with FRC guidance on risk management, internal control and related financial and business reporting (September 2014).

Risk name	Link to our risk/relevance
1. Escalation of Conflict in Europe	10. War in Ukraine and world economy
2. Critical Infrastructure Failure	9. Supply chain and 13. Cyber security risk
3. ESG Implementation Challenges	6. Climate change
4. Cloud Concentration Risk	Not applicable, mostly relevant for financial institutions
5. China Trade Tensions	5. Coronavirus (COVID-19) - External

For all those risks, we were able to identify identical risks in the principal risks we disclose in this report.

Approach to risks

The first approach to managing these risks is to have high quality leaders and teams within the business functions that proactively monitor and adjust to risks that could impact effectiveness.

Probability rating

The probability rating is the likelihood of an event occurring based on previous experiences, historical information and professional judgement with respect to the incident in the territory or industry. Probability can be subjective and is not an exact science. The probability of an incident occurring can be estimated to give a probability rating. This gives an overall view of the risk exposure faced by the business.

Impact rating





The impact of an incident can be measured in terms of human suffering, damage to assets, interruption to operations or business, effect on customers, impact on reputation/brand and financial loss. The calculation of the impact rating should be taken as the worst case in respect of these categories.

The financial element of the impact rating is the amount of money that is 'at risk'.




This 'at risk' means that it is either revenue at risk, or the cost of rebuilding a system, or replacement cost of hardware. This must be taken in the context that there are limited recovery capabilities and that revenue at risk is not a daily amount, but the amount of revenue that would be lost until the process, system or business function can be reinstated.







Risk management continued

Risk and link to business unit	Impact	Mitigation	Likelihood Magnitude Change
Market			
1. Competition	<p>Failure to continually improve may mean that we lose market share or have to reduce prices. Since there are fixed factory costs, reductions in sales volumes may substantially reduce profit margins.</p> <p>We are the only true independent printhead company in the world and we are competing with vertically integrated large scale multinational companies.</p>	<p>Competitive pricing policies are employed and product portfolios and pricing are constantly monitored. The re-alignment of our go-to-market capabilities allows us to focus more on our customers and to deliver requested products into the OEM marketplace.</p> <p>Production efficiency improvement programmes are established to ensure that cost bases remain competitive within the marketplace.</p> <p>Regular communication and sharing of information with customers and partners to enhance 'peer-to-peer' relationships. Market reports and other reliable sources are reviewed to improve demand forecasting.</p> <p>Continued investment in innovative technical solutions for development of new applications from existing technologies and launch new technologies.</p>	<p>Unlikely Very high </p> <p>Given recent acquisitions and strategic progress, there is a well-defined value proposition and product development roadmap focused on competitive/market leading product features. This greatly reduces the likelihood of emerging technology outpacing our own development.</p>
2. Failure to identify market requirements	<p>Products need to meet the changing demands of the market, including regulatory changes.</p> <p>Failure to meet future market requirements/specifications could impact on long-term revenue and profit.</p>	<p>Regular, specific and detailed reviews are held to assess current and anticipated market requirements, including expected regulatory changes.</p> <p>These reviews include regular customer visits between senior executives, technical experts and R&D team members to develop a culture of innovation that focuses on delivering technical solutions to original equipment manufacturers' (OEMs) requirements.</p> <p>Product developments are selected on appropriate criteria. Product development activity is properly managed with regular reviews of progress against project plans, and gated milestone reviews. We have a rigorous product lifecycle management process which ensures we deliver against our customers' requirements.</p>	<p>Unlikely Very high </p> <p>Xaar's product development process and roadmap setting is now heavily anchored to end use case customer requirements, and together with the recent successful launch of Aquinox this reduces the risk further.</p>
3. Commercialising new products	<p>Failure to test new products under all relevant application conditions could lead to unexpected cost and loss of reputation due to quality failures.</p>	<p>New products are thoroughly tested before launch.</p> <p>Xaar's manufacturing facilities are ISO 9001 accredited. We proactively engage with customers for all new products to ensure all incompatibilities are reviewed quickly using a consistent and thorough investigation process.</p>	<p>Possible High </p> <p>Although we endeavour to work with beta partners at the development stage, it is not possible to test all application conditions pre-launch.</p> <p>This risk is foreseen to stay at this level.</p>
4. Merger and acquisition opportunities	<p>Our strategy is predicated primarily on organic growth.</p> <p>Failure to realise the expected benefits of an acquisition or post acquisition performance of the acquired business not meeting the expected financial performance at the time acquisition terms were agreed could adversely affect the strategic development, future financial results and prospects of the Group.</p>	<p>The Board reviews the Group strategy annually. Each acquisition is thoroughly reviewed by the Board at each stage.</p> <p>Whenever a potential for M&A is identified, robust modelling of the opportunity is undertaken through involving third party subject matter experts. The competence and independence of the third party involved gets assessed separately by the Board. Professional due diligence is a required step in any acquisition.</p> <p>Senior management and the Board monitor customer and supplier activity through regular meetings and other sources such as industry gatherings.</p> <p>Senior management reviews any relevant M&A activity in the market and decides on specific actions to defend Xaar's position. The overall landscape is constantly reviewed with assistance from external advisors.</p>	<p>Probable Medium </p> <p>Multiple acquisitions over the past five to six years have been a significant learning experience, which together with a strengthened senior team leads to a reduced possible impact.</p>




Key of change


-  Increase
-  No change
-  Decrease
- NEW



Risk and link to business unit	Impact	Mitigation	Likelihood Magnitude Change
Market continued			
<p>5. Coronavirus (COVID-19) – External</p>	<p>In the uncertain environment of a global pandemic, the impact of COVID-19 can be felt within the entire customer base and supply chain.</p> <p>We operate in a global environment with significant exposure as part of the new business model to OEM customers in China, Europe and USA.</p> <p>Any slowdown in the global economy could lead to delays in capital investment for new equipment that utilises Xaar printheads.</p> <p>Temporary disruption to the supply chain and further workplace restrictions may threaten to slow down production.</p>	<p>Whilst it is difficult for a company individually to mitigate against a global economic slowdown, taking a portfolio approach on risk factors enables Xaar to spread the risk throughout its customer base, rather than previously relying upon distribution as a business model.</p> <p>We are carefully monitoring our own supply chain and are in regular contact with our suppliers. We hold a sufficient buffer stock of critical components and at present we do not foresee any supply issues.</p> <p>Xaar has improved its customer relationships and remains close to its customers to be able to respond quickly to any slowdown; the opening of the China subsidiary will enable an agile response specifically in this market.</p> <p>Order books and manufacturing processes are closely aligned with goods manufactured to customer order.</p> <p>Newly developed printheads will enable Xaar to diversify into a broader customer base and new vertical markets.</p> <p>Scenario planning alongside stress testing and reverse stress testing to identify and develop alternative solutions, as guidance and requirements change during an evolving event.</p>	<p>Virtually Certain High </p> <p>Remains very high and is one of the key risks the Group is going to face over the next 12-18 months, until China, a key market for Xaar, recovers from Coronavirus. We have plans in place to cope with this period, which include a longer-term plan of expansion into alternative regions (i.e. Americas) and shorter-term measures of advance purchasing of materials and components to protect the supply chain.</p>
Operational			
<p>6. Climate change</p>	<p>Climate change is not only a future challenge. The IPCC report in 2021 was declared a “code red for humanity”.</p> <p>The IPCC, IEA & COP26 have re-enforced the changes that are required to re-wire the economy to a low carbon manufacturing one – and the climate impacts that are expected in a range of scenarios.</p> <p>The impact of climate change can be specified as:</p> <p>a) the physical risks that may impact the assets of the business, and cause business disruption (e.g. flooding), and extreme weather events that may negatively impact the supply chain, to the increases in temperature that will impact human activity and the global supply chain, at an extreme level this could negatively impact the global economy and cause mass emigration from emerging economies</p> <p>b) the transition risks in managing the shift to a low carbon economy, and investment/expenditure to manage the transition and remain viable – the potential for reputation damage should the transition be poorly executed or risk of ‘greenwashing’ if announcements are not supported by actions that are measurable.</p>	<p>Investigating and reporting on climate-related risks and opportunities in adherence to internationally accepted recommendations, such as those published by the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD).</p> <p>The assessment of the risks associated with climate change can also identify opportunities that arise to help potential customers reduce their emissions and increase efficiencies by using digital printhead solutions.</p> <p>Physical risks:</p> <ul style="list-style-type: none"> • Major incident plans are in place with specific provisions for areas most exposed to potential risks (flood, fires, hurricanes etc) • Geographic spread of the business limits the impact to our customers. Our sourcing strategy takes into account risks associated with our key suppliers • We completed climate scenario planning across two climate scenarios (e.g. RCP 2.6, RCP 8.5), using RCP 8.5 to identify risks and recommendations for key mitigation measures and resilience consideration: • The review examined ALL Xaar sites globally and our top ten critical supplier sites using 12 separate climate models, in each case the RCP 8.5 model was used to assess risks at the most extreme expected temperature rises (4.5°C). <p>The report concluded physical risks are low to very low in almost all cases. The remaining risk is not material, however the actions are being developed to address those further.</p>	<p>Possible Medium </p> <p>The risk is reduced due to the now known low impact upon completion of scenario planning.</p>

Risk and link to business unit	Impact	Mitigation	Likelihood Magnitude Change
Operational continued			
6. Climate change continued		Transition risks <ul style="list-style-type: none"> • Develop Sustainability Roadmap to deliver 'Net Zero by 2030' • Outline metrics and targets in support of reducing greenhouse gas emissions and developing Science Based Targets to 1.5°C across Scope 1, 2 & 3 emissions. Carbon pricing presents a £1.3 million risk if no actions were taken to reduce the supplier Scope 3 impact before 2030 (model suggests it is around 21,000 tCO₂e in 2022) • Continue reducing carbon use to minimise impact, and to become a low carbon manufacturer • Analyse Supply Chain Infrastructure Risk Exposure • Identify 'spend to save' projects that are cash generative • Continue GHG mitigation actions to maintain a carbon neutral position • Develop transparency and credibility in 'net zero' commitments with verifiable plans and progress in both near-term and medium-term action plans. 	
7. Organisational capability	<p>Our people remain key to our business. Ensuring the right people are in the right roles is critical to our future success and growth.</p> <p>Operations in remote locations or highly competitive markets make attracting and retaining skilled employees challenging.</p> <p>We need to attract and retain the right talent to enable achievement of our strategic aims. Failure to do this risks delivery and growth.</p> <p>Key management personnel are critical to success of our business. Losing them without adequate succession planning could have a significant impact on the Group's performance.</p>	<p>Our focus is to minimise the voluntary turnover of employees, through better hiring for fit, improved induction procedures and employee engagement initiatives.</p> <p>The Group reviews remuneration to ensure that the appropriate reward packages accompany a fulfilling work environment.</p> <p>Annual performance management reviews for the majority of employees to identify talent and develop key employees.</p> <p>Investment to build a learning organisation with focus on culture, reward and recognition.</p> <p>Succession plans are being developed to highlight key personnel risks with mitigation plans being developed.</p> <p>Campaigns to increase performance and development of communication between managers and employees to ensure alignment to Company objectives.</p>	<p>Possible Medium </p> <p>We have significantly increased the strength of the senior team to deliver the strategy, our voluntary turnover is below the industry average and the analysis of our actions proves they have been effective. So the probability of this risk should be reduced.</p>
8. Partnerships and alliances	<p>If key partners we have alliances with are acquired, this can change the relationships they have with us.</p>	<p>The IP and Legal team focuses on the extensive review of legal agreements and in particular IP with such partners.</p> <p>Partnerships are constantly reviewed both internally and with those partners at the most senior level to develop long-term partnerships and supply agreements to the benefit of both parties.</p> <p>Where significant investment and research is undertaken there will be contractual arrangements to ensure appropriate governance and Board structure to support the business and product development.</p>	<p>Possible Medium </p>




Key of change





-  Increase
 -  No change
 -  Decrease
- NEW

Risk and link to business unit	Impact	Mitigation	Likelihood Magnitude Change
Operational continued			
9. Supply chain	<p>The Group is dependent on retaining its key suppliers and ensuring that deliveries are on time and the materials supplied are of appropriate quality.</p> <p>There has been a shift from a finished goods risk to a component materials risk particularly where components have a single source of supply.</p> <p>There are challenges with the supply of some key components that are used in production and global logistics routes have experienced some disruption.</p>	<p>Focused on monitoring and securing continuity of supply of components necessary to maintain production and the supply of printheads for the following 18 months.</p> <p>We conduct regular audits of our key suppliers and in addition keep large amounts of safety inventory of key components, which we also regularly review.</p> <p>Dual sourcing for critical components is in place for some suppliers, and there is ongoing work to extend this to the full list of critical suppliers.</p> <p>We will continue to diversify and localise our supply chains, and investigate developing a circular manufacturing approach by recovery of materials from finished goods to be re-utilised in production.</p>	<p>Unlikely High </p> <p>The risk in the last year was very high due to global shortages in the electronics manufacturing sector. During the past year we have been working with all of our supply chain partners and since the beginning of 2022 we have significantly removed risks from areas of the supply chain through multiple methods such as long-term supply contracts, consignment stock and increased inventory investment as well as re-design on some high risk materials.</p>
10. War in Ukraine and world economy	<p>The war in Ukraine has materially altered the near-term outlook for the UK and global economies and increased uncertainty over the path ahead. Energy prices are by far the greatest concern for the UK economy which also result in further upward pressure on inflation and a potential hit to GDP growth over the next two years.</p>	<p>We have fixed our unit electricity costs and will continue to do so in future.</p> <p>We have been proactive in buying materials and components to enable continued production.</p> <p>We have no direct operations in Ukraine or Russia.</p> <p>We have planned a factory restructuring in 2023, which will make the production process more efficient, driving reductions in cost of sales.</p> <p>We have secured some key long-term contracts (both sales and procurement) and supply chains outside of unstable countries and regions.</p>	<p>Probable High NEW</p>
11. Laws and regulations	<p>There is a risk that the Group may not be compliant with existing laws and regulations in the UK and other countries the Group operates in. This could be manifested through liabilities around employee accidents or consequences of environmental damage, breaches of export controls and customs, lack of awareness of economic sanctions and product liability claims.</p>	<p>We have relevant certifications in respect of quality management and environmental management with the appropriate bodies including ISO.</p> <p>The quality of supplies is constantly monitored. Quality performance is regularly reviewed by senior management who apply appropriate resources to systematically address recurrent problems. New products are thoroughly tested before launch.</p> <p>All contracts go through legal review before signing. For all complex transactions relevant third party experts are engaged to evaluate all legal risks and adequately respond to them.</p> <p>In January 2023 a new Company Secretary joined the Group who is going to be responsible for managing wider and higher-level legal risks.</p>	<p>Possible Medium NEW</p>

Risk and link to business unit	Impact	Mitigation	Likelihood Magnitude Change
IT			
12. IT systems and control environment	<p>IT networks, infrastructure, and business systems resilience is not sufficient causing access issues for end users.</p> <p>Inability to operate effectively or loss of operating capability.</p> <p>Loss of information, incurring financial or regulatory penalties.</p> <p>Fraud committed through manipulation of IT business systems or data.</p>	<p>Investment has been made to move to a hybrid cloud model, strengthen the resilience and security of our IT infrastructure, rationalise and modernise our business systems, and re-align systems with improved operational business processes.</p> <p>Developed the IT Service Delivery maturity and increased capacity in the Group IT function.</p> <p>Access to systems and data is only provided on a 'need-to-know' and 'least privilege' basis consistent with the user's role and requires the appropriate authorisation.</p> <p>Key business systems are being developed to strengthen IT system controls and further reduce the burden from manual controls.</p>	<p>Possible High </p> <hr/> <p>The recent IT controls gap analysis has identified areas for further improvement, which we are going to continue to work on.</p>
13. Cyber threat and information security	<p>Malicious cyber-attack breaches IT security potentially leading to:</p> <p>A loss of IT infrastructure, business systems, or data.</p> <p>Disruption to business operations, ranging from inability to operate effectively to a complete loss of operating capability.</p> <p>Unauthorised access to confidential or personal data and disclosure externally.</p> <p>Breach of information security and data protection regulations incurring financial penalties from regulators.</p> <p>Reputational impact and potential deterioration in customer and supplier relationships.</p> <p>Loss of Intellectual Property or exposure of commercially sensitive information.</p> <p>Extensive resources expended in responding and recovering.</p>	<p>Implemented a Multi-Factor Authentication solution for VPN. MFA rolled out to protect key business systems including CRM and HR.</p> <p>Enterprise Backup Solution provides an immutable copy of all key business systems and data enabling complete systems and data recovery within an acceptable timeframe.</p> <p>Implemented a risk-based security testing approach across IT infrastructure and systems to identify ongoing vulnerabilities and prioritise remediation.</p> <p>Included a security workstream in the IT Transformation Programme.</p> <p>Group IT Director provides an Information Security update to the Executive on a monthly basis and to the Board of Directors every six months.</p> <p>Established Xaar Security Standards (Minimum and Enhanced Baselines) to measure current levels of defence and recovery and track progress.</p> <p>Established a process of undertaking an independent external audit of Xaar IT Security and IT Security Technical Controls on an annual basis. This started in 2022.</p>	<p>Possible Medium </p> <hr/>

Key of change

-  Increase
 No change
 Decrease
 NEW

Risk and link to business unit	Impact	Mitigation	Likelihood Magnitude Change
Financial			
14. Ability to access sufficient capital	<p>Our ability to access sufficient capital/liquidity may restrict growth opportunities for our organisation, as well as the strategic plan and vision.</p> <p>Significant investment is required to bring new products to market and ramp up to meaningful volumes.</p>	<p>The Group has sufficient cash available for execution and delivery of the strategy within agreed timescales.</p> <p>The Group has implemented cost reduction actions to focus resources on key initiatives.</p> <p>We work with third parties to realise the full potential of research and development activities.</p> <p>We have established partnerships with our banks who understand our strategic plans. We have a strong, well capitalised balance sheet.</p> <p>We returned to profitability which transformed our ability to raise less expensive financing.</p> <p>We have secured an invoice facility which helps support short-term cash management.</p>	<p>Unlikely High </p> <p>We secured external financing recently which further reduces this risk.</p>
15. Customer credit exposure	<p>The Group may offer credit terms to its customers which at times could be extended beyond what are considered normal terms for products in early stages of their lifecycle. The Group is at risk to the extent that a customer may be unable to pay the debt on time, thus impacting working capital.</p>	<p>This risk is mitigated by strong ongoing customer relationships.</p> <p>Where possible, a full credit check of all new customers is carried out prior to trading. Payment terms are agreed depending upon credit assessment and review of credit history. For all customers with higher risk, payments in advance are requested.</p> <p>Overdue receivables are closely monitored and credit limits are managed rigorously.</p> <p>Credit insurance is in place to protect against payment default for most of the customers.</p>	<p>Possible Low </p> <p>Strong customer credit controls together with continued history of low bad debts demonstrate that the probability of this risk is going down.</p>
16. Inventory obsolescence	<p>Holding excess inventory levels when compared to demand leads to increased risk of obsolescence and write-off before consumption, and working capital restrictions.</p>	<p>There are appropriate stock holding policies, ensuring these are reviewed frequently and change dynamically in line with market/business conditions.</p> <p>Obsolete or slow moving stock items are identified and written off monthly.</p> <p>Enforcing lead times for customer orders to ensure we have the most accurate forecast in place as far out as possible.</p> <p>Continually develop forecasting techniques so that stock requirements can be predicted with great accuracy.</p> <p>Ongoing supplier negotiation to reduce minimum order quantities to prevent obsolescence and inflated inventory.</p>	<p>Probable High </p> <p>The risk has gone up due to the increased levels of inventory as at the end of 2022. The inventory levels have been increased to minimise the effect of the factory shutdown in 2023.</p>
17. Exchange rates	<p>Global economic events and uncertainty may cause currencies to fluctuate and currency volatility contributes to variations in our sales of products and services in impacted jurisdictions.</p>	<p>There is a partial natural hedge for foreign currency movements, with sales companies and manufacturing spread across the globe.</p> <p>Cash flows are constantly reviewed and action is taken when appropriate. FX exposure is tracked monthly starting from September 2022.</p>	<p>Probable Medium </p> <p>Due to the state of the current world economy, the impact of this risk is higher.</p>

Non-financial information statement

This Annual Report contains the information required to comply with the Companies, Partnerships and Groups (and Non-Financial Reporting) Regulations 2016, as contained in sections 414CA and 414CB of the Companies Act 2006. The table below provides key references to information that, taken together, comprises the Non-Financial Information Statement for 2022*.

Reporting requirement	Group policies that guide our approach	Information and risk management, with page references
Environmental matters	<ul style="list-style-type: none"> Environmental Policy statement Environmental Sustainability statement Health & Safety Policy statement Quality Policy statement. 	<ul style="list-style-type: none"> Risk management & principal risks, pages 48 to 57 Sustainable and responsible business, pages 30 to 41 Section 172 statement, pages 71 to 72 Company purpose, pages 73 to 74 Our business model, pages 8 to 9
Employees	<ul style="list-style-type: none"> Absence Policy Alcohol & Substance Abuse Policy Annual Leave Policy Bullying & Harassment Policy Capability Policy Code of Conduct COVID-19 Policy statement Disciplinary Policy Equal Opportunities Policy Family Leave Policy Flexible Working Policy Gender pay gap report Gifts & Entertainment Policy Grievance Policy Health & Safety Policy Performance Planning Policy Referral & Reward Policy Retirement Policy Whistleblowing Policy Working time regulations. 	<ul style="list-style-type: none"> Risk management & principal risks, pages 48 to 57 Sustainable and responsible business, pages 30 to 41 Section 172 statement, pages 71 to 72 Company purpose, pages 73 to 74 Our business model, pages 8 to 9
IT, cyber security & data protection	<ul style="list-style-type: none"> Confidential Information Policy Data Protection Policy Email and Internet Policy Mobile Phone Policy. 	<ul style="list-style-type: none"> Risk management & principal risks, pages 48 to 57
Social matters	<ul style="list-style-type: none"> Human Rights Policy Charitable Donations Policy Employee Volunteering Policy. 	<ul style="list-style-type: none"> Sustainable and responsible business, pages 30 to 41
Respect for human rights	<ul style="list-style-type: none"> Human Rights Policy Sanctions Policy Modern Slavery Policy Modern Slavery Act Compliance Statement. 	<ul style="list-style-type: none"> Risk management & principal risks, pages 48 to 57 Sustainable and responsible business, pages 30 to 41 Section 172 statement, pages 71 to 72 Company purpose, pages 73 to 74
Anti-corruption and anti-bribery matters	<ul style="list-style-type: none"> Anti-Bribery & Corruption Policy Anti-money Laundering Policy Conflict Materials Policy Corporate Criminal Offence Policy Employee Share Dealing Code Gifts & Entertainment Policy Whistleblowing Policy. 	<ul style="list-style-type: none"> Risk management & principal risks, pages 48 to 57 Sustainable and responsible business, pages 30 to 41 Our business model, pages 8 to 9 Section 172 statement, pages 71 to 72 Company purpose, pages 73 to 74
Description of the business model		<ul style="list-style-type: none"> Our business model, pages 8 to 9
Description of the principal risks in relation to the above matters, including business relationships, products and services likely to affect those areas of risk, and how the company manages the risks		<ul style="list-style-type: none"> Risk management & principal risks, pages 48 to 57 Sustainable and responsible business, pages 30 to 41 Climate change, pages 53 to 54
Non-financial key performance indicators		<ul style="list-style-type: none"> Sustainable and responsible business, pages 30 to 41 Greenhouse gas report, page 45 Key performance indicators, pages 46 to 47

* The policies listed above are available to employees via our intranet, alongside corporate policies being available on our website (<https://www.xaar.com/en/about/corporate-policies/>). Compliance with our policies is monitored through the implementation of annual compliance statements, through our internal audit function, and locally by our General Managers.