

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 2022 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 (UK IAS);
- 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 2022 comprise:

Group	Parent company
Statement of financial position as at 31 December 2022	Balance sheet as at 31 December 2022
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 38 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 walked through the process undertaken by management to perform the going concern assessment, including any impacts of the macroeconomic environment 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 2024;
- We challenged the key assumptions underpinning the Group's forecasts. This has been performed by:
 - Checking the arithmetical and logical accuracy of management's model;
 - Reconciling opening cash to the audited position as at 31 December 2022;
 - Testing the historical forecasting accuracy of the Group by comparing actual revenue and operating profit to forecast for the previous four years;
 - Challenging the revenue and margin forecasts compared to the recurring revenues and margins generated in 2022;
 - Understood and challenged the factors leading to the fluctuations in the monthly cashflow analysis, compared these fluctuations to the order book. We performed sensitivity analysis to determine the impact on liquidity of not achieving these monthly forecasts;
 - Tested the credit ratings and other indicators of credit worthiness of key customers to determine the robustness of cash inflows; and
 - Confirmed the consistency of the forecasts with other areas of the audit including the impairment assessment.
- We compared 2023 year to date trading performance to management's going concern forecast by obtaining the latest available management accounts to challenge and identify any issues with current trading and cashflows;
- We reviewed the terms and conditions of the existing debt facilities to establish their availability across the going concern period. We have also reviewed the terms of the revolving credit facility that has received credit preapproval subsequent to the year end along with the associated covenants and other conditions which must be complied with to maintain that availability;
- We considered the impact of Xaar's climate commitments on the cash flow forecasts;
- We performed sensitivity analysis to determine the impact of reasonably possible fluctuations in key assumptions on the Group's available liquidity and covenant compliance for the credit approved revolving credit facility;
- 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 challenged the mitigating actions such as reducing non-essential capital expenditure and performance related pay, assessing whether they were within management's control and whether they were supported by the actual mitigation achieved in response to recent economic crises such as COVID-19. 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 or remote; 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 before tax for the year ended 31 December 2022 of £0.8m (2021: £1.0m profit). This includes an increase in revenue from continuing operations from £59.3m for the year ended 31 December 2021 to £72.8m for the year ended 31 December 2022. The reverse stress testing performed by management demonstrates revenue would need to reduce by more than 25% compared to the base case for the cash and cash equivalents to be fully consumed over the going concern period and would require both revenues and margins to be below the current year actuals. This is considered remote by management 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 a period to 30 June 2024.

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	<ul style="list-style-type: none"> • We performed an audit of the complete financial information of four components and audit procedures on specific balances for one further component. • The components where we performed full or specific audit procedures accounted for 96% of Revenue, 85% of Adjusted Profit Before Tax and 77% of Total Assets.
Key audit matters	<ul style="list-style-type: none"> • Revenue recognition • Impairment of non-current assets • Contingent consideration (3D) • Acquisition accounting (Megnajet and Technomation)
Materiality	<ul style="list-style-type: none"> • Overall group materiality of £364k 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, the potential impact of climate change 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 12 reporting components of the Group, we selected 5 components covering entities within the UK and US, which represent the principal business units within the Group.

Of the 5 components selected, we performed an audit of the complete financial information of 4 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 1 component ("specific scope component"), 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 96% (2021: 100%) of the Group's Revenue, 77% (2021: 89%) of the Group's Adjusted Profit Before Tax and 85% (2021: 100%) of the Group's Total assets. For the current year, the full scope components contributed 96% (2021: 82%) of the Group's Revenue, 77% (2021: 73 loss%) of the Group's Adjusted Profit Before Tax and 73% (2021: 78%) of the Group's Total assets. The specific scope component contributed 0% (2021: 18%) of the Group's Revenue, 0% (2021: 16%) of the Group's Adjusted Profit Before Tax and 11% (2021: 22%) 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 7 components together represent 4% of the Group's revenue. 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

Due to the level of revenue recognised in the current year FFEI has been included as a full scope entity, whereas in the prior year this was treated as a specific scope component only given the entity was only part of the Group for part of the year in 2021 (due to the timing of its acquisition by the Group).

Following the acquisition of Megnajet Limited during the year, this was included as a review scope component in the 2022 audit.

Involvement with component teams

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

Climate change

Stakeholders are increasingly interested in how climate change will impact Xaar plc. The Group has determined that the most significant future impacts from climate change on their operations will be from risks of flooding at Group and supplier sites. These are explained on pages 42 to 44 in the Task Force on Climate related Financial Disclosures and on pages 48 to 57 in the principal risks and uncertainties. The Group have also explained their climate commitments on pages 29 to 41. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in its Risk Management Report how they have considered the impact of climate on the Group.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition and their climate commitments. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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
<p>Revenue recognition (£72.8 million – continuing operations, 2021: £59.3 million – continuing operations)</p> <p><i>Refer to the Audit Committee Report (page 79); Accounting policies (page 121); and Note 5 of the Consolidated Financial Statements (page 131)</i></p> <p>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.</p> <p>Management reward and incentive schemes are based on achieving profit targets which may also place pressure on management to manipulate revenue recognition.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>In respect of the main UK trading entity, which comprised 54% 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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> analysing the contract and/or terms of the sale to determine that the group had fulfilled the requirements of the contract; confirming revenue could be reliably measured by reference to underlying documentation; and confirming collectability of the revenue was reasonably assured by considering recent collection history and the ageing of receivables. <p>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.</p> <p>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.</p> <p>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.</p> <p>We performed full and specific scope audit procedures over this risk area in 3 components which covered 96% of the revenue from continuing operations.</p>	<p>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.</p> <p>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.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Revenue recognition (£72.8 million – continuing operations, 2021: £59.3 million – continuing operations) continued</p>	<p>Revenue recognised over time</p> <p>For a sample of revenue transactions, we reviewed the respective sales contract to determine whether the contract met the criteria in IFRS 15 for being revenue recognised over time.</p> <p>For the sampled transactions, we evaluated judgements and estimates 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.</p> <p>To further assess the stage of completion at year end we also physically inspected a sample of work in progress projects within the EPS business and reviewed the impact of post year-end changes on labour hour and cost estimates.</p> <p>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.</p> <p>We performed full scope audit procedures over this risk area covering 100% of the risk amount.</p>	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Impairment of non-current assets (£40.0 million, 2021: £34.5m)</p> <p><i>Refer to the Audit Committee Report (page 79); Accounting policies (page 121); and Note 15 of the Consolidated Financial Statements (page 140)</i></p> <p>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.</p> <p>In particular the Group has goodwill of £7.2 million attributed to EPS (£5.8m), FFEI (£0.7m) and Megnajet (£0.7m).</p> <p>We have designated impairment as a key audit matter for EPS given the limited headroom in the impairment testing model in prior year.</p> <p>For FFEI and Megnajet, given they are recent acquisitions with limited track record of performance within the Xaar Group to date we have also designated impairment of goodwill for these CGUs as a key audit matter for the 2022 audit.</p>	<p>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, 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.</p> <p>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.</p> <p>We tested the key inputs to management's impairment models by:</p> <ul style="list-style-type: none"> • analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience; • 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 • 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. <p>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 FFEI forecasts and determined whether adequate headroom remained.</p> <p>We assessed whether there were any other indicators of impairment, which would give rise to the impairment of an individual asset.</p> <p>We audited the related disclosures with reference to the requirements of IAS 36 and confirmed their consistency with the audited impairment models.</p>	<p>We agree with management's conclusion that no impairment of goodwill is required in the current year.</p> <p>We have concluded that the methodology applied is reasonable, that the forecast period is appropriate and that management's models are mathematically accurate.</p> <p>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.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Contingent consideration (3D) (£11.6 million, 2021: £11.9 million)</p> <p><i>Refer to the Audit Committee Report (page 79); Accounting policies (page 121); and Note 22 of the Consolidated Financial Statements (page 147)</i></p> <p>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 up to \$21.2m which is contingent on the achievement of certain milestones and a 3% earn-out consideration in respect of the future revenues of Xaar 3D.</p> <p>The Group recorded a financial asset of £10.9m on the date of the transaction which was remeasured to £11.6m at 31 December 2022 (£11.9m at 31 December 2021) in respect of the contingent consideration. The 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.</p> <p>For this valuation, management's external specialist used a Monte Carlo Simulation model given the complex conditions associated with the contingent consideration.</p> <p>As at 31 December 2022 the Group has recorded a financial asset of £11.6m with the movement from the prior year due to an earn out payment received of £0.2m.</p>	<p>We have used EY internal valuation specialists to review the methodology and reasonableness of key assumptions used within Management's Monte Carlo Simulation.</p> <p>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.</p> <p>We have assessed the consistency of the forecasts with the strategic plans for the Xaar 3D and impact of COVID-19 through validating the forecast with Stratasys management.</p> <p>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.</p> <p>We have audited the related disclosures with reference to the requirements of UK IAS and confirmed they are consistent with the specialist's valuation report.</p>	<p>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.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Acquisition accounting (Megnajet and Technomation)</p> <p><i>Refer to the Audit Committee Report (page 79); Accounting policies (page 121); and Note 36 of the Consolidated Financial Statements (page 159)</i></p> <p>Megnajet Limited was acquired in March 2022 for £2.5m. (£2.3m million cash consideration with the remaining £0.2m to be paid out as a deferred consideration over three years).</p> <p>The acquisition price of Technomation Limited which was acquired in March 2022 was £3,038,000.</p> <p>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:</p> <ul style="list-style-type: none"> • Classification and measurement of deferred consideration and conditions attached • Fair value estimation for acquired intangibles • Opening balance sheet testing • Transition from FRS 102 to UK adopted international accounting standards • Resulting updates to tax and deferred balances 	<p>We have reviewed the sale and purchase agreement and due diligence report to determine the completeness of the identified acquired assets and liabilities.</p> <p>We have reviewed the journals posted to transition the opening balances from FRS 102 to UK IAS. We have also performed a walkthrough of the significant processes to determine any further areas that require consideration in terms of GAAP transition adjustments that were not previously considered by Management.</p> <p>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 as part of the Purchase Price Allocations.</p> <p>We reviewed the sale and purchase agreement for Technomation Limited, audited the net assets of the entity and compared the separately identifiable balances to the total consideration paid. This demonstrated that the assets were concentrated within a single asset and the optional IFRS 3 concentration test was appropriately applied by management.</p> <p>We have engaged our EY internal valuation specialists to review the methodology and key assumptions in respect of the Purchase Price Allocation.</p> <p>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.</p> <p>We have audited the disclosures within the annual report and accounts in relation to the business combination and resulting changes.</p>	<p>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.</p>

In the prior year, our auditor’s report included a key audit matter in relation to inventory provisioning within the EPS business. In the current year, this no longer represents a key audit matter given the steps management have taken to remediate the previously reported significant control deficiencies.

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 €364k (2021: €300k), which is 0.5% (2021: 0.5%) of Group revenue. We believe that revenue provides us with the most appropriate basis given it is the main KPI for the Group, and given the Group's recent history of losses.

We determined materiality for the Parent Company to be €364k (2021: €300k), which we capped at the Group materiality.

During the course of our audit, we reassessed initial materiality and updated for 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% (2021: 50%) of our planning materiality, namely €182k (2021: €150k). 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 €68k to €130k (2021: €30k to €112k).

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 €18k (2021: €15k), 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. 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
- 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 69;
- 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 69;
- 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 69;
- Directors' statement on fair, balanced and understandable set out on page 78;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 50;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 49; and
- The section describing the work of the audit committee set out on page 79.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 105, 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 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 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 28 June 2022 to audit the financial statements for the year ending 31 December 2022 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ending 31 December 2019 to 31 December 2022.
- 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.
- 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.

Ruth Logan

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

27 March 2023