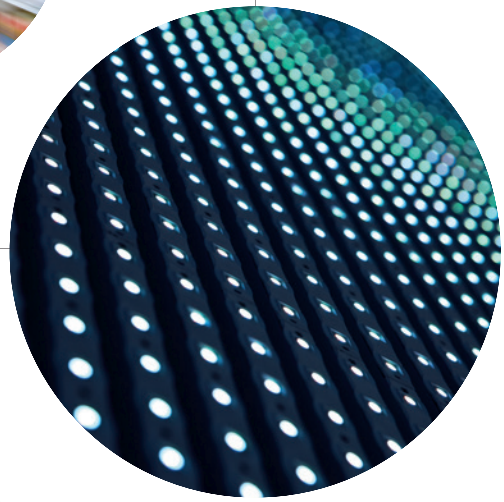
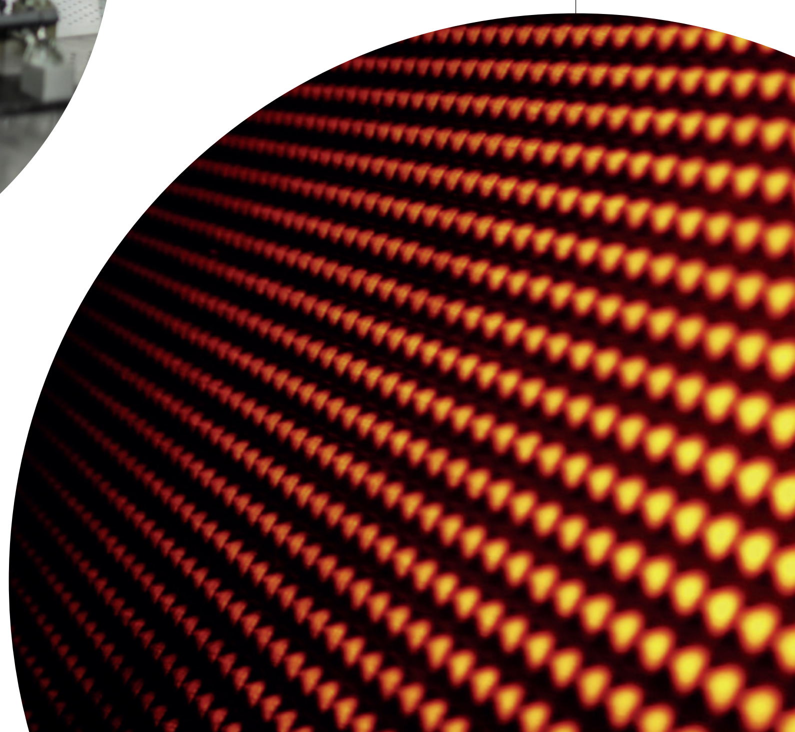
XAAR®

CELEBRATING 25 years OF INKJET INNOVATION



Leading the digital inkjet revolution

Xaar plc Interim Report 2015



Welcome to Xaar plc

Contents

Xaar is a world leader in the development of inkjet technology and manufacture of piezoelectric drop-on-demand industrial inkjet printheads.

Highlights

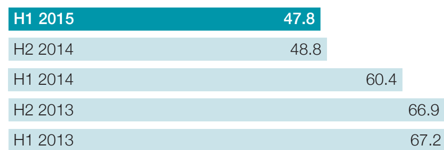
Financial highlights

- Revenue of £47.8 million in H1 2015; reduced from H1 2014 (£60.4 million) and is broadly consistent with H2 2014 (£48.8 million) following the step-down in sales into ceramic tiles in 2014
- Improved profitability compared to H2 2014 following the cost reduction programme completed in 2014; gross margin of 45% (H2 2014: 41%) and adjusted operating margin of 19% (H2 2014: 17%)
- Strong balance sheet maintained with net cash of £58.6 million (H2 2015: £47.0 million)
- Cash generation of £11.6 million in H1 2015 included the impact of a £5 million reduction in inventory
- Interim dividend up 5% to 3.15 pence per share (2014: 3 pence per share)

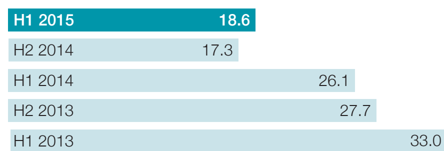
Operational highlights

- The Xaar 1002 continues to lead the market in both established and developing digital printing applications
- In ceramic tile decoration, the Xaar 1002 GS12 and GS40 variants are proving to be very versatile for a wide range of design finishes
- Direct-to-shape printing in packaging continues to gain traction; branded commercial products are retailing in Europe and the US
- Sales into labels grew in H1 2015 following the solution improvements made by OEM partners in 2014
- Thin Film programme remains on track; product prototypes scheduled for the end of the year with significant on-going interest from potential OEM partners

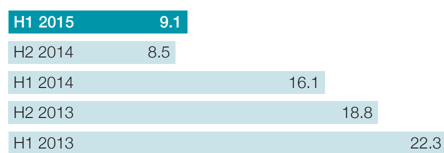
Adjusted revenue £m



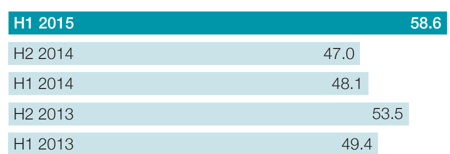
Adjusted operating margin %



Adjusted profit before tax £m



Net cash balance £m



Adjusted measures exclude items from the IFRS results, including share-based payment charges, exchange differences relating to Swedish operations, unrealised gains/losses on derivative financial instruments, non-recurring royalty income, R&D expenditure credit, and restructuring costs, per the reconciliation of adjusted financial measures on page 9. Net cash includes cash and cash equivalents and treasury deposits.

Chairman's statement

Stability following a challenging 2014

After a challenging 2014 our business achieved stability in the first half of 2015.

Phil Lawler
Chairman

27 August 2015

After a challenging 2014 our business achieved stability in the first half of 2015. Sales into ceramic tile decoration, our largest application, were broadly consistent during the first six months of the year following the step-down in demand seen in the second half of 2014. Sales into other applications were in line with expectations, with packaging providing the most exciting opportunities for short to medium term growth.

As expected our profitability has been impacted by a lower level of sales compared to the first six months of last year, despite the swift action taken on costs in 2014. However, I am pleased to report a healthy operating profit margin of 19% (on an adjusted basis) even after continued substantial investment in research and development.

The Group continues to maintain a strong balance sheet with net cash at 30 June 2015 of £58.6 million (31 December 2014: £47.0 million). The strong cash generation in the first half of the year included the impact of a reduction in inventory and other working capital movements, and the phasing of capital expenditure.

Results

Revenue for the six months ended 30 June 2015 was £47.8 million (H1 2014: £60.4 million; H2 2014: £48.8 million). Product sales were £45.0 million (H1 2014: £57.1 million; H2 2014: £45.7 million). Royalty revenue was £2.8 million (H1 2014: adjusted £3.3 million; H2 2014: £3.1 million).

The geographic split of our revenue based on the location of our customers (and not necessarily end users) was broadly in line with the first six months of last year. Sales to Asia represented 42% of the total for H1 2015 (H1 2014: 42%), EMEA accounted for 51% (H1 2014: 53%) and the Americas increased to 7% (H1 2014: 5%).

In terms of market segmentation, Industrial remains dominant at 70% (H1 2014: 73%), Graphic Arts 9% (H1 2014: 10%), Packaging 15% (H1 2014: 11%) and the legacy licensee royalty income at 6% (H1 2014: 6%).

As expected the fall in the level of sales and production output in H1 2015, compared to the first half of 2014, has reduced our manufacturing overhead efficiency. The impact on profitability was partly mitigated by the cost reduction programme completed in the second half of 2014, with an adjusted gross margin in H1 2015 of 45% (H1 2014: adjusted 47%) which was an improvement over the 41% recorded in H2 2014 on a similar level of sales (£48.8 million). The reduction in revenue has had a greater impact on our operating profit margin, since we continue to invest a substantial amount in research and development to deliver our long term strategy; 21% of revenue in H1 2015 before capitalisation of development costs. Adjusted operating profit margin reduced to 19% (H1 2014: 26%; H2 2014: 17%) which was a slightly stronger performance compared to the Board's expectations at the start of the year.

Adjusted profit before tax for the period was £9.1 million (H1 2014: £16.1 million; H2 2014: £8.5 million).

Adjusted profit before tax is stated after capitalisation of £3.9 million (H1 2014: £3.3 million) of internal development costs on the Group's Thin Film programme (Platform 4). The programme will establish a technology platform for a portfolio of new products, is expected to require a very substantial investment and will take several years to complete. Costs capitalised to date (from January 2014) total £11.3 million.

As noted in March, we intend to close our Swedish manufacturing facility in 2016. This is due to lower sales volumes of older generation products which are manufactured in this plant, which no longer justify the cost of a standalone operation. Total costs associated with the proposed closure are projected to be around £4.8 million, with £2.3 million of this cost being non-cash charges related to tangible assets and goodwill. The £4.8 million total charge has been provided in the H1 2015 financial results, but has been excluded from the calculation of 'adjusted' profit measures.

Chairman's statement

Outlook

Our longer term ambitions are substantial, based on the potential that inkjet has to offer a number of significant applications and our strong market position with both established products and exciting future products and technology. Success during the next phase of our growth will be dependent on external collaboration and partnerships in addition to our own internal development plans.

In the shorter term our ambitions are more modest. For 2015 we anticipate a period of stabilisation with an intention to return to growth in 2016. Although visibility of demand remains limited, particularly in China, based on the sales performance in the first half of the year the Board expects 2015 full year revenue to be in the range of £92-95 million.

Business Commentary

The Industrial segment accounted for 70% of Group revenue in the first six months of year, with ceramics contributing the majority of sales. The overall installation rate of new printing equipment into ceramic tile plants fell during the second half of last year, driven by the property market in China, but has since stabilised. The replacement of digital inkjet printing equipment is starting to gain traction, driven by Southern Europe – the first region to convert to inkjet.

The Xaar 1002 printhead remains the leader in ceramic tile decoration, an increasingly competitive market segment, with three variants to suit a wide range of different decorative and structural fluids and specific tile applications (typically floor tiles versus wall tiles). The Xaar 1002 GS12 and the Xaar 1002 GS40, which both launched in 2014, have proved to be very versatile, allowing tile manufacturers to produce designs incorporating gloss, matt, glaze, lustre and metallic finishes as well as achieving designs with more intense and vivid colour. The Xaar 001 product which targets glaze and structure processes beyond the current decoration step remains in market testing.

In Packaging, which represented 15% of revenue in the first half of the year, the well-established coding and marking application continues to provide a reliable level of sales. Revenue from digital label printing equipment increased compared to the rates achieved in 2014, following good progress by our OEMs in raising the specification of their offerings.

The contribution from direct-to-shape printing in packaging, which is currently mainly printing directly onto plastic and glass bottles, was broadly consistent with the modest levels achieved in 2014. We remain excited about the size of the opportunity in the direct-to-shape application and we are encouraged by both the progress being made by our OEMs and by the level of engagement from some very large brands. Commercial products are retailing in both Europe and the US.

As expected, sales into Graphic Arts reduced in the first half of 2015 as a result of both product maturity and the end-of-life of unprofitable products in 2014. The new Xaar 501 printhead is scheduled for full commercial launch in a variety of applications, including Graphics, later this year.

Our Thin Film technology platform programme remains on track. This is a substantial investment, utilising roughly half of our R&D resource. We are aiming to finalise the first prototype product before the end of this year. We hosted six successful demonstrations to potential OEM partners in the first half of 2015.

Dividend

In 2014 we announced a sustainable and progressive dividend policy which takes into account the Group's future prospects, its underlying profitability and the future cash requirements of the business.

The Board has declared a 2015 interim dividend of 3.15 pence, a 5% increase over the 2014 interim dividend, which will be paid on 9 October 2015, with an ex-dividend date of 10 September 2015 to shareholders on the register at close of business on 11 September 2015.

Board

There have been several changes to the Board this year.

In January we welcomed Doug Edwards as the new Chief Executive Officer, who joined us with considerable industry experience from an executive career at Kodak, following the retirement of Ian Dinwoodie, who had served as Chief Executive Officer for 12 years.

In February Jim Brault joined the Board as Chief Human Resources Officer, bringing a wealth of invaluable experience to Xaar in a new Board position.

In April Edmund Creutzmann resigned as Chief Technology Officer.

In May David Cheesman, Non-Executive Director, retired following 4 years of service. I'd like to thank David for his enthusiasm and commitment to the role and the Company. Following David's retirement Margaret Rice-Jones joined the Board as a Non-Executive Director on 1 August 2015. Margaret will also serve as Chair of the Remuneration Committee and as a member of the Audit and Nomination Committees. Margaret has extensive experience of managing complex international technology businesses.

Principal risks and uncertainties

The Directors do not consider that Xaar's principal risks and uncertainties have changed since those detailed on pages 18 and 19 of the Xaar plc Annual Report and Accounts 2014 (available at www.xaar.com), as summarised below:

- Product sales into established applications fail to deliver sustained revenue growth due to competitor activity (market share loss and/or price reductions), macro-economic factors, market maturity or other changes;
- Product sales into new applications fail to achieve their targets;
- New products fail to achieve their targets through either a failure to identify the appropriate products to meet future market requirements, or the products are identified but are not successfully developed in time or to the required specification;
- Manufacturing output fails to meet demand due to supplier issues, an event at one of the manufacturing facilities, delays or problems associated with production equipment, a lack of manufacturing capacity, or for other reasons;
- Significant and sustained quality problems are identified with products which have been sold or which are held in inventory.

Going concern

As stated in note 1 to the condensed financial statements, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

Directors' responsibilities statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU and gives a true and fair view of the assets, liabilities, financial position and profit of the Group

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R:
- (i) an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and
- (ii) a description of principal risks and uncertainties for the remaining six months of the year

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R:
- (i) related parties transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the Group in that period, and
- (ii) any changes in the related parties transactions described in the Annual Report 2014 that could have a material effect on the financial position or performance of the Group in the current period.

By order of the Board

Doug Edwards
Chief Executive Officer

Alex Bevis
Chief Financial Officer and Company Secretary

27 August 2015

Condensed consolidated income statement

for the six months ended 30 June 2015

	Notes	Six months ended 30 June 2015 (unaudited) £'000	Six months ended 30 June 2014 (unaudited) £'000	Twelve months ended 31 December 2014 (audited) £'000
Revenue	3	**47,810**	60,444	109,150
Cost of sales		**(26,311)**	(31,920)	(60,548)
Gross profit		**21,499**	28,524	48,602
Research and development expenses		**(6,348)**	(5,865)	(11,797)
Research and development expenditure credit		**620**	241	234
Sales and marketing expenses		**(2,533)**	(2,809)	(5,551)
General and administrative expenses		**(4,882)**	(5,046)	(7,900)
Restructuring costs		**(4,783)**	–	(872)
Operating profit		**3,573**	15,045	22,716
Investment income		**171**	247	394
Profit before tax		**3,744**	15,292	23,110
Tax	5	**(25)**	(2,797)	(4,418)
Profit for the year attributable to shareholders		**3,719**	12,495	18,692
Earnings per share				
Basic	6	**4.9p**	16.7p	25.0p
Diluted	6	**4.8p**	16.2p	24.4p

Dividends paid in the period amounted to £4,535,000 or 6.0 pence per share 2014 final dividend (six months to 30 June 2014: £4,124,000 or 5.5 pence per share 2013 final dividend; twelve months to 31 December 2014: £6,377,000 or 8.5 pence per share being 5.5 pence per share 2013 final dividend and 3.0 pence per share 2014 interim dividend).

Condensed consolidated statement of comprehensive income

for the six months ended 30 June 2015

	Six months ended 30 June 2015 (unaudited) £'000	Six months ended 30 June 2014 (unaudited) £'000	Twelve months ended 31 December 2014 (audited) £'000
Profit for the year attributable to shareholders	**3,719**	12,495	18,692
Exchange differences on retranslation of net investment	**(126)**	(46)	(224)
Tax benefit on share option gains	**131**	850	855
Other comprehensive income for the year	**5**	804	631
Total comprehensive income for the year	**3,724**	13,299	19,323

Condensed consolidated statement of financial position

as at 30 June 2015

	As at 30 June 2015 (unaudited) £'000	As at 31 December 2014 (audited) £'000
Non-current assets		
Goodwill	–	720
Other intangible assets	**13,656**	10,077
Property, plant and equipment	**33,879**	38,539
Investments	**1,000**	1,000
	48,535	50,336
Current assets		
Inventories	**14,674**	19,795
Trade and other receivables	**13,065**	13,452
Current tax asset	**3,802**	2,909
Treasury deposits	**21,023**	21,000
Cash and cash equivalents	**37,582**	25,963
	90,146	83,119
Total assets	**138,681**	133,455
Current liabilities		
Trade and other payables	**(11,039)**	(9,888)
Other financial liabilities	**(68)**	(57)
Provisions	**(3,535)**	(425)
	(14,642)	(10,370)
Net current assets	**75,504**	72,749
Non-current liabilities		
Deferred tax liabilities	**(965)**	(617)
Other financial liabilities	**(275)**	(308)
Total non-current liabilities	**(1,240)**	(925)
Total liabilities	**(15,882)**	(11,295)
Net assets	**122,799**	122,160
Equity		
Share capital	**7,713**	7,664
Share premium	**26,951**	26,345
Own shares	**(3,796)**	(3,796)
Other reserves	**10,408**	9,716
Translation reserve	–	126
Retained earnings	**81,523**	82,105
Equity attributable to shareholders	**122,799**	122,160
Total equity	**122,799**	122,160

Condensed consolidated statement of changes in equity

for the six months ended 30 June 2015

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2014	7,589	25,484	(4,066)	8,610	350	72,075	110,042
Profit for the year	–	–	–	–	–	12,495	12,495
Exchange differences on retranslation of net investment	–	–	–	–	(46)	–	(46)
Tax benefit on share option gains	–	–	–	–	–	850	850
Total comprehensive income for the period	–	–	–	–	(46)	13,345	13,299
Issue of share capital	66	674	–	–	–	(28)	712
Own shares sold in the period	–	–	270	–	–	(9)	261
Dividends (note 7)	–	–	–	–	–	(4,124)	(4,124)
Deferred tax charge on share options	–	–	–	–	–	(2,714)	(2,714)
Credit to equity for equity-settled share-based payments	–	–	–	1,058	–	–	1,058
Balance at 30 June 2014	7,655	26,158	(3,796)	9,668	304	78,545	118,534
Balance at 1 January 2015	**7,664**	**26,345**	**(3,796)**	**9,716**	**126**	**82,105**	**122,160**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**3,719**	**3,719**
Exchange differences on retranslation of net investment	**–**	**–**	**–**	**–**	**(126)**	**–**	**(126)**
Tax benefit on share option gains	**–**	**–**	**–**	**–**	**–**	**131**	**131**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(126)**	**3,850**	**3,724**
Issue of share capital	**49**	**606**	**–**	**–**	**–**	**(21)**	**634**
Dividends (note 7)	**–**	**–**	**–**	**–**	**–**	**(4,535)**	**(4,535)**
Deferred tax credit on share options	**–**	**–**	**–**	**–**	**–**	**124**	**124**
Credit to equity for equity-settled share-based payments	**–**	**–**	**–**	**692**	**–**	**–**	**692**
Balance at 30 June 2015	**7,713**	**26,951**	**(3,796)**	**10,408**	**–**	**81,523**	**122,799**

Condensed consolidated cash flow statement

for the six months ended 30 June 2015

	Notes	Six months ended 30 June 2015 (unaudited) £'000	Six months ended 30 June 2014 (unaudited) £'000	Twelve months ended 31 December 2014 (audited) £'000
Net cash from operating activities	9	**21,032**	9,010	18,397
Investing activities				
Investment income		**232**	197	427
Purchases of property, plant and equipment		**(1,375)**	(7,793)	(12,483)
Proceeds on disposal of property, plant and equipment		**46**	8	2
Expenditure on software		**(107)**	(187)	(217)
Expenditure on capitalised product development		**(3,894)**	(3,266)	(7,357)
Net cash used in investing activities		**(5,098)**	(11,041)	(19,628)
Financing activities				
Dividends paid	7	**(4,535)**	(4,124)	(6,377)
Treasury deposits		**(23)**	6,000	1,000
Proceeds from the sale of ordinary share capital		**–**	261	261
Proceeds from issue of ordinary share capital		**634**	712	908
Net cash (used in)/from financing activities		**(3,924)**	2,849	(4,208)
Net increase/(decrease) in cash and cash equivalents		**12,010**	818	(5,439)
Effect of foreign exchange rate changes		**(391)**	(162)	(83)
Cash and cash equivalents at beginning of period		**25,963**	31,485	31,485
Cash and cash equivalents at end of period		**37,582**	32,141	25,963

Cash and cash equivalents (which are presented as a single class of asset on the face of the condensed consolidated statement of financial position) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

Notes to the interim financial information
for the six months ended 30 June 2015

1. Basis of preparation and accounting policies

Basis of preparation

These interim financial statements have been prepared in accordance with the accounting policies set out in the Group's Annual Report and Accounts 2014 on pages 75 to 81 and were approved by the Board of Directors on 27 August 2015. The interim financial statements for the six months ended 30 June 2015 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The interim financial statements do not include all the information and disclosures in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

The financial information in these interim financial statements for the six months ended 30 June 2015, does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The Group's Annual Report for the year ended 31 December 2014 has been delivered to the Registrar of Companies and the auditor's report on those financial statements was not qualified and did not contain statements made under section 498(2) or (3) of the Companies Act 2006.

The interim financial statements are unaudited but have been reviewed by the auditor Deloitte LLP. The report of the auditor to the Group is set out on page 13.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

Risks and uncertainties

An outline of the key risks and uncertainties faced by the Group was outlined in the 2014 financial statements as summarised in the Chairman's statement on page 2. It is anticipated that the risk profile will not significantly change for the remainder of the year. Risk is an inherent part of doing business and the strong cash position of the Group along with the underlying profitability of the core business leads the Directors to believe that the Group is well placed to manage business risks successfully.

Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period not less than 12 months from the date of this report. Accordingly, the going concern basis of preparation has been adopted in preparing the interim financial statements.

2. Reconciliation of adjusted financial measures

	Six months ended 30 June 2015 (unaudited) £'000	Six months ended 30 June 2014 (unaudited) £'000	Twelve months ended 31 December 2014 (audited) £'000
Profit before tax	**3,744**	15,292	23,110
Share-based payment charges	**838**	472	242
Exchange differences relating to the Swedish operations	**310**	523	614
Losses on derivative financial instruments	**–**	6	6
Restructuring costs	**4,783**	–	872
Research and development expenditure credit	**(620)**	(241)	(234)
Adjusted profit before tax	**9,055**	16,052	24,610

Share-based payment charges include an IFRS 2 charge for the period of £692,000 (H1 2014: £1,058,000) and the charge relating to National Insurance on outstanding potential share option gains of £146,000 (H1 2014: credit of £586,000).

Exchange differences relating to the Swedish operations represent exchange gains or losses recorded in the consolidated income statement as a result of operating in Sweden.

Losses and gains on derivative financial instruments relate to the losses and gains made on forward currency contracts in 2014.

Restructuring costs of £4,783,000 in 2015 relate to costs incurred and provisions made in relation to a reorganisation and the planned closure of the manufacturing facility in Sweden in 2016. In 2014 restructuring costs of £872,000 were incurred in relation to a reduction made to the global work force in 2014.

The research and development expenditure credit relates to the corporation tax relief receivable relating to qualifying research and development expenditure.

	Six months ended 30 June 2015 (unaudited) Pence per share	Six months ended 30 June 2014 (unaudited) Pence per share	Twelve months ended 31 December 2014 (audited) Pence per share
Diluted earnings per share	**4.8p**	16.2p	24.4p
Share-based payment charges	**1.1p**	0.6p	0.3p
Exchange differences relating to the Swedish operations	**0.4p**	0.7p	0.8p
Restructuring costs	**6.2p**	–	1.1p
Tax effect of adjusting items	**(1.5p)**	(0.3p)	(0.2p)
Adjusted diluted earnings per share	**11.0p**	17.2p	26.4p

This reconciliation is provided to enable a better understanding of the Group's results.

Notes to the interim financial information continued

for the six months ended 30 June 2015

3. Business segments

For management reporting purposes, the Group's operations are currently analysed according to the two operating segments of 'product sales, commissions and fees' and 'royalties'. These two operating segments are the basis on which the Group reports its primary segment information and on which decisions are made by the Group's Chief Executive Officer and Board of Directors, and resources allocated. The Group's chief operating decision maker is the Chief Executive Officer.

Segment information is presented below:

	Six months ended 30 June 2015 (unaudited) £'000	Six months ended 30 June 2014 (unaudited) £'000	Twelve months ended 31 December 2014 (audited) £'000
Revenue			
Product sales, commissions and fees	**44,960**	57,165	102,804
Royalties	**2,850**	3,279	6,346
Total revenue	**47,810**	60,444	109,150
Result			
Product sales, commissions and fees	**1,561**	12,767	16,618
Royalties	**2,850**	3,279	6,346
Total segment result	**4,411**	16,046	22,964
Net unallocated corporate expense	**(838)**	(1,001)	(248)
Operating profit	**3,573**	15,045	22,716
Investment income	**171**	247	394
Profit before tax	**3,744**	15,292	23,110
Tax	**(25)**	(2,797)	(4,418)
Profit for the period attributable to shareholders	**3,719**	12,495	18,692

Unallocated corporate expense relates to administrative activities which cannot be directly attributed to any of the principal product groups, including share-based payment charges and unrealised gains or losses on derivative financial instruments.

Assets in the 'product sales, commissions and fees' segment have decreased by £6.0 million over the period and assets in the 'royalties' segment have decreased by £0.4 million over the period; there have been no other material movements in segment assets during the period.

4. Restructuring costs

During the six months ended 30 June 2015 a total expense of £4,783,000 was recognised relating to restructuring costs incurred and provisions made in relation to a reorganisation and the planned closure of the manufacturing facility in Sweden in 2016. £2,290,000 relates to the impairment and accelerated depreciation of goodwill and fixed assets. The remaining expense relates to people and facility costs. In 2014 restructuring costs of £872,000 were incurred in relation to a reduction made to the global work force in 2014.

5. Income tax

The major components of income tax expense in the income statement are as follows:

	Six months ended 30 June 2015 (unaudited) £'000	Six months ended 30 June 2014 (unaudited) £'000	Twelve months ended 31 December 2014 (audited) £'000
Current income tax			
Income tax (credit)/charge	**(448)**	2,448	2,924
Deferred income tax			
Relating to origination and reversal of temporary differences	**473**	349	1,494
Income tax expense	**25**	2,797	4,418

The current income tax credit of £448,000 for the six months ended 30 June 2015 includes a prior period tax credit of £638,000, which is principally a result of a capital allowances review and an increased patent box deduction.

6. Earnings per ordinary share – basic and diluted

The calculation of basic and diluted earnings per share is based upon the following data:

	Six months ended 30 June 2015 (unaudited) £'000	Six months ended 30 June 2014 (unaudited) £'000	Twelve months ended 31 December 2014 (audited) £'000
Earnings			
Earnings for the purposes of earnings per share being net profit attributable to equity holders of the parent	**3,719**	12,495	18,962
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**75,313,623**	74,667,645	74,863,310
Effect of dilutive potential ordinary shares:			
Share options	**1,441,516**	2,538,590	1,629,537
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**76,755,139**	77,206,235	76,492,847

7. Dividends

	Six months ended 30 June 2015 (unaudited) £'000	Six months ended 30 June 2014 (unaudited) £'000	Twelve months ended 31 December 2014 (audited) £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2014 of 6.0p (2013: 5.5p) per share	**4,535**	4,124	4,124
Interim dividend for the year ended 31 December 2014 of 3.0p	**–**	–	2,253
Total distributions to equity holders in the period	**4,535**	4,124	6,377

The interim dividend of 3.15 pence per share has been approved by the Board and will be paid on 9 October 2015 to shareholders on the register at close of business on 11 September 2015. The interim dividend has not been included as a liability at 30 June 2015.

Notes to the interim financial information continued

for the six months ended 30 June 2015

8. Share capital

During the six months ended 30 June 2015 a total of 485,240 new ordinary shares of 10 pence each were issued under the Company's share option schemes for £634,000.

9. Notes to the cash flow statement

	Six months ended 30 June 2015 (unaudited) £'000	Six months ended 30 June 2014 (unaudited) £'000	Twelve months ended 31 December 2014 (audited) £'000
Profit before tax	**3,744**	15,292	23,110
Adjustments for:			
Share-based payments	**838**	472	242
Depreciation of property, plant and equipment	**5,421**	4,700	9,836
Amortisation of intangible assets	**425**	433	885
Impairment of goodwill	**720**	–	–
Research and development expenditure credit	**(620)**	(241)	(234)
Investment income	**(171)**	(247)	(394)
Foreign exchange losses	**383**	537	331
Unrealised losses on forward contracts	**–**	6	6
Loss on disposal of property, plant and equipment	**16**	42	189
Increase/(decrease) in provisions	**3,110**	(526)	(650)
Operating cash flows before movements in working capital	**13,866**	20,468	33,321
Decrease/(increase) in inventories	**4,998**	(2,255)	(4,725)
Decrease/(increase) in receivables	**381**	(1,301)	2,002
Increase/(decrease) in payables	**1,112**	(4,569)	(6,556)
Cash generated by operations	**20,357**	12,343	24,042
Income taxes refunded/(paid)	**675**	(3,333)	(5,645)
Net cash from operating activities	**21,032**	9,010	18,397

10. Date of approval of interim financial statements

The interim financial statements cover the period 1 January 2015 to 30 June 2015 and were approved by the Board on 27 August 2015.

Further copies of the interim financial statements are available from the Company's registered office, 316 Science Park, Cambridge CB4 0XR, and can be accessed on the Xaar plc website, www.xaar.com.

Independent review report to Xaar plc

for the six months ended 30 June 2015

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes 1 to 10. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

27 August 2015

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