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Xaar PLC
18 March 2014

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Xaar plc

2013 FULL YEAR RESULTS

Xaar plc ("Xaar", "the Group" or "the Company"), the digital inkjet printing technology Group headquartered in Cambridge, UK, today announces its full year results for the 12 months ended 31 December 2013, together with the announcement of planned changes to the Board.

As expected, these results show increased sales in all markets, with growth being led by strong Chinese end user demand in the ceramics segment. Profit before tax and earnings per share more than doubled year on year.

Financial Highlights for the 12 months to 31 December 2013

	Adjusted[1]			Reported	
	2013	**2012**	**Growth**	2013	2012
Revenue	**£134.1m**	**£86.3m**	**55%**	£137.1m	£86.3m
Gross margin %	**52.9%**	**47.4%**	**5.5pp**	54.0%	47.4%
R&D investment	**£16.4m**	**£8.0m**	**105%**	£16.4m	£8.0m
Operating margin %	**30.4%**	**21.1%**	**9.3pp**	29.0%	18.0%
Profit before tax	**£41.1m**	**£18.4m**	**123%**	£40.1m	£15.7m
Diluted earnings per share	**43.2p**	**20.1p**	**115%**	41.6p	16.9p
Net cash[2] at period end	**£53.5m**	**£28.9m**	**85%**	£53.5m	£28.9m
Dividend per share	**8.0p**	**4.0p**	**100%**	8.0p	4.0p

- Record revenue, growing 55% over 2012 and more than trebling over the last four years
- Exceptional performance in the Industrial sector, driven primarily by the continued conversion of the global ceramic tile market and strong demand for Xaar's market leading technology
- Gross margin increased by 5.5 percentage points to 53% through volume related manufacturing efficiency and abnormally high asset utilisation

- Operating margin grew to 30% despite an increase of over 100% in R&D investment
- Profit before tax and EPS more than doubled
- Net cash increased by almost £25m to £53.5m at 31 December 2013
- Full year dividend doubled

Operational highlights

- Presently mid-way through a £30m investment programme to increase production capacity at the Huntingdon manufacturing facility by 75%
- 43% increase in year-end headcount with nearly 800 employees at 31 December 2013, including over 650 jobs in the UK
- Investment in R&D doubled to £16.4m (12% of revenue) with R&D headcount increasing by 64% year on year
- The Thin Film Piezo programme (Platform 4) successfully moved from the technology demonstration phase to the product design phase, with first sales still expected 2016
- Multiple new product launches for 2014 including the Xaar 1002, the Xaar 501 and the Xaar XPM, together with the planned market test of a new 200nl technology

Ian Dinwoodie, Chief Executive, commented:

"We achieved exceptional growth in revenue and profit margin in 2013 as customer demand for our products, particularly in the ceramics segment, accelerated. Whilst growth is expected to be more modest over the next period, looking further forward the opportunities for digital print continue to develop, with industry forecasts projecting that the conversion to digital over the next 10 years is expected to be twice that seen in the last 20 years. Technology and product developments are key to this change and Xaar is committed to maximising its opportunity by continuing to push at the forefront of this revolution.

"After 12 challenging and enjoyable years at Xaar I have decided to retire during 2015. My decision is entirely a personal one, and I remain fully committed to continuing the development of the Company between now and my planned retirement date. We are beginning the search for my successor now, and I will ensure that a smooth transition occurs during 2015."

Contacts

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[1] Excluding the impact of £3.0 million of revenue recognised in 2013 which related to the settlement of under-reported licensee royalties for the period 2006 to 2012, exchange differences relating to the Swedish operations, unrealised gains/losses on derivative financial instruments, share-based payment charges, R&D expenditure credit and impairment of trade investment (2012).

[2] Net cash includes cash and cash equivalents, treasury deposits, less obligations under finance leases and loan liabilities.

Chairman's Statement

I am delighted to report on a year of significant progress in our business during the 12 months ended 31 December 2013. Continuing the theme from my 2013 Interim Report we have continued to deliver excellent financial results, whilst investing heavily for the future. All of our investments during the period in additional staff, facilities, and assets have been self-funded.

Due to the substantial rise in our market capitalisation we were pleased to be admitted to the 'FTSE 250' in June 2013.

We have grown our revenue in each of our markets such that we achieved record revenue in the year, growing 55% over 2012 and more than trebling revenue over the last four years. Adjusted profit before tax has more than doubled over 2012, which was itself a 74% increase over 2011. Adjusted diluted earnings per share has also more than doubled to 43.2p in 2013 (2012: 20.1p), this being the fourth year in a row of substantial earnings growth. We continue to generate cash despite the investments referred to above and ended 2013 with net cash (cash and cash equivalents and treasury deposits) of £53.5m and no debt resulting in a very strong balance sheet.

Sales into the industrial sector continue to account for a high proportion of our revenues, driven primarily by the continued conversion of the global ceramic tile market and success of Platform 3 products. Other applications in the sector, including decorative laminates and additive manufacturing, continue to make good early stage progress, albeit generating modest revenues to date. The packaging market continues to be a key focus area for the Company, and during the year we achieved strong growth in the primary label application. It was also pleasing to see the first public demonstrations of 'direct-to-shape' printing technology during the second half of the year and we will continue to work with our OEM partners in this space to support the field trials of the technology during 2014. Sales into the graphics market continue to be dominated by our older generation of products; this will be addressed by the launch of a new generation product during 2014 which is intended to re-start growth in this market.

Our excellent profit performance has been achieved as a result of extremely high asset and people utilisation. In order to bring utilisation back to standard levels and create the opportunity for further growth we are investing £30m in manufacturing assets at the Huntingdon facility to generate an additional 75% manufacturing capacity for the Xaar 1001/2 product, which is scheduled to be in place by mid-2014. The dramatic, but virtually trouble free, increase in output during 2013 could not have been achieved without the dedication and talent of the Xaar Operations team.

During this rapid growth phase we have continued to hire talent globally. Whilst the majority of hires have been from the UK, the specialised nature of our business and our desire to employ only the best means that we have attracted people from around the world and have built a truly multi-national team of approximately 800 staff. Our Huntingdon manufacturing site has increased staff by 57% during 2013. Additionally, we have increased R&D staff by 64% and this has required us to take a third building on the Cambridge Science Park.

I reserved comment on our new thin film piezo technology (Platform 4) deliberately until after mentioning the significant additional investment we are making in R&D. We anticipate that our bulk piezo technology has a strong future, but we know that there is plenty of opportunity for a new supplementary technology with different attributes. Progress has been made during 2013 culminating in a successful internal technology demonstration in December 2013. We remain on track with our plan to deliver the first thin film product commercially in late 2016. Our plans are ambitious and therefore come with risks. However, as a global leader in this very large but highly segmented market, we believe this is unquestionably the right decision.

Xaar's consistent approach is one of delivery and we have deliberately chosen to be relatively low profile. However it was pleasing during one week in November 2013 to receive the following awards:-

- 'Main Stock Market Company of the Year' - Shares Magazine.
- 'Tech Growth Business of the Year' - UK Tech Awards.
- 'UK Manufacturing Site of the Year' - National Microelectronics Institute.

Additionally, in March 2014 Xaar plc won 'Company of the Year' for 2013 at the PLC awards.

These awards are a testament to the increased standing the Group has achieved, due entirely to the high quality and dedication of its management and staff.

Xaar's continuing financial performance and increased net cash in 2013 has enabled the Board to recommend a final dividend of 5.5 pence. This together with the 2.5 pence interim dividend paid on 4 October 2013, equals 8 pence for the year, a doubling of the total dividend paid for 2012.

There were no changes to Board membership during 2013, however due to the significant growth of the Company there will be changes during 2014. Due to the significantly enlarged scale of the R&D function, the Board has decided to appoint a Chief Technology Officer (CTO) and I am delighted to announce that Edmund Creutzmann will join the Board as CTO on 1 April 2014. Edmund brings over 30 years of digital printing R&D expertise to the Company following an extensive career at Siemens AG and Océ Printing Systems GmbH. Reporting to the CTO the R&D function has been split into two departments, with R&D 1 focusing on Bulk Piezo Technology products (Platform 1,2,3) and R&D 2 focusing on Thin Film Technology products (Platform 4). Ramon Borrell, previously R&D Director, will become Director of R&D 2, and a new hire, Brian James, will head up R&D 1. As a consequence Ramon Borrell will step down from the Board effective 1 April 2014, allowing him to concentrate all his efforts on the critical task of successfully bringing Platform 4 to market. We welcome Edmund to the Board and thank Ramon for all his contributions as R&D Director. We look forward to his success on the thin film programme. A second planned change to the Board anticipated for 2014 is the recruitment of an additional experienced Non-Executive Director to bring organisational development experience to the Board as well as improving the balance of Executive to Non-Executive Board membership.

After 12 years of dedication and focus to Xaar, Ian Dinwoodie, CEO, has informed the Board of his intention to retire during 2015. Ian has overseen the significant development of the Company, with an adjusted diluted earnings per share of 1.6 pence when he took over as CEO in 2003, growing to a record 43.2 pence in 2013. An extensive search will now be undertaken for Ian's successor.

Whilst 2013 has been an excellent year of progress for the Company, and the next period is expected to be more modest in terms of growth, we believe we are still very much at the start of the analogue to digital print transformation and as such we continue to see significant opportunities ahead.

Phil Lawler
Chairman
18 March 2014

Chief Executive's Statement

2013 has been an exceptional year for Xaar and represents the fourth year in a row of substantial growth in both revenue and profits for the Company. This year's excellent financial performance has been mainly driven from the acceleration of the adoption of Xaar's market leading technology in the Chinese ceramic tile market and good progress in the development of the packaging market. Sales growth has been enabled by a rapid ramp in output from the Huntingdon facility which has been working at well over 100% of its standard capacity for the majority of the year.

Two important investment decisions were taken during 2013. Firstly, we began a programme to further increase capacity at the Huntingdon site to ensure that growth over the next few years would not be restricted by the availability of production capacity. Secondly, we accelerated the growth in R&D resources and re-organised the R&D function to ensure appropriate resources are allocated to the development of both our existing bulk piezo technology and our new thin film piezo technology. Given that the industry is still at an early stage of the transition from analogue to digital printing, and the size of the potential opportunity, we are committed to continuing to make substantial R&D investment for many years to ensure that Xaar maximises its future potential.

Our strategy is to drive the development of Xaar technology into selected multiple applications and industries, delivering sustainable profitable growth. Our tactics are to become the primary enabler of change in our target markets, leading the initial wave of conversion, and then to protect our position through replacement product sales enabled by continuous product development. The size of the conversion opportunity, the rate of change, and the key characteristics enabling that change will vary from market to market. Original Equipment Manufacturers (OEMs) are mostly market specific which means we work with a number of OEM customers in developing their inkjet solutions for a discrete market.

Market adoption of our technology strengthened during the year with revenues from industrial applications growing 79% and packaging applications growing 31%. Our graphics business grew very modestly and is expected to grow faster following the launch of the Xaar 501 in 2014. Within industrial applications, the ceramic tile business moved ahead very strongly with laminate and advanced/additive manufacturing applications making encouraging but early modest progress. Within the packaging applications the primary label revenues grew strongly whilst the coding and marking revenues were stable. Good technical progress was made in the 'direct-to-shape' application; material revenues are not expected until 2015 at the earliest.

The doubling of R&D spending and the creation of two discrete R&D labs, each focused on its own technology stream, is intended to enable a multi-year pipeline of new products based on both bulk and thin film piezo technology. During 2014 both the Xaar 1002 and the Xaar 501 products will launch, which are intended to both strengthen our offering in existing markets and open-up new opportunities. Also releasing in early 2014 is our gigabit-Ethernet based electronics sub-system named XPM. This product offers customers significantly increased data transfer rates and memory for data intensive applications. Additionally, during 2014 we will market test a completely new bulk piezo jetting structure aimed at significantly higher film weight applications where drop sizes up to 10,000 times the size normally used in digital printing are required. If successful, material revenues could be expected from 2015 onwards.

Significant progress has been achieved on our thin film technology development during the year culminating in a successful internal technology demonstration in December 2013. The first thin film product development is now underway and as previously stated we would anticipate sampling this to customers in 2015 with first commercial revenues planned for late 2016. The thin film programme is aimed at converting new markets and accelerating the conversion of others through a portfolio of new products.

Substantial capacity and capability have been added to the Company during the year including £19.8m of capital asset additions, 2,500 square metres. of additional laboratory and design/development space, and over 300 people hired. I would like to thank all of our staff for their efforts to achieve this substantial change in scale of the Company over such a short period.

Whilst growth is expected to be more modest over the next period, looking further forward the opportunities for digital print continue to develop, with industry forecasts projecting that the conversion to digital over the next 10 years is expected to be twice that seen in the last 20 years. Technology and product developments are key to this change and Xaar is committed to maximising its opportunity by continuing to push at the forefront of this revolution.

After 12 challenging and enjoyable years at Xaar I have decided to retire during 2015. My decision is entirely a personal one, and I remain fully committed to continuing the development of the Company between now and my planned retirement date. We are beginning the search for my successor now, and I will ensure that a smooth transition occurs during 2015.

Ian Dinwoodie
Chief Executive
18 March 2014

Financial performance in 2013

Revenue

Adjusted revenue increased by 55% in 2013 to £134.1 million (2012: £86.3 million). The majority of Xaar's revenue is generated by product sales, commissions and fees

(£127.2 million or 95% of total sales in 2013), with 5% of revenue in 2013 derived from adjusted licensee royalty income. Revenue reported under IFRS was £137.1 million in 2013 (2012: £86.3 million). In 2013, £3.0m of licensee royalty income was recorded which related to the settlement of under-reported licensee royalties for the period 2006 to 2012, and this is excluded in the calculation of adjusted revenue.

Industrial markets (i.e. associated with the production of physical end products) continue to be the largest end application for Xaar's technology. Business in these markets grew by 79% over 2012, generating sales of £98.2 million (2012: £55.0 million), which accounted for 73% of total adjusted revenue (2012: 64%).

The conversion of ceramic tile decoration from analogue to digital processes accelerated in the later stages of 2012 and early part of 2013 through the adoption of Xaar's technology in China, the world's largest market for the production and consumption of ceramic tiles. OEMs in both Europe and in China service the Chinese market with Xaar's market leading 1001 product, which delivers substantial benefits over traditional analogue processes and has now established digital inkjet as the desired standard method of manufacture. Competition in this field has grown from well-established competitors in Xaar's other end markets, including some Xaar licensees, but to date we have been successful in maintaining our dominant market share through the superiority of our technology and products, combined with a competitive pricing strategy. In March 2014 we launched the Xaar 1002, a redesign of the world beating 1001 product, which provides benefits to OEMs and end users in terms of image quality and ease of use.

Ceramics accounts for well over 90% of sales in the industrial sector, but progress in other industrial applications, including decorative laminates (false wood) continues to be encouraging, with modest growth in year on year sales.

Sales into the packaging market were 31% higher compared to the previous year at £15.7 million (2012: £12.0 million) and represent 12% (2012: 14%) of total sales. The well-established coding and marking application, serviced by Xaar's original product portfolio, continues to provide a steady contribution, with around 50% of sales in the total packaging segment. However, the Xaar 1001 product in primary labels and other packaging applications such as direct-to-shape provided the majority of growth in the sector.

Sales into Xaar's initial end market application, graphic arts, delivered 2% growth and totalled £13.3 million for the year (2012: £13.1 million) representing 10% of total sales (2012: 15%). The planned release of the Xaar 501 is due in 2014, and sales from this product are required to build a recovery of sales in this segment closer to the levels seen in earlier years.

As a supplier of technology to OEM partners, our geographic sales split reflects where our products are integrated into the manufacturing equipment, which is not necessarily the end-user location.

In 2013, Europe, Middle East and Africa (EMEA) remained the Company's largest sales region at £67.5 million (2012: £50.0 million), representing 35% growth over the previous year. The primary growth application in Europe was ceramic tile decoration through OEM partners located in Spain and Italy who increasingly addressed the Chinese market, but who also continued to service Europe and made progress in the conversion of manufacturing in South America. Outside of ceramics, primary label and decorative laminate applications continued to grow albeit on a smaller scale. For 2013 the EMEA region represented 50% of total revenue, compared to 58% in the previous year, although we continue to see European OEMs innovate with digital inkjet technology in a wide range of applications.

During the year, the acceleration of the conversion in the Chinese ceramic tile market was well supported by our Chinese partners as well as our OEMs in Europe. Total adjusted sales in Asia increased by 99% to £59.8 million (2012: £30.0 million) representing 45% (2012: 35%) of total adjusted revenues. In addition to ceramics the graphic arts sector continues to be important for sales into Asia.

Total sales to the Americas in 2013 were £6.8 million, an increase of 8% versus the £6.3 million in 2012. As previously stated, we would expect the Americas to remain the smallest geographic region for Xaar due to the distribution of printing equipment manufacturers which tends to be localised in Asia and Europe.

Profitability

Adjusted profit before tax of £41.1 million was achieved for 2013, more than double the £18.4 million recorded for 2012. Profit before tax as reported under IFRS was £40.1m (2012: £15.7 million). The main reconciling items between the adjusted and IFRS measures are the £3.0 million of royalty income noted earlier and £4.2 million of share scheme related charges recorded under IFRS, but also include exchange differences relating to Swedish operations, unrealised gains/losses on derivative financial instruments, and R&D expenditure credit (per the reconciliation of adjusted financial measures below).

The growth in adjusted profit before tax was ahead of the 55% increase in sales through manufacturing efficiency and operating leverage. Adjusted gross margin increased to 53% (47% in 2012) mainly as a result of the increase in volumes produced in the Huntingdon facility. Manufacturing at Huntingdon was running at 24/7 for the majority of 2013, which is financially efficient but operationally undesirable for long term sustained profitability and risk management. As the capacity expansion programme delivered additional assets during the second half of 2013 margins reduced slightly as depreciation charges increased and this effect is expected to continue as the programme completes during the first half of 2014.

Adjusted operating expenses in 2013 grew 33% versus 2012 to £30.3 million. Expenditure on R&D more than doubled year on year from £8.0 million to £16.4 million, mainly through investment in headcount, facilities and engineering costs. For 2013, following a review of cost allocations, an element of IT, facilities and other business support costs previously entirely charged into general and administrative expenses were allocated to R&D expenses, reflecting the growth of the R&D function in terms of headcount and office and laboratory space. Had a similar re-allocation of costs been applied for 2012 then R&D expenses would have been £9.0 million, with growth in 2013 versus 2012 on this comparative basis of 82%.

Net interest income of £0.4 million was recorded in 2013 (2012: £0.2 million), with interest income on cash and treasury deposits exceeding interest charges on a remaining finance lease.

The tax charge on adjusted profit before tax was £8.0 million (2012: £3.4 million), representing an effective tax rate of 19.5% (2012: 18.6%). This tax charge is the product of the UK and Sweden corporation tax rates (23.25% and 22.0% respectively) reduced by the impact of the patent box scheme and R&D tax credits.

The tax charge on IFRS profit before tax was £8.2 million (2012: £3.1 million) representing an effective tax rate of 20.5% (2012: 19.6%).

Adjusted profit after tax for 2013 (see note 2) was £33.1 million, up 121% from the £15.0 million recorded in 2012.

Adjusted diluted earnings per share increased 115% to 43.2 pence in 2013 (2012: 20.1 pence).

Financial position

The strong financial performance in 2013 drove an increase in net cash (cash and treasury deposits less financing arrangements) of £24.6 million to £53.5 million at 31 December 2013. The increase in net cash is £8.5 million below the £33.1 million figure for adjusted profit after tax, mainly due to capital additions to support the capacity expansion programme. Total cash outflow relating to intangible and tangible assets was £17.0 million in the year, compared to a total amortisation and depreciation charge of £8.3 million. Working capital, excluding payables related to capital expenditure and the accrual for NI on potential share option gains, increased by £1.0 million during 2013; inventory grew £2.1 million, receivables increased by £3.0 million, and payables ended the year £4.1 million higher than 2012.

Dividend

The Board will recommend a final gross dividend of 5.5 pence for 2013 at the forthcoming Annual General Meeting, giving a total gross dividend for the year of 8 pence (2012: 4 pence). An interim dividend of 2.5 pence was paid during the year (2012: 1 pence). Subject to approval by shareholders at the Annual General Meeting, the final dividend will be paid on 20 June 2014 to shareholders on the register at close of business on 23 May 2014.

Alex Bevis
Finance Director
18 March 2014

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

		2013	2012
	Notes	**£'000**	£'000
Revenue		**137,128**	86,304
Cost of sales		**(63,114)**	(45,356)
Gross profit		**74,014**	40,948
Research and development expenses		**(16,389)**	(8,032)
R&D expenditure credit		**586**	-
Sales and marketing expenses		**(6,114)**	(5,346)
General and administrative expenses		**(12,398)**	(12,022)
Operating profit		**39,699**	15,548

Investment income		**443**	186
Finance costs		**(55)**	(33)
Profit before tax		**40,087**	15,701
Tax		**(8,226)**	(3,073)
Profit for the year attributable to shareholders		**31,861**	12,628
Earnings per share			
Basic	2	**43.3p**	17.5p
Diluted	2	**41.6p**	16.9p

Dividends paid in the year amounted to £4,059,000 (2012: £2,174,000).

All activities relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
	£'000	£'000
Profit for the year attributable to shareholders	**31,861**	12,628
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on retranslation of net investment	**(7)**	(150)
Other comprehensive loss for the year	**(7)**	(150)
Total comprehensive income for the year	**31,854**	12,478

RECONCILIATION OF ADJUSTED FINANCIAL MEASURES

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
	£'000	£'000

Revenue	**137,128**	86,304
Non-recurring royalty income	**(2,994)**	-
Adjusted revenue	**134,134**	86,304

Profit before tax	**40,087**	15,701
Share-based payment charges	**4,204**	1,542
Exchange differences relating to the Swedish operations	**416**	(262)
(Gain)/loss on derivative financial instruments	**(9)**	4
Non-recurring royalty income	**(2,994)**	-
Research and development expenditure credit	**(586)**	-
Impairment of trade investments and associated loans	**-**	1,401
Adjusted profit before tax	**41,118**	18,386

Share-based payment charges include the IFRS 2 charge for the period of £2,103,000 (2012: £1,358,000) and the charge relating to National Insurance on the outstanding potential share option gains of £2,101,000 (2012: £184,000).

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.

(Gain)/loss on derivative financial instruments relates to unrealised losses on foreign exchange forward contracts in 2013 and 2012.

Non-recurring royalty income related to the settlement of under-reported royalties payable by licensees for the period 2006 to 2012.

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

The charge for the impairment of trade investments in 2012 relates to a minority stake in an inkjet solutions provider and a convertible loan. The full value of these investments was recognised as an impairment loss in the income statement in the period, within administrative expenses.

	2013	2012
	Pence per share	Pence per share
Diluted earnings per share	**41.6**	16.9
Share-based payment charges	**5.5**	2.1

Exchange differences relating to the Swedish operations	**0.5**	(0.3)
Non-recurring royalty income	**(3.9)**	-
Impairment of trade investments and associated loans	**-**	1.9
Tax effect of adjusting items	**(0.5)**	(0.5)
Adjusted diluted earnings per share	**43.2**	20.1

This reconciliation is provided to enable a better understanding of the Group's results and is not a primary statement.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

	2013	2012
	£'000	£'000
Non-current assets		
Goodwill	**720**	720
Other intangible assets	**3,387**	4,015
Property, plant and equipment	**38,452**	26,704
Investments	**1,000**	-
Deferred tax asset	**4,308**	946
	47,867	32,385
Current assets		
Inventories	**15,285**	13,203
Trade and other receivables	**15,441**	12,487
Current tax asset	**782**	654
Treasury deposits	**22,000**	4,000
Cash and cash equivalents	**31,485**	25,446
Derivative financial instruments	**6**	-
	84,999	55,790
Total assets	**132,866**	88,175

Current liabilities		
Trade and other payables	**(19,225)**	(10,399)
Other financial liabilities	**(57)**	(655)
Current tax liabilities	**(1,848)**	(854)
Provisions	**(1,074)**	(1,629)
Derivative financial instruments	**-**	(4)
	(22,204)	(13,541)
Net current assets	**62,795**	42,249
Non-current liabilities		
Deferred tax liabilities	**(328)**	(286)
Other financial liabilities	**(292)**	(229)
Total non-current liabilities	**(620)**	(515)
Total liabilities	**(22,824)**	(14,056)
Net assets	**110,042**	74,119
Equity		
Share capital	**7,589**	7,474
Share premium	**25,484**	24,406
Own shares	**(4,066)**	(4,215)
Other reserves	**8,610**	6,507
Translation reserve	**350**	357
Retained earnings	**72,075**	39,590
Equity attributable to shareholders	**110,042**	74,119
Total equity	**110,042**	74,119

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital £'000	**Share premium £'000**	**Own shares £'000**	**Other reserves £'000**	**Translation reserve £'000**	**Retained earnings £'000**	**Total £'000**
Balance at 1 January 2012	7,280	23,727	(4,465)	5,149	507	29,171	61,369
Profit for the year	-	-	-	-	-	12,628	12,628
Exchange differences on retranslation of net investment	-	-	-	-	(150)	-	(150)
Total comprehensive income for the period	-	-	-	-	(150)	12,628	12,478
Issue of share capital	194	679	-	-	-	(90)	783
Own shares sold in the period	-	-	250	-	-	-	250
Dividends	-	-	-	-	-	(2,174)	(2,174)
Deferred tax on share option gains	-	-	-	-	-	55	55
Credit to equity for equity-settled share-based payments	-	-	-	1,358	-	-	1,358
Balance at 1 January 2013	**7,474**	**24,406**	**(4,215)**	**6,507**	**357**	**39,590**	**74,119**
Profit for the year	-	-	-	-	-	31,861	31,861
Exchange differences on retranslation of	-	-	-	-	(7)	-	(7)

net investment

Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(7)**	**31,861**	**31,854**
Issue of share capital	115	1,078	-	-	-	(46)	1,147
Own shares sold in the period	-	-	149	-	-	(24)	125
Dividends	-	-	-	-	-	(4,059)	(4,059)
Tax on share option gains	-	-	-	-	-	4,753	4,753
Credit to equity for equity-settled share-based payments	-	-	-	2,103	-	-	2,103
Balance at 31 December 2013	**7,589**	**25,484**	**(4,066)**	**8,610**	**350**	**72,075**	**110,042**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

		2013	2012
	Notes	**£'000**	£'000
Net cash from operating activities	3	**45,093**	19,896
Investing activities			
Investment income		**278**	186
Acquisition of investment bonds		**(1,000)**	-
Purchases of property, plant and equipment		**(16,713)**	(7,541)
Proceeds on disposal of property, plant and equipment		**42**	560
Expenditure on capitalised product development and software		**(245)**	(345)

Net cash used in investing activities	**(17,638)**	(7,140)
Financing activities		
Dividends paid	**(4,059)**	(2,174)
Treasury deposits	**(18,000)**	(4,000)
Proceeds from the sale of ordinary share capital	**125**	250
Proceeds from issue of ordinary share capital	**1,147**	783
Finance costs	**(55)**	(35)
Repayments of borrowings	**(594)**	(277)
Net cash used in financing activities	**(21,436)**	(5,453)
Net increase in cash and cash equivalents	**6,019**	7,303
Effect of foreign exchange rate changes on cash balances	**20**	(131)
Cash and cash equivalents at beginning of year	**25,446**	18,274
Cash and cash equivalents at end of year	**31,485**	25,446

Cash and cash equivalents (which are presented as a single class of asset on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Basis of preparation

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2012 or 2013, but is derived from those accounts. Statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with International Financial Reporting Standards. The Company expects to publish full financial statements that comply with IFRSs in April 2014.

2. Earnings per ordinary share - basic and diluted

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

	2013	2012
	£'000	£'000
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**31,861**	12,628
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**73,652,808**	72,151,589
Effect of dilutive potential ordinary shares:		
Share options	**2,989,912**	2,414,068
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**76,642,720**	74,565,657

	2013	2012
	Pence per share	Pence per share
Basic	**43.3**	17.5
Diluted	**41.6**	16.9

The weighted average number of ordinary shares for the purposes of basic earnings per share is calculated after the exclusion of ordinary shares in Xaar plc held by Xaar Trustee Ltd and the Xaar plc ESOP trust.

For 2013, there were no anti-dilutive share options at the period end. For 2012, there were Share options granted over 477,752 shares that had not been included in the diluted earnings per share calculation because they were anti-dilutive at the period end.

For 2012, the performance conditions for share options granted over 35,191 shares were not met and therefore the dilutive effect of the number of shares which would have been issued at the period end was not included in the diluted earnings per share calculation. There were no comparable anti-dilutive options or LTIPs to exclude from the current period diluted earnings per share calculation.

Adjusted earnings per share

This adjusted earnings per share information is considered to provide a fairer representation of the Group's trading performance year on year, as it removes items which, in the Board's opinion, do not reflect the underlying performance of the Group.

The calculation of adjusted EPS excluding share-based payment charges, exchange differences relating to the Swedish operations, the gain or loss on derivative financial instruments, non-recurring royalty income and impairment of investments and associated loans is based on earnings of:

	2013	2012
	£'000	£'000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**31,861**	12,628
Share-based payment charges	**4,204**	1,542
Exchange differences relating to the Swedish operations	**416**	(262)
Loss on derivative financial instruments	**(9)**	4
Non-recurring royalty income	**(2,994)**	-
Impairment of trade investments and associated loans	**-**	1,401
Tax effect of adjusting items	**(376)**	(349)
Adjusted profit after tax	**33,102**	14,964

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

Share-based payment charges include the IFRS 2 charge for the period of £2,103,000 (2012: £1,358,000) and the charge relating to National Insurance on the outstanding potential share option gains of £2,101,000 (2012: £184,000).

Adjusted earnings per share is earnings per share excluding the items adjusted for as detailed above:

	2013	2012
	Pence per share	Pence per share
Adjusted basic	**44.9**	20.7
Adjusted diluted	**43.2**	20.1

3. Notes to the cash flow statement

	2013	2012
	£'000	£'000

Profit before tax	**40,087**	15,701
Adjustments for:		
Share-based payments	**4,204**	1,542
Depreciation of property, plant and equipment	**7,410**	6,648
Amortisation of intangible assets	**889**	738
Impairment of trade investments and associated loans	**-**	1,401
Research and development expenditure credit	**(586)**	-
Investment income	**(443)**	(186)
Finance costs	**55**	33
Foreign exchange gains	**(26)**	(275)
(Gains)/losses on forward contracts	**(9)**	4
Loss on disposal of property, plant and equipment	**250**	661
(Decrease)/increase in provisions	**(555)**	639
Operating cash flows before movements in working capital	**51,276**	26,906
Increase in inventories	**(2,121)**	(1,436)
Increase in receivables	**(2,945)**	(3,111)
Increase in payables	**4,091**	840
Cash generated by operations	**50,301**	23,199
Income taxes paid	**(5,208)**	(3,303)
Net cash from operating activities	**45,093**	19,896

4. Going concern

The Group has considerable financial resources and through a diverse base is exposed not only to the Western economies but also China, India and Latin America. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, based on the Group's forecasts and projections for the next four years, taking account of reasonably possible changes in trading performance. For this reason, they continue to adopt the going concern basis in preparing the financial information.