XAAR

19 March 2015

Xaar plc
2014 FULL YEAR RESULTS

Xaar plc ("Xaar", "the Group" or "the Company"), the inkjet printing technology Group headquartered in Cambridge, UK, today announces its full year results for the 12 months ended 31 December 2014.

Summary of results for the year to 31 December 2014

	Adjusted[1]			IFRS	
	2014	2013		2014	2013
Revenue	£109.2m	£134.1m		£109.2m	£137.1m
Gross profit	£48.6m	£71.0m		£48.6m	£74.0m
Gross margin %	44.5%	52.9%		44.5%	54.0%
Gross R&D investment[2]	£19.2m	£16.4m		£19.2m	£16.4m
Net R&D investment[2]	£11.8m	£16.4m		£11.8m	£16.4m
Operating margin %	22.2%	30.4%		20.8%	29.0%
Profit before tax	£24.6m	£41.1m		£23.1m	£40.1m
Diluted earnings per share	26.4p	43.2p		24.4p	41.6p
Net cash[3] at period end	£47.0m	£53.5m		£47.0m	£53.5m
Dividend per share	9.0p	8.0p		9.0p	8.0p

[1] Excluding the impact of restructuring costs, share-based payment charges, exchange differences relating to the Swedish operations, gains/losses on derivative financial instruments, research and development expenditure credits and (for 2013) £3.0 million of revenue which related to the settlement of under-reported licensee royalties for the period 2006 to 2012
[2] Gross R&D investment relates to R&D expenditure before the capitalisation of development costs. Net R&D investment relates to R&D expenditure after the capitalisation of development costs, as recognised in the income statement
[3] Net cash includes cash, cash equivalents and treasury deposits

Financial highlights

- As previously reported, sales into the Group's largest end application, ceramic tiles, suffered a step-down in demand in the second half of the year due to the slowing property and construction markets in China
- Total annual Group adjusted revenue reduced by 19% in 2014 following the exceptional growth into ceramics experienced in 2013
- Strong profitability was achieved in 2014 despite the lower level of sales; gross margin of 44.5% and adjusted operating margin of 22.2%
- Gross R&D investment (before capitalisation of development costs relating to the Thin Film programme) increased by 17% to £19.2 million in 2014
- Strong balance sheet maintained with net cash of £47.0 million
- Full year dividend up 12.5% reflecting the introduction of a sustainable and progressive dividend policy in June 2014
- To protect Xaar's financial performance in 2015, cost cutting measures were swiftly implemented in the final quarter of 2014, with 160 roles removed (20% of global headcount) and a reduction in the Group's total annual cost base of £9 million

Operational highlights

- New products announced to maintain clear leadership in ceramic tile decoration, extend inkjet into other tile manufacturing processes and increase sales in other applications
- Growth in applications outside of ceramics slower than planned, but future progress is expected as our partners continue to develop solutions with our technology
- Encouraging pre-production activities continue within the 'Direct-to-Shape' application
- Manufacturing capacity expansion programme in Huntingdon, UK completed in the year, below budget, and provides a platform to exploit growth opportunities with current products
- Substantial progress on our Thin Film piezo technology development (P4); manufacturing partner selected, architecture of the first product defined and early product demonstrations with potential OEM partners planned for H1 2015
- Swedish manufacturing plant proposed to close in 2016; sales volumes of products manufactured there no longer justify the cost of a standalone operation

Doug Edwards, Chief Executive, commented:

"Whilst 2014 has been a difficult year for the Company, I would like to thank all of our staff for their efforts during the period, and would reflect that despite the short term reduction in revenue our ambitions are undiminished; Xaar has great people, products and technology, remains strongly profitable, retains a robust balance sheet and has substantial growth opportunities ahead.

For 2015 we anticipate a year of stabilisation as we build the foundations for a return to growth in 2016. Our current expectations for 2015 revenue are around £90 million, which is broadly in line with the sales run rate experienced in the second half of 2014. I am delighted to have joined Xaar at this critical point in the Company's history."

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19 March 2015

Chairman's Statement

I report on a year of some significant challenges for the Company following our exceptional results for 2013. Despite anticipating a relatively flat year in terms of revenues we were unable to achieve the targets that we had set ourselves. For the first half of the year results were as expected, however, we did not foresee the significant step down in orders during the second half of 2014.

Following very strong growth from the ceramics decoration market over the last four years, our reliance on this segment was highlighted by the 2014 slow-down in the Chinese property and construction industries (approaching half of the world's ceramic tiles are manufactured and sold in China). This is a volatile market, serviced by a small number of OEMs, that has proved extremely difficult to predict and consequently forward visibility continues to be limited.

We have managed to retain global market leadership in this competitive market segment. Nevertheless competitor activity brought pricing pressure that inevitably affected margins. Slower than expected progress in the development of other applications heightened the impact of our exposure to the slow-down in the ceramics market.

Once it became clear that the demand would not recover quickly, we took decisive action to match our costs, and reduce our output, in line with projected revenue. Unfortunately this resulted in 160 redundancies which equated to 20% of the global work force. All of the cost saving measures were implemented prior to the end of 2014.

We remain cautious about the short term and believe we have restructured appropriately to achieve reasonable profitability, through reduced manufacturing and operating costs, even at the current lower level of business. The increases in our manufacturing capacity over the last few years provide us with the infrastructure to accommodate future growth. However this capacity will be under-utilised in the short term with a corresponding negative effect on operating margins.

Despite the workforce reduction we have been careful to maintain our recently expanded R&D capability so that our longer term product development strategy is unaffected. In this regard, progress on our future Platform 4 (P4) technology continues to meet the milestones as planned. Gross R&D spend represented 18% of revenue in 2014, and is expected to represent around 20% of revenue in 2015, underlining our commitment to maximise the potential of the Company via technology and product development.

Total revenue for the year was down 19% versus the exceptional results of 2013, but sales were 26% higher than 2012. In 2014 sales into Asia fell heavily (by 29%) due to the reasons already stated, with Europe affected but to a lesser extent (11%). European ceramic OEM partners tend to have more regionally diverse businesses, although China is also a significant market for them.

We continue to deploy our disruptive technology into other markets, and generating material revenues from a wider and more balanced set of markets remains a key objective of the Company. I look forward to reporting on our progress against this objective in the future.

Whilst the downturn in the second half of the year is clearly disappointing, the Company still achieved an adjusted operating margin of 22% for 2014, and generated adjusted diluted earnings per share of 26.4 pence. The Company continues to manage its cash resources prudently, with net cash (cash, cash equivalents and treasury deposits) at the end of the year of £47.0 million.

As announced in 2014 the Company has formally implemented a progressive and sustainable dividend policy, and I am pleased to confirm that the Board is recommending a final dividend of 6 pence per share. This together with the 3 pence interim dividend paid during the year equals 9 pence for the full year, a 12.5% increase over 2013 (2013: 8 pence).

In March 2014 our long serving CEO Ian Dinwoodie announced his decision to retire in 2015 and we began an international search for his successor. That search was successful and Dr. Doug Edwards joined us at the beginning of January 2015. Doug joined Xaar from Kodak (Eastman Kodak Company) where most recently he was President, Digital Printing and Enterprise and has been a member of the Executive Board since 2006.

On behalf of the Board I want to thank Ian for his tireless devotion to Xaar over his 14 years with the Company including 12 years as CEO. His leadership has helped transform the Company to its current market leading position.

Additionally, as noted in February 2015, David Cheesman, one of our non-executive directors, has indicated his intention to retire from the Board, and he has therefore decided not to stand for re-election at the Company AGM on 13 May 2015. A search is underway for David's replacement. I would like to thank David for his contribution over the last four years.

Finally, on 2 March 2015 Jim Brault joined the Xaar Board in the role of Chief Human Resources Officer. Jim joined Xaar from Kodak (Eastman Kodak Company) and has held a variety of global HR roles in the graphics and digital print industry. I am pleased to welcome Jim to the Board, who brings a wealth of invaluable experience to Xaar in this new Board position.

2014 has been a challenging period for the Company but our ambition remains undiminished. We are focussed on re-starting growth following this sharp step down in the Chinese market. The importance of diversification by market, product and geography has been underlined by the events of 2014.

Phil Lawler
Chairman
19 March 2015

Chief Executive's Statement

Following four years of substantial progress, including an exceptional year of growth and profitability in 2013, the Company experienced a step down in demand in the third quarter of 2014 which led to a disappointing final six months of the year, with second half revenues being 19% lower than those recorded in the first half. This step change occurred in our largest application, ceramic tile decoration, and in the largest geographic market for this application, China, which produces almost half of the world's ceramic tiles. A significant slowdown in construction activity in China has led directly to reduced capital investments in ceramic tile production plants compared to 2013 and hence a significantly lower level of demand for Xaar's products. The scale of the conversion opportunity over the long term remains unchanged as does Xaar's strong market share. European based demand in this application has fared better.

The events in China, coupled with slower progress than anticipated in other applications, have resulted in a full year result below where we expected it to be at the start of the year. In the short term we have quickly cut costs to bring our cost base in line with the new lower level of sales, whilst protecting our key investments in both product and technology development which are focussed on generating substantial future growth primarily through market and application diversification. Following a period of substantial growth that has seen revenue more than treble between 2009 and 2013, the performance in 2014 is clearly disappointing, but we believe should be seen as a step change correction against an overshoot in 2013.

Strategy
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. OEMs are mostly market specific which means we work with a number of OEM customers in developing their inkjet solutions for a discrete market.

Our substantial investments, in both manufacturing capacity and R&D capacity, position the Company well to execute its strategic objectives and these remain unaffected by this downturn in demand. In fact the events of 2014 highlight the need for Xaar to become a more diverse business, by product, by application, and by geography. To achieve this objective the Company continues to invest in technology and product development.

Market segments
Revenues from Industrial applications fell 21% versus 2013, packaging and graphics applications each fell 15%. Within Industrial applications, the ceramic tile business fell due to the reasons noted above with non-ceramic industrial applications registering a modest 3% growth over 2013.

Within the Packaging market, sales into the primary label application were lower than 2013 as a number of OEM customers took the opportunity to re-engineer and enhance their offerings in an attempt to accelerate market conversion. The resulting improvements in image quality bode well for a return to growth for Xaar in this application. Our mature coding and marking application revenues were again stable. Further technical progress was made in the 'Direct-to-Shape' application with positive feedback being received from the on-going field trials.

In the Graphics segment, sales declined mainly due to the planned end-of-life of some older generation products. The Company is proposing to close its Swedish manufacturing facility in 2016 as the lower sales volumes of products which are manufactured in this plant no longer justify the cost of a standalone operation.

Product and technology development
During 2014 the Xaar 1002 was very successfully introduced and has fully replaced the Xaar 1001 as the world's market-leading printhead in a number of applications. The Xaar 1002 is now shipping in four variants: GS6, GS12, GS40, and AMp, offering industry-leading performance based on TF Technology™ across a drop size range from below 1pL to above 100pL.

Our gigabit ethernet based electronics sub-system, XPM, commenced shipments in 2014, and has been well received by customers, offering substantially faster data transfer rates and larger memory capability for very large image applications.

Following field trials in 2014 of the Xaar 501 we identified technical improvement opportunities to optimise the performance of the printhead. We are engineering those improvements now in order to finalise the product design and move to commercial shipments.

The Xaar 001 (which is based on third party technology brought into Xaar during 2013 and 2014), has proven to be less developed than originally anticipated, hence an extended period of debugging and optimisation has been required before the scheduled market test of this technology can progress.

Work on the Xaar 1002 SBX is on-going within Xaar, and at our partners, to develop both the printhead and the ink system parameters required for reliable printing and low printer maintenance.

All of these products are aimed at broadening our offering to existing markets.

Further substantial progress has been achieved on our Thin Film technology development (P4) during the year, and we are now entering the phase of early product demonstrations with potential partners. The architecture of the first product, the Xaar 5400 is now defined. We anticipate starting to sample this first product to partners at the end of 2015 with first commercial revenues still 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.

Whilst 2014 has been a difficult year for the Company, I would like to thank all of our staff for their efforts during the period, and would reflect that despite the short term reduction in revenue our ambitions remain undiminished; Xaar has great people, products and technology, remains strongly profitable, retains a robust balance sheet and has substantial growth opportunities ahead.

Doug Edwards
Chief Executive
19 March 2015

Financial performance in 2014

Revenue

The majority of Xaar's revenue is generated by product sales, commissions and fees (£102.8 million or 94% of total sales in 2014), with 6% of revenue in 2014 derived from licensee royalty income. Following the exceptional 55% annual sales growth achieved in 2013, revenue for 2014 reduced by 19% to £109.2 million (2013: £134.1m). A step-down in demand from the ceramics sector in the third quarter of the year resulted in a 19% reduction in total Group sales in the second half of 2014 compared to the first six months of the year.

Industrial markets (i.e. associated with the production of physical end products) continue to be the largest end application for Xaar's technology, despite the step-down in demand from the ceramics sector. Sales into industrial markets represented 71% of Group revenue in 2014 at £78.0 million (2013: £98.2 million).

The conversion of ceramic tile decoration from analogue to digital processes continued in the first half of 2014 at rates similar to those experienced in 2013. Equipment sales for OEMs, and therefore sales of Xaar's printheads, continued to be driven by China, which remains the world's largest market for the production and consumption of ceramic tiles. The slow-down in the property market in China during 2014 resulted in a reduction in demand for ceramic tiles, which in turn resulted in lower levels of tile production and decreases in capital investment by ceramic tile manufacturers, including investment in digital decoration equipment. This slow-down in tile demand in China resulted in a step-down in demand for Xaar's printheads during the third quarter of the year. Sales rates into ceramics stabilised in the final quarter of 2014.

Despite increasing competition in ceramic tile decoration from well-established competitors, including some of Xaar's licensees, the Group's market leadership was maintained in 2014. In March 2014 we launched the Xaar 1002, a re-design of the world-beating Xaar 1001 product, which provides benefits to OEMs and end users in terms of image quality and ease of use. In May 2014 three new printheads were announced to target applications beyond the current digital decoration process, including digital secondary glaze and special effects, and digital deposition for base glaze and structure.

Ceramics accounted for 95% of sales in the Industrial sector in 2014. Progress in other industrial applications, including advanced manufacturing and decorative laminates (artificial wood), continues to be encouraging, with annual growth of 3% being recorded in 2014 for these other applications in total.

Sales into the packaging market accounted for 12% of revenue in 2014 at £13.4 million (2013: £15.7 million). The well-established coding and marking application, serviced by Xaar's original product portfolio, represented around 60% of sales in the total packaging segment. Other packaging applications, including primary labels and 'Direct-to-Shape', continue to show potential, but their overall revenue contribution reduced in 2014 from 2013.

Sales into Xaar's initial end market application, Graphic Arts, reduced to £11.4 million for the year (2013: £13.3 million), representing 10% of total sales. The reduction year on year reflected the planned end-of-life of some older generation products, and the slower than planned contribution from the Xaar 501 product.

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 2014, Europe, Middle East and Africa (EMEA) remained the Company's largest sales region at £60.1 million (2013: £67.5 million), representing 55% of Group sales. The reduction in year on year revenue is mainly the result of falling European OEM sales into the Chinese ceramic market. We continue to see European OEMs innovate with digital inkjet technology in a wide range of applications.

The slow-down of the conversion in the Chinese ceramic tile market resulted in a significant reduction in Xaar's annual sales into Asia in 2014. Sales into Asia reduced 29% to £42.6 million (2013: £59.8 million) representing 39% of total revenues.

Total sales to the Americas remained the lowest sector, driven by the low number and size of Xaar's OEMs in that region. Sales in 2014 were £6.5 million (2013: £6.8 million).

Profitability
The sales contraction from the ceramics sector in the second half of 2014 had a significant impact on Group profitability. Xaar's operating costs are largely independent of sales levels and manufacturing is relatively capital intensive. These two factors resulted in reductions in gross margin and operating margin as sales decreased. Adjusted gross margin reduced from 47.2% in the first half of the year to 41.2% in the second half. Adjusted operating margin decreased from 26.1% to 17.3% in the same time period.

During the final quarter of 2014 the Group took swift action to reduce costs in anticipation of total Group revenue for 2015 being below £100 million. Direct production costs, factory overheads and operating costs were all reduced in order to achieve a reasonable level of financial performance in 2015, whilst ensuring that Xaar can fulfil its key strategic objectives. The cost reduction programme included a reduction in headcount of 160 (20% of the global workforce of 800). The programme achieved a total reduction in annual cost base of around £9 million. Headcount related restructuring costs of £0.9 million were incurred.

The proposed closure of the Swedish manufacturing facility in 2016 is the result of 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 £5 million, with half of this cost being non-cash charges related to tangible assets and goodwill.

Gross profit margin for 2014 reduced to 44.5% (2013: 52.9%). Adjusted operating margin fell to 22.2% (2013: 30.4%). As reported in March 2014, the margins recorded in 2013 were exceptional, reflecting the rapid growth of sales in 2013 and unsustainably high asset utilisation.

Adjusted profit before tax of £24.6 million was recorded for 2014, following the exceptional performance of the previous year (2013: £41.1 million). Profit before tax as reported under IFRS was £23.1 million (2013: £40.1 million). In 2014 the main reconciling item between the adjusted and IFRS measures was £0.9 million of restructuring charges related to the headcount reduction in the final quarter of the year.

Gross expenditure on research and development increased from £16.4 million in 2013 to £19.2 million in 2014, reflecting investment in headcount, facilities and engineering costs. Development expenditure on the Thin Film programme of £7.4 million was capitalised in 2014 as required under International Financial Reporting Standards (specifically IAS 38). Sales, marketing and general administrative costs reduced from £13.9 million in 2013 to £12.6 million in 2014 on an adjusted basis.

The tax charge on adjusted profit before tax was £4.4 million (2013: £8.0 million), representing an effective tax rate of 17.8% (2013: 19.5%). This tax charge is the product of the UK and Sweden corporation tax rates (21.5% 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 £4.4 million (2013: £8.2 million) representing an effective tax rate of 19.1% (2013: 20.5%).

Adjusted profit after tax for 2014 was £20.2 million (2013: £33.1 million).

Adjusted diluted earnings per share was 26.4 pence in 2014 (2013: 43.2 pence).

Financial position
The Group maintains a strong balance sheet, with £47.0 million of cash and treasury deposits at 31 December 2014. Net cash reduced by £6.5 million in 2014, as outflows from capital expenditures, an increase in working capital and dividend and tax payments exceeded cash inflows from operating profits. The operating cash inflow, before working capital movements, was £33.3 million. The cash impact of the increase in working capital represented a cash outflow of £9.3 million during 2014, with inventory increasing £4.7 million, receivables decreasing £2.0 million and payables reducing £6.6 million (excluding the impact of asset related items). Total cash outflow relating to intangible and tangible assets was £20.1 million in the year, including the £7.4 million of capitalised development expenditure. Dividends accounted for £6.4 million and tax payments in the year totalled £5.6 million.

Dividend

The Board will recommend a final dividend of 6 pence for 2014 at the forthcoming Annual General Meeting (AGM), giving a total dividend for the year of 9 pence (2013: 8 pence). An interim dividend of 3 pence was paid during the year (2013: 2.5 pence). Subject to approval by shareholders at the AGM the final dividend will be paid on 19 June 2015, with an ex-dividend date of 21 May 2015, to shareholders on the register at close of business on 22 May 2015.

Alex Bevis
Finance Director
19 March 2015

19 March 2015

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
Revenue		**109,150**	137,128
Cost of sales		**(60,548)**	(63,114)
Gross profit		**48,602**	74,014
Research and development expenses		**(11,797)**	(16,389)
Research and development expenditure credit		**234**	586
Sales and marketing expenses		**(5,551)**	(6,114)
General and administrative expenses		**(7,900)**	(12,398)
Restructuring costs		**(872)**	-
Operating profit		**22,716**	39,699
Investment income		**394**	443
Finance costs		**-**	(55)
Profit before tax		**23,110**	40,087
Tax		**(4,418)**	(8,226)
Profit for the year attributable to shareholders		**18,692**	31,861
Earnings per share			
Basic	3	**25.0p**	43.3p
Diluted	3	**24.4p**	41.6p

Dividends paid in the year amounted to £6,377,000 (2013: £4,059,000).
All activities relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 £'000	2013 £'000
Profit for the year attributable to shareholders	**18,692**	31,861
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on retranslation of net investment	**(224)**	(7)
Tax benefit on share option gains	**855**	1,379
Other comprehensive income for the year	**631**	1,372
Total comprehensive income for the year	**19,323**	33,233

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	2014	2013
	£'000	£'000
Non-current assets		
Goodwill	**720**	720
Other intangible assets	**10,077**	3,387
Property, plant and equipment	**38,539**	38,452
Investments	**1,000**	1,000
Deferred tax asset	**-**	4,308
	50,336	47,867
Current assets		
Inventories	**19,795**	15,285
Trade and other receivables	**13,452**	15,441
Current tax asset	**2,909**	782
Treasury deposits	**21,000**	22,000
Cash and cash equivalents	**25,963**	31,485
Derivative financial instruments	**-**	6
	83,119	84,999
Total assets	**133,455**	132,866
Current liabilities		
Trade and other payables	**(9,888)**	(19,225)
Other financial liabilities	**(57)**	(57)
Current tax liabilities	**-**	(1,848)
Provisions	**(425)**	(1,074)
	(10,370)	(22,204)
Net current assets	**72,749**	62,795
Non-current liabilities		
Deferred tax liabilities	**(617)**	(328)
Other financial liabilities	**(308)**	(292)
Total non-current liabilities	**(925)**	(620)
Total liabilities	**(11,295)**	(22,824)
Net assets	**122,160**	110,042
Equity		
Share capital	**7,664**	7,589
Share premium	**26,345**	25,484
Own shares	**(3,796)**	(4,066)
Other reserves	**9,716**	8,610
Translation reserve	**126**	350
Retained earnings	**82,105**	72,075
Equity attributable to shareholders	**122,160**	110,042
Total equity	**122,160**	110,042

19 March 2015

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
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 net investment	-	-	-	-	(7)	-	(7)
Tax benefit on share options gains	-	-	-	-	-	1,379	1,379
Total comprehensive income for the period	-	-	-	-	(7)	33,240	33,233
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	-	-	-	-	-	3,374	3,374
Credit to equity for equity-settled share-based payments	-	-	-	2,103	-	-	2,103
Balance at 1 January 2014	**7,589**	**25,484**	**(4,066)**	**8,610**	**350**	**72,075**	**110,042**
Profit for the year	-	-	-	-	-	18,692	18,692
Exchange differences on retranslation of net investment	-	-	-	-	(224)	-	(224)
Tax benefit on share options gains	-	-	-	-	-	855	855
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(224)**	**19,547**	**19,323**
Issue of share capital	75	861	-	-	-	(28)	908
Own shares sold in the period	-	-	270	-	-	(9)	261
Dividends	-	-	-	-	-	(6,377)	(6,377)
Tax on share option gains	-	-	-	-	-	(3,103)	(3,103)
Credit to equity for equity-settled share-based payments	-	-	-	1,106	-	-	1,106
Balance at 31 December 2014	**7,664**	**26,345**	**(3,796)**	**9,716**	**126**	**82,105**	**122,160**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	**2014** **£'000**	2013 £'000
Net cash from operating activities	4	**18,397**	45,093
Investing activities			
Investment income		**427**	278
Acquisition of investment bonds		**-**	(1,000)
Purchases of property, plant and equipment		**(12,483)**	(16,713)
Proceeds on disposal of property, plant and equipment		**2**	42
Expenditure on software		**(217)**	(245)
Expenditure on capitalised product development		**(7,357)**	-
Net cash used in investing activities		**(19,628)**	(17,638)
Financing activities			
Dividends paid		**(6,377)**	(4,059)
Treasury deposits		**1,000**	(18,000)
Proceeds from the sale of ordinary share capital		**261**	125
Proceeds from issue of ordinary share capital		**908**	1,147
Finance costs		**-**	(55)
Repayments of borrowings		**-**	(594)
Net cash used in financing activities		**(4,208)**	(21,436)
Net (decrease)/increase in cash and cash equivalents		**(5,439)**	6,019
Effect of foreign exchange rate changes on cash balances		**(83)**	20
Cash and cash equivalents at beginning of year		**31,485**	25,446
Cash and cash equivalents at end of year		**25,963**	31,485

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 2014

1. Basis of preparation

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2013 or 2014, but is derived from those accounts. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 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 2015.

2. Reconciliation of adjusted financial measures

	2014	2013
	£'000	£'000
Revenue	**109,150**	137,128
Non-recurring royalty income	**-**	(2,994)
Adjusted revenue	**109,150**	134,134
Profit before tax	**23,110**	40,087
Share-based payment charges	**242**	4,204
Exchange differences relating to the Swedish operations	**614**	416
Loss/(gain) on derivative financial instruments	**6**	(9)
Restructuring costs	**872**	-
Non-recurring royalty income	**-**	(2,994)
Research and development expenditure credit	**(234)**	(586)
Adjusted profit before tax	**24,610**	41,118

Share-based payment charges include the IFRS 2 charge for the period of £1,106,000 (2013: £2,103,000) and the credit relating to National Insurance on the outstanding potential share option gains of £864,000 (2013: charge of £2,101,000).
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.
Loss/(gain) on derivative financial instruments relates to gains and losses made on forward contracts in 2013.
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.
Non-recurring royalty income in 2013 relates to the settlement of under-reported royalties payable by licensees for the period 2006 to 2012.

	2014 Pence per share	2013 Pence per share
Diluted earnings per share	**24.4**	41.6
Share-based payment charges	**0.3**	5.5
Exchange differences relating to the Swedish operations	**0.8**	0.5
Restructuring costs	**1.1**	-
Non-recurring royalty income	**-**	(3.9)
Tax effect of adjusting items	**(0.2)**	(0.5)
Adjusted diluted earnings per share	**26.4**	43.2

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

3. Earnings per ordinary share – basic and diluted

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

	2014 £'000	2013 £'000
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**18,692**	31,861
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**74,863,310**	73,652,808
Effect of dilutive potential ordinary shares:		
Share options	**1,629,537**	2,989,912
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**76,492,847**	76,642,720

	2014 Pence per share	2013 Pence per share
Basic	**25.0**	43.3
Diluted	**24.4**	41.6

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.

Share options granted over 688,038 shares (2013: nil) have not been included in the diluted earnings per share calculation because they are anti-dilutive at the period end.

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 restructuring costs, impairment of trade investments and share based payments is based on earnings of:

	2014 £'000	2013 £'000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**18,692**	31,861
Share-based payment charges	**242**	4,204
Exchange differences relating to the Swedish operations	**614**	416
Loss/(gain) on derivative financial instruments	**6**	(9)
Restructuring costs	**872**	-
Non-recurring royalty income	**-**	(2,994)
Tax effect of adjusting items	**(197)**	(376)
Adjusted profit after tax	**20,229**	33,102

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

Earnings per share excluding restructuring costs, impairment of trade investments and share based payments:

	2014 Pence per share	2013 Pence per share
Adjusted basic	**27.0**	44.9
Adjusted diluted	**26.4**	43.2

The adjusted EPS information is considered to provide a fairer representation of the Group's trading performance year on year.

4. Notes to the cash flow statement

	2014 £'000	2013 £'000
Profit before tax	**23,110**	40,087
Adjustments for:		
Share-based payments	**242**	4,204
Depreciation of property, plant and equipment	**9,836**	7,410
Amortisation of intangible assets	**885**	889
Research and development expenditure credit	**(234)**	(586)
Investment income	**(394)**	(443)
Finance costs	**-**	55
Foreign exchange losses/(gains)	**331**	(26)
Losses/(gains) on forward contracts	**6**	(9)
Loss on disposal of property, plant and equipment	**189**	250
Decrease in provisions	**(650)**	(555)
Operating cash flows before movements in working capital	**33,321**	51,276
Increase in inventories	**(4,725)**	(2,121)
Decrease/(increase) in receivables	**2,002**	(2,945)
(Decrease)/increase in payables	**(6,556)**	4,091
Cash generated by operations	**24,042**	50,301
Income taxes paid	**(5,645)**	(5,208)
Net cash from operating activities	**18,397**	45,093

5. 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.