16 March 2016

# Xaar plc
# 2015 FULL YEAR RESULTS, 2020 VISION

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 2015.

**Summary of results for the year to 31 December 2015**

| | Adjusted[1] | | | IFRS | |
|---|---|---|---|---|---|
| | 2015 | 2014 | | 2015 | 2014 |
| Revenue | £93.5m | £109.2m | | £93.5m | £109.2m |
| Gross Profit | £44.7m | £48.6m | | £44.7m | £48.6m |
| Gross Margin % | 47.8% | 44.5% | | 47.8% | 44.5% |
| Gross R&D investment[2] | £19.9m | £19.2m | | £19.9m | £19.2m |
| Net R&D investment[2] | £11.5m | £11.8m | | £11.5m | £11.8m |
| Operating Margin % | 21.8% | 22.2% | | 14.1% | 20.8% |
| Profit before tax | £20.8m | £24.6m | | £13.6m | £23.1m |
| Diluted Earnings per share | 24.5p | 26.4p | | 16.1p | 24.4p |
| Net Cash[3] at Period end | £69.7m | £47.0m | | £69.7m | £47.0m |
| Dividend per share | 9.45p | 9.0p | | 9.45p | 9.0p |

[1] Excluding the impact of restructuring costs, share-based payment charges, exchange differences relating to the Swedish operations, gains/losses on derivative financial instruments, and research and development expenditure credits, from the operating margin, profit before tax and diluted earnings per share figures. Operating margin % is calculated on operating profit, which is profit before tax less investment income
[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

- Revenue in 2015 performed in line with expectations, with sales growth in Packaging partially offsetting the anticipated reduction from sales into the ceramic tile market
- Strong profitability was achieved in 2015 despite the lower level of sales; gross margin improved to 47.8% (2014: 44.5%) and adjusted operating margin was maintained at 22%
- Gross research and development (R&D) investment (before capitalisation of development costs relating to the Thin Film programme) increased by 4% to £19.9 million in 2015 (2014: £19.2 million)
- Net cash increased by almost £23 million to £69.7 million (2014: £47.0 million)

## Operational and strategic highlights

- We have undertaken a strategic review and completed a number of organisational changes to support the achievement of our new vision: to grow annual revenue to £220 million by 2020
- We will achieve this vision by:
  - capitalising on organic growth opportunities
  - continuing to invest in product development
  - building partnerships; and
  - pursuing carefully selected acquisitions.
- R&D programmes delivered on schedule with a number of products launched or announced in 2015 and a strong pipeline for 2016 and beyond
- The Xaar Print Bar System launched in September 2015 is proving popular, with deliveries against the first customer orders expected in the next few months
- The Thin Film (P4) programme progresses to plan and the Xaar 5601 will launch at drupa, the world's leading trade show for graphic and industrial print, in June 2016

Doug Edwards, Chief Executive Officer, commented:

"I have enjoyed my first year at Xaar and I would like to thank all of our staff for their efforts during 2015. We stabilised our financial performance and I am encouraged by the progress we have made to evolve our strategy, create a market and customer focussed culture, and establish our Xaar values of trust, collaboration and drive. Looking ahead, our market leadership and expanding product portfolio position us well for growth, but based on limited visibility, particularly around China, the Board is currently budgeting for 2016 revenue to be broadly similar to 2015.

I am convinced that our long term potential is enormous, but we will only achieve our goals if we truly understand our markets and our customers, keep our commitment to developing world class products and complement our organic growth with partnerships and carefully selected acquisitions.

After 25 years of success in a number of segments, we look forward to the continued progression of our business towards achieving our 2020 vision."

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**Chairman's Report**

For our 25th anniversary year I am pleased to report that Xaar has undergone some important and progressive changes over the past twelve months, helping to deliver a period of financial stability following the challenges of 2014. Our largest market today, ceramic tiles, returned to more consistent and predictable sales levels in 2015 following the ups and downs of 2013 and 2014. This was complemented by strong growth in Packaging and a solid performance across our other applications.

Our new CEO Doug Edwards, who joined in January 2015, has implemented some important changes to our strategy, our culture and our outlook. We are more focussed externally than ever before; understanding our markets, customers and partners is key to achieving our newly established aspirational vision of growing to £220 million of annual sales by 2020. Our intensified external outlook applies to new technology and new products too; we will carefully partner and acquire to complement our own world class product development, to achieve success in leading the digital inkjet revolution.

We started 2015 following a difficult period in the second half of 2014 that saw our sales of printheads into ceramic tile manufacturing reduce substantially as growth rates in the Chinese property market slowed. However, our sales into ceramic tiles in 2015 performed in line with our expectations, with improved consistency in monthly sales volumes during the period. The performance in ceramics, when combined with strong growth in the packaging segment and expected performance in other applications, resulted in total revenue for the year of £93.5 million (2014: £109.2 million). Having taken decisive cost reduction action in the fourth quarter of 2014, the financial performance in 2015 was encouraging, with an adjusted operating profit margin of 22%, consistent with overall performance in 2014.

Under Doug's leadership, we have critically reviewed and updated our strategy, and subsequently made a number of important organisational and cultural changes. Our long term opportunities remain substantial and our reinforced external focus, including active pursuit of partnerships and acquisitions, will help us achieve our goals. Our balance sheet remains strong and will help us to exploit inorganic growth opportunities, as we continue to invest in world class products and capitalise on organic growth opportunities. I am particularly excited by our progress in 2015 and our near term product pipeline, including our transformational Thin Film printhead technology (P4) which we'll be demonstrating at drupa in June 2016.

I would like to thank our employees for their hard work and dedication through 2015. There have obviously been some important change across the business, and the support of people getting behind those changes is much appreciated. As previously announced we will be closing our Sweden plant in 2016 following almost 20 years of service as part of Xaar. I would personally like to thank our Swedish colleagues for their dedication and hard work over the entire period.

2015 has been an encouraging year for Xaar, characterised by both stability and by change. Our ambition remains undiminished. Indeed, our renewed external focus, vision and strategy has increased our long term aspirations. We are focussed on executing our strategy to capitalise on the substantial long-term potential. We will continue to invest in R&D and capitalise on organic growth potential while identifying partnership and acquisition opportunities. This will all contribute towards growing Xaar and improving our diversification by market, product and geography. We have a very strong team in place and I thank them all for their continuing efforts.

In addition to our CEO change there have been a number of Board changes in 2015 and 2016.

- On 2 March 2015 Jim Brault joined the Board in the role of Chief Human Resources Officer. Following a review of the Board structure, Jim has stepped down from the Board on 16 March 2016. He will continue in his role as Chief Human Resources Officer.

- On 27 April 2015 Edmund Creutzmann, Chief Technology Officer, resigned from the Board.

- On 13 May 2015 David Cheesman, Non-Executive Director, retired from the Board at the Company AGM.

- On 1 August 2015 Margaret Rice-Jones joined the Board as a Non-Executive Director and Chair of the Remuneration Committee, to replace David Cheesman.

- On 11 December 2015 Richard Barham, Chief Customer Officer, resigned from the Board.

- On 4 January 2016 Chris Morgan joined the Board as a Non-Executive Director.

Finally 2016 will mean that I have completed three terms of three years as Chairman of the Board and in accordance with the Combined Code, will step down at the end of September this year. It has been a privilege to serve in this capacity for one of the leading companies in such a dynamic segment of the global printing industry. During this period at Xaar we have seen many advances, some notable success and some challenges that we have overcome. I remain as excited by the potential as the day I joined.

On that topic I am pleased to confirm that Robin Williams will succeed me as Chairman from 1 October 2016. Robin has acted as the Senior Independent Director since May 2011 and has been chairman of the Audit Committee since 2010 when he joined the Board. Robin is not only very familiar with the Company but has substantial and relevant external experience that will ensure continued appropriate stewardship of the Board and maintenance of Xaar's high standards of corporate governance. I congratulate Robin and wish him every success in his new role. The Company intends to recruit a new independent Non-Executive Director during 2016 in order to achieve the minimum best practice Board structure of having an equal balance of Executive and independent Non-Executive Directors (excluding the Chairman).  The anticipated Board structure will therefore be three Executive Directors, three independent Non-Executive Directors and a Chairman.

**Phil Lawler**
**Chairman**
**16 March 2016**

**Chief Executive Officer's Report**

Having joined Xaar in January 2015, I believe we have made good progress in the last 12 months in our transition from an internally focussed product company, to an externally focussed market led business. I am convinced of Xaar's significant long term potential, but to capitalise on that potential we need to continue to improve our understanding of our markets and our customers, pursue strategic partnerships and carefully identify acquisition opportunities.

Our overall business performance in 2015 was solid following a difficult 2014. Sales for the year by segment were broadly in-line with our expectations going into the year. This combined with the cost savings made in 2014 and careful yield and cost management during the period, resulted in a good financial performance for 2015, with adjusted operating margin being maintained at 22%. Further detail is provided in the Chief Financial Officer's report.

**Strategy**

We thoroughly reviewed our strategy in 2015. Our long term opportunity remains unchanged; the conversion of well-established analogue manufacturing techniques to digital inkjet solutions. Our mission also remains the same; Leading the Digital Inkjet Revolution.

The change to our renewed strategy primarily relates to three elements:

1. transition from an internally focussed product company to a market and customer focussed business,
2. expand our offering beyond the printhead in certain applications, and
3. access new products and new technology through partnership and acquisition.

To support our strategy we have made a number of organisational changes, including some significant internal cultural and communication changes. With these changes made, we can achieve the vision we have set this year to grow annual revenue to £220 million by 2020. The substantial investment in our manufacturing capacity, our commitment to R&D, our product roadmap, our excellent people and our strong cash balance, position the Company well to execute its strategic objectives. After 25 years of success we look forward to achieving our vision over the next five years, and the successful long-term future of Xaar.

Our approach to unlocking new opportunities is to drive the development of inkjet technology into selected multiple applications and industries, delivering sustainable profitable growth. We aim to be 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 driven 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 inkjet solutions for a discrete market.

**Market segments**

**Industrial**

The Industrial segment, which is dominated by sales into ceramic tile manufacturing, remained our largest segment with 66% of total revenue for the year (2014: 71%). Sales into ceramics remained stable during 2015, but caused overall Industrial revenue to decline 20% year on year, following the Chinese slowdown suffered in the second half of 2014. The ceramic tile market is expected to remain our largest sector in 2016, and we continue to see substantial opportunity in the next few years from the conversion to digital inkjet of production lines which have not yet switched. We are excited about the progress of the Xaar 1002 GS40 in the polished tile market, and our new products planned for launch in 2016 will reinforce our market leadership position. Outside of ceramics, in other industrial applications, sales remain modest but great potential exists within areas like decorative laminates, industrial direct-to-shape printing and advanced manufacturing.

**Packaging**
Sales into the Packaging segment increased by 16% in 2015 and represented 17% of revenue (2014: 12%), with all application areas achieving growth. Coding and marking remains an important market for us, and in December we announced a new family of printheads to service this sector. Sales into digital label printing were encouraging, with sales growth of over 30% year on year as our partners made further improvements to their offerings.

In the third sub-segment of packaging, direct-to-shape printing, the potential for supply chain waste reduction and improved time-to-market for bottles, cans, tins and other primary packaging is substantial. Our partners' developments continue to progress, with commercial products on sale during 2015, but total revenue remained modest.

**Graphics**
Revenues into the Graphics segment declined as expected as the result of end-of-life processes on certain mature products. New products are planned for launch in 2016.

**Product and technology development**
Xaar has a long standing commitment to R&D and product development, and this was maintained through 2015 with over 20% of revenue invested.

2015 was a busy year for our product development and delivery teams.

In April 2015 we launched the Xaar 1002 GS12U printhead, which provides market leading quality and functionality for UV applications such as high-build spot varnishes and extra-opaque whites onto labels and direct-to-shape packaging. This product is already providing significant advantages to our OEM partners and end customers.

In September 2015 we announced the Xaar Print Bar System, a new product which incorporates the Xaar 1002 family of high-precision industrial printheads into a standalone printing system, adding single-pass inkjet capability to analogue web and sheet-fed presses. The Xaar Print Bar System is versatile, easy to configure and ideal for personalised, variable data, special effects and short-run printing for a range of applications, including labels and packaging. The Xaar Print Bar System is proving popular, with deliveries against the first customer orders expected in the next few months.

In December 2015 we announced a new family of printheads for coding and marking applications. The new family of printheads, the first of which is to be available in late 2016, will be the ideal width for high-resolution coding and marking applications such as printing barcodes, best before dates and other product identification codes onto a range of packaging.

We have an exciting range of bulk piezo product launches planned for 2016.

Our Thin Film programme progressed to plan in 2015, and we expect to be demonstrating our technology at drupa, the world's leading trade show for graphic and industrial print, from 31 May 2016 to 10 June 2016. This major programme aims to open up more of the analogue market to Xaar through a solution which offers a generational shift in performance.

In January 2016 we announced the appointment of Professor Neil Hopkinson to a new role as Director of 3D Printing. Professor Hopkinson is the original inventor of the transformational High Speed Sintering (HSS) technology, a revolutionary technology which uses inkjet printheads and infrared heaters to manufacture products layer by layer from polymer powder materials at much higher speeds than other additive manufacturing processes. Neil and the team will accelerate the success of Xaar's OEM partners in the exciting area of additive manufacturing.

**Summary and outlook**
I have enjoyed my first year at Xaar and I would like to thank all of our staff for their efforts during 2015. We stabilised our financial performance and I am encouraged by the progress we have made to evolve our strategy, create a market and customer focussed culture, and establish our Xaar values of trust, collaboration and drive. Looking ahead, our market leadership and expanding product portfolio position us well for growth, but based on limited visibility, particularly around China, the Board is currently budgeting for 2016 revenue to be broadly similar to 2015.

I am convinced that our long term potential is enormous, but we will only achieve our goals if we truly understand our markets and our customers, keep our commitment to developing world class products and complement our organic growth with partnerships and carefully selected acquisitions. After 25 years of success in a number of segments, we look forward to the continued progression of our business towards achieving our 2020 vision.

**Doug Edwards**
**Chief Executive Officer**
**16 March 2016**

## Chief Financial Officer's Report

### Revenue

The Group achieved total revenue for 2015 of £93.5 million (2014: £109.2 million) which is broadly in line with the annual run rate achieved in the second half of 2014. In the ceramic tile manufacturing sector, our biggest source of revenue, sales stabilised during 2015 following the step-down in demand experienced in the second half of 2014. Sales in other applications were consistent with the Board's expectations, with the notable highlight being a 16% growth in revenue into the Packaging segment.

The majority of Xaar's revenue is generated by product sales, commissions and fees (£87.3 million or 93% of total sales in 2015, £102.8 million or 94% of total sales in 2014), with 7% of revenue in 2015 (2014: 6%) derived from licensee royalty income.

Industrial sectors (associated with the production of physical end products) continue to be the largest end application for Xaar's technology, and represented 66% of Group revenue in 2015 at £62.2 million, down from 71% in 2014 (2014: £78.0 million).

In the ceramic tile decoration sector, the development and sale of printing equipment by our OEM partners continues to drive the conversion from analogue rotary systems to superior digital inkjet processes. Sales of new equipment by our OEM partners into China have been more consistent and stable following the step-down in demand experienced in 2014, which was driven by a slow-down in the Chinese property market. Our OEM partners are selling their innovative solutions globally, with South America, Africa, the Middle East and Southeast Asia all being target markets for further digital conversion. Meanwhile the secondary market for our OEMs, in terms of both new replacement equipment and the refurbishment of existing equipment, is becoming more meaningful.

Competition in the ceramic tile decoration printhead market comes from a handful of well-established companies, including some of Xaar's licensees. We continue to lead the market, with innovative solutions like the Xaar 1002 GS40 which is unlocking the conversion opportunity in the polished tile market. We have a number of exciting product launches planned for 2016 to maintain our strong position.

Ceramics accounted for well over 90% of sales in the Industrial sector in 2015. Total sales into other applications reduced slightly (by £0.3 million) versus 2014 but significant potential remains. The application areas include advanced manufacturing, decorative laminates (artificial wood), and product printing (industrial direct-to-shape).

Sales into the packaging market grew 16% in the year, and accounted for 17% of revenue in 2015 at £15.5 million (2014: 12%, £13.4 million). The well-established coding and marking sector, which is today serviced by Xaar's original product portfolio based on Platform 1 technology, continues to be an important application area for us, representing over half of our sales into packaging. In December 2015 we announced a new family of printheads to support this segment. In primary labels, sales growth exceeded 30% as our OEM partners delivered digital solutions with improved speed, image resolution and reliability. The exciting direct-to-shape area in packaging continues to develop, although sales remained modest at £0.7 million in 2015.

Sales into Xaar's initial end market application, Graphic Arts, reduced to £9.6 million for the year (2014: £11.4 million), representing 10% of total sales. The reduction year on year reflected the planned end-of-life of some older generation products.

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 2015, Europe, Middle East and Africa (EMEA) remained the Company's largest sales region at £47.1 million (2014: £60.1 million), representing 50% of Group sales. The 22% reduction in year on year revenue is mainly the result of falling European OEM sales into the Chinese ceramic market. As noted earlier, we saw a step-down in demand in the second half of 2014 related to the property market in China.

Sales into Asia were also impacted by the slow-down in ceramics. Sales into Asia reduced 6% to £39.9 million (2014: £42.6 million) representing 43% of total revenue.

Total sales to the Americas remained the lowest sector with revenue unchanged at £6.5 million. We see significant potential for growth in that region.

**Profitability**

We stabilised our financial performance in 2015, maintaining a very respectable annual adjusted operating profit margin of 22% despite a 14% reduction in total annual revenue. This was achieved through the swift action taken in the fourth quarter of 2014 to reduce costs and the hard work and diligence of our staff during 2015 to manage costs, improve product yields and drive efficiency.

Gross profit margin for 2015 improved to 47.8% (2014: 44.5%). In addition to the favourable impact from our focus on costs, yields and efficiencies we also benefited from a higher level of activity in our Sweden plant in the second half of the year, as we increased manufacturing levels in order to complete the production of some of the products manufactured there before the end of 2015. We will be closing the Swedish manufacturing facility in 2016 as the levels of demand for the older generation products which are manufactured in that plant no longer justify the cost of a standalone operation. Total costs associated with restructuring and reorganisation of £6.1 million have been provided for in the 2015 financial statements, with £2.2 million of this cost being non-cash charges related to tangible assets and goodwill.

Gross expenditure on R&D increased by 4% from £19.2 million in 2014 to £19.9 million in 2015. Development expenditure on the Thin Film programme of £8.4 million was capitalised in 2015 (2014: £7.4 million) as required under International Financial Reporting Standards (specifically IAS 38). We are targeting the completion of the development of the Thin Film technology platform in 2016 and therefore we do not expect to be capitalising development costs associated with this major programme in 2017.

Sales, marketing and general administrative costs increased marginally to £12.7 million (2014: £12.6 million) on an adjusted basis.

Adjusted profit before tax of £20.8 million was recorded for 2015 (2014: £24.6 million). Profit before tax as reported under IFRS was £13.6 million (2014: £23.1 million). In 2015 the largest reconciling item between the adjusted and IFRS measures was £6.1 million of restructuring charges as noted earlier.

The tax charge on adjusted profit before tax was £1.8 million (2014: £4.4 million), representing an effective tax rate of 8.6% (2014: 17.8%) which compares to the UK corporation tax rate for 2015 of 20%. Xaar benefits from favourable intellectual property and R&D tax incentive schemes in the UK as a result of our continued investment in R&D. The effective tax rate for 2015 was particularly low due to prior year adjustments for improved deductions from the UK's patent box regime, higher than expected capital allowance deductions and other adjusting items. Excluding these prior year adjustments, the adjusted effective tax rate was 12.5% on adjusted profit before tax.

The tax charge on IFRS profit before tax was £1.0 million (2014: £4.4 million) representing an effective tax rate of 7.7% (2014: 19.1%). Excluding the prior year adjustments, the effective tax rate was 13.6% on IFRS profit before tax.

Adjusted profit after tax for 2015 was £19.0 million (2014: £20.2 million).

Adjusted diluted earnings per share was 24.5 pence in 2015 (2014: 26.4 pence).

**Financial position**

The Group maintains a strong cash position, with £69.7 million of cash and treasury deposits at 31 December 2015 (31 December 2014: £47.0 million). Net cash increased by £22.7 million in 2015, as net working capital reduced and capital expenditure was relatively low compared to prior years. The operating cash inflow, after adding back depreciation but before working capital movements, was £28.9 million. The reduction in net working capital represented a cash inflow of £10.1 million during 2015, with inventory reducing £6.3 million, receivables decreasing £1.5 million and payables increasing £2.4 million (excluding the impact of asset related items). Total cash outflow relating to intangible and tangible assets was £12.3 million in the year, including the £8.4 million of capitalised development expenditure. Dividends accounted for £6.9 million. Cash flows relating to tax were a net inflow of £1.4 million due to overpayments made in 2014.

**Dividend**

As announced in 2014, the Company employs a progressive and sustainable dividend policy which takes into account the Group's future prospects, its underlying profitability and the future cash requirements of the business. The Board will recommend a final dividend of 6.3 pence for 2015 at the forthcoming Annual General Meeting (AGM), giving a total dividend for the year of 9.45 pence, a 5% increase over 2014 (2014: 9 pence). An interim dividend of 3.15 pence was paid during the year (2014: 3 pence). Subject to approval by shareholders at the AGM the final dividend will be paid on 24 June 2016, with an ex-dividend date of 26 May 2016, to shareholders on the register at close of business on 27 May 2016.

**Alex Bevis**
**Chief Financial Officer**
**16 March 2016**

**CONSOLIDATED INCOME STATEMENT**

FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | **2015** **£'000** | 2014 £'000 |
|---|---|---|---|
| **Revenue** | | **93,472** | 109,150 |
| Cost of sales | | **(48,782)** | (60,548) |
| **Gross profit** | | **44,690** | 48,602 |
| Research and development expenses | | **(11,548)** | (11,797) |
| Research and development expenditure credit | | **818** | 234 |
| Sales and marketing expenses | | **(5,440)** | (5,551) |
| General and administrative expenses | | **(9,254)** | (7,900) |
| Restructuring costs | | **(6,120)** | (872) |
| **Operating profit** | | **13,146** | 22,716 |
| Investment income | | **426** | 394 |
| **Profit before tax** | | **13,572** | 23,110 |
| Tax | | **(1,043)** | (4,418) |
| **Profit for the year attributable to shareholders** | | **12,529** | 18,692 |
| **Earnings per share** | | | |
| Basic | 3 | **16.6p** | 25.0p |
| Diluted | 3 | **16.1p** | 24.4p |

Dividends paid in the year amounted to £6,925,000 (2014: £6,377,000).
All activities relate to continuing operations.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2015

| | **2015** **£'000** | 2014 £'000 |
|---|---|---|
| **Profit for the year attributable to shareholders** | **12,529** | 18,692 |
| **Items that may be reclassified subsequently to profit and loss:** | | |
| Exchange differences on retranslation of net investment | **(27)** | (224) |
| **Other comprehensive income for the year** | **(27)** | (224) |
| **Total comprehensive income for the year** | **12,502** | 18,468 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
AS AT 31 DECEMBER 2015

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| **Non-current assets** | | |
| Goodwill | **-** | 720 |
| Other intangible assets | **17,795** | 10,077 |
| Property, plant and equipment | **31,255** | 38,539 |
| Investments | **-** | 1,000 |
| | **49,050** | 50,336 |
| **Current assets** | | |
| Investments | **1,000** | - |
| Inventories | **13,458** | 19,795 |
| Trade and other receivables | **11,947** | 13,452 |
| Current tax asset | **2,805** | 2,909 |
| Treasury deposits | **27,098** | 21,000 |
| Cash and cash equivalents | **42,649** | 25,963 |
| | **98,957** | 83,119 |
| **Total assets** | **148,007** | 133,455 |
| **Current liabilities** | | |
| Trade and other payables | **(12,405)** | (9,888) |
| Other financial liabilities | **(68)** | (57) |
| Provisions | **(3,533)** | (425) |
| | **(16,006)** | (10,370) |
| **Net current assets** | **82,951** | 72,749 |
| **Non-current liabilities** | | |
| Deferred tax liabilities | **(1,222)** | (617) |
| Other financial liabilities | **(241)** | (308) |
| **Total non-current liabilities** | **(1,463)** | (925) |
| **Total liabilities** | **(17,469)** | (11,295) |
| **Net assets** | **130,538** | 122,160 |
| **Equity** | | |
| Share capital | **7,764** | 7,664 |
| Share premium | **27,585** | 26,345 |
| Own shares | **(3,796)** | (3,796) |
| Other reserves | **11,006** | 9,716 |
| Translation reserve | **99** | 126 |
| Retained earnings | **87,880** | 82,105 |
| **Equity attributable to shareholders** | **130,538** | 122,160 |
| **Total equity** | **130,538** | 122,160 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 31 DECEMBER 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 | - | - | - | - | - | 18,692 | 18,692 |
| Exchange differences on retranslation of net investment | - | - | - | - | (224) | - | (224) |
| Total comprehensive income for the period | - | - | - | - | (224) | 18,692 | 18,468 |
| 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 | - | - | - | - | - | (2,248) | (2,248) |
| Credit to equity for equity-settled share-based payments | - | - | - | 1,106 | - | - | 1,106 |
| **Balance at 1 January 2015** | **7,664** | **26,345** | **(3,796)** | **9,716** | **126** | **82,105** | **122,160** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **12,529** | **12,529** |
| Exchange differences on retranslation of net investment | **-** | **-** | **-** | **-** | **(27)** | **-** | **(27)** |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **(27)** | **12,529** | **12,502** |
| Issue of share capital | **100** | **1,240** | **-** | **-** | **-** | **(40)** | **1,300** |
| Dividends | **-** | **-** | **-** | **-** | **-** | **(6,925)** | **(6,925)** |
| Tax on share option gains | **-** | **-** | **-** | **-** | **-** | **211** | **211** |
| Credit to equity for equity-settled share-based payments | **-** | **-** | **-** | **1,290** | **-** | **-** | **1,290** |
| **Balance at 31 December 2015** | **7,764** | **27,585** | **(3,796)** | **11,006** | **99** | **87,880** | **130,538** |

**CONSOLIDATED CASH FLOW STATEMENT**

FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | **2015 £'000** | 2014 £'000 |
|---|---|---|---|
| **Net cash from operating activities** | 4 | **40,384** | 18,397 |
| **Investing activities** | | | |
| Investment income | | **531** | 427 |
| Purchases of property, plant and equipment | | **(3,764)** | (12,483) |
| Proceeds on disposal of property, plant and equipment | | **46** | 2 |
| Expenditure on software | | **(187)** | (217) |
| Expenditure on capitalised product development | | **(8,365)** | (7,357) |
| **Net cash used in investing activities** | | **(11,739)** | (19,628) |
| **Financing activities** | | | |
| Dividends paid | | **(6,925)** | (6,377) |
| Treasury deposits | | **(6,098)** | 1,000 |
| Proceeds from the sale of ordinary share capital | | **-** | 261 |
| Proceeds from issue of ordinary share capital | | **1,300** | 908 |
| **Net cash used in financing activities** | | **(11,723)** | (4,208) |
| **Net increase/(decrease) in cash and cash equivalents** | | **16,922** | (5,439) |
| Effect of foreign exchange rate changes on cash balances | | **(236)** | (83) |
| **Cash and cash equivalents at beginning of year** | | **25,963** | 31,485 |
| **Cash and cash equivalents at end of year** | | **42,649** | 25,963 |

Cash and cash equivalents (which are presented as a single class of asset on the face of the consolidated statement of financial position) 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 2015

### 1. Basis of preparation

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2015, but is derived from those accounts. Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 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 2016.

### 2. Reconciliation of adjusted financial measures

| | **2015**<br>**£'000** | 2014<br>£'000 |
|---|---|---|
| **Profit before tax** | **13,572** | 23,110 |
| Share-based payment charges | **1,498** | 242 |
| Exchange differences relating to the Swedish operations | **447** | 614 |
| Loss on derivative financial instruments | **-** | 6 |
| Restructuring costs | **6,120** | 872 |
| Research and development expenditure credit | **(818)** | (234) |
| **Adjusted profit before tax** | **20,819** | 24,610 |

Share-based payment charges include the IFRS 2 charge for the period of £1,290,000 (2014: £1,106,000) and the credit relating to National Insurance on the outstanding potential share option gains of £208,000 (2014: charge of £864,000). These costs were included in the general and administrative expenses in the consolidated income statement.

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. These costs were included in the general and administrative expenses in the consolidated income statement.

Loss on derivative financial instruments relates to gains and losses made on forward contracts in 2014. These costs were included in the general and administrative expenses in the consolidated income statement.

Restructuring costs of £6,120,000 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. This item is shown on the face of the consolidated income statement.

The research and development expenditure credit relates to the corporation tax relief receivable relating to qualifying research and development expenditure. This item is shown on the face of the consolidated income statement.

| | 2015<br>Pence per share | 2014<br>Pence per share |
|---|---|---|
| **Diluted earnings per share** | **16.1** | 24.4 |
| Share-based payment charges | **1.9** | 0.3 |
| Exchange differences relating to the Swedish operations | **0.6** | 0.8 |
| Restructuring costs | **7.9** | 1.1 |
| Tax effect of adjusting items | **(2.0)** | (0.2) |
| **Adjusted diluted earnings per share** | **24.5** | 26.4 |

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:

| | 2015<br>£'000 | 2014<br>£'000 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent | **12,529** | 18,692 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **75,572,550** | 74,863,310 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **2,215,736** | 1,629,537 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **77,788,286** | 76,492,847 |

| | 2015<br>Pence per share | 2014<br>Pence per share |
|---|---|---|
| Basic | **16.6** | 25.0 |
| Diluted | **16.1** | 24.4 |

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 and the matching shares held in trust for the Share Incentive Plan.

For 2015, there were share options granted over 35,678 shares that had not been included in the diluted earnings per share calculation because they were anti-dilutive at the period end (2014: nil shares).

The performance conditions for LTIP awards over 724,608 shares (2014: 688,038 shares) have not been met in the current financial period or are not expected to be met in future financial periods, and therefore the dilutive effect of those shares have not been included in the 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, and restructuring costs, is based on earnings of:

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| **Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent** | **12,529** | 18,692 |
| Share-based payment charges | **1,498** | 242 |
| Exchange differences relating to the Swedish operations | **447** | 614 |
| Loss on derivative financial instruments | **-** | 6 |
| Restructuring costs | **6,120** | 872 |
| Tax effect of adjusting items | **(1,570)** | (197) |
| **Adjusted profit after tax** | **19,024** | 20,229 |

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

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

| | **2015** | 2014 |
|---|---|---|
| | **Pence per Share** | Pence Per Share |
| Adjusted basic | **25.2** | **27.0** |
| Adjusted diluted | **24.5** | **26.4** |

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

**4. Notes to the cash flow statement**

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| **Profit before tax** | **13,572** | 23,110 |
| Adjustments for: | | |
| Share-based payments | **1,498** | 242 |
| Depreciation of property, plant and equipment | **10,147** | 9,836 |
| Amortisation of intangible assets | **834** | 885 |
| Impairment of goodwill | **720** | - |
| Research and development expenditure credit | **(818)** | (234) |
| Investment income | **(426)** | (394) |
| Foreign exchange losses | **149** | 331 |
| Losses on forward contracts | **-** | 6 |
| Loss on disposal of property, plant and equipment | **75** | 189 |
| Increase/(decrease) in provisions | **3,108** | (650) |
| Operating cash flows before movements in working capital | **28,859** | 33,321 |
| Decrease/(increase) in inventories | **6,274** | (4,725) |
| Decrease in receivables | **1,469** | 2,002 |
| Increase/(decrease) in payables | **2,405** | (6,556) |
| Cash generated by operations | **39,007** | 24,042 |
| Income taxes received/(paid) | **1,377** | (5,645) |
| **Net cash from operating activities** | **40,384** | 18,397 |

**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.