XAAR®

Xaar plc

Half-year results 2009

Overview

Overview

- Recovery of sales and profitability vs. H2 2008
- Revenue down 7% vs. H1 2008 but up 7% vs. H2 2008
- Profitability re-established vs. loss making H2 2008, but adjusted profit down 62% vs. H1 2008
- Gross margin decline vs. H1 2008 due to:
  - lower P1 throughput
  - lower P1 margins
  - higher product implementation costs
- Net cash of £10.3m at 30 June 2009
- Manufacturing facilities relocation underway and on plan
- Interim dividend of 1p to be maintained

Overview

- Broadly half the market share lost in China has been recovered via new product introductions
- China market remains highly competitive and volatile
- P3 based product roll out continues, however volume business is still modest
- Higher than expected customer new product start up costs incurred in H1
- Benefits of the 2008 cost reduction plan being realised

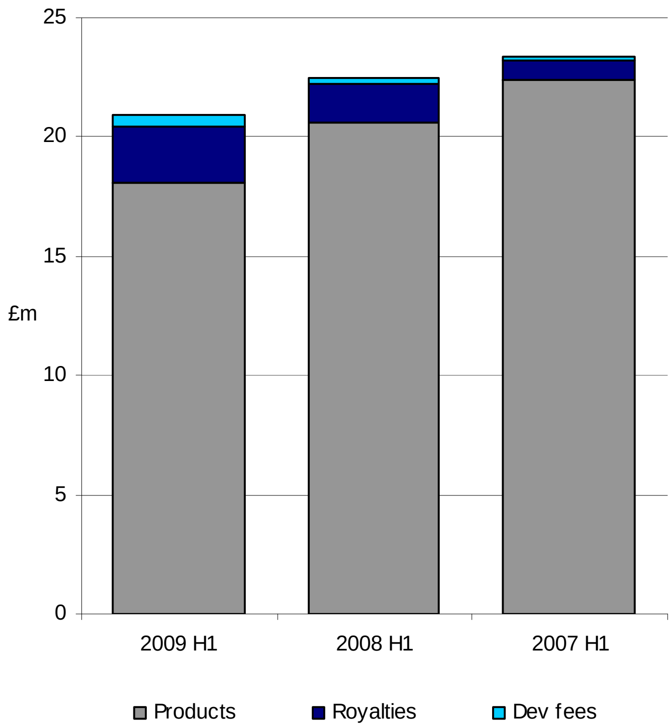
Half-year results

Income statement

	Half-year 2009 £m	Half-year 2008 £m	Full year 2008 £m
Revenue	**20.9**	22.5	42.0
Gross margin	**8.8**	12.5	20.0
Operating expenses	**(7.6)**	(9.3)	(17.3)
Net interest	**0.1**	0.2	0.4
Adjusted profit before tax	**1.3**	3.4	3.1
Restructuring costs	**(0.2)**	—	(0.5)
Share-based payments	**—**	(0.5)	0.1
Impairment of trade investments	**(0.6)**	—	(0.1)
Forex on SEK inter company balances	**(1.3)**	0.9	1.8
(Loss)/profit before tax	**(0.8)**	3.8	4.4
Tax	**(0.1)**	(1.0)	(0.9)
(Loss)/profit for the year	**(0.9)**	2.8	3.5
(Loss)/earnings per share (basic)	**(1.4)p**	4.5p	5.6p

Group revenues and margins

- Product revenues down 11% on H1 2008, up 8% on H2
- Royalty income 32% ahead of H1 2008, down 9% against H2
- Gross margin 42% (H1 2008: 58%, H2 2008: 39%)
- Operating expenditure reduced by 18% vs. H1 2008 as planned; opex spend remains under control



Half-year opex	**2009 £m**	2008 £m	2007 £m
Opex	**6.9**	8.8	8.4
Amortisation	**0.7**	0.5	0.5
Total opex	**7.6**	**9.3**	**8.9**

Half-year revenue	**2009 £m**	2008 £m	2007 £m
Products	**18.3**	20.6	22.4
Royalties	**2.1**	1.6	0.8
Dev fees	**0.5**	0.3	0.2
Total revenue	**20.9**	**22.5**	**23.4**

Balance sheet

- Net cash of £10.3m at period end (after payment of 2008 final dividend of £0.9m). Net cash at 31 December 2008: £11.0m
- Only debt is outstanding equipment financing of £0.5m (31 December 2008: £0.6m)
- Tangible asset additions of £1.5m (H1 2008: £2.4m), intangible additions of £nil (H1 2008: £0.3m)
- No significant capital spend on relocation project in period
- Further equipment financing expected; funding of new capital equipment as part of relocation project

	Half-year 2009 £m	Half-year 2008 £m	Full year 2008 £m
Tangible assets	**12.2**	12.8	12.7
Intangible assets	**6.6**	8.0	7.6
Investments	**1.3**	2.0	1.9
Stock	**6.4**	7.2	7.3
Debtors	**7.4**	10.5	8.5
Cash	**10.9**	10.7	11.6
Liabilities	**(7.8)**	(12.2)	(11.2)
Net assets	**37.0**	39.0	38.4

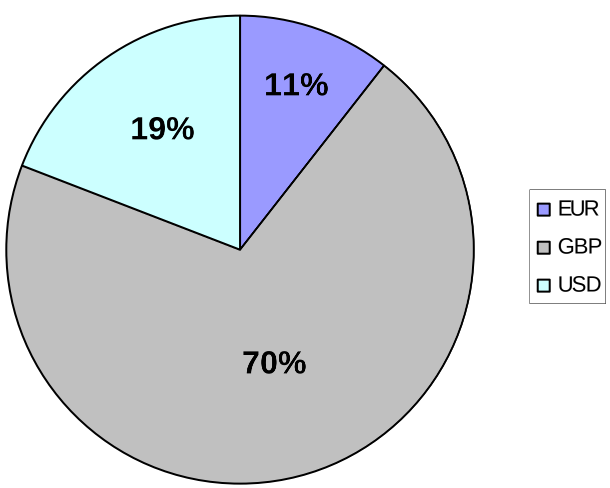
Cash flow

	Half-year 2009 £m	Half-year 2008 £m	Full year 2008 £m
Cash at beginning of period	**11.6**	**13.0**	**13.0**
Operating cash flow			
Profit before tax	**(0.8)**	3.8	4.4
Impairment of investment	**0.6**	—	—
Cost of share options	**—**	0.5	(0.1)
Depreciation/amortisation	**2.3**	2.3	4.5
Working capital	**(0.2)**	(4.1)	(3.1)
Interest (net)	**—**	(0.2)	(0.4)
Cash inflow from operations	**1.9**	**2.3**	**5.3**
Taxation	**(0.5)**	(0.7)	(1.0)
Interest (net)	**0.1**	0.2	0.4
Capital expenditure (tangibles)	**(0.9)**	(2.0)	(3.2)
Capital expenditure (intangibles)	**—**	(0.5)	(0.9)
Financing (including dividends)	**(1.0)**	(1.7)	(2.2)
Foreign exchange	**(0.3)**	0.1	0.2
Cash at end of period	**10.9**	**10.7**	**11.6**

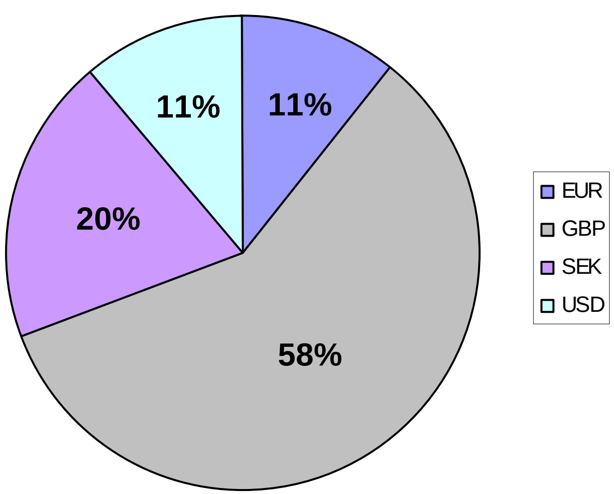
Foreign currency

- GBP:SEK rate remains volatile; financial impact of inter company movements shown separately on face of the income statement. Exposure to SEK will be removed with closure of Swedish manufacturing facility
- Royalty income based in JPY, after JPY strengthened 30% against GBP in Q4 2008 slight weakening seen in H1 2009
- USD inflows and SEK expenditure continue to be hedged

Product sales by currency H1 2009



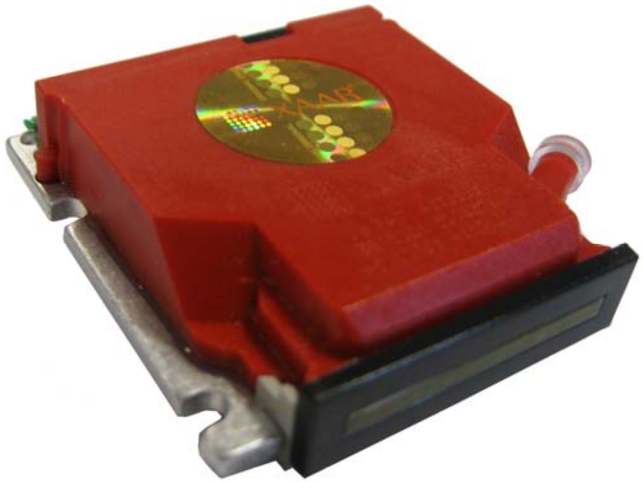
Purchases by currency H1 2009



Business update

Regional market update

- Asia
  - 53% of sales
  - maintained at H1 2008 level; 23% up on H2
  - market share recovery in China
- Europe
  - 29% of sales
  - 24% down on H1 2008; 16% down on H2
  - decline in P1 graphics and coding/marking
  - announced P3 products for graphics, packaging and industrial printing
- Americas
  - 18% of sales
  - 9% growth over H1 2008 and 10% growth over H2 2008
  - growth of P3 in North America offsetting some P1 softening in South America



	H1 2009 £m	H1 2008 £m	FY 2008 £m
Asia	**11.2**	11.2	20.3
Europe	**6.0**	7.9	14.9
Americas	**3.7**	3.4	6.8
	20.9	**22.5**	**42.0**

Market sector update

- Graphic arts
  - Wide-format printing mainly for external advertising
  - 54% of sales
  - 16% down on H1 2008; 13% up on H2
  - market share recovery in China, offset by EOL of some European products
- Packaging
  - Outer case coding and digital label printing
  - 23% of sales
  - maintained at H1 2008 level; 9% up on H2
  - P3 uptake in labels offset by P1 decline in Coding/Marking
- Industrial
  - 11% of sales
  - 4% down on H1 2008; 11% down on H2 directly due to one account which ceased trading

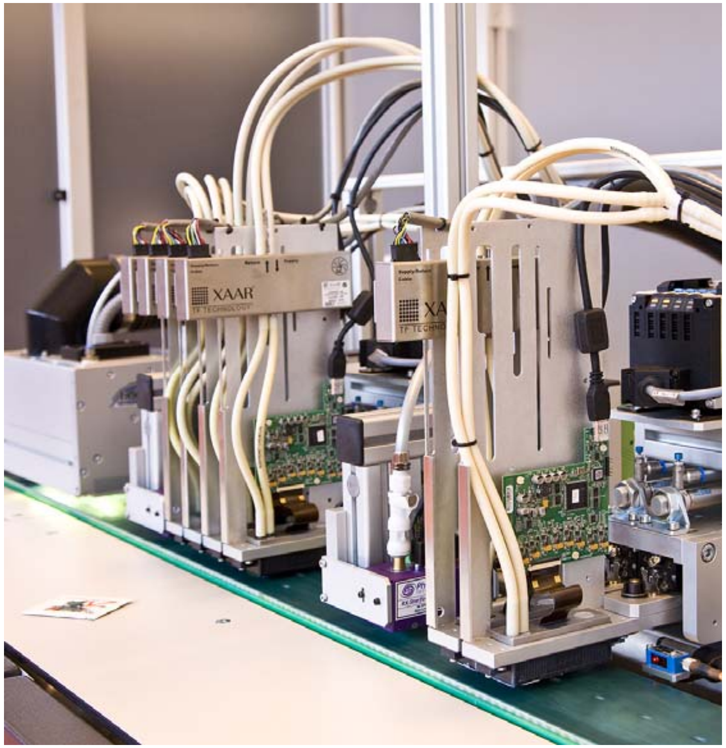
	H1 2009 £m	H1 2008 £m	FY 2008 £m
Graphic arts	**11.2**	13.4	23.3
Packaging	**4.8**	4.8	9.2
Industrial	**2.3**	2.4	5.0
Other	**2.6**	1.9	4.5
	20.9	**22.5**	**42.0**

Manufacturing plant consolidation

- Design and planning phase complete
- Facilities work commenced April 2009
- Phase 1 (Final Assembly and Test) move started July 2009 and will complete Feb 2010
- Phase 2 (Printhead Assembly) will commence Feb 2010 and complete Dec 2010
- Phase 3 (Actuator Fabrication) will commence Dec 2010 and complete March 2011
- Plan progressing to schedule
- Cost/benefit unchanged

Platform 3 update

- 25 customer products now announced
- 2 of which are now generating material business for Xaar
- Significant activity supporting the transition of ‘announced’ products into full production
- Additional 30 projects still in the R&D phase



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Outlook

Outlook

- Global print/imaging industry severely affected by the poor economic environment
- Momentum in China needs to be maintained
- Ongoing customer support to convert ‘announced’ P3 based products into the full production phase
- Manufacturing relocation programme continues with significant level of equipment transfer scheduled for H2
- Maintain strong balance sheet
- Continuing investment in technology development to strengthen our competitive advantage