

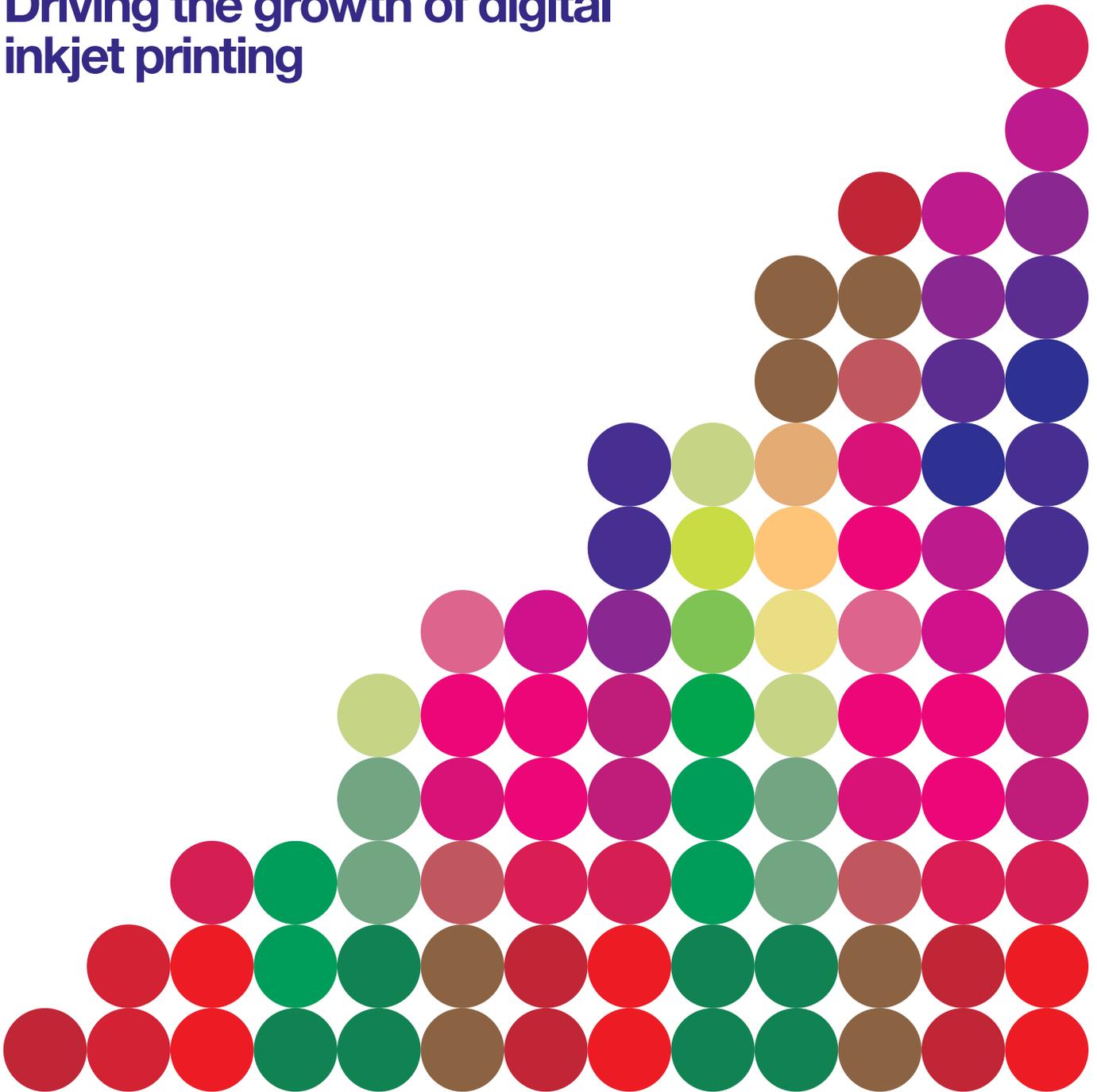


**XAAR<sup>®</sup>**

Interim Report 2012

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# Driving the growth of digital inkjet printing



# Who we are

**A world leader in the development of inkjet technology and manufacturer of piezoelectric drop-on-demand industrial inkjet printheads.**

Our technology is used all over the world in a wide range of print applications including wide-format graphics, labels, packaging, ceramic tile decoration and outer case coding, as well as printing with specialist fluids for advanced manufacturing applications.

We design and manufacture our printheads in the UK and Sweden, exporting our products to customers around the world.

We also develop and sell ink systems, electronics, and a fluid optimisation service to accelerate inkjet system development and adoption.

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## Key points

- Continued strong financial performance; revenue up 20% and adjusted profit before tax up 57% over H1 2011.
- Growth driven by Platform 3 products for industrial applications.
- Gross margin increased 2% to 46% due to manufacturing efficiencies and product mix.
- The Huntingdon capacity expansion programme for Platform 3 production has been completed ahead of schedule and under budget. Scope for further expansion as required.
- New product launched to counter the continued decline in sales of Platform 1 products into the graphic arts market.
- Increased investment in research and development with headcount up 27% from December 2011. On track for key Platform 4 product architecture decisions in 2013.



# Chairman's statement



“We achieved record revenue and profit in the first half of 2012. We are well positioned for further growth in both the short and long term.”

## Introduction

I am pleased to report that revenues continued to increase during the first half of 2012 and were up 20% compared to H1 2011. The growth over H1 2011 reflects the substantial demand for Platform 3 (“P3”) in industrial applications, realised through the capacity expansion programme at our Huntingdon facility that is now complete. Platform 1 (“P1”) sales in the period have continued to fall reflecting market maturity.

As expected, the geographic mix of our sales has shifted towards continental Europe, with these European based OEMs selling to the worldwide market. Although a good proportion of our revenue remains sterling denominated, our exposure to Euro currency fluctuations has increased. Our treasury policy and procedures have been updated to mitigate the potential adverse effects of this.

Royalty revenue from our licensees increased and was in line with management's expectations (8% growth over H1 2011).

Xaar continues to generate profits driven by healthy sales growth. Adjusted profit before tax was up 57% against the same period last year, to a record high of £6.7 million (H1 2011: £4.3 million).

The Group's net cash reduced as expected during the period as a result of investment in capacity expansion, working capital growth and an increased final dividend payment. The capital expansion programme has

been a significant success in delivering incremental P3 capacity as planned.

## Results

Revenues for the six months ended 30 June 2012 were £37.9 million (H1 2011: £31.6 million; H2 2011: £37.1 million). Product sales were £34.3 million (H1 2011: £28.2 million; H2 2011: £33.2 million). Royalty revenue was £3.6 million (H1 2011: £3.3 million; H2 2011: £3.9 million).

Gross margin improved to 46% (H1 2011: 44%; H2 2012: 44%), reflecting continued improvements in production efficiencies and product mix.

Adjusted profit before tax for the period was £6.7 million (H1 2011: £4.3 million; H2 2011: £6.3 million).

Profit before tax was £4.7 million (H1 2011: £4.1 million; H2 2011: £5.0 million), which included the impact of a trade investment impairment charge of £1.3 million. In June we took the prudent decision to fully impair the book value of a minority stake in an inkjet solutions provider. The impairment resulted in a one-off non-cash charge which has been excluded in the calculation of adjusted profit before tax.

After payment of the final dividend for 2011 of £1.4 million and £4.6 million of capital investment, net cash (net cash includes cash and cash equivalents, treasury deposits, less obligations under finance leases and loan liabilities) reduced by £1.7 million during the period to £15.7 million (31 December 2011: £17.4 million; 30 June 2011: £20.6 million).

## Business commentary

The continuing success of P3 in the ceramic tile decoration market has shifted the geographic ratio of our sales which now stands at EMEA 62% (H1 2011: 57%; H2 2011: 65%), Asia 29% (H1 2011: 32%; H2 2011: 25%) and Americas 9% (H1 2011: 11%; H2 2011: 10%). This is due to our success with the leading ceramic tile OEMs based in Spain and Italy and the fact that our early sales into the China market have been delivered through a UK based integrator. China accounts for over 40% of the world market for ceramic tile production and, over the coming months, we expect to start seeing the benefit of the relationships we have built with the leading tile decoration OEMs in that country.

The rapid (by industrial inkjet standards) take up of inkjet printing for tile decoration, together with more modest progress in the primary labels and décor laminate markets, has meant that P3 sales now represent over 60% of total revenue. As expected, there is now significant competition in the ceramic market with an inevitable impact on product selling prices. Product mix and manufacturing efficiency have, to date, more than offset price reductions, and we expect increasing volume and manufacturing efficiency to maintain margins in the future.

In order to continue to strengthen our market position, we announced our first P3 product specifically optimised for ceramic tile decoration at the Ceramics China 2012 exhibition in May of this year. This product, the Xaar 1001 GS12, provides significant benefits over

existing products for this specific application, delivering either twice the colour density or twice the production speed of the original Xaar 1001 GS6 product and has been well received. The first printers to include the Xaar 1001 GS12 are expected to be shown at the Tecnargilla trade show in Italy in September and volume shipments are planned for H2 2012.

P1 sales into the graphic arts market have continued to decline as competition remains fierce and, to date, our attempts at market recovery have fallen short. To counter the decline we have recently launched the Xaar Proton 15, a new product variant of P1 which enables higher resolution, wide format printing at a competitive price. Volume supply is expected to commence in the second half of 2012. Our first P3 product for the Graphic Arts market is scheduled for launch in 2013.

The £22 million investment programme that began in late 2010, with shareholder backing, to increase our manufacturing capacity in order to capitalise on the substantial growth potential of P3, was completed in the first half of 2012. I am pleased to report that this programme has been a total success, being completed inside the planned timeframe and under budget. As a result, our annual P3 capacity has increased from 5,000 units at June 2010 to the current level of 45,000 units. This is testament to the skill and experience of everyone involved in delivering this major upgrade to our facilities. Our resource at Huntingdon is now a showcase of British manufacturing that includes three Class 1000 clean rooms and some highly specialised and unique equipment. There is scope for further capacity expansion at the Huntingdon site via the addition of processing assets.

P3 business in primary label printing continues to grow modestly and sales into the décor laminate market are now starting to become material. Further development continues in both areas, where we expect to develop significantly, although we do not anticipate that the rate of digital conversion will match the high rate seen in ceramics.

In the last annual report I commented on the renewed focus on research and development ("R&D"), including new product variants and our 'next generation' technology, Platform 4 ("P4"). Although P4 is some years from material commercial revenues, production of test structures has begun and we expect to make key product architecture decisions in 2013 as previously planned. To support this programme, further hiring in R&D has taken place, which has resulted in the addition of new premises adjacent to our head office in Cambridge. We continue to invest a significant proportion of our revenues in R&D (8% in H1 2012, 8% in FY 2011).

We have implemented our previously announced decision to relocate our representative office from Shanghai to Hong Kong following the departure of our Chinese sales support team at the start of 2012, and new hiring is almost complete.

We remain in regular direct contact with Chinese customers from Cambridge and relationships are normal with business continuing well.

### **Corporate governance**

The Group continues to comply fully with the UK Corporate Governance Code 2010. The Code underpins the Group's principles, policies and processes in daily use. The Group continually looks to improve the governance based on measurement against internal objectives and external audits. We continue to give serious attention to risk management despite the difficulty of accurately predicting events in a very unpredictable world. We have also taken very seriously the UK Bribery Act 2010 and have developed a set of policies and procedures that seek to ensure standards of business conduct are upheld and the Group or its staff and directors are not compromised by this new very strict legislation.

### **Dividend**

An interim dividend of 1.0p per share will be paid on 21st September 2012 to shareholders on the register at close of business on 24th August 2012.

### **Board**

As previously reported Phil Eaves, Sales and Marketing Director, retired in March after six years on the board during which time he made a valuable contribution to Xaar's development. Also as previously announced, in March 2012 Richard Barham joined as Sales and Marketing Director having spent over twenty-five years at Agfa Graphics NV. His considerable industry experience, most recently as a Xaar customer, is now helping us to plan and deliver further growth.

### **Outlook**

Over the last two years we have made excellent progress in maximising the growth opportunity in the ceramics segment, largely through the flawless execution of the capacity expansion programme in Huntingdon. This has resulted in a record revenue and profit performance for the first half of 2012. We continue to develop products for existing markets and we are committed to expanding our technology into new markets, and as a consequence we are well positioned for further growth in both the short and long term.



**Phil Lawler**  
Chairman  
16 August 2012

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# Directors' responsibilities statement

We confirm that to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R:
  - (i) an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and
  - (ii) a description of principal risks and uncertainties for the remaining six months of the year.
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R:
  - (i) related parties transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the Group in that period, and
  - (ii) any changes in the related parties transactions described in the Annual Report 2011 that could have a material effect on the financial position or performance of the group in the current period.

By order of the board



**Ian Dinwoodie**  
Chief Executive



**Alex Bevis**  
Finance Director and Company Secretary

16 August 2012

# Condensed consolidated income statement

for the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 (reviewed) £'000	Six months ended 30 June 2011 (reviewed) £'000	Twelve months ended 31 December 2011 (audited) £'000
<b>Revenue</b>	2	<b>37,877</b>	31,593	68,706
Cost of sales		<b>(20,443)</b>	(17,732)	(38,327)
<b>Gross profit</b>		<b>17,434</b>	13,861	30,379
Research and development expenses		<b>(2,958)</b>	(2,838)	(5,781)
Sales and marketing expenses		<b>(2,694)</b>	(2,224)	(4,606)
General and administrative expenses		<b>(7,134)</b>	(4,714)	(11,064)
Restructuring costs		<b>-</b>	-	169
<b>Operating profit</b>		<b>4,648</b>	4,085	9,097
Investment income		<b>62</b>	34	91
Finance costs		<b>(15)</b>	(48)	(62)
<b>Profit before tax</b>		<b>4,695</b>	4,071	9,126
Tax	3	<b>(1,142)</b>	(1,048)	(1,450)
<b>Profit for the period attributable to shareholders</b>		<b>3,553</b>	3,023	7,676
<b>Earnings per share</b>				
Basic	4	<b>5.0p</b>	4.3p	10.8p
Diluted	4	<b>4.8p</b>	4.1p	10.4p

Dividends paid in the period amounted to £1,446,000 or 2.0p per share 2011 final dividend (six months to 30 June 2011: £1,062,000 or 1.5p per share 2010 final dividend; twelve months to 31 December 2011: £1,773,000 or 2.5p per share being 1.5p per share 2010 final dividend and 1.0p per share 2011 interim dividend).

# Condensed consolidated statement of comprehensive income

for the six months ended 30 June 2012

	Six months ended 30 June 2012 (reviewed) £'000	Six months ended 30 June 2011 (reviewed) £'000	Twelve months ended 31 December 2011 (audited) £'000
<b>Profit for the period</b>	<b>3,553</b>	3,023	7,676
Exchange differences on translation of net investment	<b>29</b>	(245)	67
<b>Other comprehensive income for the period</b>	<b>29</b>	(245)	67
<b>Total comprehensive income for the period</b>	<b>3,582</b>	2,778	7,743

# Reconciliation of adjusted financial measures

## for the six months ended 30 June 2012

	Six months ended 30 June 2012 (reviewed) £'000	Six months ended 30 June 2011 (reviewed) £'000	Twelve months ended 31 December 2011 (audited) £'000
Profit before tax	4,695	4,071	9,126
Restructuring costs	–	(5)	(169)
Impairment of trade investment	1,261	–	–
Exchange differences arising on consolidation of the Swedish operations	195	(353)	335
Unrealised gains on derivative financial instruments	(48)	–	–
Share-based payment charges	625	573	1,274
Adjusted profit before tax	6,728	4,286	10,566

The restructuring costs released in 2011 relate to the aborted closure of the Swedish manufacturing plant.

The charge for the impairment of a trade investment relates to a minority stake in an inkjet solutions provider. The full value of this investment has been recognised as an impairment loss in the income statement in the period, within administrative expenses.

Exchange differences arising on consolidation of the Swedish operations relate to exchange gains or losses recorded in the income statement as a result of operating in Sweden.

Unrealised gains on derivative financial instruments relate to the unrealised gains on forward currency contracts outstanding at the end of the period.

Share-based payment charges include the IFRS 2 charge for the period and the movement on the National Insurance provision on the outstanding potential share option gains.

	Six months ended 30 June 2012 (reviewed) Pence per share	Six months ended 30 June 2011 (reviewed) Pence per share	Twelve months ended 31 December 2011 (audited) Pence per share
Diluted earnings per share	4.8p	4.1p	10.4p
Restructuring costs	–	–	(0.2p)
Impairment of trade investment	1.7p	–	–
Exchange differences arising on consolidation of the Swedish operations	0.3p	(0.5p)	0.4p
Unrealised gains on derivative financial instruments	(0.1p)	–	–
Share-based payment charges	0.8p	0.8p	1.7p
Tax effect of adjusting items	(0.5p)	(0.1p)	(0.5p)
Tax provision release	–	–	(1.1p)
Adjusted diluted earnings per share	7.0p	4.3p	10.7p

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

# Condensed consolidated statement of changes in equity

for the six months ended 30 June 2012

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Hedging and translation reserves £'000	Retained earnings £'000	Total £'000
<b>Balance at 1 January 2012</b>	7,280	23,727	(4,465)	5,149	507	29,171	61,369
Profit for the period	-	-	-	-	-	3,553	3,553
Exchange differences on translation of net investment	-	-	-	-	29	-	29
<b>Total comprehensive income for the period</b>	-	-	-	-	29	3,553	3,582
Issue of share capital	122	228	-	-	-	(73)	277
Dividends	-	-	-	-	-	(1,446)	(1,446)
Deferred tax benefit on share option gains	-	-	-	-	-	(469)	(469)
Credit to equity for equity-settled share-based payments	-	-	-	591	-	-	591
<b>Balance at 30 June 2012</b>	7,402	23,955	(4,465)	5,740	536	30,736	63,904

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Hedging and translation reserves £'000	Retained earnings £'000	Total £'000
<b>Balance at 1 January 2011</b>	7,237	23,534	(4,465)	4,014	440	23,516	54,276
Profit for the period	-	-	-	-	-	3,023	3,023
Exchange differences on translation of net investment	-	-	-	-	(245)	-	(245)
<b>Total comprehensive income for the period</b>	-	-	-	-	(245)	3,023	2,778
Issue of share capital	26	188	-	-	-	-	214
Dividends	-	-	-	-	-	(1,062)	(1,062)
Deferred tax benefit on share option gains	-	-	-	-	-	113	113
Credit to equity for equity-settled share-based payments	-	-	-	520	-	-	520
<b>Balance at 30 June 2011</b>	7,263	23,722	(4,465)	4,534	195	25,590	56,839

# Condensed consolidated statement of financial position

as at 30 June 2012

	As at 30 June 2012 (reviewed) £'000	As at 31 December 2011 (audited) £'000
<b>Non-current assets</b>		
Goodwill	720	720
Other intangible assets	4,274	4,408
Property, plant and equipment	27,254	27,558
Investments	–	1,261
Deferred tax asset	503	835
	<b>32,751</b>	34,782
<b>Current assets</b>		
Inventories	12,056	11,756
Trade and other receivables	11,557	9,375
Current tax asset	732	465
Treasury deposits	4,000	–
Cash and cash equivalents	12,465	18,274
Derivative financial instruments	48	–
	<b>40,858</b>	39,870
<b>Total assets</b>	<b>73,609</b>	74,652
<b>Current liabilities</b>		
Trade and other payables	(6,518)	(9,945)
Other financial liabilities	(61)	(61)
Current tax liabilities	(589)	(642)
Obligations under finance leases	(284)	(277)
Provisions	(1,174)	(991)
	<b>(8,626)</b>	(11,916)
<b>Net current assets</b>	<b>32,232</b>	27,954
<b>Non-current liabilities</b>		
Deferred tax liabilities	(370)	(484)
Other financial liabilities	(259)	(289)
Obligations under finance leases	(450)	(594)
<b>Total non-current liabilities</b>	<b>(1,079)</b>	(1,367)
<b>Total liabilities</b>	<b>(9,705)</b>	(13,283)
<b>Net assets</b>	<b>63,904</b>	61,369
<b>Equity</b>		
Share capital	7,402	7,280
Share premium	23,955	23,727
Own shares	(4,465)	(4,465)
Other reserves	5,740	5,149
Hedging and translation reserves	536	507
Retained earnings	30,736	29,171
<b>Equity attributable to shareholders</b>	<b>63,904</b>	61,369
<b>Total equity</b>	<b>63,904</b>	61,369

# Condensed consolidated cash flow statement

for the six months ended 30 June 2012

	Note	Six months ended 30 June 2012 (reviewed) £'000	Six months ended 30 June 2011 (reviewed) £'000	Twelve months ended 31 December 2011 (audited) £'000
<b>Net cash from operating activities</b>	5	<b>4,177</b>	4,687	12,787
<b>Investing activities</b>				
Investment income		62	34	91
Purchases of property, plant and equipment		(4,513)	(5,195)	(14,438)
Expenditure on capitalised product development		(111)	(220)	(1,272)
Proceeds on disposal of property, plant and equipment		19	–	2
<b>Net cash used in investing activities</b>		<b>(4,543)</b>	(5,381)	(15,617)
<b>Financing activities</b>				
Dividends paid		(1,446)	(1,062)	(1,773)
Movement in treasury deposits		(4,000)	–	–
Proceeds from issue of ordinary share capital		277	214	218
Finance costs		(19)	(30)	(54)
Repayments of borrowings		(137)	(248)	(482)
<b>Net cash used in financing activities</b>		<b>(5,325)</b>	(1,126)	(2,091)
<b>Net decrease in cash and cash equivalents</b>		<b>(5,691)</b>	(1,820)	(4,921)
Effect of foreign exchange rate changes		(118)	141	(149)
<b>Cash and cash equivalents at beginning of period</b>		<b>18,274</b>	23,344	23,344
<b>Cash and cash equivalents at end of period</b>		<b>12,465</b>	21,665	18,274

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.

# Notes to the interim financial information

## for the six months ended 30 June 2012

### 1. Basis of preparation and accounting policies

#### Basis of preparation

These interim financial statements have been prepared in accordance with the accounting policies set out in the Group's annual report and accounts 2011 on pages 42 to 48 and were approved by the board of directors on 16 August 2012. The interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The interim financial statements do not include all the information and disclosures in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

The financial information in these interim financial statements for the six months ended 30 June 2012, does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The Group's annual report for the year ended 31 December 2011 has been delivered to the Registrar of Companies and the auditor's report on those financial statements was not qualified and did not contain statements made under section 498(2) or (3) of the Companies Act 2006.

The interim financial statements are unaudited but have been reviewed by the auditor Deloitte LLP. The report of the auditor to the Group is set out on page 12.

#### Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

#### Risks and uncertainties

An outline of the key risks and uncertainties faced by the Group was outlined in the 2011 financial statements on pages 14 to 15, including anticipating technology trends, retaining key staff and successfully executing business growth initiatives. It is anticipated that the risk profile will not significantly change for the remainder of the year. Risk is an inherent part of doing business and the strong cash position of the Group along with the underlying profitability of the core business leads the directors to believe that the Group is well placed to manage business risks successfully.

#### Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis of preparation has been adopted in preparing the interim financial statements.

### 2. Business segments

For management reporting purposes, the Group's operations are currently analysed according to product type. These product groups are the basis on which the Group reports its primary segment information.

Segment information about these product types is presented below:

	<b>Six months ended 30 June 2012 (reviewed) £'000</b>	Six months ended 30 June 2011 (reviewed) £'000	Twelve months ended 31 December 2011 (audited) £'000
<b>Revenue</b>			
Printheads and related products	<b>34,268</b>	28,174	61,355
Development fees	<b>4</b>	81	125
Licence fees and royalties	<b>3,605</b>	3,338	7,226
Total revenue	<b>37,877</b>	31,593	68,706

**Notes to the interim financial information** continued  
for the six months ended 30 June 2012

**2. Business segments** continued

	<b>Six months ended 30 June 2012 (reviewed) £'000</b>	Six months ended 30 June 2011 (reviewed) £'000	Twelve months ended 31 December 2011 (audited) £'000
<b>Result</b>			
Printheads and related products	2,881	94	3,127
Development fees	–	–	18
Licence fees and royalties	3,605	3,338	7,226
Total segment result	6,486	3,432	10,371
Net unallocated corporate (expense)/income	(1,838)	653	(1,274)
Operating profit	4,648	4,085	9,097
Investment income	62	34	91
Finance costs	(15)	(48)	(62)
Profit before tax	4,695	4,071	9,126
Tax	(1,142)	(1,048)	(1,450)
Profit for the period attributable to shareholders	3,553	3,023	7,676

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

Assets in the printheads and related products segment have increased by £1.6m over the period and assets in the licence fees and royalties segment have increased by £0.4m over the period; there have been no other material movements in segment assets during the period.

**3. Income tax**

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

	<b>Six months ended 30 June 2012 (reviewed) £'000</b>	Six months ended 30 June 2011 (reviewed) £'000	Twelve months ended 31 December 2011 (audited) £'000
<b>Current income tax</b>			
Income tax charge	1,393	938	1,731
<b>Deferred income tax</b>			
Relating to origination and reversal of temporary differences	(251)	110	(281)
Income tax expense	1,142	1,048	1,450

#### 4. Earnings per ordinary share – basic and diluted

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

	Six months ended 30 June 2012 (reviewed) £'000	Six months ended 30 June 2011 (reviewed) £'000	Twelve months ended 31 December 2011 (audited) £'000
<b>Earnings</b>			
Earnings for the purposes of earnings per share being net profit attributable to equity holders of the parent	3,553	3,023	7,676
<b>Number of shares</b>			
Weighted average number of ordinary shares for the purposes of basic earnings per share	71,495,334	70,722,976	70,878,697
Effect of dilutive potential ordinary shares:			
Share options	2,740,724	3,007,608	3,015,999
Weighted average number of ordinary shares for the purposes of diluted earnings per share	74,236,058	73,730,584	73,894,696

#### 5. Notes to the cash flow statement

	Six months ended 30 June 2012 (reviewed) £'000	Six months ended 30 June 2011 (reviewed) £'000	Twelve months ended 31 December 2011 (audited) £'000
Profit before tax	4,695	4,071	9,126
Adjustments for:			
Share-based payments	625	520	1,274
Depreciation of property, plant and equipment	3,148	2,230	4,660
Amortisation of intangible assets	328	521	1,315
Impairment of trade investment	1,261	–	–
Investment income	(62)	(34)	(91)
Finance costs	15	48	62
Foreign exchange losses/(gains)	193	(585)	313
Unrealised gains on derivative financial instruments	(48)	–	–
Loss/(profit) on disposal of property, plant and equipment	407	–	(9)
Increase/(decrease) in provisions	183	(27)	194
Operating cash flows before movements in working capital	10,745	6,744	16,844
Increase in inventories	(336)	(626)	(1,079)
(Increase)/decrease in receivables	(1,459)	1,407	(88)
Decrease in payables	(3,068)	(3,041)	(1,654)
Cash generated by operations	5,882	4,484	14,023
Income taxes (paid)/refunded	(1,705)	203	(1,236)
<b>Net cash from operating activities</b>	<b>4,177</b>	<b>4,687</b>	<b>12,787</b>

#### 6. Date of approval of interim financial statements

The interim financial statements cover the period 1 January 2012 to 30 June 2012 and were approved by the board on 16 August 2012.

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

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# Independent review report

## for the six months ended 30 June 2012

### Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises the condensed consolidated income statement, reconciliation of adjusted financial measures, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes 1 to 6. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

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

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

### Our responsibility

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

### Scope of Review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

**Deloitte LLP**  
**Chartered Accountants and Statutory Auditor**  
Cambridge  
16 August 2012

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**Registered number**  
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**Company Secretary**  
Alex Bevis

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