

Governance

CORPORATE GOVERNANCE STATEMENT

The Company is committed to the principles of corporate governance contained in the 2016 UK Corporate Governance Code which was issued in April 2016 by the Financial Reporting Council ('the Code') for which the Board is accountable to shareholders.

Application of the main principles of the Code

The Company has applied the principles of the Code, including both the Main Principles and the supporting principles. An explanation of how the Main Principles have been applied is set out below.

A. Leadership

A1. The Board's role

The Board is responsible for the formulation of strategy; the monitoring of financial and non-financial performance and the approval of major transactions; financial statements; other formal communications with shareholders; and operating and capital expenditure budgets.

Comprehensive Board papers dealing with all aspects of the business are distributed by the Company Secretary typically one week in advance of each Board meeting.

The Board met seven times during the year.

A3. Role of the Chairman

The Chairman sets the agendas for Board meetings, manages the meetings (in conjunction with the Company Secretary) and facilitates open and constructive dialogue during them.

A2. A clear division of responsibilities

There exists a clear division of responsibilities between the Chairman and the Chief Executive. The Chairman's primary role includes ensuring the Board functions properly, that it meets its obligations and responsibilities, and that its organisation and mechanisms are in place and are working effectively.

The Chief Executive's primary role is to provide overall leadership and vision in developing, with the Board, the strategic direction of the Company. Additionally, the Chief Executive is responsible for the management of the overall business to ensure that strategic and business plans are effectively implemented, the results are monitored and reported to the Board, and financial and operational objectives are attained.

The Board delegates management of the business to the Executive Committee, headed by the Chief Executive Officer. The Executive Committee meets weekly and is responsible for implementing Group strategy, monitoring business performance, preparing the operating and capital expenditure budgets for recommendation to the Board, and ensuring efficient management of the Group.

A4. Role of the Non-Executive Directors

The Non-Executive Directors attend the Board meetings, and form the Audit, Remuneration and Nomination Committees. They are responsible for scrutinising the performance of management and determining appropriate levels of remuneration of Executive Directors. They also have a key role in appointing and, where required, removing Executive Directors.

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CORPORATE GOVERNANCE STATEMENT CONTINUED

B. Effectiveness**B1. The Board's composition**

The Nomination Committee is responsible for regularly reviewing the composition of the Board. In recommending appointments to the Board, the Nomination Committee considers the range of skills, knowledge and experience required, taking into account the benefits of diversity on the Board, including gender.

The Board of Directors comprises the Chairman, three Executive Directors and three Non-Executive Directors.

The Board considers Margaret Rice-Jones, Chris Morgan and Andrew Herbert to be independent within the meaning of the Code. To be considered independent each Non-Executive Director is sufficiently separate to management and free from any business or other relationships which could affect their judgement, impartiality or objectivity.

B3. Time commitments

On appointment, Directors are notified of the time commitment expected from them. External directorships, which may affect existing time commitments, must be agreed with the Chairman.

B5. Provision of information and support

The Chairman, in conjunction with the Company Secretary, ensures that all Board members receive accurate and timely information.

B7. Re-election of Directors

All Directors were subject to shareholder election or re-election at the 2016 AGM, as will be the case at the 2017 AGM.

B2. Board appointments

The appointment of new Directors is led by the Nomination Committee. Further details of the activities of the Nomination Committee can be found on page 56.

B4. Induction, training and development

When new Directors are appointed, they receive a complete and specially bespoke induction and training programme aimed at introducing and familiarising them to the management team, the Group's activities and processes, and to give them the knowledge required to effectively execute their role.

B6. Board and committee performance evaluation

The Board's policy for individual Director performance review is for a formal and rigorous appraisal process based on performance by the individual Director against specific targets. Individual Director performance is reviewed at least annually. The Senior Independent Director, in consultation with the other Non-Executive Directors and taking into account the views of the other Directors, appraises the performance of the Chairman. The Executive Directors, in consultation with the Chairman, appraise the performance of the Non-Executive Directors.

The Board reviewed both its own performance and the performance of the Board committees once during the year through a questionnaire issued to all members of the Board. The results were reviewed by the Board as a whole and it was concluded that individual Board members are satisfied that the Board works well and operates effectively in an environment where there is constructive challenge from the Non-Executive Directors. They are also satisfied with the contribution made by their colleagues and that Board committees operate properly and effectively. It is the Board's intention to review its own performance, and that of its committees, at least once a year.

C. Accountability

C1. Financial and business reporting

The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable. The Strategic Report, set out on pages 4 to 39, provides information about the performance of the Group, the business model, the Group's strategy and the risks and uncertainties relating to the Group's future prospects.

C3. Role and responsibilities of the Audit Committee

The role and responsibilities of the Audit Committee are set out in the Audit Committee section on pages 54 to 55.

C2. Risk management and internal control systems

The Group's policies relating to risk management and internal control can be found in the 'Risk management' section of the Strategic Report on pages 29 to 33.

The Committee has formally identified the Chief Operating Officer as the Director responsible for health and safety and the Chief Financial Officer as Director responsible for risk assessment.

D. Remuneration

D1. Levels and elements of remuneration

The Remuneration Committee sets levels of remuneration which are designed to promote the long term success of the Group and structures remuneration so as to link it to both corporate and individual performance, thereby aligning management's interests with those of shareholders.

D2. Development of remuneration policy

Details of the activities of the Remuneration Committee can be found in the Remuneration Committee section on page 57 and in the Directors' Remuneration report on pages 58 to 79.

E. Relations with shareholders

E1. Shareholder engagement and dialogue

The Directors seek to build on a mutual understanding of objectives between the Group and its institutional shareholders by meeting at least twice per year, following interim and annual results, to provide an update on trading and obtain feedback. Additionally, the Group has hosted institutional investors at its Cambridge and Huntingdon offices during the year.

The Group's financial public relations advisors and lead brokers give all investors and potential investors who have met with the Group's investor relations team, the opportunity to provide feedback on the meetings. Additionally, the Chief Executive Officer and the Chief Financial Officer provide feedback to the Board at the meeting following shareholder meetings to ensure that the Board, and in particular the Non-Executive Directors, possess an understanding of the views of the Company's major shareholders. Both the Chairman and the Senior Independent Director are available to meet with shareholders as required.

Shareholders can access up-to-date Company information from the Investors section of the Xaar website at www.xaar.com.

E2. Constructive use of the AGM

The Board uses the AGM to communicate with investors and to encourage their participation.

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CORPORATE GOVERNANCE STATEMENT CONTINUED

Summary of Board meeting attendance in 2017

Seven Board meetings were held in 2017.

Name	Meetings attended
Lily Liu*	5 (5)
Robin Williams	7 (7)
Margaret Rice-Jones	7 (7)
Doug Edwards	7 (7)
Alex Bevis*	2 (2)
Ted Wiggans	7 (7)
Chris Morgan	7 (7)
Andrew Herbert	7 (7)

* Lily Liu joined the Board on 2 May 2017 as Chief Financial Officer. Alex Bevis resigned as Chief Financial Officer on 29 March 2017.

Figures in brackets denote the maximum number of meetings that could have been attended.

Board committees

Summary of committee membership:

Name	Audit Committee	Remuneration Committee	Nomination Committee
Robin Williams	Yes	Yes	Chairman
Margaret Rice-Jones	Yes	Chairman	Yes
Chris Morgan	Yes	Yes	Yes
Andrew Herbert	Chairman	Yes	Yes
Doug Edwards	No	No	Yes

Summary of committee meeting attendance in 2017:

Name	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held	4	4	2
Robin Williams	4 (4)	4 (4)	2 (2)
Margaret Rice-Jones	4 (4)	4 (4)	2 (2)
Chris Morgan	4 (4)	4 (4)	2 (2)
Andrew Herbert	4 (4)	4 (4)	2 (2)
Doug Edwards	N/A	N/A	2 (2)

Figures in brackets denote the maximum number of meetings that could have been attended.

Conflicts of interest

Following the changes made to the Company's Articles of Association to incorporate the provisions of section 175 of the Companies Act 2006 which gave boards the statutory power to authorise conflicts of interest, any potential conflict of interest is approved by the Board in advance of any action or appointment that could result in a conflict of interest arising. Each member of the Board is familiar with the procedure to follow in relation to conflicts of interest and the process is operated efficiently.

Group structure

The Group has three main locations. The head office functions, R&D, EMEA sales, marketing, human resources, finance, IT and facilities are based in Cambridge, UK. The Group also has two manufacturing facilities: one in Huntingdon, UK, and the other in Vermont, USA. The Swedish manufacturing facility closed in 2016. The Group also has representatives in other global locations including India and Hong Kong.

Refer to page 14 for the Xaar business model.

Whistle-blowing, and anti-bribery and corruption policies

The Company conducts its business with the highest standards of integrity and honesty at all times and expects its employees to maintain the same standards in everything they do. Employees are therefore required to report any wrongdoing by Xaar or its members of staff that falls short of these principles. The whistle-blowing, and anti-bribery and corruption policies are available and communicated to all employees via the Company intranet, and all employees confirm in writing that they have read and comply with the whistle-blowing and anti-bribery and corruption policies. All reported incidences of actual or suspected bribery or corruption will be promptly and thoroughly investigated and dealt with appropriately. The purpose of the anti-bribery and corruption policy is to protect Xaar and its employees from breaches of anti-bribery and corruption laws. Xaar does not tolerate any employee or third party being involved in any level of bribery or corruption. Xaar is committed to complying with applicable anti-bribery and corruption laws in all countries in which it conducts business.

Statement of compliance with the Code

Throughout the year ended 31 December 2017 the Company has followed the provisions set out in the Code.

The Board confirms the 2017 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the performance, strategy, and business model of the Company.

Approval

The Corporate Governance statement was approved by the Board on 21 March 2018 and is signed on its behalf by:



Lily Liu
Chief Financial Officer and
Company Secretary