

## Notes to the Company financial statements for the year ended 31 December 2017

### 1. Significant accounting policies

#### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 and in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. The results of Xaar plc are included in the consolidated financial statements of Xaar plc.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements of Xaar plc.

The financial statements have been prepared under the historical cost convention.

The principal accounting policies adopted are the same as those set out in note 3 of the consolidated financial statements except as noted below. They have all been applied consistently throughout the year and the preceding year.

#### Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment and capital related to share-based payments. Contributions in respect of share-based payments are recognised in line with the policy set out in note 8.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Bonds with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments and are measured at amortised cost using the effective interest method less any impairment.

#### Dividends

Dividend income is recognised when an irrevocable right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

### 2. Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year.

The average number of employees throughout 2017 was 52 (2016: 55). Staff costs amounted to £2.8 million (2016: £2.8 million). Information about the remuneration of Directors is provided in the audited part of the Directors' Remuneration report on page 60. For the remuneration of key management personnel of the Company see note 34 of the consolidated financial statements.

The audit fee for the audit of the Company's financial statements in 2017 was £22,000 (2016: £22,000).

### 3. Fixed and current asset investments

	2017 £'000	2016 £'000 (Restated)
<b>Subsidiary undertakings</b>		
At beginning of the year	23,547	11,468
Additions in the year	6	11,186
Capital contributions arising from share-based payments	1,920	893
At end of the year	25,473	23,547
<b>Held-to-maturity investments</b>		
At beginning and end of the year	1,000	1,000
Disposals during the year	(1,000)	–
At end of year	–	1,000

### 3. Fixed and current asset investments continued

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

Held-to-maturity investments represented investment in bonds returning interest at 3% per annum, which were due to mature on 22 November 2018. The option to redeem the bonds was exercised on 21 November 2017.

### 4. Debtors

	2017 £'000	2016 £'000
<b>Amounts receivable within one year</b>		
Amounts owed by Group undertakings	61,731	87,012
Prepayments and accrued income	2	14
	<b>61,733</b>	87,026
<b>Amounts receivable after more than one year</b>		
Deferred tax asset	135	139
	<b>61,868</b>	87,165

Amounts owed by Group undertakings are trading balances under normal commercial terms and interest is not charged.

The Finance (No 2) Act 2015, provided for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017, and a reduction to 18% effective from 1 April 2020. Finance Act 2016 provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

The deferred tax asset relates to amounts recognised in respect of share-based payments.

### 5. Creditors

	2017 £'000	2016 £'000
<b>Amounts falling due within one year</b>		
Amounts owed to Group undertakings	11,293	33,472
Accruals	566	318
	<b>11,859</b>	33,790

Amounts owed to Group undertakings are trading balances under normal commercial terms and interest is not charged.

For additional disclosures relating to financial liabilities, see note 23 to the consolidated financial statements.

**Notes to the Company financial statements** continued  
for the year ended 31 December 2017

## 6. Dividends

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2016 of 6.7p (2015: 6.3p) per share	5,126	4,808
Interim dividend for the year ended 31 December 2017 of 3.4p (2016: 3.3p) per share	2,602	2,520
Total distributions to equity holders in the period	7,728	7,328
Proposed final dividend for the year ended 31 December 2017 of 6.8p (2016: 6.7p) per share	5,326	5,212

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

## 7. Share capital and share premium account

Full details of movements in share capital and the share option schemes, and share premium are given in notes 25 and 26 to the consolidated financial statements.

## 8. Share-based payments

### Equity-settled share option scheme

The Company's share option schemes are open to all employees of the Company. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. The vesting criteria of these options are disclosed in note 32 to the consolidated Financial Statements. If the options remain unexercised after a period of ten years from the date of grant, 42 months in the case of the Share Save Scheme, or five years in the case of the Share Incentive Plan, the options expire. Save as permitted in the share option scheme rules, options lapse on an employee leaving the Company.

The weighted average share price at the date of exercise for share options exercised during the period was £3.94 (2016: £4.62). The options outstanding at 31 December 2017 had a weighted average remaining contractual life of three years (2016: five years), and a range of exercise prices between 0 pence and 417 pence (2016: 0 pence and 616 pence).

The performance conditions relating to the above share options and the exercise prices of options outstanding at the year-end are given in note 32 to the consolidated financial statements.

### Long Term Incentive Plan

The Company's Long Term Incentive Plan is open to all employees of the Company. Vesting of Performance Share Awards made under this scheme is conditional upon the achievement of performance conditions. Full details of the performance conditions are shown in note 32 of the consolidated Financial Statements. All awards made under this scheme are exercisable within three to ten years after the date of grant. Save as permitted in the Long Term Incentive Plan rules, awards lapse on an employee leaving the Company.

The weighted average share price at the date of exercise for awards exercised during the period was £3.60 (2016: no exercises). The awards outstanding at 31 December 2017 had a weighted average remaining contractual life of nine years (2016: eight years). All awards have a £nil exercise price.

## 9. Subsidiary undertakings

The following entities are wholly-owned subsidiary undertakings of the Company:

Name	Country of incorporation	Address of registered office	Principal activity	Issued and fully paid up share capital	Proportion of ordinary share capital held by the company
Xaar Technology Limited	England & Wales	Science Park, Cambridge, CB4 0XR	Research and development	4,445,322 ordinary £1 shares	100%
XaarJet Limited	England & Wales	Science Park, Cambridge, CB4 0XR	Manufacturing, research and development and sales and marketing	2 ordinary £1 shares	100%
XaarJet (Overseas) Limited	England & Wales	Science Park, Cambridge, CB4 0XR	Sales and marketing	1 ordinary £1 share	100%
Xaar Trustee Limited <sup>1</sup>	England & Wales	Science Park, Cambridge, CB4 0XR	Trustee	2 ordinary £1 shares	100%
Xaar Digital Limited	England & Wales	Science Park, Cambridge, CB4 0XR	Treasury	100 ordinary £1 shares	100%
Xaar ApS	Denmark	c/o Bygning OBV 028, Otto Busses Vej 5 A, 1. sal., 2450 Kobenhavn SV, Denmark	Research and development	500 ordinary shares of DKK 100 each	100%
Xaar Group AB	Sweden	Science Park, Cambridge, CB4 0XR	Holding company	1,137,000 ordinary shares of SEK 0.09 each	100%
XaarJet AB <sup>2</sup>	Sweden	Science Park, Cambridge, CB4 0XR	Manufacturing	1,000 ordinary shares of SEK 100 each	100%
Xaar US Holdings Inc.	USA	1209 Orange Street, Wilmington, New Castle County, Delaware, USA	Holding company	6,000 shares of common stock US\$1 each	100%
Engineered Printing Solutions <sup>3</sup>	USA	201 Tennis Way, East Dorset, VT 05253, USA	Manufacturing, sales and marketing	100 shares of common stock US\$1 each	100%
Xaar Americas Inc. <sup>3</sup>	USA	1000 Post and Paddock, Suite 405, Grand Prairie, TX 75050, USA	Sales and marketing	10,000 shares of common stock US\$1 each	100%

<sup>1</sup> Xaar Trustee Limited shares are held by Xaar Technology Limited.

<sup>2</sup> XaarJet AB shares are held by Xaar Group AB.

<sup>3</sup> Xaar Americas Inc. and Engineered Printing Solutions are held by Xaar US Holdings Inc.

## 10. Restatement of prior periods

The financial statements include a prior period restatement in relation to the recognition of the capital contribution made due to Xaar plc's obligation to settle share-based transactions with subsidiary employees with its own equity instruments. The capital contribution has been measured in accordance with IFRS 2 and the requirements applicable to equity-settled share-based payments.

The following table summarises the impact of the prior period restatement on the financial statements of the Company:

### Company balance sheet

	31 December 2016 as previously stated £'000	31 December 2016 adjustment £'000	31 December 2016 restated £'000
<b>Fixed assets</b>			
Investments	15,631	7,916	23,547
<b>Capital and reserves</b>			
Other reserves	25,333	7,916*	33,249

\* Split between £7,023,000 impacting brought forward reserves as at 1 January 2016 and £893,000 impacting the other reserves in the 2016 comparative period.