



Enabling the capture
and sharing of
exceptional content

The Vitec Group plc

Annual Report and Accounts 2018



Capture. Share.

Vitec is a leading global provider of premium branded products and solutions to the fast changing and growing “image capture and content creation” market.

Our customers include broadcasters, film studios, photographers and enterprises, as well as the increasing number of independent content creators (“ICC”).

We design, manufacture and distribute high performance products and solutions, including camera supports, camera mounted electronic accessories, robotic camera

systems, prompters, LED lights, mobile power, monitors, bags, motion control, smartphone accessories and noise reduction equipment.

We employ around 1,800 people in 13 different countries and are organised in three Divisions: Imaging Solutions, Production Solutions and Creative Solutions.



View our reports and presentations online:
www.vitecgroup.com

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Highlights

Key points

Record Group performance in revenue, adjusted profit before tax* and adjusted EPS*

- Growth in revenue of 9.1% and adjusted profit before tax of 20.8%
- Adjusted basic earnings per share* significantly improved by 32.2%, partially benefiting from lower 2018 tax rate
- ROCE* increased to 21.8% (2017: 19.6%)

Significant strategic progress: continued organic growth; improved margins; transformational acquisitions

- Invested selectively in faster growing market segments to achieve organic growth
- Continued to improve margin to 13.9%, up 110 basis points (c.13.5% excluding SmallHD insurance benefit)
- Expanded addressable markets and higher technology capabilities through acquisition of Amimon core technology and Rycote audio

Total dividend increased by 21.3% to 37.0 pence with dividend cover at 2.5 times

Strong balance sheet and good cash generation: free cash flow* of £33.5 million; operating cash conversion* of 84%; and a net debt/adjusted EBITDA* ratio at 1.2x

Outlook for further progress in 2019 remains unchanged

* This report provides alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards ("IFRS"). The Group uses these APMs to improve the comparability of information between reporting periods and Divisions, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group's businesses. APMs are used by the Directors and management for performance analysis, planning, reporting and incentive purposes. A summary of APMs used and their closest equivalent statutory measures is given in the Glossary on page 165.

2018 financial highlights

Revenue

£385.4m

↑ Up 9.1%

Adjusted operating profit*

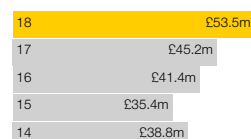
£53.5m

↑ Up 18.4%

Statutory operating profit

£40.2m

↑ Up 33.1%



Adjusted operating margin*

13.9%

↑ Up 110 bps

Statutory operating margin

10.4%

↑ Up 190 bps

Adjusted basic earnings per share*

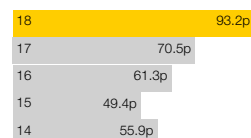
93.2p

↑ Up 23.9%

Basic earnings per share from continuing and discontinued operations

76.1p

↑ Up 23.9%



Net debt

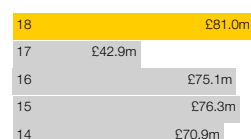
£81.0m

↑ Up 26.8%

Recommended final dividend per share

25.5p

↑ Up 26.8%



Interim dividend per share

11.5p

Total dividend for 2018

37.0p

↑ Up 21.3%

2017 comparatives are for continuing operations unless otherwise stated.

At a glance

Vitec is a global group serving customers in the “image capture and content creation” market.

Technology innovation and social media continue to drive fundamental changes to our market, and Vitec has a clear strategy to capitalise on those changes.

The Group is organised in three Divisions and has leading market positions in each.

Our customers

Vitec’s purpose is to enable our customers to capture and share exceptional content.

Our portfolio of market-leading brands encompasses a variety of technologies, designed and engineered to ensure that, whatever the conditions, the content creator has the best equipment to “capture the moment”.

These technologies range from traditional mechanical engineered products, for example manual camera supports, through to electronics and software. Nonetheless, the user is the same – a content creator – who may be a broadcaster, film or other production company, a corporate, educational or religious establishment or operating as an independent business, or an amateur.

We sell our products globally via multiple distribution channels, our own sales teams, and online via our own direct e-commerce capability and third party platforms.

Our core customers are defined as:

Professional or hobby photographer/videographer, self-employed or social sharing



Commercial TV, news and sport for broadcasters and TV networks



Independent production company or ICC making content for films or scripted TV shows



Our product categories and brands

Our brands are leaders in the markets we serve, both in terms of premium products and market share.

Our products typically attach to, or support, a camera – primarily for broadcast, cinematic, video and photographic applications. Our products serve a wide range of end users and are offered as a cohesive package.

Supports

- Avenger
- Gitzo
- JOBY
- Manfrotto
- OConnor
- Sachtler
- Vinten

Camera accessories

- Manfrotto
- OConnor
- Wooden Camera
- Teradek
- Teradek RT

Mobile power

- Anton/Bauer

Monitors

- SmallHD

Video transmission systems

- Teradek
- Paralinx

Lighting & controls

- Colorama
- Lastolite by Manfrotto
- Litepanels
- Manfrotto

Prompters

- Autocue
- Autoscript

Robotic camera systems

- Camera Corps
- Vinten

Distribution, rental & services

- Camera Corps
- The Camera Store

Bags

- Lowepro
- Manfrotto
- National Geographic*
- Sachtler

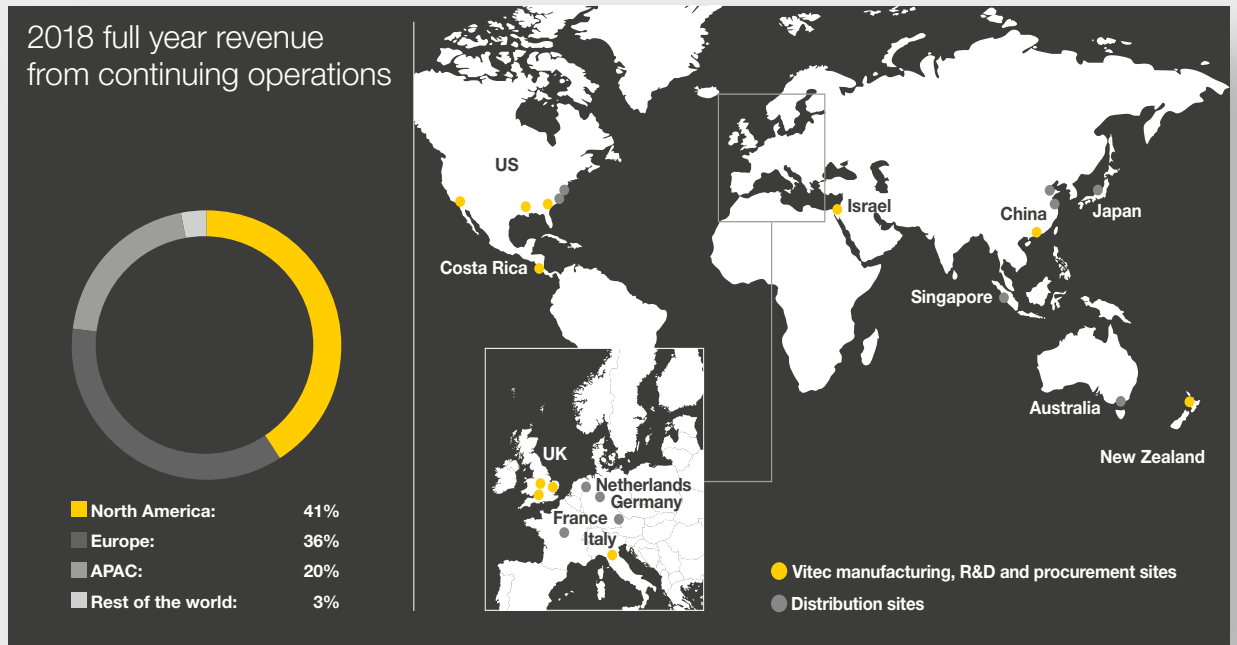
Audio capture

- Rycote

Motion control

- Syrp

* manufactured under licence



Our Divisions

Imaging Solutions

Vitec's Imaging Solutions Division designs, manufactures and distributes premium branded equipment for photographic and video cameras and smartphones, and provides dedicated solutions to professional and non-professional image makers and independent content creators. This consists of camera supports and heads, camera bags, lighting supports, LED lights, lighting controls, motion control and lens filters.

Revenue
£201.6m
 ↑ Up 14.6%



Production Solutions

Vitec's Production Solutions Division designs, manufactures and distributes technically advanced products which give broadcasters, film studios, production companies and independent content creators total confidence in the production equipment they depend upon to capture and share world class footage. Products include video heads, tripods, lights, batteries and speciality camera systems.

Revenue
£118.7m
 ↑ Up 3.9%



Creative Solutions

Vitec's Creative Solutions Division develops, manufactures and distributes products to independent content creators and cinematographers, improving the workflow and giving them the freedom and confidence to create content in multiple ways. Products include video transmission and lens control systems, monitors, camera accessories, noise reduction equipment and software applications.

Revenue
£65.1m
 ↑ Up 3.0%



Chairman's welcome



“

We delivered record revenue and profit before tax and continued to improve operating margin supported by strong operational cash flow.

John McDonough CBE
Chairman

Dear Shareholders,

2018 was another record year for Vitec with exceptional financial results and continued progress delivering our growth strategy. Although our markets were not always straightforward, and despite the disruption caused by a fire in an adjacent building to our SmallHD site, Vitec continued to make pleasing progress. We delivered record revenue and profit before tax and continued to improve operating margin supported by strong operational cash flow.

As a consequence of this exceptional performance, the Board recommends a final dividend of 25.5 pence per ordinary share (2017: 20.1 pence) which, subject to approval by shareholders at the 2019 AGM, will be paid on Friday, 24 May 2019.

In 2018, we continued to invest in new businesses and technologies with the exciting acquisitions of Adeal in Australia, Rycote in the UK and Amimon in Israel. Each of these businesses support our strategic objectives to expand in APAC, get closer to customers, particularly in

the ICC market, improve margins and increase addressable markets served – notably expanding into audio. In early 2019, we acquired Syrp, a New Zealand based slider and motion control business.

2018 also saw Vitec move to a three Division structure – Vitec Imaging Solutions, Vitec Production Solutions and Vitec Creative Solutions. This has enabled us to get closer to customers, react quickly to market and technological changes and to focus on growth.

Operationally, we are now in a strong position to deliver continuing growth with world-leading operational facilities in the UK, US, Italy and Costa Rica. In March 2018, Vitec Production Solutions relocated its headquarters and UK manufacturing operations into a purpose-built facility in Bury St Edmunds that will support the growth for that Division. In April 2018, SmallHD was adversely impacted by a fire in an adjacent building. SmallHD employees responded excellently to this challenge and have now relocated into a new facility that will allow that business to grow further.

In 2018 we updated the composition of the Board, appointing two new independent Non-Executive Directors. On 2 April 2018 we appointed Richard Tyson to the Board, succeeding Mark Rollins. At the same time Christopher Humphrey succeeded Mark as the Senior Independent Director. On 1 September 2018 we appointed Duncan Penny as an independent Non-Executive Director, replacing Lorraine Rienecker. Both Richard and Duncan are serving chief executive officers with other listed companies and bring excellent international and technological experience to the Board that will be invaluable in developing Vitec for the future. Both have undergone thorough inductions to Vitec and are great additions to the Board. I would like to thank Mark and Lorraine for their excellent service to Vitec over the last five years and wish them both future success.

We have further announced that Ian McHoul will join the Vitec Board as an independent Non-Executive Director and Chairman Designate with effect from 25 February 2019. It is intended that Ian will succeed myself as Chairman at the conclusion of the Company's AGM on 21 May 2019. Ian brings considerable experience to Vitec and his biographical details are set out on page 53 of this Annual Report. Ian's appointment follows a thorough and structured Board succession process around the role of Chairman led by Christopher Humphrey as Senior Independent Director and enables Ian to have a thorough induction period to the Group. I would like to place on record my appreciation to the Vitec Board, employees and shareholders during my tenure as Chairman since 2012 and I wish Ian every success in this exciting and challenging role going forward.

As part of the Board's programme in 2018 we visited the new facility in Bury St Edmunds and held our October Board meeting at that site. We carried out an internal Board evaluation, building on the external evaluation in 2017. This assessed the Board's and individual Director's performance. Details of this are set out in the Governance section of this report, however, in summary, the Board and its individual members are performing to a high standard and the additions of Richard and Duncan have strengthened the Board further. As part of the Board's continuing development we will continue to visit our operations worldwide and in 2019 will visit our sites in Bassano and Feltre, Italy.

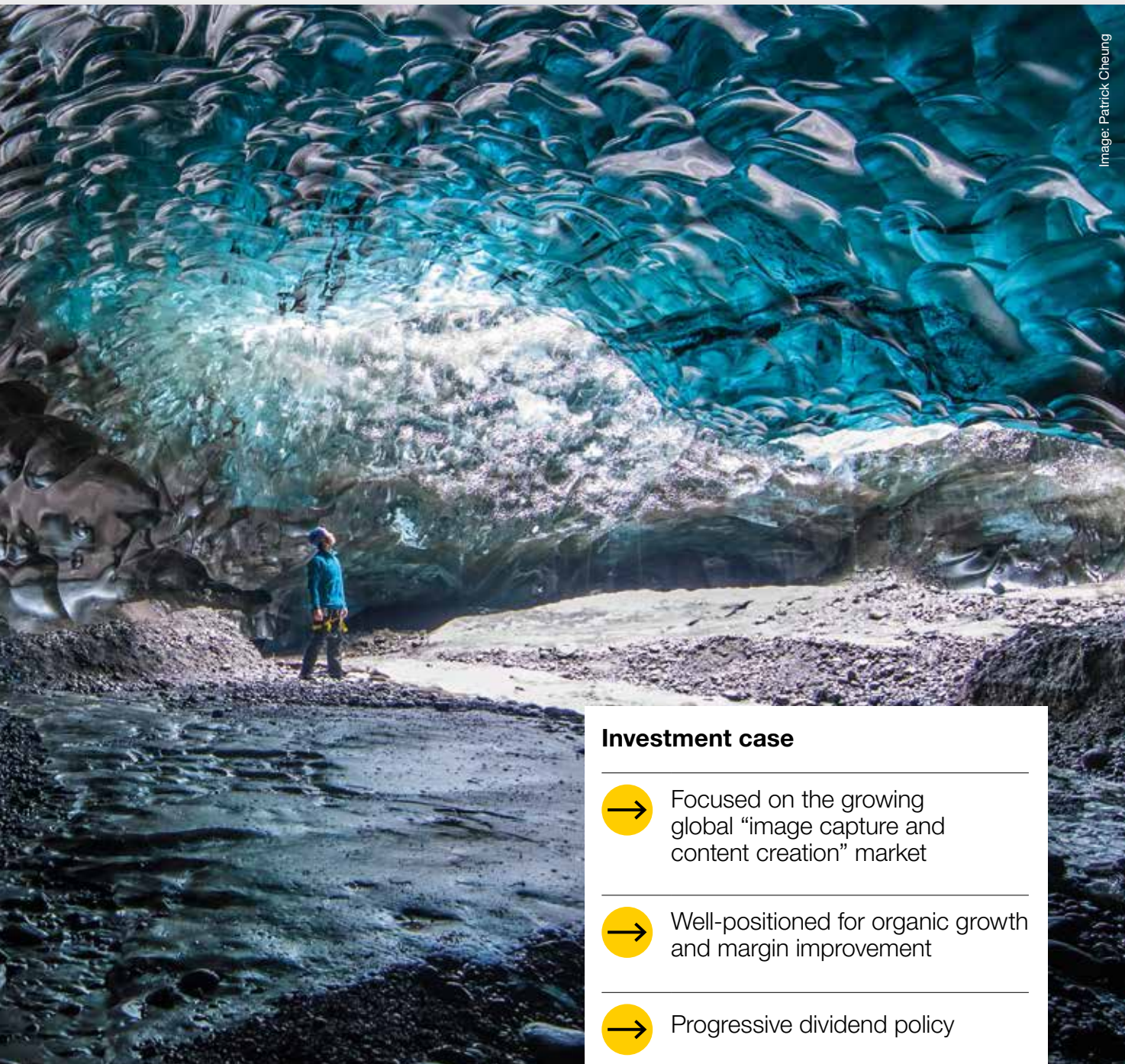


Image: Patrick Cheung

We continue to focus on succession planning and talent development and on behalf of the Board, I would like to thank the 1,800 Vitec people worldwide who continually strive to deliver to our customers vital products and solutions that support the capture and sharing of exceptional content. 2018 saw some challenges around the Group, but our leadership team and all our people have gone the extra mile to deliver outstanding results.

Finally, the Board and I will be at the 2019 AGM to be held on 21 May and we look forward to the opportunity to meet with our shareholders then.

John McDonough CBE
Chairman
20 February 2019

Investment case

- Focused on the growing global “image capture and content creation” market
- Well-positioned for organic growth and margin improvement
- Progressive dividend policy
- Market-leading brand portfolio with premium pricing and increasing technology capability
- Sound financial performance and robust balance sheet
- Continued M&A opportunities

The right strategy for continued growth and value creation

CEO review

Strategic priorities

- 1. Organic growth**
- 2. Margin improvement**
- 3. M&A activity**

Vitec operates in the fast moving and growing “image capture and content creation” market. The overall market is an attractive one, with growth driven by the proliferation of image capture and sharing among an ever increasing number of content creators.

In 2018, Vitec delivered a record financial performance despite some unexpected challenges. We made significant progress implementing our strategic priorities which resulted in organic growth, improved margins and good cash generation.

Our strategic priorities were unchanged in 2018 and will again be our focus for 2019: to continue to grow organically; improve margins; and to invest in new technology and markets.

Organic growth

We continue to leverage our premium brands to invest selectively in faster growing market segments. Growth drivers for our products include: the continued investment in original content by newer streaming companies such as Netflix and Amazon; technology innovation and social media, smart and connected devices, which have stimulated millions of images to be captured and shared every day; broadcasters continuing to create better content more cost effectively; and customer preference shifting to compact system cameras which is offsetting the decline in traditional SLR cameras.

During 2018 we launched a significant number of innovative new products, expanded our geographical reach and grew our distribution and digital channels to get closer to our customers and take market share.

We faced a number of headwinds during the year, including disruption from the fire in an adjacent building to our SmallHD business and the delay in the launch of the much-anticipated mirrorless cameras from Canon and Nikon. There was also a slight impact from tariffs affecting imports from China into the US in 2018, and we have well prepared contingency plans to mitigate any future impact.

Margin improvement

We improved our operating profit margins by optimising our manufacturing and assembly portfolio, improving productivity and channel mix. We expect margin improvement to continue from these actions as well as from growth in the higher margin Creative Solutions Division, from innovative new products and from capturing synergies from acquisitions.



In 2018, we moved our manufacturing operations from Shelton, US to Cartago, Costa Rica and in March opened our new, purpose-built manufacturing site in Bury St Edmunds, UK which enabled us to increase our production capacity in 40% less space. We also completed the integration of the 2017 JOBY, Lowepro and RTMotion acquisitions, delivering the planned synergies.

M&A activity

We have a clear and focused M&A strategy to increase addressable markets served and further increase our higher technology capabilities. Our strong cash generation and robust balance sheet will support further acquisitions.

“

This is a record financial performance for Vitec, with strong growth in revenue, profit and earnings per share.

Stephen Bird
Group Chief Executive



In 2018, we supplemented organic growth with the carefully targeted acquisitions of Adeal, Rycote, and Amimon.

In March 2018, we acquired Adeal, our Vitec Imaging Division's former Australian distribution partner, for A\$4.5 million (£2.5 million), to enable us to expand in APAC and get closer to our customers.

In September 2018, we acquired Rycote for up to £8.5 million. Rycote is a market-leading manufacturer of advanced noise reduction equipment for the audio capture market. Quality audio is an integral element in the creation of high quality videos and Rycote enables us to enter the growing audio capture market, adding innovative and complementary audio devices for our customers.

In November 2018, we acquired Amimon for an expected total investment of \$59.9 million (£46.1 million). Amimon designs and develops chipsets and modules for real-time wireless video transmission, primarily for professional filmmaking and high-end productions. Amimon brings market-leading and patented technology and high calibre engineering capabilities to the Group. Owning the core wireless video technology in our Creative Solutions products enables us to focus on developing new products for our customers and to expand quickly and cost-effectively into the adjacent Broadcast on-location sports and news market. It also opens up the opportunity for us to develop further integrated products that support the camera eco-system with innovative new functionality.

In January 2019, we acquired Syrp for an initial consideration of NZ\$4.5 million (£2.4 million) with potential for further earnout. Syrp designs and develops motorised camera sliders and motion control hardware and software to enable creatives to control their camera equipment remotely. Social media is driving unprecedented growth in short, dynamic videos and speeded up time-lapse productions, and Syrp products give our photographic and ICC customers greater flexibility to create and share more interesting content. This acquisition increases our addressable markets and expands our higher technology capabilities.

2018 performance overview

We are pleased to report that Vitec achieved a record financial performance, with strong growth in revenue, profit and earnings per share. Group revenue increased by 9.1% to £385.4 million (2017: £353.3 million) and adjusted profit before

tax* was 20.8% higher at £51.2 million (2017: £42.4 million). At constant exchange rates, revenue was 10.8% higher and adjusted operating profit* was 17.1% higher than prior year. Solid performance in the underlying business, successful new product launches and continuing operational efficiency improvements were supplemented by acquisitions and the Winter Olympics.

Adjusted operating margin* was 13.9% on a reported basis which includes a small benefit from the accounting treatment of the SmallHD insurance claim. The Group's margin also benefited from strong cost control including operational efficiencies across the portfolio.

As a result of the Group's strong performance and an improvement in the effective tax rate, adjusted basic earnings per share* increased by 36.9% to 93.2 pence per share (2017: 68.1 pence per share including discontinued operations). ROCE* also increased again, to 21.8% (2017: 19.6%).

Free cash flow* was £33.5 million (2017: £23.5 million) and net debt at 31 December 2018 was £81.0 million (31 December 2017: £42.9 million). The Group's balance sheet remains strong with a year-end net debt to adjusted EBITDA* ratio of 1.2 times (31 December 2017: 0.7 times).

Outlook

Vitec is a strong, agile business and we continue to build on our leading positions in the fast-moving and growing "image capture and content creation" market. The Group's diversified product portfolio, operational excellence and technology innovation makes us well placed to create further value through organic growth, margin improvement and carefully targeted acquisitions.

Despite potential geopolitical challenges, the Board remains confident about future growth prospects and the outlook for further progress in 2019 remains unchanged, and will be H2 weighted as expected.

Approval of Strategic Report

We have provided information in this report on our strategy, business model and objectives. You will find the Strategic report on pages 1 to 51 and its content has been approved by the Board.

Stephen Bird
Group Chief Executive
20 February 2019

08 **Our year in review**

In 2018, Vitec made significant progress implementing our strategic priorities. We invested in new product development to achieve organic growth, delivered continued operational excellence to achieve margin improvement and completed three acquisitions to expand our addressable markets and increase our higher technology capabilities.

Operational development

→ Completed integration of RTMotion into Creative Solutions

Product launch

→ New JOBY GripTight TelePod, developed for smartphones

→ New 703 Bolt Director's Monitor integrating SmallHD, Teradek and RTMotion



Product launch

Launched the new Manfrotto Befree Advanced collection for new generation mirrorless cameras



Operational development

Moved to three-Divisional structure



Event

Camera Corps supported the Winter Olympics in South Korea

Operational development

Completed move of manufacturing facility in Bury St Edmunds, increasing production capacity in 40% less space

Acquisition

Acquired Australian distributor Adeal, which strengthened our presence in APAC



January →

February →

March →



Operational development

Completed move of Anton/Bauer manufacturing from Shelton, US to Costa Rica



Acquisition

Acquired Rycote noise suppression equipment, opening the opportunity to enter the growing audio capture market



Product launch

→ New Sachtler/Vinten Flowtech100 tripod

→ New range of Lowepro bags

→ New line of Wooden Camera accessories for Blackmagic cameras

→ New range of Teradek RT equipment for RED

→ Over 50 new products launched at Photokina, designed for new generation compact system cameras

July/August →

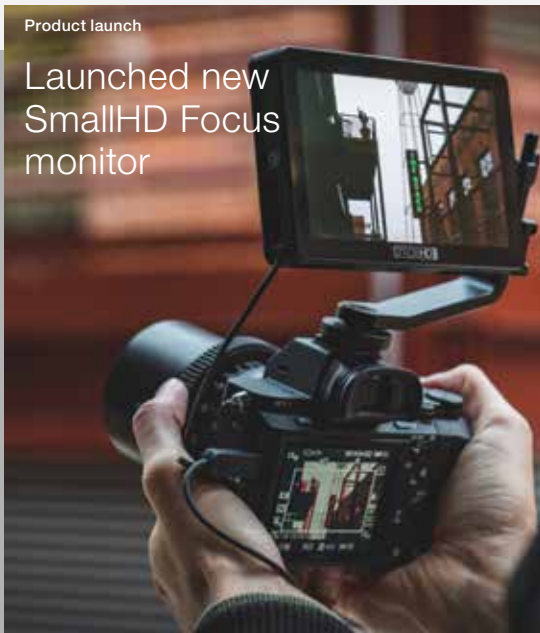
September →

2018 Timeline Key

- Acquisition
- Product launch
- Operational development
- Event

Product launch

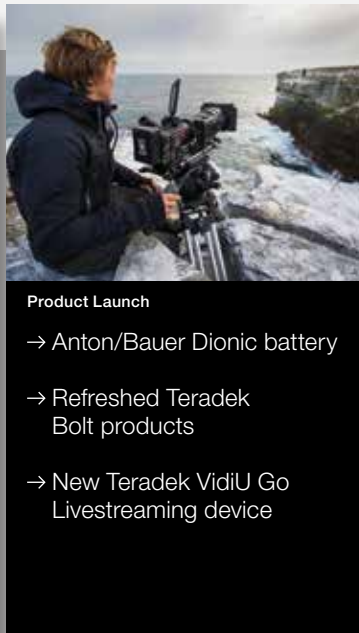
Launched new SmallHD Focus monitor



April →

Product Launch

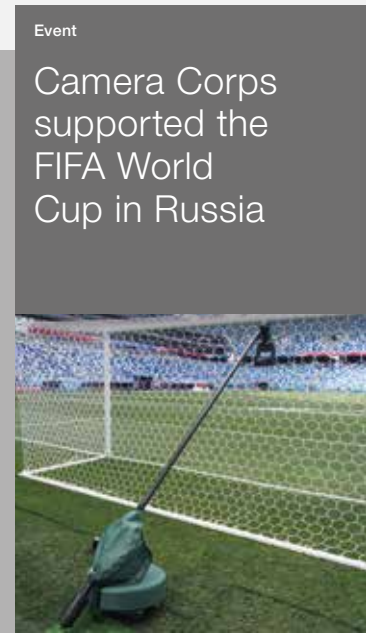
- Anton/Bauer Dionic battery
- Refreshed Teradek Bolt products
- New Teradek VidiU Go Livestreaming device



May →

Event

Camera Corps supported the FIFA World Cup in Russia



June →



Product launch

- New Wooden Camera Pro Power Plates in partnership with Anton/Bauer
- New Creative Solutions LA Customer Experience Centre opened

October →

Acquisition

Acquired wireless video software company, Amimon




November/December →

Operational development

- Completed integration of JOBY and Lowepro brand acquisitions into Imaging Solutions
- Completed move of SmallHD into new 33,000 sq ft facility



Event

ProShare award for the most effective communication of an employee share plan for a company with under 5,000 employees

Our people and culture

Vitec's clear strategy, organisational structure and entrepreneurial culture allows us to adapt to changing markets, constantly innovating to make our products the best in the world.

Our people are key to Vitec. Their attitude and abilities, experience and market knowledge, talent and commitment create a culture that supports product excellence, creativity and integrity.

From 1 January 2018 we reorganised the business into three Divisions which allows us to react quickly to customer, market and technological changes. This, together with our decentralised structure and entrepreneurial culture, enables focused decision making.

We continue to supplement organic growth with carefully targeted acquisitions and have a strong track record in successfully integrating acquisitions and retaining key talent to grow the business.

Development, succession and retention

Our employees are critical to our success. Passionate, engaged and skilled employees in safe working environments positively contribute to our strategy, performance and reputation.

We work across the Group to monitor and improve areas that are important to our people, ensuring that we have consistent policies and processes in place to acquire, engage and retain our best talent. Initiatives focus on wellbeing, working environment, diversity, employee benefits and training.

We have comprehensive benefits packages to support and retain talent, and remain competitive globally. Participation in our Company Sharesave scheme is excellent and demonstrates close alignment between our employees and shareholders.

We continue to improve the working environment for our employees, creating modern spaces with upgraded

technology and communication systems that enable collaboration and efficiency.

Learning and development is encouraged in line with personal development plans, annual performance appraisals and organisational need. Reviews of senior employees include succession planning matrices to understand the organisation's capacity and capability for achieving its strategic plans. We encourage inter-company recruitment between Divisions, including the Group Head Office. Senior management communicate with employees on a regular basis, keeping them informed of strategy and business performance at a Group, Divisional and regional level.

Diversity and inclusion

We strive to employ a diverse workforce and foster an equal opportunities culture with an express prohibition on discrimination of any kind.

Our approach to diversity follows a strict policy of sourcing the best person for the role irrespective of race, gender, age, religion, sexual preference or disability. Flexible working policies are in place across our three Divisions and open to all employees. This is usually granted, unless the needs of the business cannot otherwise be met.

It is Vitec's policy that applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of employees becoming disabled, all reasonable effort is made to ensure that their employment within the Group continues. It is our policy that the training, career development and promotion of disabled persons should be, as far as possible, identical to that of all other employees.



Core Values

We have a clear purpose that is founded on a set of core values that form the Vitec Mindset:
 "Enabling the capture and sharing of exceptional content"

Exceptional product performance

We set the highest standards of technical performance

Customer focus

We are nothing without our customers

Leading a fast changing market

We apply our creativity and harness our diversity to engineer innovative new products and solutions

Global capability

We share knowledge, pool resources, test ideas and learn from each other

Transparency, integrity, respect

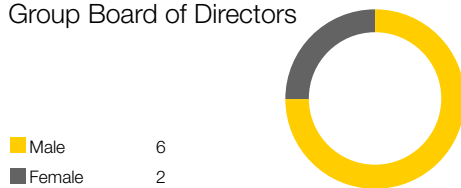
We hold to the highest professional and corporate standards



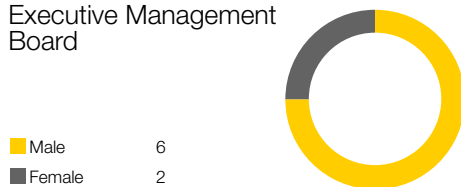
Gender diversity*

The Board continues to monitor progress on equality and the Group's gender breakdown at the end of 2018 is listed below. The Company works to attract women to Vitec and to encourage them to apply for promotions.

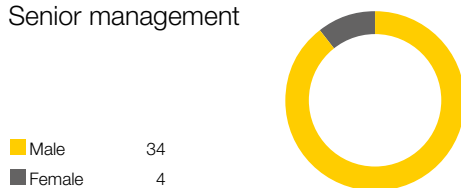
Group Board of Directors



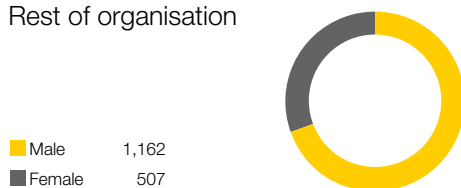
Executive Management Board



Senior management



Rest of organisation



We employ around 1,800 employees in 13 countries who work in accordance with local employment legislation, policies and our organisational values.

* Contractors are excluded.

“

My whole experience in the Group has been an exciting roller-coaster. Moving from Italy to our Petaluma, US, offices to join the LowePro and JOBY Communications team has been my most recent challenge. The Company has given me a unique opportunity for personal and professional growth.

Claudia Rossi
Communications Manager, JOBY,
Vitec Imaging Solutions

“

Working for the Vitec Group has given me the chance to make an impact in many areas of our business, from sales and marketing, to support and product development. It's rare to find a company that empowers its employees with a wide variety of opportunities to do more for their careers.

Michael Gailing
Market Segment Manager, Webcast,
Vitec Creative Solutions

“

Vitec continues to grow, and being part of that journey has been challenging, stimulating and rewarding. Working closely with colleagues from across the business on a variety of projects has given me the opportunity to broaden my experience and develop my career. After working in the Group Head Office for six years, I now lead the finance function and IT teams in the Production Solutions Division.

Andrew Kelly
VP Finance,
Vitec Production Solutions

“

Rycote became part of the Vitec Group in 2018, as the Group's first audio brand. I am thoroughly enjoying working with my new colleagues and, as sound is such an important element in the creation of great video, I look forward to bringing exciting new audio products to Vitec's customers.

Rich Hall
Chief Marketing Officer, Rycote,
Vitec Creative Solutions

“

It's no small thing to find yourself in the midst of a dynamic and talented team. At once, challenging and rewarding, Vitec fosters a winning attitude I am proud to be a part of.

Kevin Crandall
Senior Director Asian Operation
Systems & HK Site Manager,
Vitec Imaging Solutions

“

Being offered the opportunity to lead the Sales and Marketing team in APAC shows that Vitec truly practises diversity. But practising diversity should be coupled with merit, and I believe that I was selected, and also thankful to be given the opportunity, to lead the region based on my proven ability and credibility gained over the years with Vitec.

Audrey Chang
Director of Regional Sales & Marketing – APAC,
Vitec Production Solutions

Market trends

The capture and sharing of images is a dynamic market that has transformed over the past decade and is continuing to change. Technology innovation and social media have driven the “democratisation” of content creation and consumption and a sustained demand for new and replacement products.

Multiple new image capture devices

Imaging technology has continued to improve. Many different devices now enable customers to “capture the moment”.

In the cine and broadcast markets, some cameras now film in 4K and have high quality recording capabilities. In the professional photography market, many cameras can shoot video as well as stills. There has also been the emergence of small, lighter interchangeable cameras, known as compact system or mirrorless cameras.

Continued technological enhancements mean that premium mirrorless cameras, drones, action cameras and smartphones have been adopted by customers as complementary equipment to traditional cameras. However, the built-in viewfinders and audio in those devices is not high quality. Using small viewfinders does not make it easy to detect artefacts and poor audio deteriorates the video.

This has opened up further opportunities for Vitec to develop and commercialise innovative products that enable a creative to obtain the best results from additional equipment. Technology has enabled streaming of content to mobile devices and for viewfinders to be Organic Light-Emitting Diode (“OLED”) to enable monitoring on high quality screens. Creative Solutions has led the market with OLED and daylight viewable monitors. Imaging Solutions has developed a comprehensive range of products designed for use with mirrorless cameras such as Manfrotto and Gitzo Befree tripods, and JOBY compact tripods with smartphones.

Proliferation of new media platforms

Proliferation of new media and growth of third party streaming applications has resulted in a significant increase in video consumption, and thus video creation.

Creatives must deliver content to more platforms and devices than ever before to build brand awareness and retain their audience. Free streaming platforms such as YouTube Live allow content creators to stream live to mobile devices.

In addition, online platforms such as Netflix and Amazon continue to increase spending on original content. To encourage subscriptions, these platforms have invested in high production values akin to traditional films.

This has driven the growth of independent and owner/operator producers and of traditional production companies that typically purchase or rent equipment. Smaller production companies and ICCs require more affordable products.

Our products are designed to meet the needs of these ICCs and companies producing premium content for streaming productions.

Vitec provides a wide range of mobile equipment such as Manfrotto and JOBY compact tripods and monopods, Litepanels portable lights and Manfrotto and Lowepro carrying solutions, while Teradek’s Live:Air production suite offers a comprehensive video mixer for mobile devices.

Wireless video transmission

Growth in the use of wireless devices to transmit data and images on “connected devices”, whether through WiFi, cellular networks or proprietary video networks.

The cost-effectiveness, flexibility, range and quality of video data encoders, decoders and related components allows users to monitor and transmit at increasingly lower cost and improved workflow. The flexibility that wireless video gives in creating interesting content from new angles, together with the cost savings from reduced labour will encourage the wider adoption of wireless cameras.

Our acquisition of Amimon will enable Vitec to control the underlying technology that is used in our existing Teradek encoders and decoders. We also plan to transfer the Amimon technology to other areas of the “image capture and content creation” market to stimulate the wider adoption of wireless – for example in broadcast sports.

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Vitec is uniquely positioned in an exciting and fast growing market. Sustained investment in new markets, technologies and products will enable us to retain our market-leading positions, provide new growth opportunities and create shareholder value in the future.

Martin Green

Group Business Development Director



Changes in distribution channels

Continued growth in digital distribution channels for products for photographers, videographers and independent content creators.

This has stimulated increased demand from new customers, particularly in emerging economies where e-commerce provides easier and faster access to a wider range of products and tutorial information.

As well as pure e-tailers such as Amazon and JD.com, established outlets such as B&H Foto and Electronics Corp also have a strong online presence.

As a result, there has been a decline in the number of photo speciality stores and more recently, consolidation, among consumer electronics stores as they seek to reduce costs to compete with pure e-tailers.

Vitec Imaging Solutions has adapted to the change in distribution channels. In 2018, approximately one-third of its revenue came from on-line platforms and its largest customer is an e-tailer.

Further technology innovation

4K resolution adoption has increased rapidly, with Netflix, Amazon, Sky and Apple all offering 4K Ultra HD streaming services.

As adoption grows around the globe, studios and video cameras are being upgraded with new technology resulting in increased demand for our high-end products and software to accommodate the new formats.

The adoption of 4K video technology to both DSLR and compact system cameras is attracting a growing number of creatives who can now produce high quality visual content in either still or motion picture formats with highly dependable, portable and affordable equipment. This positive trend is expected to further consolidate with the evolution of 4K into 8K technology which will enable the extraction of high resolution still images from video assets.

Exciting and unusual content

Content creators are increasingly keen on novel viewing angles to capture innovative and differentiated content.

Traditional broadcasters and rights holders such as the International Olympic Committee, welcome the opportunity to show original shots. This can enable them to differentiate their content from other broadcasters and to increase viewing figures.

News crews need to be able to “capture the moment” by being able to deploy their equipment quickly and efficiently.

Independent content creators are keen to deploy new tools such as sliders, gimbals and drones to make their content more interesting. For example, using time lapses and hyper lapses.

Vitec has pioneered the use of the new Dual Mini Remote Head which supported high motion cameras at the 2018 Winter Olympic Games. It was also engaged to provide unique images from the 2018 World Cup for through-the-net football replays.

Vitec’s carbon-fibre Flowtech tripod is popular for electronic news gathering and with independent content creators. It allows much faster and easier camera deployment to “capture the moment”.

Vitec’s acquisition of Syrp adds sliders and motion control capabilities to the Group. This will enable us to develop products that offer “dynamic stabilisation” such as gimbals.



Our business model

We use our premium brands, unique market positions, efficient supply chain and global distribution to deliver long-term value to our shareholders, outstanding product service to our customers and rewarding careers for our people.




Clear strategy

Our strategy is focused on delivering growth and margin improvement. We consider how key strategic decisions will impact each stakeholder group.

Robust governance

At Group level we create value by setting and monitoring strategic plans, budgets and forecasts, managing treasury and tax, health and safety, and assessing risk. The team ensures that a robust governance framework, policies and procedures are in place to ensure a strong culture and ethical behaviour, as well as managing acquisitions and disposals, corporate reporting and investor relations.

Three Divisions

-  See page 22 for more on our Imaging Solutions Division
-  See page 26 for more on our Production Solutions Division
-  See page 30 for more on our Creative Solutions Division

Our three Divisions focus on the different needs of our customer segments. They are decentralised and entrepreneurial but work with a global mindset in specific areas, where it makes sense to share our capabilities to benefit our stakeholders.

People and culture

We work across the Group to ensure that we have consistent policies and processes in place to acquire, engage and retain our best talent. Our decentralised, three-Division structure enables focused decision-making and allows us to react quickly to customer, market and technological changes.

How we create value:



Market knowledge and customer insight

Designing innovative products to make our customers' lives easier is what drives us. Our Divisions continually obtain customer feedback on market trends, competitors and their products, as well as from research.

Our long-standing and extensive market expertise enables us to remain close to our customers, anticipating and responding to developments to ensure that our brands remain at the forefront of the industry, renowned for their premium offerings.



Innovative product development

For a business like Vitec, intelligent and sustained investment in new products, technologies, markets and people enables us to retain our market-leading positions and create value in the future.

Our experienced, specialist engineers apply new technologies, products and materials to develop high quality, high performance solutions. Our innovative products are protected by patents and trademarks and marketed under our world renowned brands.

We produce the majority of our products in-house and work with selected, market-leading partners for specialist solutions.

We supplement in-house new product development with carefully selected acquisitions in new markets and technologies.



Sourcing and manufacturing excellence

Focused on safety, quality, efficiency, cost and on-time delivery, sourcing and manufacturing excellence is one of Vitec's core competitive strengths.

Our supply chain is efficient and our people highly trained and multi-skilled. We procure materials from reputable suppliers and make our products in efficient and environmentally friendly operations and, where appropriate, manufacture or source from lower cost countries such as Costa Rica and China.

The majority of our operations are relatively low-volume, small-batch processes and our continuous improvement culture enables us to optimise our global operations to maximise quality, service and efficiency, while reducing costs.



Distribution and routes to market

We market our products and services through our own sales and marketing teams.

The majority of our sales are conducted via a global network of distributors, dealers and retailers who sell on to customers. The breadth of our product portfolio and our strong brand heritage means that our network of channel partners is unrivalled in the markets we serve.

We continue to expand our e-commerce capabilities, working closely with our customers to develop our online presence.

We also engage with a number of leading logistics partners to ensure responsive and timely delivery of our products to the relevant geography.



Who we create value for:

Customers

Vitec's purpose is to enable our customers to capture and share exceptional content.

Employees

We hold to the highest professional and corporate standards. Our employees are rewarded fairly and incentivised to deliver our strategy.



Investors

Our clear and focused strategy is delivering continued growth and value creation.

Community

Doing the right thing for our people, our suppliers, our community and our environment is a core part of our values.

Suppliers

We build close and mutually beneficial relationships with our suppliers to source the best possible materials.

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Our strategic progress and KPIs

The Group's clear strategy is focused on organic growth, margin improvement and further M&A activity.

Strategy

Organic growth

We continue to leverage our premium brands to invest selectively in faster growing market segments. We launched innovative new products, expanded our geographical reach and grew our distribution and digital channels to get closer to our customers and take market share.

A strong performance across the Group resulted in organic growth. R&D investment remained at c. 4.5% of product revenue and during 2018 we launched a significant number of new products. Growth was also driven by the Winter Olympics, the FIFA World Cup and good performance from products launched in 2017. We invested in sales and marketing resources in India, Australia and South Korea for Vitec Production Solutions, and China and India achieved strong year-on-year performance in Imaging Solutions. Vitec Imaging Solutions further developed its own e-commerce platform, growing revenue from direct and indirect e-commerce. Process improvements in Imaging's UK manufacturing facility in Ashby-de-la-Zouch contributed to growth in sales of lighting controls and backgrounds.

Margin improvement

We continue to improve our operating profit margins by optimising our manufacturing and assembly portfolio, by improving productivity and channel mix, by growing the higher margin Creative Solutions Division and by making higher margin acquisitions.

Strong cost control and operational efficiencies across the portfolio improved margins, as well as synergy benefits from the completed integration of the JOBY/ Lowepro and RTMotion acquisitions. We achieved more than the targeted 3% manufacturing efficiency savings in Imaging Solutions, reflecting the ongoing focus on operational excellence and automation. We moved Anton/Bauer battery manufacturing from Shelton, US to Costa Rica, which has started to deliver savings, and opened a new, purpose-built manufacturing site in Bury St Edmunds, increasing production capacity in 40% less space. We also opened a new, purpose-designed SmallHD facility which has increased our capability for product development and capacity to grow.


M&A activity


We have a clear and focused M&A strategy to increase addressable markets served and further increase our higher technology capabilities to drive growth and improve margins. Our strong cash generation and robust balance sheet allows us to make progress.


During 2018 we supplemented organic growth with the carefully targeted acquisitions of Adeal, Amimon and Rycote:

- Adeal allows us to get closer to our customers in Australia and improve margins;
- The higher margin Amimon business enables Vitec to own the unique and proprietary technology within our Creative Solutions products to develop and grow in the wireless video market; and
- Rycote enables Vitec to enter the growing audio capture market.

On 22 January 2019, Vitec acquired Syrp, which develops motorised camera sliders and motion control hardware and software. Syrp is a good strategic fit, giving Vitec the technology capability to develop dynamic stabilisation products for the adjacent motion control market.

 Go to page 22 to read more about our strategy in Vitec Imaging Solutions

 Go to page 26 to read more about our strategy in Vitec Production Solutions

 Go to page 30 to read more about our strategy in Vitec Creative Solutions



KPIs	Continuing 2018	Continuing 2017 ⁽¹⁾	Basis of preparation
Constant currency revenue growth	10.8%	6.4%	% increase/(decrease) in revenue at constant exchange rates
Constant currency operating profit growth	17.1%	0.0%	% increase/(decrease) in adjusted operating profit* at constant exchange rates
Return on sales	13.9%	12.8%	Adjusted operating profit* divided by revenue
Investing in product development	4.5%	4.6%	Total research, development and engineering costs before capitalisation and amortisation of development costs, divided by revenue from product sales
Basic earnings per share (total)	93.2p	68.1p	Profit after tax, before restructuring costs, charges associated with acquired businesses and disposal of business, divided by the weighted average number of shares in issue during the financial year
Basic earnings per share (continuing)	93.2p	70.5p	
Total dividend per share	37.0p	30.5p	Sum of interim and final dividend per share in respect of the financial year
ROCE ⁽²⁾	21.8%	19.6%	Adjusted operating profit* divided by average total assets less current liabilities excluding the current portion of interest-bearing borrowings
Operating cash generation ⁽²⁾	84%	90%	Operating cash flow divided by adjusted operating profit*
Working capital to sales	16.1%	15.7%	Inventories, receivables and payables at the end of the financial year, divided by annualised Q4 revenue
Inventory days	108 days	106 days	Inventories at the end of the financial year divided by Q4 cost of sales (before exchange gains/losses) multiplied by number of days in Q4
Trade receivable days	46 days	45 days	Trade receivables at the end of the financial year divided by Q4 revenue multiplied by number of days in Q4
Trade payable days	48 days	54 days	Trade payables at the end of the financial year divided by Q4 cost of sales (before exchange gains/losses) multiplied by number of days in Q4
Accident record	2	7	Number of accidents resulting in greater than three days absence
Electricity usage	27.0	28.4	Actual usage in MWh per £million of Group revenue
Gas usage	16.4	19.0	Actual usage in MWh per £million of Group revenue
Water usage	0.07	0.05	Actual usage in cubic metres per £million of Group revenue

(1) Unless otherwise indicated, 2017 KPIs are based on continuing operations

(2) Based upon total operations (continuing and discontinued activities) to be consistent with the presentation elsewhere in the Financial Statements

Non-financial information statement

The Vitec Group plc complies with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the strategic report. The table right, and the information it refers to, is intended to help stakeholders understand our position on key non-financial matters:

Our people	10	Business ethics including anti-bribery and whistleblowing	42
Business model	14	Employees	44
Strategy and KPIs	16	Community	48
Principal Risks and how they are mitigated	18	Environment	50
Divisional reviews	22		

Certain Group policies, standards and guidelines are not published externally

Principal risks and uncertainties

Overview of risk management process

To achieve its strategic objectives, Vitec recognises that it will take on certain business risks. The Group has a well established framework for reviewing and assessing these risks on a regular basis, and has put in place appropriate processes and procedures to mitigate against them. This includes formal risk reviews and risk registers maintained at Group, Divisional and business unit level.

The Company aims to take business risks in an informed and proactive manner, such that the level of risk after mitigating action is aligned with the potential business rewards. Management regularly reviews risk exposures against current business-risk level tolerances.

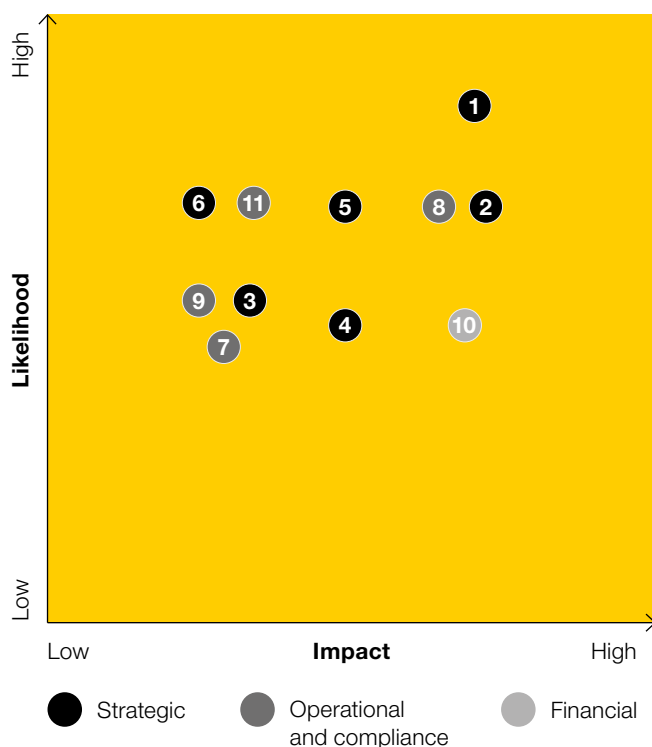
Our approach is underpinned by a commitment to fairness and honesty in our relationship with customers, suppliers, our people and all our stakeholders. The Group is risk averse with respect to risks that could negatively affect the safety of our employees, customers and products, our brands or reputation, or risks that could lead to breaches of laws and regulations or endanger the future existence of the Group.

We have a disciplined financial management approach and in particular we seek to minimise the impact of short-term currency fluctuations on our business. The Group is committed to full compliance with all statutory obligations and full disclosure to tax authorities.

We proactively manage the Group to deliver our three strategic priorities by: being a strong innovator; investing in R&D; carefully targeting acquisitions; optimising supply chain efficiency and operational excellence; and ensuring robust HR processes for resourcing and talent development.

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 Successfully identifying and addressing risks is an integral part of Vitec’s culture, and an important foundation for our long-term success. We empower our people to manage risks in everything they do, in accordance with set guidelines and principles. This helps to improve processes and compliance, uncover opportunities, and ultimately allows the Group to respond to change with greater agility.

Kath Kearney-Croft
 Group Finance Director








Principal risks




1. Demand for Vitec’s products
2. New markets and channels of distribution
3. Acquisitions
4. Pricing pressure
5. Dependence on key suppliers
6. Dependence on key customers
7. People
8. Laws and regulations
9. Reputation of the Group
10. Exchange rates
11. Business continuity including cyber security




2018 Movement

- Stable
- Stable
- Stable
- Stable
- ↓ Reduced
- Stable
- Stable
- ↑ Increased
- Stable
- Stable
- Stable

Specific risk	Movement/ strategic priority	Mitigation
<p>1 Demand for Vitec's products Demand for our products may be adversely affected by many factors, including changes in customer and consumer preferences and our ability to deliver appropriate products or to support changes in technology. The Group increasingly produces and sells products that are more technologically advanced, including encoders, transmitters and on-camera monitors. These products have a shorter life cycle than our historical products, and continuous investment in new product development is needed to keep up with the changing demand. Demand may also be impacted by competitor activity, particularly from low-cost countries.</p>	 Organic growth Margin improvement M&A	<p>We value our relationships with our customers and to mitigate this risk we closely monitor our target markets and user requirements. We maintain good relationships with our key customers and make significant investments in product development and marketing activities to ensure that we remain competitive in these markets. In support of our new product launches, we have completed appropriate market analyses before developing new products to ensure that they are appropriately designed for our target markets. We closely monitor the demand for new products and phase out old product lines. We are actively pursuing growth in selected emerging markets.</p>
<p>2 New markets and channels of distribution As we enter new markets and channels of distribution, we may achieve lower than anticipated trading volumes and pricing levels or higher costs and resource requirements. This may impact the levels of profitability and cash flows delivered.</p> <p>We expect that the proportion of our business conducted through online channels will continue to increase, and we will continue to invest in new, innovative products which address the needs of independent content creators. We are also increasing our presence and investment in APAC.</p>	 Organic growth Margin improvement M&A	<p>To mitigate these risks, we have a thorough process for assessing and planning the entry into new markets and related opportunities. This includes marketing and advertising strategies for our products and services. We continuously assess our performance and the related opportunities and risks in these markets. We adapt our approach, taking into account our actual and anticipated performance. We review our channels of distribution to make sure that they remain appropriate. Our increased online presence creates IT security and compliance challenges which the Group is continually addressing.</p> <p>In 2018, we have continued to expand our geographical reach with the acquisition of Adeal in Australia. We are also entering new, adjacent markets through the acquisitions of Rycote and Amimon.</p>
<p>3 Acquisitions In pursuing our business strategy, we continuously explore opportunities to enhance our business through development activities such as strategic acquisitions. This involves a number of calculated risks including: acquiring desired businesses on economically acceptable terms; integrating new businesses, employees, business systems and technology; and realising satisfactory post-acquisition performance. We recently acquired Amimon and Rycote, both of which generate new opportunities within the image capture and content creation market.</p>	 M&A	<p>We mitigate these risks by having a clear acquisition strategy with a robust valuation model. Thorough due diligence processes are completed including the use of external advisers where appropriate. The post-acquisition performance of each business is closely monitored and, before completion of any acquisition, a plan is developed to integrate the acquired businesses in an effective way.</p>
<p>4 Pricing pressure Vitec provides premium branded products and faces a number of competitors. The strength of this competition varies by product and geographical market.</p> <p>We continue to face price pressure from new market entrants, which we are responding to through the launch of new competitive product ranges. We continually review our production and sourcing activities for cost saving opportunities. We have also faced issues relating to parallel trades and price arbitrage, particularly in our Imaging Solutions Division, which led us to enforce "Minimum Advertised Price" where this is permitted.</p>	 Margin improvement	<p>We ensure that our product and service offering remains competitive by investing in new product development and in appropriate marketing and product support, and by improving the management of supply chain costs. This, combined with working closely with our suppliers and managing expenses and cost base appropriately, allows us to support price increases when required. We are rationalising our product range to reduce complexity which will also allow us to achieve some cost savings on production.</p> <p>Most of our products and services have a premium or niche differentiation. We continue to monitor our pricing across the main currencies to reflect ongoing fluctuations.</p>
<p>5 Dependence on key suppliers We source materials and components from many suppliers in various locations, and in some instances, are more dependent on a limited number of suppliers for particular items. If any of these suppliers or subcontractors fail to meet the Group's requirements, we may not have readily available alternatives, thereby impacting our ability to provide an appropriate level of customer service.</p> <p>Our overall dependence on key suppliers has increased over the last few years as a result of the Group's decision to reduce its costs by outsourcing some manufacturing and assembly activities. For several of our products we are heavily dependent on a specific supplier for the provision of core elements of the products.</p>	 Organic growth Margin improvement	<p>To address this risk we aim to secure multiple sources of supply for all materials and components and develop strong relationships with our major suppliers. We review the performance of strategically important suppliers and outsourced providers globally on an ongoing basis. Where economical, we look to source materials closer to the manufacturing facilities to reduce lead times and improve control over the supply chain.</p> <p>The recent acquisition of Amimon and the successful development of alternative raw materials for some products have addressed some areas of exposure.</p>

Principal risks and uncertainties continued

Specific risk	Movement/ strategic priority	Mitigation
<p>6 Dependence on key customers</p> <p>While the Group has a wide customer base, the loss of a key customer, or a significant worsening in their success or financial performance, could result in a material impact on the Group's results.</p> <p>Vitec's largest customer accounted for more than 10% of the Group's total turnover in 2018. The business also works with a variety of customers on large sporting events and the extent of these activities varies year-on-year.</p>	 <p>Organic growth</p> <p>Margin improvement</p>	<p>We mitigate this risk by closely monitoring our performance with all customers through developing strong relationships and dedicated account management teams, and we monitor the financial performance of our key customers and the receivable balances outstanding from them. We continue to expand our customer base including entering into new channels of distribution to expand our portfolio of customers.</p>
<p>7 People</p> <p>We employ around 1,800 people and are exposed to a risk of being unable to retain or recruit suitable diverse talent to support the business. We manufacture and supply products from a number of locations and it is important that our people operate in a professional and safe environment.</p>	 <p>Organic growth</p> <p>Margin improvement</p>	<p>We recognise that it is important to motivate and retain capable people across our businesses to ensure we are not exposed to risk of unplanned employee turnover. We fairly reward our people and have appropriate recruitment, appraisal, talent management and succession planning strategies to ensure we recruit and retain diverse, good quality people and leadership across the business. We take our employees' health and safety very seriously and have suitable processes in place to allow us to monitor and address any issues appropriately.</p>
<p>8 Laws and regulations</p> <p>We are subject to a comprehensive range of legal obligations in all countries in which we operate. As a result, we are exposed to many forms of legal risk. These include, without limitation, regulations relating to government contracting rules, taxation, data protection regimes, anti-bribery provisions, competition, and health and safety laws in numerous jurisdictions around the world. Failure to comply with such laws could significantly impact the Group's reputation and could expose the Group to fines and penalties. We may also incur additional cost from any legal action that is required to protect our intellectual property.</p> <p>Recent political developments in the US and Europe may have implications for several areas of regulations which include: the customs and import tariffs that our businesses will be subject to: corporation tax rates; employment laws and regulations; and other business regulation. The recent increase in tariffs on imports from China to the US has already started to adversely affect the purchase cost for some of our raw materials' product codes.</p> <p>The UK's exit from the European Union (Brexit) may have an impact on rates of duties and other taxes applied to our UK entities' exports and imports, which we expect to be minimal. There may be other legal, regulatory and commercial ramifications, the likely impact of which are difficult to measure given the uncertainties surrounding the outcome of the current negotiations between the UK and the EU.</p>	 <p>Margin improvement</p> <p>Organic growth</p>	<p>We address this risk by having resources dedicated to legal and regulatory compliance supported by external advice where necessary. We monitor and respond to developments in the regulatory environment in which our companies operate, including the effect of tax changes.</p> <p>We enhance our controls, processes and employee knowledge to maintain good governance and to comply with laws and regulations. The Group has processes in place, including senior management training, to ensure that its worldwide business units understand and apply the Group's culture and processes to their own operations. We actively protect our intellectual property, and will legally pursue any parties that infringe our intellectual property rights.</p> <p>We have a Brexit steering group which monitors developments and implements contingency measures to minimise the risk of disruption to trade flows which may arise around the Brexit date. We aim to optimise product flow to reduce incremental tariffs and will review our pricing strategy in response to any changes in input costs, maintaining close contact with our distributors and suppliers.</p> <p>With regards to the ongoing increase in tariffs affecting imports from China into the US, we continually evaluate our pricing and sourcing strategy to mitigate the impact of additional tariff costs.</p>

Specific risk	Movement/ strategic priority	Mitigation
<p>9 Reputation of the Group Damage to our reputation and our brand names can arise from a range of events such as poor product performance, unsatisfactory customer service, and other events either within or outside our control. We are mindful of the increasing level of regulatory and stakeholder scrutiny of companies' affairs, coupled with the widespread impact of social media.</p>	 Organic growth	<p>We manage this risk by recognising the importance of our reputation and attempting to identify any potential issues quickly and address them appropriately. We recognise the importance of providing high quality products, good customer service and managing our business in a safe and professional manner. This requires all employees to commit to, and comply with, the Vitec Code of Conduct. A Social Media Policy is in place and communicated to all employees and contractors. A whistleblowing facility is in place to allow employees to confidentially report any compliance issues.</p> <p>We have implemented a compliance programme with key vendors which includes site inspections, compliance database checks, and we require all vendors to sign up to the Vitec Code of Conduct or equivalent standards.</p>
<p>10 Exchange rates The global nature of the Group's business means it is exposed to volatility in currency exchange rates in respect of foreign currency denominated transactions, and the translation of net assets and Income Statements of foreign subsidiaries and equity accounted investments. The Group is exposed to a number of foreign currencies, the most significant being the US Dollar, Euro and Japanese Yen.</p> <p>The uncertain outcome of Brexit negotiations may increase Sterling's volatility in the next few years, which in turn may have a material impact on the Group's translated results.</p>	 Margin improvement M&A	<p>We regularly review and assess our exposure to changes in exchange rates. We reduce the impact of sudden movements in exchange rates with the use of appropriate hedging activities on forecast foreign exchange net exposures. We do not hedge the translation effect of exchange rate movements on the Income Statement or Balance Sheet of overseas subsidiaries. However, the Group does finance overseas investments partly through the use of foreign currency borrowings in order to provide a net investment hedge over the foreign currency risk that arises on translation of its foreign currency subsidiaries.</p>
<p>11 Business continuity including cyber security There are risks relating to business continuity resulting from specific events such as natural disasters, including earthquakes, floods or fires. These may impact our manufacturing plants or supply chain, particularly where these account for a significant amount of our trading activity. We are also dependent on our IT platforms continuing to work effectively in supporting our business and therefore there is a cyber security risk for the Group.</p>	 Organic growth	<p>We address this risk with Business Continuity Plans and Disaster Recovery Plans at our key sites, and by carrying out periodic IT and cyber security vulnerability assessments. There are standard procedures in place to escalate breaches and remediate IT security incidents.</p> <p>We have global insurance in place which provides cover for business interruption and damage to our assets.</p> <p>We review insurance coverage annually to determine whether adjustments are needed.</p> <p>In 2018, our SmallHD business was significantly impacted by a fire emanating from an adjacent facility. Insurance payments have been received, covering damage to assets and business interruption.</p>



The Imaging Solutions Division designs, manufactures and distributes premium branded equipment for photographic and video cameras and smartphones, and provides dedicated solutions to professional and non-professional image makers and independent content creators. This consists of camera supports and heads, camera bags, lighting supports, LED lights, lighting controls, motion control and lens filters, marketed under the most recognised accessories brands in the industry.

Addressable market

We estimate that the addressable market for products manufactured by Vitec's Imaging Solutions Division is worth around £900 million annually. Professional photographers account for approximately 70% of this market and independent content creators and consumers make up the remainder. There is growing adoption of new image capturing devices by professionals and advanced consumers as the distribution of images via social media continues to grow rapidly.

Vitec is focusing on the opportunity to develop and commercialise innovative, high-end accessories for these new applications. We sell our products globally via multiple distribution channels as well as online via our own direct e-commerce capability and third party platforms.

Market position

Vitec has leading premier brands in camera supports, heads, LED lights, filters and bags for the professional and enthusiast photographer and videographer.

Product category	Supports	Bags	Lighting & controls	Motion control
Brand	Avenger, JOBY, Gitzo, Manfrotto	Lowepro, Manfrotto, National Geographic [#]	Colorama, Lastolite by Manfrotto	Syrp
Market position [†]	1	1	2	New

Manufactured under licence
 † Management estimates by sales value in the market segments in which these products are sold

Our brands

- Avenger
- Colorama
- Gitzo
- JOBY
- Lastolite by Manfrotto
- Lowepro
- Manfrotto
- Syrp

Target audience



Image: Philip Thurston

Revenue

£201.6m

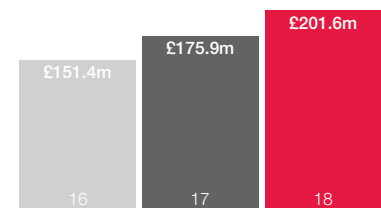
↑ Up 14.6%

Adjusted operating profit*

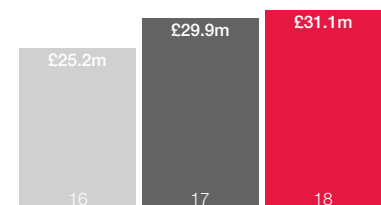
£31.1m

↑ Up 4.0%

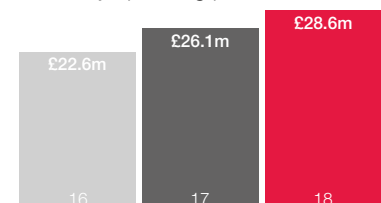
Revenue



Adjusted operating profit



Statutory operating profit





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We are passionate about enabling new creative possibilities to shoot still and video content, whether on an interchangeable lens camera or a smartphone. Our leading brands enjoy a vibrant community of over five million people globally and in 2018 we launched an extensive range of new products at Photokina. In 2019, growth will come from channel and manufacturing digitalisation, vlogging and dynamic content production for social media.

Marco Pezzana

Divisional Chief Executive,
Vitec Imaging Solutions

Operational review

Imaging Solutions revenue grew by 14.6% to £201.6 million and increased by 15.8% at constant exchange rates. This included a full year of sales of JOBY and Lowepro products, as well as the benefit to revenue of our own distribution in Australia following the acquisition of Adeal. The underlying business delivered a solid performance on the back of challenging market conditions, including taking market share in Europe, the US and China for our core photographic supports. Adjusted operating profit* grew by 7.0% at constant exchange rates and was in line with the prior year after excluding the year-on-year incremental impact of acquisitions.

After seeing stabilisation in the shipments of interchangeable lens cameras (ILCs) in Q2 based on data from Camera & Imaging Products Association (CIPA), ILC shipments in H2 were softer than in the prior year. This coincided with the delayed launch of highly anticipated premium mirrorless cameras from Canon and Nikon. The Division's sales performed ahead of CIPA trends which showed a 7.8% reduction in full year ILC shipments compared to the prior year.

The JOBY and Lowepro brands have been fully integrated and profitability was in line with expectations, including delivering the anticipated cost synergies. New products launched include the JOBY GripTight PRO TelePod, which is designed for smartphonographers and is listed in Apple stores, and the Lowepro Freeline range for photographers and videographers. The success of these products is consistent with the growing importance of independent content creators for the Division. We also developed a profitable partnership with Sony, launching dedicated Manfrotto and Gitzo accessories for Sony Alpha which performed ahead of expectations.

Approximately one third of Imaging Solutions' revenue is now generated by direct and indirect e-commerce. As consumers move away from buying in speciality stores to buying online, we are focusing on that channel. We developed our e-commerce platform further, driving growth in direct ecommerce sales. We accelerated our digital strategy during the year, upgrading and integrating our brand web stores and social media campaigns to further grow digital revenue. The Division had a particularly strong Black Friday, more than doubling sales year-on-year, while full year sales through Amazon grew 4%.

The Division achieved more than its targeted 3% manufacturing efficiency savings, reflecting our ongoing focus on operational excellence. In addition, a range of process improvements at our UK manufacturing facility in Ashby-de-la-Zouch, contributed to growth in sales of lighting controls and backgrounds.

Adjusted operating profit* margin decreased by 1.6% pts to 15.4%. This reflects the impact of the JOBY and Lowepro acquisition as expected, where products have a slightly lower margin in line with comparable products in the rest of the Division. After excluding the impact of acquisitions and foreign exchange, adjusted operating margin* increased by 0.5% pts.

Statutory operating profit increased by 9.6% to £28.6 million.

Image: Dave Krugman



“

With the Manfrotto Befree Advanced, I've a lightweight, intuitive, stable tripod system that enables my creativity every day. As I wander through the winding streets of my favourite city, I know in seconds I can be set up and able to shoot.

Dave Krugman

Manfrotto Global Ambassador and Sony Alpha collective

M&A:

JOBY®

Integration of the JOBY and Lowepro acquisition

lowepro®

The integration of this transformational 2017 acquisition completed towards the end of 2018. Both brands performed strongly during 2018 and have returned to month-on-month market share growth since acquisition. We launched an extensive range of new JOBY and Lowepro products at Photokina 2018 which were well received by the trade and became our bestselling SKUs during Black Friday and the Christmas season.



Organic growth:

New range of Befree tripods to meet the growing demand for mirrorless cameras

In 2018, Vitec significantly expanded its range of traveller tripod models to better serve the growing Compact System Cameras ("CSC") market segment. Marketing demand for premium CSCs is increasing, fuelled by the Sony Alpha 7 and Alpha 9, and the introduction of the new flagship full frame mirrorless Nikon Z7 and Canon EOS R.

Professional photographers and advanced hobbyists are switching to smaller camera formats, which are known for uncompromising picture quality and versatility. Befree is a cutting edge range of 14 lightweight aluminium and carbon products fully designed, engineered and manufactured in Italy. This includes Manfrotto and Gitzo versions specifically designed for Sony Alpha cameras, as a result of our global partnership.

Digital strategy:

Further acceleration in digital transformation

Approximately one-third of Vitec Imaging Solutions' revenue was generated by e-tailers' websites, marketplaces and direct e-commerce sites in 2018, up from 25% in 2017.

As a result, we accelerated our digital strategy during the year, upgrading and integrating our brand web stores and marketing campaigns to continuously improve the customers' omnichannel and brand experience, and further grow digital revenue.

Our social media and advertising strategy generated over eleven million unique visitors to our direct websites, resulting in over 15% traffic increase. Black Friday week drove a fourfold increase in revenue on 2017 as a result of the implementation of our digital marketing strategies combined with the consolidation of the Amazon channel across the Division.

M&A:

adeal

Adeal acquisition enhances growth in APAC

Vitec acquired Adeal, our Imaging Solutions Division Australian distribution partner in March 2018, in line with its strategy to expand in APAC and get closer to customers. Owning more of our own distribution channel has enabled us to grow sales in the region, consolidate margin, improve market knowledge and gain full control of channel management. Adeal is now fully integrated into our Imaging Solutions Division, with all brands consolidated under one national distributor.



VITEC PRODUCTION SOLUTIONS

The Production Solutions Division designs, manufactures and distributes premium branded and technically advanced products and solutions for broadcasters, film and video production companies, independent content creators and enterprises. Products include video heads, tripods, lights, batteries and speciality camera systems.

Addressable market

We estimate that the broadcast market for products and services supplied by Vitec's Production Solutions Division is worth around £400 million annually. Vitec is well positioned due to its broad geographical reach and premium products. We have a global sales team that offers a full range of products

and services to our customers all over the world, either directly or via distributors, both online and in stores.

Market position

Vitec is the market leader in most of its product categories, providing leading products through our brands to the broadcast, cinema and video production markets.

Product category	Supports	Prompters	Lighting	Mobile power	Robotic camera systems	Distribution, rental & services
Brand	OConnor, Sachtler, Vinten	Autocue, Autoscript	Litepanels	Anton/Bauer	Camera Corps, Vinten	Camera Corps, TCS
Market position†	1	1	2	1	2	1

† Management estimates by sales value in the market segments in which these products are sold

Our brands

- Anton/Bauer
- Autocue
- Autoscript
- Camera Corps
- Litepanels
- OConnor
- Sachtler
- The Camera Store ("TCS")
- Vinten

Target audience

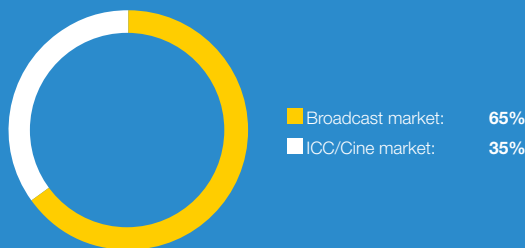


Image: Andi Tillmann

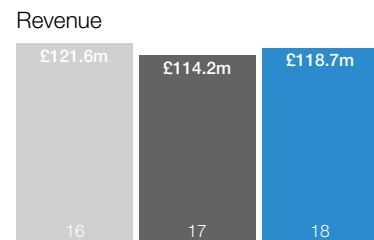
Revenue
£118.7m

↑ Up 3.9%

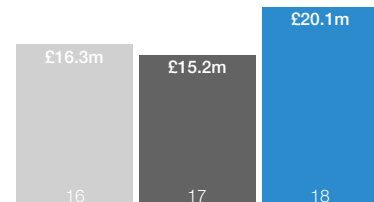
Adjusted operating profit*

£20.1m

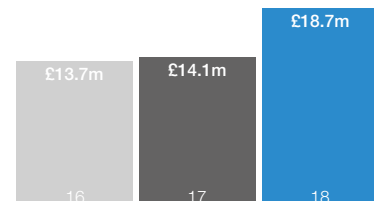
↑ Up 32.2%



Adjusted operating profit



Statutory operating profit





Operational review

Vitec Production Solutions' revenue grew by 3.9% to £118.7 million and increased by 5.6% at constant exchange rates. This includes strong sales of our Flowtech carbon-fibre tripod including the larger Flowtech100, launched in September, which attracts higher margins. We have increased our manufacturing capacity for Flowtech in response to the high demand for these products. Growth was also driven by the success of our Litepanels Gemini lights and solid performance, particularly in the US of Autoscript IP Prompting which has delivered a 10% margin uplift. Performance was supplemented by the Winter Olympics.

The business remains market leader in the core broadcast studio market. Sales in the US have begun to normalise following the adverse effect of the spectrum reorganisation ("repack") in the prior year. In APAC there are encouraging signs as Chinese broadcasters look to upgrade to 4K, studios in Japan have been investing in advance of the 2020 Olympics and we have invested in sales and marketing efforts in India, South Korea and Australia. Demand in EMEA was slightly below the prior year.

“
Our Production Solutions brands are renowned for their industry-leading quality and reliability, both in the studio and on location. 2018 highlights included the launch of the innovative Flowtech100 tripod, new Litepanels Gemini lights, Vitec in action at the Winter Olympics and Football World Cup, and the opening of a new Divisional head office in the UK.

Alan Hollis

Divisional Chief Executive,
Vitec Production Solutions



We successfully completed the transfer of manufacturing operations from Shelton, US to our facility in Costa Rica, which has started to deliver savings. This, coupled with the benefits from our new purpose-built manufacturing site in Bury St Edmunds, UK, has established a solid foundation to support further strong performance, and helped to deliver significant and sustainable operational efficiencies.

Adjusted operating profit margin* improved by 3.6% pts to 16.9%. This was driven by an improvement in gross margin from favourable product mix and operational efficiencies, including some early benefit from the transfer of manufacturing from Shelton to Costa Rica. The Division's margin was also favourably affected by the Winter Olympics.

Statutory operating profit increased by 32.6% to £18.7 million.

Organic growth:

Specialist new products for sporting events

Vitec's Camera Corps team was in action in South Korea and Russia supporting the Winter Olympic Games and the football World Cup. We developed specialist new products and technologies which enabled our customers to get those "WOW" shots which make their events memorable. One example is the new Dual Mini Remote Head which supported high motion cameras at the World Cup for through-the-net football replays.



Margin improvements:

Rationalising manufacturing to maximise productivity

In order to drive continued operational efficiencies and further enhance margins, Production Solutions has rationalised all in-house manufacturing into two sites – Bury St Edmunds, UK and Cartago, Costa Rica. The UK is our Centre of Excellence for high end robotics and Flowtech carbon-fibre tripods, and Costa Rica focuses on video heads, tripods and batteries.

In March 2018, we opened our new, purpose-built manufacturing site in Bury St Edmunds which enabled us to increase our production capacity in 40% less space. We also completed the move of our manufacturing operations from Shelton, US to Costa Rica, which will lead to cost savings from 2019.

“

It's a positive upgrade from our old building, bringing efficiencies and improving the teams' working conditions.

Nick Crouch

Assembly Fitter, Vitec Production Solutions



Organic growth:

Continued investment in innovation to take market share

In 2017, we launched the revolutionary and award-winning Flowtech75 carbon-fibre tripod for the on-location news and sport market, which is dual-branded as Sachtler and Vinten. Sales have performed above expectations and in September 2018 we launched its "big brother", the Flowtech100 which has been very well received. Flowtech is designed and manufactured in our Bury St Edmunds factory where we have increased capacity due to the product's success.

“

The Flowtech100 is a perfect tripod in just about every way.

Thorsten Milse
Wildlife Filmmaker



“

Camera Corps are the world leaders in supplying speciality remote cameras for the most prestigious and high-profile global productions. From reality series to entertainment shows and international sporting events, our team has achieved a pre-eminent reputation for its ability to acquire exciting and unusual television content.

Phil Beckett

VP EMEA Services, Vitec Production Solutions

VITEC CREATIVE SOLUTIONS

Vitec's Creative Solutions Division develops, manufactures and distributes products to equip, educate and support independent content creators and cinematographers, improving the workflow and giving them the freedom and confidence to create content in multiple ways. Products for this fast growing market include video transmission systems, monitors, lens control systems, camera accessories, noise reduction equipment as well as software applications.

Addressable market

We estimate that the camera accessories market, focusing on content creators for products and services supplied by Vitec's Creative Solutions Division, is worth around £500 million annually. This includes film, scripted television series, independent video and enterprise video production. Vitec has a strong position due to its premium brands, market-leading technology and

dedicated team of innovative product specialists with extensive experience in shooting both professional and amateur video content.

Market position

Vitec is the market leader in most of its product categories, providing leading products through our brands to the independent content creator and filmmaker markets.

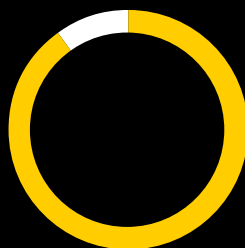
Product category	Video transmission systems	Monitors	Lens control	Camera accessories	Audio capture
Brand	Teradek, Paralinx	SmallHD	Teradek RT	Wooden Camera	Rycote
Market position†	1	1	3	3	New

† Management estimates by sales value in the market segments in which these products are sold

Our brands

- Rycote
- SmallHD
- Teradek
- Wooden Camera

Target audience



■ ICC/Cine market: 90%
 ■ Broadcast market: 10%

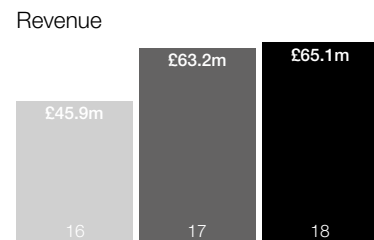


Revenue
 £65.1m

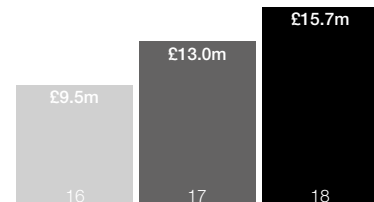
↑ Up 3.0%

Adjusted operating profit*
 £15.7m

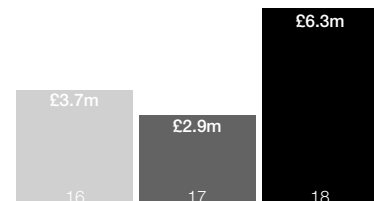
↑ Up 20.8%



Adjusted operating profit



Statutory operating profit





“

The demand for camera accessories continues to grow as daily screen time increases and original content production expands. 2018 was a pivotal year for Creative Solutions, establishing the new Division and acquiring Amimon and Rycote. Owning Amimon's core technology allows us to develop more integrated products, fully optimised for professional users. Rycote enables us to enter the adjacent audio capture market. Our ambition with both is to completely rethink how people set up and manage their camera/audio eco-systems.

Nicol Verheem

Divisional Chief Executive,
Vitec Creative Solutions

Operational review

Creative Solutions' revenue grew by 3.0% to £65.1 million and increased by 6.2% at constant exchange rates. This includes the benefit from the acquisitions of Rycote in September 2018, Amimon in November 2018 and the year-on-year incremental benefit from RTMotion. At constant exchange rates and after excluding the impact from acquisitions, revenue grew by 2.3% despite the adverse impact of the disruption at SmallHD. On a like-for-like basis, adjusting for the estimated SmallHD lost revenue, the Division outperformed the market in 2018, which we continue to estimate is growing at 6%.

The transformational acquisition of Amimon, which owns the wireless technology that interconnects devices on-set, is a crucial element in the next stage of growth for Teradek and other Creative Solutions brands that use this core technology. In acquiring Rycote, we have enabled expansion into the fast growing adjacent audio capture market with cross-selling opportunities from all three Divisions. We are making good progress with the integration of these two businesses.

SmallHD delivered good year-on-year growth despite disruption and launched new products that have been very well received, including the Focus OLED and Focus SDI which expand the range of our hugely successful Focus on-camera monitor. Increased collaboration between our brands resulted in the 703 Director's Monitor, which combines a SmallHD monitor with Teradek's wireless video capability, while a recently launched version also includes an integrated RTMotion lens control.

SmallHD completed its move to a new facility in November 2018, which has increased our capability for product development and enables us to meet higher demand as the business continues to grow. We opened a new showroom in Los Angeles that offers products from all the Division's brands and gives customers access to training and advice.

Adjusted operating profit margin* increased by 3.5% pts to 24.1% on a reported basis, which includes a benefit from the accounting treatment of the SmallHD insurance claim. Higher margins also reflect higher volumes partly offset by increased investment to develop new products which has positioned us well for the future.

Statutory operating profit increased by £3.4 million to £6.3 million.



Image: Nila Hansen

M&A:



Rycote acquisition expands addressable market

Vitec entered the adjacent audio capture market with the acquisition of Rycote, a UK-based manufacturer of advanced noise reduction equipment.

Quality audio capture is an integral element in the creation of high quality videos and Vitec's existing customers, whether broadcasters, videographers or ICCs, already buy audio products. There are opportunities across all three of Vitec's Divisions to sell Rycote products in conjunction with JOBY GorillaPods, Manfrotto tripods, SmallHD monitors, Teradek transmitters, Flowtech tripods and Anton/Bauer batteries.

Vitec operates primarily in the video production market and this acquisition has opened up the opportunity for us to enter the growing audio capture market, adding innovative and complementary audio devices for our customers, and creating additional value for our shareholders.

“

Vitec's portfolio of brands is the envy of the broadcast and cinema industries, so it was a real honour for Rycote to join the Group. The challenge now is to deliver broadcast-quality sound to the dynamic and growing ICC market – this represents a huge opportunity, and one that we're truly excited about.

Simon Davies

Former owner and Managing Director, Rycote

Organic growth:

Innovating to maintain and expand market share

2018 was a transformational year for Creative Solutions with the addition of Amimon technology and the Rycote brand to our portfolio. We also continued to innovate quickly and create high quality products with regular upgrades. Our emphasis is on product design, quality and customer experience.

New products in 2018 included: an upgraded Teradek Bolt, our zero delay wireless video product line; Teradek VidiU Go, a livestreaming device with built-in cellular

bonding; a new line of Wooden Camera accessories for Blackmagic; and Teradek RT equipment for RED.

The SmallHD 703 Bolt Director's Monitor, with integrated zero-delay wireless video, launched in January 2018 is selling well. Due to its success, we have developed more integrated solutions, like the SmallHD Focus Bolt, which includes an integration with Teradek RT (formerly RTMotion) wireless lens control.

M&A:



Wireless video capabilities transformed by margin enhancing acquisition of Amimon

Amimon brings extensive software, chipset design and electronics hardware development expertise to Vitec, and their Israel facility has primarily become an R&D centre of excellence.

The acquisition is in line with Vitec's strategy to develop and grow in the wireless video market and will give Vitec access to patented core technology as well as new intellectual property. Amimon is the technology of choice for wireless equipment used in the cine market. Being part of the Group has opened up the exciting opportunity for Vitec to further develop underlying technology to create a wireless communications platform onto which multiple cameras/monitors can attach, giving our customers greater flexibility in image capture and content creation.

Vitec and Amimon have had a strong customer/supplier relationship since 2012, having worked together to build a new market for professional wireless video. Amimon is the key supplier to Teradek, having developed a market-leading, exclusive and patented technology

“

Having worked with Teradek and SmallHD for many years, joining together to vertically integrate is very exciting. It will allow us to leverage our advanced and unique technology with Vitec's market knowledge, premium brands and distribution channels to develop exciting new products for existing and new markets.

Tal Keren-Zvi

General Manager,
VP Operations & R&D, Amimon

which is recognised as the industry-standard for zero delay wireless video. Amimon's technology is used in many of our Creative Solutions products, enabling very high quality, zero delay video, to be transmitted wirelessly between cameras and monitors. This connects a director and crew to the camera in a real-time, cable-free environment, and allows fast changes on set, saving time and money.

Financial review



Revenue

£385.4m

↑ Up 9.1%

Adjusted operating profit*

£53.5m

↑ Up 18.4%

Statutory operating profit

£40.2m

↑ Up 33.1%

Adjusted basic earnings per share*

93.2p

↑ Up 32.2%

Basic earnings per share from continuing and discontinued operations

76.1p

↑ Up 23.9%

Revenue from continuing operations increased by 9.1% to £385.4 million (2017: £353.3 million) and adjusted operating profit* from continuing operations was 18.4% higher at £53.5 million (2017: £45.2 million). At constant exchange rates, revenue from continuing operations was 10.8% higher and adjusted operating profit* from continuing operations was 17.1% higher than prior year. Solid performance in the underlying business, successful new product launches and continuing operational efficiency improvements were supplemented by acquisitions and the Winter Olympics. Operating profit included a £2.2 million year-on-year net inorganic benefit from acquisitions.

Vitec Imaging Solutions' revenue grew by 14.6% to £201.6 million and adjusted operating profit* increased by 4.0% to £31.1 million. This growth was against the backdrop of a challenging market, particularly in H2 due to the delayed launch of highly anticipated premium mirrorless cameras from Canon and Nikon. At constant exchange rates, revenue was

15.8% higher and adjusted operating profit* was 7.0% higher. This included a year-on-year benefit from the JOBY, Lowepro and Adeal acquisitions; on an organic constant currency basis, profit for the Division was in line with the prior year.

Revenue from continuing operations in the Production Solutions Division grew by 3.9% to £118.7 million and adjusted operating profit* increased by 32.2% to £20.1 million. Sales in the US have begun to normalise following the spectrum reorganisation ("repack") in the prior year and growth was driven by the success of new products including Flowtech supports and Gemini lighting. At constant exchange rates, revenue from continuing operations grew by 5.6% and adjusted operating profit* from continuing operations was 19.7% higher than the prior year.

Vitec Creative Solutions' revenue increased by 3.0% to £65.1 million and adjusted operating profit* was 20.8% higher at £15.7 million. Revenue growth included the benefit

of acquiring Rycote and Amimon towards the end of the year and successful new product introductions offset by the significant disruption caused by the fire adjacent to SmallHD's premises. On a like-for-like basis, adjusting for the estimated SmallHD lost revenue, the Division outperformed the market in 2018. At constant exchange rates, revenue increased by 6.2% and adjusted operating profit* grew by 24.6%.

Insurance staged payments totalling \$10.1 million (£7.8 million) were received in 2018 in relation to property damage, business interruption and increased costs for the SmallHD business following the fire in April 2018. The business is now back to full production in a new site which offers increased capacity for both manufacturing and product development. Despite the disruption, the business grew strongly and has retained its leading position in the on-camera monitor market.

Group adjusted gross margin* from continuing operations at 45.2% was

* This report provides alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards ("IFRS"). The Group uses these APMs to improve the comparability of information between reporting periods and Divisions, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group's businesses. APMs are used by the Directors and management for performance analysis, planning, reporting and incentive purposes. A summary of APMs used and their closest equivalent statutory measures is given in the Glossary on page 165.



Image: Paul Zizka

“

Revenue growth included the benefit of acquiring Rycote and Amimon towards the end of the year and successful new product introductions.

Kath Kearney-Croft
Group Finance Director

higher than the prior year (2017: 44.3%) including the impact of booking insurance income to gross profit with no adjustment for lost revenue. The improvement in gross margin also reflects continued operational excellence across the Group. Organic adjusted gross margin* excluding the impact of the insurance was up c. 70 basis points.

Adjusted operating expenses* from continuing operations were £9.3 million higher than 2017 at £120.6 million, mainly reflecting the impact of acquisitions, principally JOBY and Lowepro. This also includes additional investment in Creative Solutions to drive future growth, offset by reduced expenditure at Imaging Solutions in the face of challenging market conditions.

Adjusted operating margin* was 13.9% on a reported basis which includes a small benefit from the accounting treatment of the SmallHD insurance claim. We recognised insurance proceeds as other income within gross profit with no adjustment for revenue, in line with IAS 1. The Group's margin also benefited from strong cost control including operational efficiencies across the portfolio.

Adjusted profit before tax* from continuing operations of £51.2 million was £8.8 million higher than the prior year (2017: £42.4 million). There was a net foreign exchange benefit versus 2017 of £1.3 million on adjusted profit before tax* from continuing operations mainly due to non-repeat of prior year hedging losses and favourable retranslation of the Group's cash balances.

The Group's effective tax rate (ETR) on adjusted profit before tax* was 18% in 2018 (2017: 27%). The reduction in ETR includes the benefit of a favourable decision by the Italian tax authorities relating to our application for a Patent Box. The lower ETR also includes the impact of recognising additional US deferred tax assets and favourable prior year true-ups, which had not been anticipated in our previous guidance, and which are not expected to repeat in 2019. We expect the ETR on adjusted profit before tax* in 2019 to be a maximum of 25%.

Adjusted basic earnings per share* were 93.2 pence per share (2017: 70.5 pence per share; 68.1 pence per share including discontinued operations). Statutory basic earnings per share were 76.1 pence per share (2017: 23.4 pence per share; 61.4 pence per share including discontinued operations).

Statutory profit before tax of £37.9 million (2017: £27.4 million) was £10.5m above the prior year driven by the factors referred to above and slightly lower charges associated with acquisition of businesses and material non-operating events of £13.3 million (2017: £15.0 million). The decrease to £13.3 million primarily reflects lower earnout accruals and amortisation of acquired intangible assets, partly offset by higher transaction costs, development costs written off and a cost relating to guaranteed minimum pension benefits.

Free cash flow* of £33.5 million (2017: £23.5 million) was £10.0 million better than the prior year, including stronger adjusted operating profit*, a lower working capital outflow of £5.9 million (2017: £9.4 million outflow) and lower tax reflecting timing of payments and the benefit from the Patent Box.

Net debt at 31 December 2018 was £81.0 million (31 December 2017: £42.9 million). The increase in net debt relates to: £47.5 million net cash outflow on acquisitions relating to Amimon, Rycote and Adeal; £4.3 million earnout payments to the previous owners of Wooden Camera; £14.1 million of dividend payments (2017: £12.4 million); £1.8 million transactions in own shares relating to funding of our employee incentive programme; and unfavourable foreign exchange of £3.9 million (2017: £3.2 million decrease from favourable foreign exchange); partly offset by free cash flow. As previously announced, Vitec increased its Revolving Credit Facility from £125 million to £150 million in November 2018. The Group's balance sheet remains strong with a year-end net debt to adjusted EBITDA* ratio of 1.2 times (31 December 2017: 0.7 times).

Financial detail

Adjusted operating profit* for continuing operations in 2018 was £53.5 million, £8.3 million higher than the prior year. This reflects an increase in adjusted gross profit* of £6.0 million, favourable foreign exchange impact of £0.6 million and a £2.2 million inorganic contribution from acquisitions, partly offset by a £0.5 million increase in adjusted operating expenses*. The statutory operating profit for continuing operations of £40.2 million was £10.0 million higher than prior year.

Management's estimate of these drivers is summarised in the following table:

Adjusted operating profit* bridge for continuing operations		
£ million		
2017 Adjusted operating profit*		45.2
Increase in adjusted gross profit*	6.0	
Increase in adjusted operating expenses*	(0.5)	
		5.5
Acquisitions (inorganic element)		2.2
Foreign exchange effects:		
– Translation	(0.1)	
– Transaction after hedging	0.7	
		0.6
2018 Adjusted operating profit*		53.5

Net financial expense

Net financial expense of £2.3 million was lower than the prior year (2017: £2.8 million) mainly due to favourable net currency translation gains. Interest expense was £2.7 million (2017: £2.6 million) and was covered 24 times (2017: 23 times) by adjusted EBITDA*.

Profit before tax

Adjusted profit before tax* for continuing operations increased by £8.8 million to £51.2 million (2017: £42.4 million). Statutory profit before tax for continuing operations increased from £27.4 million to £37.9 million.

Acquisitions

On 8 November 2018, the Group acquired 100% of the share capital of Amimon Inc ("Amimon"), for net consideration of US\$52.7 million (£40.1 million) after taking account of an adjustment of US\$0.5 million (£0.4 million) for a pre-existing contractual relationship, and US\$6.0 million (£4.6 million) of cash in the business at acquisition date. The fair value of the net assets acquired, excluding cash in the business at acquisition date was £27.6 million resulting in goodwill of £12.9 million.

On 17 September 2018, the Group acquired 100% of the issued share capital of Rycote Microphone Holdings Limited ("Rycote"), a private company based in the UK, for net cash consideration of £5.6 million, after taking account of £0.3 million of cash in the business at acquisition date. The fair value of the net assets acquired, excluding cash in the business at acquisition date was £3.6 million resulting in goodwill of £2.0 million. Under the terms of the acquisition, there are two potential deferred payments of £1.25 million each payable in cash, one in January 2020 and the other in January 2021. These are dependent on the achievement of non-financial targets being met over a 24 month period following completion subject to the vendors remaining employed by the Group at the earnout date. In 2018 an amount of £0.4 million was provided for and charged to the Income Statement in relation to the remuneration expense.

On 6 March 2018, the Group acquired 100% of the issued share capital of Adeal Proprietary Limited ("Adeal"), a company based in Australia, for net cash consideration of A\$4.5 million (£2.5 million), after taking account of A\$0.2 million (£0.1 million) of cash in the business at acquisition date. The fair value of the net assets acquired, excluding cash in the business at acquisition date was £2.4 million resulting in goodwill of £0.1 million.

After year-end, on 22 January 2019, the Group acquired 100% of the issued share capital of Syrp Ltd ("Syrp"), a company based in New Zealand, for an initial cash consideration of NZ\$4.5 million (£2.4 million). Up to a further NZ\$25.5 million (£13.4 million) cash consideration will be payable dependent on Syrp meeting financial targets in 2019 and 2020, subject to the vendors remaining employed by the Group at the earnout date. The maximum consideration is payable only if the contribution from products that include Syrp's technology exceeds NZ\$13.4 million (£7.0 million) in 2020.

Charges associated with acquisition of businesses and material non-operating events

The 2018 charges relate to the Group's acquisition activities, amortisation of previously acquired intangible assets, and a one-off pension charge relating to guaranteed minimum pension benefits.

The amortisation of acquired intangible assets for continuing operations of £6.4 million (2017: £7.4 million) relates to the acquisitions of Adeal, Rycote and Amimon in 2018, and other businesses acquired by the Group since 2013.

Transaction costs of £2.0 million (2017: £1.3 million) and integration costs of £1.9 million (2017: £2.2 million) were incurred in relation to acquisitions. Integration costs included £1.4 million relating to the planned integration of JOBY and Lowepro, and £0.5 million relating to the integration of Amimon.

Earnout payments of £1.4 million were accrued during the year (2017: £4.1 million). £0.6 million related to Wooden Camera, £0.5 million related to RTMotion and £0.3 million related to Rycote. Earnout cash payments in the year of £4.3 million related to Wooden Camera.

Following the acquisition of Amimon, an existing development project relating to radio frequency technology was abandoned. As such, the capitalised development costs of £0.6 million associated with the project were written off in the year.

As part of the accounting for business combinations, the Group measures acquired inventory at fair value as required under IFRS 3. This has resulted in the carrying value of acquired inventory being materially higher than its original cost based measure. The impact of the uplift in value has the effect of reducing the Group's profit margin which is not representative of ongoing performance.

As a result, a fair value uplift of £0.3 million relating to acquired inventory which has been sold by the Group since the business combination is adjusted from cost of sales to arrive at adjusted operating profit*.

In October 2018, the High Court reached a judgement in relation to Lloyds Bank's defined benefit pension schemes, which concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues arising from the judgement will apply to most other UK defined benefit pension schemes. Following discussions with our actuarial and legal advisers, we have recognised a past service cost of £0.65 million in our income statement and increased the liabilities of our defined benefit pension scheme by the same amount, to reflect our estimate of the impact of this judgement. The precise impact upon our UK defined benefit pension scheme, which is closed to future accrual, is to be finalised.

Cash flow and net debt

Cash generated from operating activities for total operations was £54.0 million (2017: £48.7 million).

The Group uses a number of key performance indicators to manage cash including cash conversion*, the percentage of working capital to sales, inventory days, trade receivable days and trade payable days. Inventory, trade receivable and trade payable days are stated at year end balances; inventory and trade payable days are based on Q4 cost of sales (excluding exchange gains/losses), while trade receivable days are based on Q4 revenue.

Operating cash conversion* was 84% for 2018 (2017: 90%), including investment in working capital and capex for future growth.

The working capital to sales metric was 16.1% (FY17: 15.7%) and overall working capital increased by £5.9 million (2017: £9.4 million increase).

Trade receivable days increased slightly to 46 days (2017: 45 days) and remain well controlled with a good ageing profile. On a cash flow basis, trade and other receivables increased by £0.5 million (2017: £5.6 million). The reported carrying value of trade receivables at year end of £58.0 million included a £0.6 million increase from foreign exchange compared to the prior year.

On a cash flow basis, inventory increased by £0.8 million (2017: £9.9 million increase). The reported carrying value of inventory at year end included a £1.0 million increase from foreign exchange compared to the prior year. Inventory days increased to 108 days (2017: 106 days).

Trade payable days decreased to 48 days (2017: 54 days). On a cash flow basis, there was a £4.3 million decrease in trade and other payables (2017: £6.1 million increase), including bonus and commission accruals and timing of payments. The reported carrying value of trade payables at year end of £34.3 million included a £0.4 million increase from foreign exchange compared to the prior year.

Capital expenditure for total operations, including £6.0 million of software and capitalised development costs (2017: £4.3 million), totalled £14.4 million (2017: £15.1 million). Overall capital expenditure was equivalent to 1.3 times depreciation (2017: 1.1 times).

We monitor Return on Capital Employed ("ROCE"), calculated as adjusted operating profit* divided by average total assets less current liabilities excluding the current portion of interest-bearing borrowings. This has increased from 19.6% in 2017 for total operations to 21.8% in 2018.

The net tax paid in 2018 of £4.1 million was £6.9 million lower than the amount paid in 2017 due to the timing of payments and the benefit from the Patent Box.

As a result free cash flow* was £33.5 million (2017: £23.5 million).

Free cash flow*, £ million for continuing and discontinued operations	2018	2017
Adjusted operating profit*	53.5	44.8
Depreciation ⁽¹⁾	11.4	14.1
Changes in working capital	(5.9)	(9.4)
Restructuring costs paid	0.0	(1.4)
Integration costs paid	(2.2)	(0.6)
Other adjustments ⁽²⁾	(2.8)	1.2
Cash generated from operating activities	54.0	48.7
Purchase of property, plant and equipment	(8.4)	(10.8)
Capitalisation of software and development costs	(6.0)	(4.3)
Proceeds from sale of property, plant and equipment and software	0.5	3.5
Interest paid	(2.5)	(2.6)
Tax paid	(4.1)	(11.0)
Free cash flow*	33.5	23.5

(1) Includes depreciation, amortisation of software and capitalised development costs and impairment losses on property, plant and equipment

(2) Includes change in provisions, share based payments charge, gain on disposal of property, plant and equipment, fair value derivatives, and transaction costs relating to acquisitions

There was a £51.8 million net cash outflow relating to acquisitions during the year (2017: £12.4 million).

There was a £0.5 million net cash inflow from disposals during the year (2017: £32.4 million inflow).

Dividends paid to shareholders totalled £14.1 million (2017: £12.4 million) and there was a net cash outflow in respect of shares purchased and issued of £1.8 million (2017: £2.1 million). The net cash outflow for the Group was £33.7 million (2017: £29.0 million inflow) which, after £3.9 million unfavourable foreign exchange (2017: £3.2 million favourable), and £0.5 million liability relating to an acquired government grant, increased net debt to £81.0 million (2017: £42.9 million).

Treasury

Vitec manages its financing, hedging and tax planning activities centrally to ensure that the Group has an appropriate structure to support its geographically diverse business. It has clearly defined policies and procedures with any substantial changes to the financial structure of the Group, or to its treasury practice, referred to the Board for approval. The Group operates strict controls over all treasury transactions including clearly defined currency hedging processes to reduce risks from volatility in exchange rates.

The Group is hedging a portion of its forecast future foreign currency transactions to reduce the volatility from changes in exchange rates. Our main exposure relates to the US Dollar and the currency hedging table below summarises the contracts held as at 31 December 2018.

The Group does not hedge the translation of its foreign currency profits. A portion of the Group's foreign currency net assets are hedged using the Group's borrowing facilities.

Financing activities

As previously announced, the Group increased its five year committed multi-currency Revolving Credit Facility from £125.0 million to £150.0 million in November 2018.

The average cost of borrowing for the year which includes interest payable, commitment fees and amortisation of set-up charges was 3.4% (2017: 3.2%) reflecting an interest cost of £2.7 million (2017: £2.6 million).

Currency hedging	December 2018	Average rate of contracts	December 2017	Average rate of contracts
US Dollars sold for Euros				
Forward contracts	\$30.2m	1.20	\$25.2m	1.14
US Dollars sold for Sterling				
Forward contracts	\$9.1m	1.31	\$9.0m	1.30

The Board has maintained an appropriate capital structure without exposing the Group to unnecessary levels of risk and Vitec has operated comfortably within its loan covenants during 2018.

Foreign exchange

2018 adjusted operating profit* included a £0.6 million net favourable foreign exchange effect after hedging, mainly due to non-repeat of prior year hedging losses. The impact on 2019 adjusted operating profit* from a ten cent stronger/weaker US Dollar or Euro is expected to be an increase/decrease of approximately £3.1 million and £2.1 million respectively.

Impact of IFRS 16 (applies from 1 January 2019)

For the year ending 31 December 2019 we expect no impact on net income with some small impact on certain lines within the income statement, and a c. £20 million increase to reported assets and net debt. The expected impact on the net debt/adjusted EBITDA* ratio is an increase of c. 0.2 times.

Viability Statement

In accordance with the 2016 UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three year period, taking account of the Group's current financial and trading position as summarised in this Annual Report, the principal risks and uncertainties set out on pages 18 to 21 and the three-year Group and Divisional strategic plans which are reviewed annually by the Board. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period from the date of this Annual Report to 31 December 2021.

The Directors believe that a three year period is an appropriate period over which a reasonable expectation of the Group's longer-term viability can be evaluated and is aligned with the Group's business and strategic planning time horizon. It reflects the nature of the Group's key markets, its businesses and products and its limited order visibility. Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, they believe that the three year period presents readers of the Annual Report with a reasonable degree of confidence.

The Group's strategic and financial planning process reflects the Directors' best estimate of the future prospects of the Group, but they have also considered the resilience of the Group across a number of severe but plausible scenarios, taking into account the principal risks facing the Group as detailed on pages 18 to 21, and the likely effectiveness of any mitigating actions. The Board reviews these risks in detail throughout the year, and the Audit Committee has a structured programme for the review of risks and mitigating actions. The following scenarios were applied to the most recent Strategic Plan which was reviewed by the Board in June 2018:

- Loss of significant amounts of revenue and gross margin;
- Additional working capital requirements;
- Significant adverse movements in foreign exchange rates;

- Cliff-edge Brexit (The UK leaving the European Union without an agreed trade deal).

The Directors' assessment considered the potential impacts of these scenarios, both individually and in combination on the Group's business model, future performance, solvency and liquidity over the period. The results of the sensitivity analysis which also included stress testing of the Strategic Plan, demonstrated that as a result of the Group's strong cash generation it was able to maintain sufficient headroom within its net debt covenant to accommodate the above scenarios, both individually and in combination. This is supported by the fact that the Group sells a wide portfolio of different products, has a global distribution network, and has well-established relationships with its customers.

Mitigation actions considered as part of this stress testing included further cost reductions, tight control of working capital, and reduction in non-essential capital expenditure. The Directors consider that under each of the scenarios, the mitigating actions would be effective and sufficient to ensure the continued viability of the Group.

The Directors have also considered the Group's capacity to remain viable after consideration of future cash flows, expected debt service requirements, undrawn facilities and access to capital markets. The primary element of the Group's committed borrowing facilities is the £150 million five-year RCF that expires in July 2021. As at 31 December 2018, the Group had utilised £93.9 million (63%) of the facility.

Dividend

The Board has recommended a final dividend of 25.5 pence per share amounting to £11.5 million (2017: 20.1 pence per share, amounting to £9.0 million). The final dividend, subject to shareholder approval at the 2019 Annual General Meeting, will be paid on Friday, 24 May 2019 to shareholders on the register at the close of business on Tuesday, 23 April 2019. This will bring the total dividend for the year to 37.0 pence per share (up 21.3%). A dividend reinvestment alternative is available with details available from our registrars, Link Asset Services.

Kath Kearney-Croft
Group Finance Director
20 February 2019

Responsible business

Stephen Bird, Group Chief Executive, explains how Vitec tackles social, ethical and environmental issues and our ambitions for the future.



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engagement**

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Over a three-year period, my aim is for Vitec to positively impact one disadvantaged person for every Vitec employee in the communities in which we operate.

Stephen Bird
Group Chief Executive

During 2018 we acquired three new businesses which add significant value to our overall strategy and now, more than ever, Vitec is becoming increasingly geographically and demographically diverse. This is an exciting time for technology in the “image capture and content creation” market, and our products are being used by a wider range of customers through a wider variety of mediums. Vitec’s adaptability and ability to move quickly means that we will continue to evolve as the demands and expectations of our customers change.

We are a small company, but with a global footprint, and we take our corporate responsibility extremely seriously. Our strategy looks at the ability to grow organically as much as possible; how we can improve our margins, for example by creating operating efficiencies throughout our Divisions; and to have a clear M&A strategy through which we serve the needs of our exacting customers. This strategy affects everything we do – how we do business, who we do business with, where we operate, the communities we are embedded in and is also reflected by our employees who understand the importance of the right values and behaviours when carrying out their roles at Vitec.

Our Code of Conduct is key in our Business Model to ensure Vitec’s long-term success. In early 2018 we updated our Code of Conduct, as well as our Health and Safety and Diversity Policies. In 2017, we issued for the first time, our Statement on the UK Modern Slavery Act 2015, which confirms our zero-tolerance approach to ensure our supply chain is free from slavery and human trafficking.

I know how much our employees value giving back to the communities where we all work and live, and at the same time, social, ethical and environmental issues are more important than ever to the society we live and work in.

Although Corporate Social Responsibility (“CSR”) activities are prioritised and implemented by each Division, the Group strategy is to focus all CSR activities on investing in projects where the power of images specifically, or the creative arts more generally, can be used to help underprivileged people.

Over a three-year period, my aim is for Vitec to positively impact one disadvantaged person for every Vitec employee in the communities in which we operate. So, 1,800 students or young people by 2021, or 600 each year. We will report on progress with this in future annual reports.

All over the world, our people have given their time and money for people in need. You can read about these initiatives and more in the coming pages.

Stephen Bird
Group Chief Executive

Responsible business

Business ethics

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Vitec's corporate responsibility and business ethics are set by the Board, and our policies set the standard for all Divisions and employees worldwide.

Jon Bolton

Group Company Secretary



Our vision

To ensure our employees have a clear understanding of what is expected of them in conducting business ethically, with a common set of values. We expect our business partners to act in a manner which aligns with our approach.

Our approach

Vitec's Code of Conduct sets out our values, beliefs and behaviours and has been communicated to all employees and business partners. We regularly educate and train our employees on business ethics.

Management of responsible business

The Board has overall accountability for corporate responsibility and considers and approves our key policies, including our Code of Conduct ("Code"), Environmental Policy and Health and Safety Policy. These policies set a standard for all Divisions and employees worldwide, are available on our website, and are central to our approach to corporate responsibility.

The Board has delegated the coordination of our corporate responsibility efforts to Stephen Bird and together with the Executive Management Board and senior management, he focuses his efforts on the areas outlined above.

The Board and Executive Management Board regularly consider the Group's reputation and measure progress against our corporate responsibility objectives. Examples include: monthly health and safety performance reviews; whistleblowing and anti-bribery reports; and regular training of employees ensuring that the right corporate culture and good governance practices are fostered.

Anti-bribery

We continued to educate and develop our employees' understanding of anti-bribery and corruption as reflected in our Code.

Our agents and distributors are party to agreements which clearly prohibit bribery and set out our expectation on behaviour and values. We carry out thorough due diligence on major customers and suppliers with a more detailed screening of backgrounds using industry standard software from a third party provider focusing on reputational risk.



Whistleblowing service

We operate an independent whistleblowing service in conjunction with EXPOLINK. This enables any employee or third party who feels that the normal reporting channels through line management are not appropriate, to confidentially report on any issues around alleged wrongdoing or other Code contraventions.

All reports are notified to the Group Company Secretary, the Group Chief Executive and the Chairman of the Audit Committee, and are investigated independently by senior management who are not connected to the report. The outcome of investigations is reported to the Chairman of the Audit Committee and remedial action taken where necessary.

This service is communicated to all employees with posters prominently visible at all sites, and a letter sent explaining the service to ensure that it remains visible and understood. The documents are also available on the Group intranet with all communications translated into several languages. There is a clear policy on how whistleblowing reports will be investigated and the Board is expressly clear that all reports made in good faith which are genuine and not malicious in intent, will not result in an employee or third party being subject to recriminations or disciplinary action. In 2018, there were two whistleblowing reports that were HR related. Both matters were thoroughly investigated and corrective actions taken.

Modern slavery statement

We have adopted a modern slavery and human trafficking statement, setting out our processes to ensure that this issue is not in existence in our operations or supply chain. The statement can be viewed on our website. Through repeatedly screening our supply chain using third party software and also physically inspecting our supply chain, we are confident that this is not an issue with our operations. Our Internal Audit function also checks the integrity of the supply chain as part of its internal audit programme.

Code of Conduct

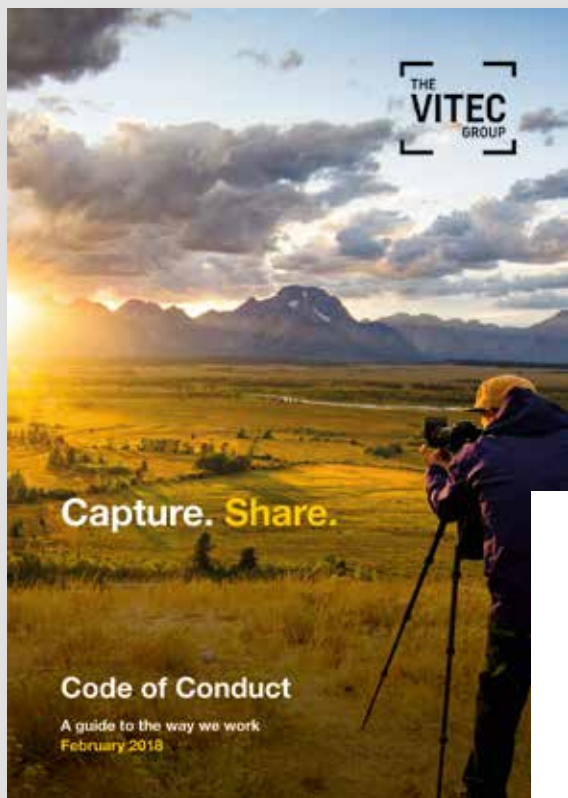
Our Code forms the backbone of our culture, and provides clear guidance to our employees on how they are expected to behave towards colleagues, suppliers, customers, shareholders and on our wider responsibility to the communities within which we operate.

Our Code defines our approach to business integrity, including an absolute prohibition on bribery, kickbacks and political donations, along with guidance on gifts and hospitality, conflicts of interest, books and records, competition, share dealing, respect for the UN Universal Declaration of Human Rights, compliance with anti-slavery legislation, respect for the individual and privacy, diversity, health and safety, environmental sustainability, business partners and charitable donations.

Our Code has been communicated to all employees, including new employees joining the Group, and is available on the Company website translated into several languages. All newly acquired businesses receive the Code as part of their induction.

We require all senior management to undertake an online training module covering good corporate governance including issues such as share dealing, conflicts of interest, legal duties and other reputational issues.

In early 2018, our Code was relaunched to all employees and partners to reflect our new branding and values, to address issues such as GDPR and cyber security and to ensure it remains visible and at the forefront of all business dealings.



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Our Code of Conduct forms the backbone of our culture, and provides clear guidance to our employees on how they are expected to behave.

Martin Green

Group Business Development Director

Responsible business

Employee engagement

Our vision

To be the preferred employer for the very best people in our sector by providing an entrepreneurial environment that offers opportunities for our people to develop and thrive.

Our approach

To attract, retain and grow a talented workforce, providing equal opportunities for all, whilst nurturing a sense of pride in being part of Vitec.

Our people

Our employees are the best in the sector, our greatest single asset and critical to our success. Passionate, motivated and skilled employees in safe working environments directly contribute to our strategy, performance and reputation.



Julio Lizano and Silvia Quesada collecting the 2018 Global Preventative Award in Costa Rica.

Employee engagement

We aim to provide our employees with an engaging and stimulating entrepreneurial environment where they are encouraged to learn and develop. We communicate with our employees on a regular basis using multiple channels, keeping them informed of business performance at a Group and Divisional level.

Business overviews, results and key events are shared with employees via emails and videos from the Group Chief Executive which are uploaded to the Group intranet, displayed on noticeboards and translated into local languages. Employees also receive updates on performance and business issues on a regular basis from Divisional senior management.

More informal communications also take place around the various Divisions: for example, breakfast with the Divisional CEO is an informal opportunity for employees in our Vitec Imaging Solutions Division to exchange ideas and opinions on business strategies and in the Vitec Imaging Solutions US office, a monthly newsletter named "What's Up" is distributed to all employees to keep them informed of important news about the business, upcoming training as well as birthdays, events and activities. In our Vitec Production Solutions US office, "Time Out" is a monthly activity combining social time including quizzes and food with Vitec updates. Employees are also encouraged to put colleagues forward for the "Employee of the Month" award, recognising and appreciating hard work and ingenuity.

A number of other initiatives and activities to keep employees engaged in the workplace and to bond with colleagues were undertaken at sites around the world. These included Thanksgiving and Christmas lunches, wellness fairs, on-site massages, meditation coaching, sporting classes and competitions, and cooking contests.

Health and well being

Vitec understands the importance of healthy and nurturing working environments for our staff. The new site at Bury St Edmunds, UK, which opened in March 2018, was developed following detailed consultation and involvement with employees. It provides upgraded facilities, including a new, open-plan office environment, on-site catering, which forms the hub of the site, as well as access to car share and bike schemes to make travelling to work easier.

Various Vitec locations are now providing free or subsidised healthy eating facilities on-site, and workplace health and gym memberships. All Vitec Production Solutions' sites now have pre-booked on-site massage facilities which have received extremely positive feedback from employees.

The Vitec Creative Solutions' office in Irvine, US, has partnered with external agencies to bring in guest speakers during organised lunchbreaks to talk about mental and physical health in the workplace and how to deal with stress and have a good work/life balance.

In all sites and offices, healthy snacks and fruit are provided for employees as well as on-site shower facilities for those who wish to exercise on their way to work.

Health and safety

An important part of our culture and ethos is to ensure that all our colleagues are able to work in a safe and secure environment and we encourage our management and employees to actively take responsibility in this.

We promote robust health and safety procedures in compliance with the Group's Health and Safety Policy. This policy sets guidelines for the prevention of accidents and work-related ill-health, and provides guidance for the adequate control of health and safety risks arising from work-related accidents.

All accidents and near misses are reported, whether they result in absence from work or not. Any remedial actions are identified and implemented to prevent repeat occurrences. Reporting is prompt and any accident resulting in over three days' absence is reported to senior management as well as the Group Chief Executive within 24 hours.

Our five-year accident record is shown opposite, and details the number of accidents resulting in over three days' absence from work across the Group. There were two such accidents in 2018 compared to seven in 2017. Each of these accidents has been fully investigated and key issues identified to try to ensure it is not repeated.

There have been no work-related fatalities since the Group began collating health and safety statistics in 2002.

All major sites have Health and Safety Committees who hold regular meetings to review safety, ensure that operating practices are safe and address potential safety concerns. At the Vitec Imaging Solutions manufacturing sites in Feltre, Italy and

Ashby-de-la-Zouch, UK, daily observation procedures have been set up to observe employees' health and safety behaviour in the workplace. In 2018, a total of 72,633 work actions were observed at both sites with an average of 99.9% in compliance with safe working practices.

SmallHD suffered a disruptive fire at an adjacent building in April 2018 that impacted its facility in Cary, North Carolina, US. Fortunately there were no injuries to our employees – however the impact was severe on the business. The employees of SmallHD responded positively and quickly in the aftermath of the fire, to ensure that our customers felt as little impact as possible. SmallHD relocated in November 2018 to a new 33,000 square feet facility also in Cary, US. This new facility provides an exceptional working space to allow innovative development and manufacture of world class monitors. The recovery process and the move was achieved through the hard work and dedication of SmallHD's employees.

The Vitec Production Solutions sites in Cartago, Costa Rica and Bury St Edmunds, UK as well as the Imaging Solutions sites in Cassola and Feltre, Italy, had their OHSAS 18001 occupational health and safety accreditations re-confirmed for 2018 and the Italian sites moved to the standard UNI EN ISO 45001 in early 2019.

Our Costa Rica facility recently volunteered for an external audit process conducted by the National Insurance Institute, a state entity that regulates and controls mandatory policies and procedures regarding occupational health and safety in Costa Rica. It was an excellent achievement that they won three awards: Gold award in *General Health*, Gold award in *Occupational Health* and the Silver award in *Transportation Safety*. In addition, as the only company that won awards in the three categories evaluated, Vitec Production Solutions in Costa Rica received special recognition with the 2018 Global Preventative Award (Premio Global Preventivo 2018).

2018

2 accidents
Representing 116 accidents per 100,000 employees
Average number of employees – 1,723

2017

7 accidents
Representing 418 accidents per 100,000 employees
Average number of employees – 1,675

2016

4 accidents
Representing 239 accidents per 100,000 employees
Average number of employees – 1,676

2015

5 accidents
Representing 273 accidents per 100,000 employees
Average number of employees – 1,833

2014

1 accident
Representing 53 accidents per 100,000 employees
Average number of employees – 1,876

Employee engagement continued

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Sharesave enables all employees to share in the growth of Vitec.

Stephen Bird
Group Chief Executive



Benefits

We employ around 1,800 people in 13 countries who are managed in accordance with local employment legislation, policies and our organisational values. The Group adopts and adapts comprehensive benefits packages as appropriate to ensure we attract and retain the right talent. These benefits assist in supporting our employees and allow us to remain competitive in a global market where talent is in short supply.

Super Sharesave is back!

We have offered our Sharesave scheme to all our employees in the following countries for many years: UK, US, Italy, Costa Rica, France, Germany, Singapore, Hong Kong, Japan and now Australia following the acquisition of Adeal in 2018. Sharesave allows employees to save a fixed monthly amount between £5 and £500 with the option to purchase a fixed number of shares in the Company at a discount of up to 20% on the prevailing share price at the time of the offer. Sharesave is popular amongst our employees as a valuable employee benefit and we have specifically improved communication of Sharesave to employees to ensure it is well understood and that as many employees as possible participate in the scheme. This has included face-to-face presentations at key sites and eye-catching communications with a movie theme genre. In 2017 this was based on 1950s retro sci-fi with the “Sharesave Invasion” and in 2018 on super heroes with “Super Sharesave is Back!” Communications use plain language to explain Sharesave and the application and maturity process has been improved with online applications to streamline the process. As a consequence, participation rates have improved and by the end of 2018 nearly 1,000 Group employees participate in Sharesave across 11 countries and we plan to expand the scheme into Israel in 2019 following the acquisition of Amimon in November 2018.

In recognition of the improved communications materials and success in promoting this all employee share plan to employees, the Company received an award from ProShare in December 2018 for “The

most effective communication of share plans for companies with up to 5,000 employees”.

Employees are given the option to join pension plans appropriate to local markets. In the UK, this involves a Company approved pension plan with minimum employer and employee contributions, and in the US a 401k plan. Since April 2014 in the UK, all employees except for those who have expressly opted out, are auto-enrolled into a qualifying pension plan.

In 2018, we moved our UK defined contribution pension arrangement to a new provider, Hargreaves Lansdown, with the aim of improving employee education on pensions and other financial matters and to improve the overall pensions offering. Hargreaves Lansdown ran several workshops at our UK sites in May 2018 on the new pension arrangement with particular focus on the investment decision making taken by employees and expectations around retirement. As a consequence, we have seen higher levels of engagement and

Level of Sharesave participation

as at 31 December 2018

Country	Outstanding Options	No. of Active Participants
Australia	8,836	13
Costa Rica	15,093	27
USA	326,413	306
France	21,051	14
Germany	37,790	29
Hong Kong	28,657	14
Italy	466,161	277
Japan	81,058	34
Netherlands	2,495	2
UK	301,467	235
Singapore	11,890	5
Total	1,300,911	956



Jon Bolton, Group Company Secretary, collecting the ProShare award for "The most effective communication of share plans for companies with up to 5,000 employees" – for Sharesave.

investment decision-making by employees. Over 300 employees in the UK now participate in the Hargreaves Lansdown pension arrangement and investment in the default fund has reduced from 85% to 57%. Further educational workshops will be held in 2019 to help educate our UK employees on this important employee benefit.

Vitec is supportive of employees enjoying a healthy work/life balance. Flexible working policies are in place in most of our locations, and a positive impact can be seen. In our Production Solutions Division, changes introduced allowed several employees to reduce the time of their daily commute to work. Another aspect of creating a balance is an inclusive attitude towards employees' family life. Vitec Imaging Solutions in Italy hosted two Summer Camps for children of employees, ages ranging from three years old to 14, offering a range of sports and training activities. More than 50 children attended the camps. Vitec Imaging Solutions also strives to offer its employees flexible working options, for example flexibility on working location as well as start and finishing times with prior agreement from management.

Each Division provides further benefits for employees: from a transport allowance in Hong Kong for commuting; a small cash bonus on an employee's birthday in France; discounted childcare options in the UK and US; to a cash allowance to be spent on a multitude of benefits such as gym membership or private healthcare to suit an individual's needs in Italy.

Training and development

Vitec aims to offer a comprehensive training and development programme, linked to performance reviews and development plans, taking all Divisional requirements into consideration. Additionally, in 2018 the Executive Management Board reviewed its leadership and succession plans to ensure there was a structured approach to growing and developing the Company's future leaders.

All employees receive training on health and safety procedures that are appropriate to their line of work and environment. For example, training in warehouse operations, working at heights, fire safety or more general initiatives to make employees aware of the dangers that can be encountered in the execution of their various duties.

Much of Vitec's strength lies in the expert knowledge of our people. It is vital that our employees understand, and are passionate about, our products and technologies. In 2018, Vitec Imaging Solutions ran the "Shoot and Share" training programme – offering camera craft and technical training on the Divisions' products as well as photography education. Furthermore, a number of high profile Manfrotto and Gitzo ambassadors were welcomed to our Italian facility so that they could share their knowledge and expertise. An induction programme in Cassola and Feltre, Italy was introduced for all new and existing employees to understand the products better and to obtain updates to the business and product development.

All Divisions within the Group continually review and expand training options for staff. Vitec Production Solutions in Costa Rica, for example, offered a total of over 500 training days to its employees' in 2018.

Employee volunteering

We encourage a culture of active participation in the communities in which we operate and staff around the world give their time and money to various social programmes in their local communities. In 2018, for example, the training manager from Production Solutions in our Costa Rica facility worked with students on building electric race cars running from two car batteries, creating a new wire harness design in the process. This helped to foster a useful working relationship with the community, as well as helping the students with their technical skillset.

Gitzo ambassador, Daisy Gilardini, shares her knowledge with employees in Vitec Imaging Solutions, Italy.



Community

Our vision

To support and integrate with the local communities and economies where we operate.

Our approach

We invest in projects that align with our core values and look for opportunities to positively impact one disadvantaged person for every Vitec employee in the communities in which we operate.

The positive power of images

We believe in the positive power of images to convey ideas, create wealth and positive social and environmental value. As a leader in our markets, our employees are experts in photography, videography, engineering and technology, and we aim to share this knowledge to enable positive social and environmental outcomes. In particular we focus on ways in which our products and skills can benefit those who are disadvantaged. We aim to positively impact one disadvantaged person for every Vitec employee in the communities in which we operate.

Supporting our communities

The following are a few examples of positive contributions we made in 2018 in the communities in which we operate:





Vitec Imaging Solutions
Picture of Life education
initiative.



The Vitec Production Solutions
Costa Rica team fundraising
as part of Breast Cancer
Awareness month.

Students at the Vitec
Production Solutions
facility in Costa Rica.



Investing in future industry talent

Vitec often donates or lends its professional photographic, TV and cinematic equipment to educational institutions around the world in order to assist with the upskilling of future talent in the image capture and sharing industry.

In 2006, Ryan Schorman, co-founder of Wooden Camera which is part of our Creative Solutions Division, graduated from The University of North Texas ("UNT"). Ever since it was founded, Wooden Camera has had an affiliation with UNT in supporting the development of talent in the independent content creator market. Wooden Camera assist by providing technical support in the optimisation of the cameras and accessories in the University's film programme. In addition, Wooden Camera donated specialist equipment to the University for use. As a passionate proponent of independent film content creation, Ryan sits on the Media Arts Executive Board at UNT, where he advises on the film programme, judges film contests and contributes to scholarships.

In the UK, Vitec has been a long-time supporter of The Vinten Trust which was set up by the original founder of the company that became Vitec, William Vinten. The Trust is a charitable foundation whose aim is to pursue initiatives which increase interest from students at schools and colleges in the Bury St Edmunds area in science and technology subjects.

Picture of Life

Imaging Solutions' Picture of Life project, a photography education initiative comprising a three-month training programme for young people who have faced hardship and disenfranchisement, continued in 2018. Starting out as a collaboration between Vitec and the Italian Justice Ministry in 2014, photographers from the Manfrotto School of Xcellence teach techniques, lighting and street photography. Five young adults between the ages of 17 and 19 took part in the project in 2018.

Vitec supports the project by donating and setting up a permanent photography studio in the project centres, by providing participants with the photographic equipment they need for the duration of the programme, and by organising all aspects of the course.

Since its initial launch in Italy, the initiative has proved so successful that it has been replicated in New York, US; Shanghai, China; and the UK.

Charity

The Vitec Production Solutions team in Costa Rica joined in the October 2018 Breast Cancer Awareness Month campaign by sponsoring the sixth annual walk arranged by the Clinic Señora de Los Ángeles. Thanks to the funds raised, the Clinic was able to donate 60 mammograms and breast ultrasounds for women in the local community. In November 2018 the same team helped prepare Christmas lunch in Hogar Crea Costa Rica (House of Addict Re-education) for a group of 13 to 18 year old boys. Hogar Crea was established in 1984 as a charity that helps young boys with drug addiction. In addition, a TV was donated by the team for the boys to enjoy in their free time.

In Vitec Imaging Solutions in Italy, Christmas cakes and cards were purchased from a social cooperative Conca d'Oro in Bassano, where young disabled individuals learn life-long valuable skills.

Apprenticeships and work experience initiatives

Vitec continued to offer work placements and internships for students in engineering and film studies. In Shelton, US, the Vitec Production Solutions team hosted engineering students who assisted with the design, implementation and support of new and existing products whilst gaining real world experience. In Costa Rica, a total of 15 students had placements at the Vitec Production Solutions site for two months; several of these students were then offered full time roles at the end of the period.

In Italy, the UniTNContest is a collaboration with Trento University to design Manfrotto products. Around 50 students were involved in different R&D projects with the winning group awarded Manfrotto products as prizes as well as the chance to see their design progress in the real world to at least prototype stage. One student was then chosen for an internship in the "Innovation" function in the business.

Our vision

Ensuring we limit any negative impact on the environment and protect the natural resources we rely on, creating long-term sustainability for the business.

Our approach

We adopt technologies, materials and processes that ensure we minimise our impact on the environment and maximise our use of sustainable resources.



James Guest, Engineering Manager at Vitec Production Solutions, demonstrating product testing.



Vitec's products and processes

We continue to implement initiatives aimed at sustaining and protecting the environment in the areas of energy efficiency, reducing carbon emissions, water use and waste; and sustainable use of materials, packaging and waste disposal. We also encourage a culture of environmentally sustainable behaviour at work and ensure that our employees understand how they can contribute.

Our products and services have a comparatively low impact on the environment. We use low hazard materials, minimise the use of resources during the manufacturing process and search for materials that are sustainable and can be recycled or reused. Our efforts and environmental awareness have continued to evolve, not only to comply with regulations but also to make our business better and more sustainable.

In March 2018, a new site was opened in Bury St Edmunds to house the Vitec Production Solutions manufacturing and engineering plant, as well as many of the Division's operational functions in the UK. This site replaced the previous 50-year old existing factory and is purpose-built for modern manufacturing and specialises in advanced technology in areas such as robotics, automation and broadcast studio equipment. It includes a unique manufacturing process for the development of carbon-fibre for the Flowtech tripod – a world first.

The site houses up to 200 staff, comprising engineers, sales and marketing, operational support and manufacturing personnel. The facility was required to meet the needs of this diverse group of employees, whilst fostering improved work flow, efficiency, productivity and making optimal use of the space. A cross-functional design team was engaged to meet this challenge.

The new site is 66,000 square feet – one-third smaller than the previous location, making effective space utilisation imperative. The goal was to reduce the use of electricity by 30% and gas by 60% through a combination of factors including: the introduction of LED lighting; no requirement for heating in the factory due to improved thermal properties; and three new compressors that deliver further electrical use savings and a new, more efficient paint oven.

Another key change has been the improved flow of materials from the assembly area to the shop floor; reducing travel time and improving energy efficiency.

Energy use

We monitor and track our usage of electricity, gas and water across our manufacturing, warehouse and administrative sites and make efforts, where possible, to reduce our usage.

Many buildings within the Group have timer and motion sensors for lighting to save on electricity usage. The Vitec Production Solutions sites in Bury St Edmunds, UK and Costa Rica have LED lighting throughout, which has significantly cut their electricity usage. Other buildings have programmable thermostats that are centrally managed to optimise heating and cooling needs.

The electricity contracts with Green Certificates at our two main sites in Italy were renewed in 2017 until 2021, confirming Vitec's commitment to use energy generated by renewable sources. Sites in Italy and Costa Rica maintained their ISO 14001 compliance which were renewed in 2017.

Greenhouse gas reporting

In accordance with the Greenhouse Gas Emissions (Directors' Reports) Regulations and the requirement to report on greenhouse gas emissions, we have developed processes to capture and report all material Scope 1 and 2 emissions as defined by the Greenhouse Gas Protocol as of 31 December 2016. We have applied the financial control basis for our reporting boundary. These emissions have been recorded at 20 of our sites in the 12 months to

30 September 2018 and arise from on-site energy use and any fugitive emissions, and transport from owned vehicles.

We have identified the following major operating sites as the material sites for the Group for this requirement: Feltre, Italy; Bury St Edmunds, UK; Cartago, Costa Rica; Ashby-de-la-Zouch, UK; Irvine, US; Cary, US; and Shelton, US. These sites account for over 95% of the Group by revenue. We have excluded smaller sites, as their size and scale of operations are not material with respect to Scope 1 and 2 emissions.

Our most significant emissions arise from the use of electricity which makes up all our Scope 2 emissions. Approximately two-thirds of our Scope 1 emissions arise from the use of natural gas, with the remainder mostly arising from transport fuel. All of our emissions have been calculated using the latest Defra conversion factors available at <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2016>.

We have selected a reporting date of 30 September to enable accurate data to be collated to compile the Greenhouse Gas Emissions disclosure in time for inclusion in this Annual Report.

	2018	2017
Scope 1 emissions	1,815	1,647
Scope 2 emissions	2,825	3,106
Total gross emissions	4,640	4,753
Total carbon emissions per £m of Group revenue	12.0	13.5

Sustainable resource management

Various initiatives around the Group took place in 2018 to build on our work to reduce the amount of waste created in our operations. At our Costa Rica site, electronic waste and lithium ion batteries are recycled as proper disposal prevents hazards and contamination. We sort waste for recycling at our manufacturing sites in Italy, UK, US, and Costa Rica using colour coded bins to improve segregation. At our factory in Bury St Edmunds, UK, the improved waste stream segregation and labelling, combined with employee engagement in the process, has resulted in 91% of all solid waste being diverted away from landfill, as well as a rebate for metal recycling from the site. Water free urinals and sensors for use of water for irrigation at our Costa Rican plant have also reduced water consumption. In 2018, SmallHD introduced water stations at various points in the building to help decrease the use of plastic water bottles.



The state-of-the-art new carbon-fibre cell, where the award-winning Flowtech tripod is manufactured.

Our electricity, gas and water usage in 2018 and 2017

Electricity (MWh)*



Gas (MWh)*



Water (cubic metres, thousands)*



Our electricity, gas and water usage based on usage per £million of Group revenue

Electricity (MWh/£m Group revenue)*



Gas (MWh/£m Group revenue)*



Water (cubic metres, thousands /£m Group revenue)*



* The figures are for continuing operations.



John McDonough
CBE, BSc(Eng) & ACGI

1. Chairman
2. 15 March 2012 (Chairman from 1 June 2012)
3. British
4. 67
5. Nominations (Chairman)

John is also Chairman of Vesuvius plc, a Director of Cornerstone Property Assets Ltd and Sunbird Business Services Ltd. John was Group Chief Executive of Carillion plc from January 2001 to December 2011. He was previously a non-executive director of Tomkins plc from June 2007 to September 2010, where he was also Chairman of the Remuneration Committee,

and Excel plc from February 2004 to December 2005. He was formerly a Trustee of Team Rubicon UK. John has also worked for Johnson Controls and Massey Ferguson. He was awarded a CBE in 2011 for services to industry. John will cease to be a Director and Chairman of the Company at the close of the 2019 AGM on 21 May 2019.



Stephen Bird
MA

1. Group Chief Executive
2. 14 April 2009
3. British
4. 58
5. Nominations

Stephen is currently a Non-Executive Director, Senior Independent Director and Chairman of the Remuneration Committee of Dialight plc. He was formerly a non-executive director of Umeco plc. He was responsible for setting up Weir Oil & Gas Division, part of Weir Group plc, and was its Managing Director until he left to join Vitec.

Prior to this he worked in senior roles at Danaher Corporation, Black & Decker, Unipart Group, Hepworth PLC and Technicolor Group. He has an MA from St. John's College, Cambridge.



Kath Kearney-Croft
BSc, MBA, ACMA

1. Group Finance Director
2. 24 April 2017
3. British
4. 44
5. –

Kath was previously Acting Finance Director at Rexam PLC until its acquisition by Ball Corporation Inc. in June 2016. Kath had been with Rexam since 2007 in a number of senior financial and strategic leadership roles. Prior to Rexam, Kath was with The BOC Group plc for nine years, qualifying as a Chartered Management

Accountant in 2001 and holding a number of operational financial roles in the UK and US. Kath has an MBA with distinction from Manchester Business School and a first class degree in Business and Management from the University of Salford.



Martin Green
MA, MBA, ACCA

1. Group Business Development Director
2. 4 January 2017
3. British
4. 50
5. –

Martin has been with the Group since April 2003 in a variety of roles, most recently as Group Business Development Director. Previously he held corporate development positions at Bunzl plc, at a broadcast equipment rental business and worked in investment banking at N M Rothschild. Martin has an MA in

Law from Trinity Hall, Cambridge. He trained and qualified as a solicitor with Linklaters & Alliance in the UK, is a Certified Accountant and has an MBA from Cranfield School of Management.



Caroline Thomson
BA, D.Univ

1. Independent Non-Executive Director
2. 1 November 2015
3. British
4. 64
5. Audit, Nominations, Remuneration (Chairman)

Caroline is currently Chair of Digital UK, a Non-Executive Director of UKGI and Chair of its Remuneration Committee, and a trustee of Tullie House Gallery in Cumbria. She has been Chair of Oxfam GB trustees since January 2017. She was formerly Executive Director of English National Ballet. Until September 2012

Caroline was Chief Operating Officer at the BBC, serving 12 years as a member of the Executive Board. Caroline received an honorary doctorate from York University in 2013 and was made an honorary Fellow of the University of Cumbria in 2015. She is a Fellow of the Royal Television Society and a trustee of The Conversation.

1. Role
2. Appointed
3. Nationality
4. Age
5. Committee membership



Christopher Humphrey
BA, MBA, FCMA

1. Independent Non-Executive Director
2. 1 December 2013
3. British
4. 61
5. Audit (Chairman), Nominations, Remuneration

Christopher is a Non-Executive Director of SDL PLC, Senior Independent Director and Chairman of the Audit Committee of AVEVA Group plc and Non-Executive Chairman of Eckoh PLC. He was formerly Group Chief Executive Officer of Anite plc, holding that position from 2008 until August 2015.

Previously he was their Group Finance Director between 2003 and 2008. He has held senior positions in finance at Conoco, Eurotherm International plc and Critchley Group plc. He was previously a Non-Executive Director of Alterian plc between 2011 and 2012. He is a Chartered Management Accountant and a Fellow of CIMA.



Richard Tyson

1. Independent Non-Executive Director
2. 2 April 2018
3. British
4. 48
5. Audit, Nominations, Remuneration

Richard is currently Chief Executive Officer of TT Electronics plc, holding that position since 2014. He was formerly President of the Aerospace & Security Division of Cobham plc from 2008 to 2014 and a member of their Executive Committee. He was previously responsible for TRW Aeronautical

Systems (formerly part of Lucas Industries) European aftermarket business before joining Cobham plc in 2003 to run its Flight Refuelling Division. Richard is a fellow of the Royal Aeronautical Society.



Duncan Penny

1. Independent Non-Executive Director
2. 1 September 2018
3. British
4. 56
5. Audit, Nominations, Remuneration

Duncan is currently Chief Executive at XP Power, holding that position since February 2003, and was previously its Finance Director from April 2000 to 2003. Prior to XP Power, Duncan held senior roles with Dell Computer Corporation and LSI Logic Corporation and was an audit manager at Coopers & Lybrand.



Ian McHoul
BSc, CA

1. Independent Non-Executive Director and Chairman Designate
2. 25 February 2019
3. British
4. 59
5. Audit, Nominations, Remuneration

Ian will be appointed an independent Non-Executive Director and Chairman Designate of the Company with effect from 25 February 2019 and will succeed John McDonough as Chairman at the close of the Company's AGM on 21 May 2019. Ian brings considerable experience to Vitec, currently being a non-executive director of Bellway, Young & Co's Brewery and Britvic, where he is also Senior Independent Director. Ian was formerly a non-executive director at Wood Group (2017 to 2018) and Premier Foods (from 2004 to 2013). In his executive career Ian held several senior

roles including Chief Financial Officer at Amec Foster Wheeler (2008 to 2017), Group Finance Director Scottish & Newcastle (1998 to 2008), and Director, Finance & Strategy, Inntrepreneur Pub Group (1995 to 1998). Prior to this Ian held several roles with Foster's Brewing Group and qualified as a Member of the Institute of Chartered Accountants in England and Wales when with KPMG. Upon becoming Chairman, Ian will cease to be a member of the Audit and Remuneration Committee. He will however, be Chairman of the Nominations Committee.

Corporate Governance

Chairman's statement



“
The Board is committed to high standards of corporate governance throughout the Group.

John McDonough
Chairman

I am pleased to introduce my governance report for the financial year ended 31 December 2018. This report provides an insight into how our Group is managed and the governance, culture and framework under which Vitec operates.

Governance and compliance statement

2018 was a year of many significant achievements for Vitec and the Board remains committed to high standards of corporate governance throughout the Group. We are reporting this year against the requirements of the UK Corporate Governance Code 2016 (“the Code”) issued by the Financial Reporting Council, and my governance review on the following pages explains how we applied its main principles, supporting principles and provisions. Each was complied with throughout 2018, as required by the Listing Rules. A new UK Corporate Governance Code was published in July 2018, for accounting periods beginning on or after 1 January 2019, and we will report against the new Code fully in the 2019 Annual Report.

The Board considers that the Annual Report taken as a whole is fair, balanced and understandable. It provides the information necessary for shareholders to assess the Group’s position and performance, business model and strategy, and the Board has retained this power for itself. To achieve this we asked the Executive Directors and the Executive Management Board to provide us with clear documentary evidence around the content and process of the 2018 Annual Report at our February 2019 Board meeting. The February 2019 Audit Committee meeting confirmed to us that: the 2018 financial statements are true and fair; the work of the external auditor was effective; and the process supporting the Viability Statement was robust. As a consequence we are able to confirm that the 2018 Annual Report taken as a whole is fair, balanced and understandable through reliance on management and knowledge of the following processes:

- detailed planning including drafting guidance and coordinated project management;
- a verification process dealing with the factual content of the Annual Report;
- comprehensive reviews undertaken at different levels in the Group to ensure consistency and overall balance; and
- a comprehensive review by the senior management team.

In 2018 we changed the Group’s external auditor to Deloitte LLP from KPMG LLP. The process around this change was fully reported on in the 2017 Annual Report.

Leadership

The Board has been refreshed in 2018 with several changes with effect from 2 April 2018. Mark Rollins left the Board as an independent Non-Executive Director and Senior Independent Director and we appointed Richard Tyson as an independent Non-Executive Director. Christopher Humphrey took on the role of Senior Independent Director following Mark's departure. On 1 September 2018, Lorraine Rienecker stood down as an independent Non-Executive Director, and we appointed Duncan Penny as an independent Non-Executive Director on the same date. Both Richard and Duncan bring a wealth of relevant experience to the Board; both serve as chief executive officers with other listed companies and bring excellent international and technological experience that will be invaluable in developing Vitec for the future.

We announced on 19 February 2019, that Ian McHoul will join the Board as an independent Non-Executive Director and Chairman Designate with effect from 25 February 2019. Ian will succeed me as Chairman with effect from the close of the AGM on 21 May 2019. The appointment of Ian is the culmination of a thorough search process led by Christopher Humphrey as the Senior Independent Director and supported by Caroline Thomson and Stephen Bird. That process is summarised in more detail in the Nominations Committee report on page 62. The appointment will enable Ian to have a good induction period to the Company and its people and allow for a structured handover between myself and Ian over several months.

Full biographical details for each Board member can be found on pages 52 and 53 of the Annual Report.

→ 2018 Highlight

Four independent Non-Executive Directors – two appointed in 2018

As at the date of the signing of this report, the Board comprised eight Directors with three Executive Directors, four independent Non-Executive Directors and myself as Chairman. Ian McHoul will join the Board as an independent Non-Executive Director and Chairman Designate on 25 February 2019. I believe we have the right-sized Board with the necessary balance of skills given the scale of our operations. Each Director has skills in the areas of strategy, finance, technology, human resources and global commercial experience to assist with the implementation of our strategy. They also enhance our diversity in terms of gender, professional and global experience. The Board has a strong independent element to ensure that the interests of all stakeholders are reflected in the running of the Company.

All Directors, with the exception of myself, will stand for reappointment by shareholders at the 2019 AGM.

Culture

We strongly believe in doing business in the right way. Our Code of Conduct, which sets out our expectations around behaviours, is given to all employees and is available to all our stakeholders including customers and suppliers. Our Code of Conduct was recomunicated to all employees in early 2018 and is available on our website. Health and safety is a Key Performance Indicator for our business with the Board and management focused on safe working conditions and accurate reporting of any near misses and accidents supported by root cause investigations. Reports are provided to the Board on a monthly basis to track incidents and remedial actions taken as necessary. Our independent whistleblowing service run by EXPOLINK has been communicated to all employees. This service enables employees or third parties to confidentially raise any concerns, especially if they feel unable to do so through normal line management channels.

The Board and Executive Management Board visited a number of our businesses in 2018 to meet with employees, share key messages and promote the right culture and behaviours. The right business culture and tone from the top can only be promoted with proactive steps and leadership. The Board will continue to visit our operations and meet with our people in 2019 to further reinforce our values and the right culture.

→ 2018 Highlight

Updated Code of Conduct issued to all employees in 2018

Strategy

From 1 January 2018 the Group changed its reporting from two to three Divisions to reflect its evolving strategy. To celebrate the move of our Production Solutions Division's UK site in Bury St Edmunds, the Board visited the new site in October 2018, meeting the Divisional senior management team and many employees by taking a guided tour of its operations. The Board also communicated with shareholders on strategy and business priorities, including results presentations, an investor visit to the new Bury St Edmunds site and numerous one-to-one meetings with major shareholders to hear first-hand their views on the strategy and business performance. In 2018, the Group made several key acquisitions including: Adeal in Australia, increasing our exposure in APAC; Rycote, moving Vitec into the audio capture market; and Israel based Amimon, a company which brings cutting edge technology, extensive R&D resources and software experience to Vitec. In early 2019, we also completed the acquisition of Syrp in New Zealand. Syrp designs and develops motorised camera sliders and motion control hardware and software.

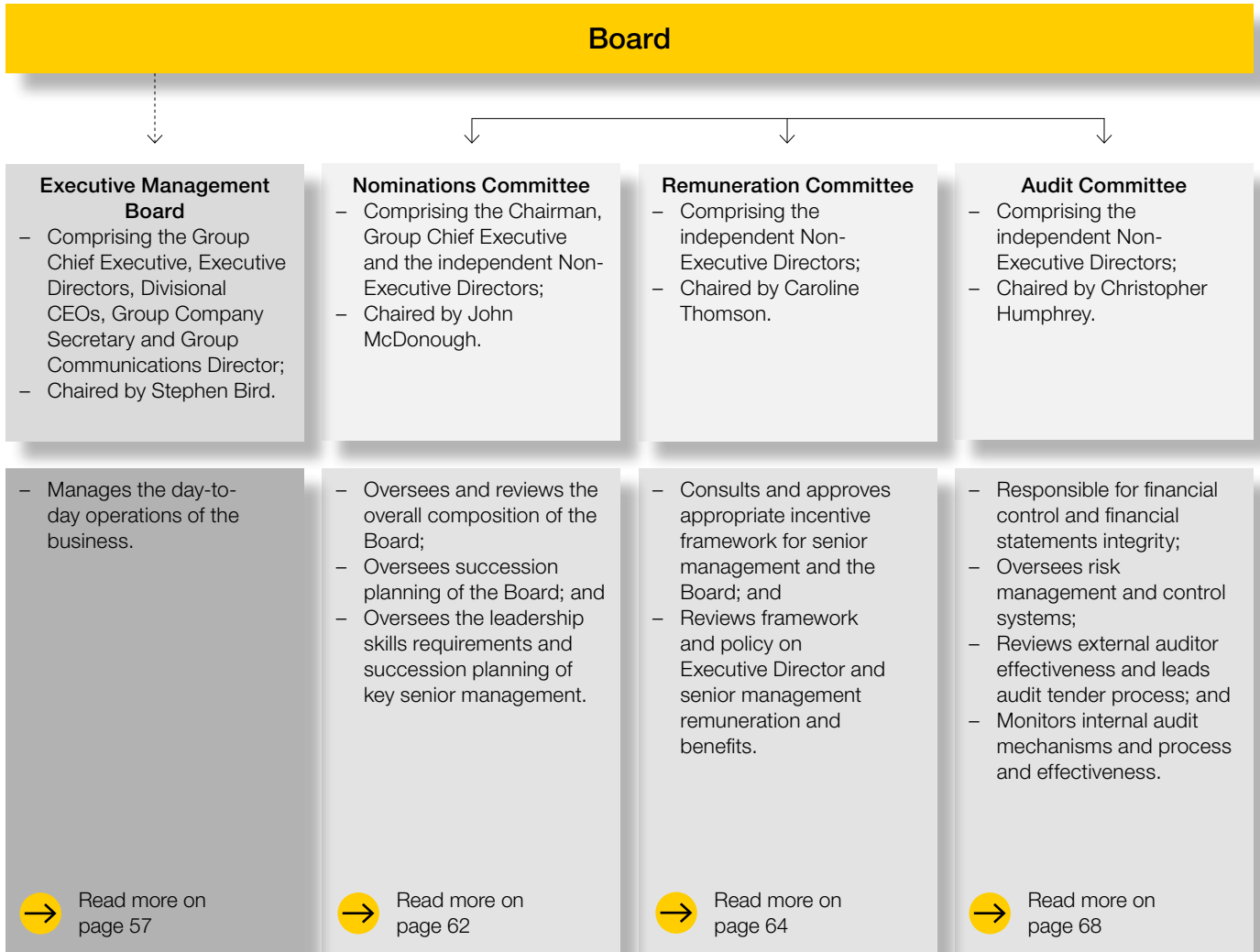
Company purpose

The role of the Board is to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. To fulfil its duty, the Board has separate roles for each member and we have a clear division of responsibilities between the Chairman and Group Chief Executive. Full details of our respective roles and responsibilities can be found on our website.

It is my responsibility to manage the Board and to ensure that it is effective. I work closely with the Group Chief Executive and Group Company Secretary to achieve this by ensuring that all Directors: are kept advised of key developments; receive accurate, timely

and clear information; and actively participate in the decision-making process. Board agendas are reviewed and agreed in advance to ensure each Board meeting utilises the Board's time most efficiently. I encourage all Board members to openly and constructively challenge the proposals made by executive management led by the Group Chief Executive. I ensure that each Director properly exercises the power vested in them and in accordance with the Company's Articles of Association, relevant law and any directions as provided by the Company in general meeting. Apart from the remuneration of Directors or Directors' fees there were no instances when a Director had to abstain from voting on a matter due to a conflict of interest during 2018. The Board has a clear policy for dealing with any such conflicts or potential conflicts of interest.

Vitec's governance and control structure is as follows:



Division of responsibilities

The Group Chief Executive is responsible for managing the business. The Executive Management Board supports the Group Chief Executive in this duty. The Group Chief Executive and I have a strong working relationship, meeting and speaking regularly outside of scheduled Board meetings to discuss strategy and performance, and to ensure that Board meetings cover relevant matters. Our relationship and regular dialogue helps to underpin the culture of the Board, providing a forum in which matters are discussed openly and robustly.

Christopher Humphrey is the Senior Independent Director having been appointed to this role with effect from 2 April 2018 following the departure of Mark Rollins. In this role, Christopher led the evaluation of my performance as part of the 2018 Board evaluation, information on which is provided later in this report. Christopher also led the process around succession of my role as Chairman. The Board considers that Christopher Humphrey is clearly independent and has the right experience and background to fill this important role on the Board.

The Board has a Schedule of Matters Reserved to it which includes: the Group strategy; setting of annual operating budgets; review of progress against strategy and budgets; financial results; dividends; changes in Board composition including key roles; acquisitions and disposals; material litigation; capital structure; risk management strategy; and various statutory and regulatory approvals. The Board meets regularly throughout the year to receive updates on business performance and consider proposals within its remit. The Schedule of Matters Reserved to the Board is reviewed annually and is available on our website.

Board governance

The Board has delegated certain items of business to its principal Committees which are outlined on page 56. This ensures the Board has sufficient time to deal with strategic matters while retaining oversight on salient points by virtue of its Committees. The Board's principal committees are the Audit, Remuneration and Nominations Committees. Each Committee has terms of reference, copies of which are available on our website. Each Committee can seek any information it requires from any employee of the Company in order to perform its duties and to obtain, at the Company's expense, outside legal or other professional advice on any matter within its remit. Each Committee annually reviews its performance, constitution and terms of reference to ensure it is operating effectively and recommends any changes it considers necessary to the Board for approval. Each Committee's responsibilities and activity in 2018 are set out later in this report.

→ 2018 Highlight

Six scheduled and three short notice Board meetings in 2018

Directors' attendance

Details of Directors' attendance at Board and Committee meetings is shown in the table on page 61. All Directors attended each scheduled Board meeting and the three called at short notice, with the exception of Caroline Thomson who could not attend the meeting in February due to a Parliamentary Hearing and Duncan Penny who could not attend the short notice meeting in November due to a prior commitment, having joined the Board on 1 September 2018. When any Director is unable to attend they continue to receive the necessary papers and I contact them in advance of the meeting to obtain their input.

In October 2018 the Board visited the Vitec Production Solutions site in Bury St Edmunds, UK. The visit included management presentations on market trends, product development, innovation and operations. The Board intends to hold at least one meeting at an operational site each year to deepen its knowledge and understanding of the Group, as well as to meet as many employees as possible. In 2019 this will be at our facility in Feltre, Italy. Each Director is encouraged to visit our operations at their own convenience to further build on their understanding of the Group.

→ 2018 Highlight

Board visited new Bury St Edmunds facility in October 2018

Directors' meetings

The rest of the Board and I continue to spend time together outside of scheduled Board meetings to learn not only about the business but each other's skills and personalities, which helps ensure an effective, unitary Board. We hold a dinner for the Board before each scheduled Board meeting to enable Directors to informally discuss current business matters. It gives an opportunity for the Executive Management Board, other senior management or external advisors to attend to give updates on the business. This is a very useful and effective format. We also hold Non-Executive Director only meetings, scheduled around the February and August Board meetings. These enable the Non-Executive Directors to raise any issues without executive management present. As Chairman, I feed back to the Group Chief Executive on these discussions and take any actions necessary to address matters raised.

The Executive Management Board

The Executive Management Board, which is led by the Group Chief Executive, meets regularly to discuss ongoing business performance and enables the Group Chief Executive to manage the business with his direct reports. I receive an update from the Group Chief Executive on any salient matters resulting from each meeting. The Board regularly meets with members of the Executive Management Board around its scheduled Board meetings. This attendance allows the Board to directly question senior management responsible for the business and to gain a better understanding of their respective technologies, markets, products, customers and competitors.

Board activities in 2018

At each scheduled Board meeting the following standing items are considered:

- Directors' duties and conflicts of interest
- Minutes of previous meetings and matters arising
- Progress against agreed Board objectives
- Reports from the Group Chief Executive, Group Finance Director, Group Business Development Director and Group Company Secretary on key aspects of the business including health and safety, current trading, strategy, acquisitions and disposals, financial results, governance, HR and legal matters
- Key Performance Indicators

There were six scheduled Board meetings and three short notice Board meetings in 2018. In addition to the standing items, the following is a summary of the business considered at each meeting in 2018:

February	<ul style="list-style-type: none"> – Annual Results, including review and approval, of: principal risks and mitigation, report on Going Concern and Viability Statement, final dividend recommendation, 2017 full year results announcement, 2017 Annual Report, notice of AGM and management representation letter – Approved the change of external auditor to Deloitte LLP – Group strategy including acquisition updates – Global HR update – Update on the Group's financing structure concerning the Revolving Credit Facility and the Private Placement Facility – Review of discretionary pension increases and pensions update – Approved the term of appointment for the Chairman for a maximum of three further years, the appointment of Richard Tyson as an independent Non-Executive Director and Christopher Humphrey as Senior Independent Director with effect from 2 April 2018, replacing Mark Rollins
May	<ul style="list-style-type: none"> – AGM briefing – Trading update – Group strategy including potential acquisitions – Update on the Group's financing arrangements – Investor relations update from Investec – Blue Sky strategy review – New product development update – Production Solutions Divisional update
June	<ul style="list-style-type: none"> – Review of Group and Divisional strategies – Capital expenditure proposal for European Services business – Sharesave offer to all employees
August	<ul style="list-style-type: none"> – Half year results, including review and approval of: principal risks and mitigation, report on going concern, interim dividend, 2018 half year results announcement and management representation letter – Update on Group strategy including potential acquisitions including Rycote – Reviewed the reforecast of 2018 performance – Approved the format of the 2018 external Board evaluation – Update on new governance regulation including 2018 UK Corporate Governance Code – Approved the resignation of Lorraine Rienecker and the appointment of Duncan Penny as independent Non-Executive Director, both effective 1 September 2018. – Update on internal Brexit Steering Committee
September	<ul style="list-style-type: none"> – Considered the acquisition of Amimon – Update on other potential acquisitions
October	<ul style="list-style-type: none"> – Update on Group strategy – Presentation from the Production Solutions Division – Reviewed the reforecast of 2018 performance – Received an update on Group synergies – Update on process for the internal Board evaluation
October	<ul style="list-style-type: none"> – Approved the acquisition of Amimon and an increase in the Revolving Credit Facility to £150 million
November	<ul style="list-style-type: none"> – Review and approval of trading update – Update on potential acquisitions
December	<ul style="list-style-type: none"> – Update on Group strategy – Update on Group synergies project – Approved 2019 budget – Outcome of the 2018 internal Board evaluation and reviewed 2019 Board objectives – Reviewed Board governance arrangements and key policies including terms of reference for Board Committees – Reviewed the Chairman's and Non-Executive Directors' fees

Effectiveness

Measuring effectiveness and performance of the Board

The Board annually sets itself clear objectives and monitors progress against each throughout the year. The Board rigorously challenges itself on delivery of strategy, financial performance measured against budgets, governance and operational performance KPIs. In compliance with the Governance Code we conduct an external Board evaluation every three years to ensure that we independently measure the effectiveness and performance of the Board. The last external Board evaluation was carried out in 2017 and reported on in last year's Annual Report. In 2018 we conducted an internal Board evaluation and the detail of this is set out later in this report.

Independence of Non-Executive Directors

Each of the Non-Executive Directors bring independent character and judgement to bear on strategic matters, the performance of the Group, the adequacy of resources and standards of conduct. The Board considers that Christopher Humphrey, Duncan Penny, Caroline Thomson and Richard Tyson are independent in accordance with the recommendations of the Governance Code. Ian McHoul, upon his appointment to the Board with effect from 25 February 2019 is also independent. Each of these Non-Executive Directors' tenure on the Board is less than six years and I lead the process of ensuring that each year the performance of each Director is objectively appraised. Each Director is required to declare any conflict of interest arising on any matter and I confirm that no such conflicts arose in 2018. Each Director brings a complementary set of skills and diversity to the Board, having served in companies of varying size, complexity and market sector. When combined, these skills give your Board the comprehensive skillset required to deliver the strategic objectives of the Group and to ensure its continued success.

Director's induction programme

On appointment, we provide each Director with a tailored and extensive induction to the Group. This includes meeting with all senior Head Office and Divisional management, meeting the Company's main external advisors including Deloitte and Investec and site visits to key facilities in the Group. Each Director is encouraged to continue visiting the Group's operations as their schedule permits.

→ 2018 Highlight

Both Richard Tyson and Duncan Penny had full and tailored inductions to Vitec in 2018, including visits to key operational sites

Board training

Ongoing training for new and existing Directors is available at the request of the Director. Each Director receives details of relevant training and development courses from both the Group Company Secretary and from the Company's appointed advisors. The requirement for training is discussed at Board and Committee meetings and I ensure that each Director has the required skills and knowledge to enable them to operate efficiently on the Board. The Group Company Secretary maintains a register of training undertaken by Directors to facilitate this discussion. During the year the Board collectively received training sessions on product technology, investor relations and the broadcast and photographic markets as well as accounting and legal updates from the Company's external auditor and legal adviser. The Board also receives written updates on governance, regulatory and financial matters as they are published.

Independent external advice for Directors

All Directors, having notified me in the first instance, are able to take independent professional advice at the Company's expense in furtherance of their duties. During 2018 no Director took such advice. They also have access to the advice and services of the Group Company Secretary, who is responsible for advising the Board, through myself, on all governance matters.

Effective Board meetings

Working with the Group Chief Executive and Group Company Secretary, I ensure that Directors receive papers for consideration at Board meetings so that it gives all Directors adequate time to read, prepare and, where appropriate, ask questions prior to the meeting. The information includes detailed budgets, forecasts, strategy papers, reviews of the Group's financial position and operating performance, and annual and half yearly reports. Each Director receives a detailed monthly report from the Group Chief Executive, Group Finance Director, Group Business Development Director, Group Company Secretary and Group Legal Counsel, plus a Health and Safety Report. The Board receives further information from time to time as and when necessary.

All Board and Committee meetings are minuted by the Group Secretariat. Minutes are reviewed by the Chairman of that meeting before being circulated to all Directors and then tabled for approval at the next meeting.

The appointment of Directors

Under the Company's Articles, the Board has the power at any time, and from time to time, to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Board, subject to a maximum number of 15 Directors. Any Director so appointed holds office only until the next AGM and shall then put themselves forward to be reappointed by shareholders.

Chairman or Non-Executive Director	Appointment date	First renewal of term	Second renewal of term	Annual renewal of term post two three-year terms
John McDonough (Chairman)	15 March 2012	15 March 2015	15 March 2018	Will cease to be a Director on 21 May 2019
Christopher Humphrey	1 December 2013	1 December 2016	1 December 2019	Annually from 1 December 2020 onwards
Duncan Penny	1 September 2018	1 September 2021	1 September 2024	Annually from 1 September 2025 onwards
Caroline Thomson	1 November 2015	1 November 2018	1 November 2021	Annually from 1 November 2022 onwards
Richard Tyson	2 April 2018	2 April 2021	2 April 2024	Annually from 2 April 2025 onwards
Ian McHoul (Chairman Designate)	25 February 2019	25 February 2022	25 February 2025	Annually from 25 February 2026 onwards

The Chairman and the other Non-Executive Directors are appointed for an initial period of three years which, with the approval of the Nominations Committee and the Board, would normally be extended for a further three years. If it is in the interests of the Company to do so, appointments of the Chairman and Non-Executive Directors may be extended beyond six years, with the approval of the Nominations Committee, the Board and the individual Director concerned.

Under the Company's Articles, each Director is required to stand for annual reappointment at every AGM. The annual renewals of terms for a Non-Executive Director will take into account ongoing performance, continuing independence and the needs and balance of the Board as a whole.

Board diversity policy

The Board considers the issue of diversity for every appointment. As part of this, the Board has adopted a policy on diversity as set out below:

Vitec recognises the importance of a fully diverse workforce in the successful delivery of its strategy. The effective use of all the skills and talents of our employees is encouraged and this extends to potential new employees. It is essential that the best person for the job is selected regardless of race, gender, religion, age, sexual orientation, physical ability or nationality. Vitec is fully committed to equal opportunity where talent is recognised. The Board will keep under regular review the issue of diversity including at Board level, senior management level and throughout the entire workforce, taking into account, among other things, Lord Davies' review Women on Boards, the Hampton Alexander review FTSE Women Leaders and the Parker and McGregor-Smith reviews on Ethnic Diversity. We will report upon this issue annually in our Annual Report.

Our people and culture on pages 10 and 11 details further information on diversity, including the disclosure of gender diversity statistics in accordance with the requirements of the Companies Act 2006.

Board evaluation 2018

In 2018 we conducted an internal Board evaluation, the process of which was led by myself and the Group Company Secretary. The process entailed several questionnaires being sent to each Director including:

- Evaluation of the performance of the Board;
- Evaluation of the performance of the Board Committees;
- Evaluation of the Non-Executive Directors by the Chairman; and
- Evaluation of the Chairman led by the Senior Independent Director taking into account the views of the Board.

I then followed up with each Director on the content of the evaluation forms, including feedback on each Director's performance and areas for improvement around the time of the December 2018 scheduled Board meeting.

For my own evaluation, Christopher Humphrey, as Senior Independent Director, coordinated the process with evaluation forms completed by each Director. Christopher Humphrey also held follow up meetings with each Director during the December 2018 Board meeting.

The outcome of the questionnaires and the follow up meetings helped to draft the Board and Committee objectives for 2019.

→ 2018 Highlight

2018 internal Board evaluation identified Board priorities for 2019 and confirmed the Board and its Committees are working to a high standard

The evaluation asked each Director to identify their top three priorities and the following were commonly repeated:

- Board succession.
- Creative Solutions – delivery of successful growth and sustainable leadership and organisation.
- Strategy – refine and develop growth strategy and deliver against it.

Each Committee was deemed to be well-managed and effective along with individual Directors contributing sufficient time and effort both during and outside of meetings.

Board objectives for 2019

The 2018 Board evaluation helped to set Board objectives for 2019 and these focus on the areas of: strategy; Board succession; governance and culture; financial performance; customers; research and development, and risk. The Board will track progress against each during 2019 and we will report on these objectives in the 2019 Annual Report.

Each of the Board Committees were reviewed with individual outputs and actions created. As with the Board, the output helped set the 2019 objectives that will be reported on in the 2019 Annual Report.

For the Audit Committee, 2019's focus will be on: reviewing the risk management of strategic objectives; the implementation of new accounting standards; the successful induction of new Non-Executive Directors; treasury strategy with a focus on the funding strategy; tax strategy with a focus on the finance structure; and continued training on governance matters.

The Remuneration Committee's objectives for 2019 include: ensuring the Remuneration Report takes into account best practice and receives significant shareholder support at the 2019 AGM; preparing a new Remuneration Policy Report for consultation with shareholders in mid-2019; reviewing the performance of the Committee's external remuneration adviser; preparing for changes concerning executive remuneration as a consequence of new legislation and a revision to the UK Corporate Governance Code; and preparing a post-employment shareholding requirement policy for Executive Directors in line with emerging best practice.

The Nominations Committee in 2019 will focus on development of talent and succession plans for senior management.

Finally, my review led by Christopher Humphrey highlighted that I have a good and constructive relationship with the Group Chief Executive, Board members and major shareholders, and my performance was rated highly by every Board member.

Board performance against 2018 Board objectives

The Board set itself several objectives for 2018. These are summarised below with an assessment of performance against each:

2018 Board objectives	Progress during 2018
Refine current strategy including bolt-on acquisitions in the broadcast and photographic markets with a particular focus on the independent content creator market	<ul style="list-style-type: none"> – Received regular updates from each Division on progress against their strategic plans with Divisional and business unit senior management attending several Board meetings – Approved various acquisitions throughout 2018, including Adeal in Australia, Rycote in UK and Amimon in Israel, and continued to scope potential further acquisitions – Held successful Blue Sky strategy session, to be repeated in 2019 – Undertook detailed strategic review, identified key areas concerning strategy and agreed programme for ongoing review from all three Divisions – Regular review of strategic KPIs – Moved into the adjacent audio capture market with the acquisition of Rycote
Implement key points from the 2018 update to the Corporate Governance Code including potentially around executive pay reform and strengthening employee, customer and wider stakeholder voice	<ul style="list-style-type: none"> – Reviewed changes to the UK Corporate Governance Code and other regulation and agreed upon action plans to be implemented in 2019. Notably, Caroline Thomson has been identified as the designated Non-Executive Director with responsibility for engagement with the workforce. A programme to enable Caroline Thomson to achieve this is being developed involving site visits, employee town hall meetings and engagement with Group HR and will be reported on in 2019's Annual Report – Two new independent Non-Executive Directors appointed during 2018 to strengthen skillset and experience and to refresh the independent element of the Board
Track financial performance and delivery of growth in line with 2018 Budget for each of the Group's three Divisions	<ul style="list-style-type: none"> – Received regular monthly updates from the Group Chief Executive and the Group Finance Director – Approved content of full and half year results announcement and trading updates – Reviewed forecasts of all Divisions and received presentations from the businesses – Approved funding mechanisms for various acquisitions in 2018
Develop the Board's understanding of the Company's customers and competitors within its core markets and develop knowledge of current and emerging technology in those markets	<ul style="list-style-type: none"> – Received presentations from product specialists within the business on existing and developing technologies – Attendance at photographic and broadcast trade shows including NAB and Photokina – Considered capital expenditure requests for new products and acquisitions
Agree upon Non-Financial KPIs that are materially important and ensure visibility	<ul style="list-style-type: none"> – Regular reviews of strategic Non-Financial KPIs were undertaken
Ensure a granular debate on key operational risks facing the business or emerging and mitigation around those operational risks	<ul style="list-style-type: none"> – Received regular updates on key risks throughout the year as they occurred, including the fire at an adjacent building to the SmallHD site in April 2018 – Operational risk review meetings were held in June, July and November for the three Divisions

Performance evaluations of each of the Executive Directors also took place against achievement of specific personal objectives, the detail of which can be found in the Remuneration Report in respect of the outcome of their 2018 annual bonus.

Directors' attendance table for 2018

	Board		Audit	Remuneration	Nominations
	Scheduled	Short notice	Scheduled	Scheduled	Scheduled
Number of meetings	6	3	4	3	4
Directors:					
John McDonough	6	3	–	–	4
Christopher Humphrey	6	3	4	3	4
Duncan Penny (appointed 1 September 2018) ⁽¹⁾	2/2	1/2	1/1	2/2	2/2
Lorraine Rienecker (resigned 1 September 2018)	4/4	–	3/3	1/1	2/2
Mark Rollins (resigned 2 April 2018)	1/1	–	1/1	1/1	1/1
Caroline Thomson ⁽²⁾	5/6	3	4	3	3/4
Richard Tyson (appointed 2 April 2018) ⁽³⁾	5/5	3	3/3	1/2	2/3
Stephen Bird	6	3	–	–	4
Kath Kearney-Croft	6	3	–	–	–
Martin Green	6	3	–	–	–

(1) Duncan Penny was unable to attend the short-notice November 2018 Board meeting due to a prior commitment having joined the Board on 1 September 2018.

(2) Caroline Thomson was unable to attend the February Board and Nominations Committee meetings due to her attendance at a Parliamentary Hearing held at short notice.

(3) Richard Tyson was unable to attend the October 2018 Remuneration and Nominations Committees due to pre-existing commitments prior to his appointment to the Board in April 2018.

Nominations Committee report



Chairman

John McDonough

Members during 2018

- Stephen Bird
- Christopher Humphrey
- Caroline Thomson
- Mark Rollins (resigned 2 April 2018)
- Richard Tyson (appointed 2 April 2018)
- Lorraine Rienecker (resigned 1 September 2018)
- Duncan Penny (appointed 1 September 2018)

Role of the Committee

The Board has appointed the Nominations Committee to:

- Oversee the composition of the Board (including size, skills, knowledge, experience and diversity) – ensuring that they remain appropriate and making any recommendations to the Board regarding any changes;
- Lead the process with regard to appointments to the Board, including the role of the Chairman;
- Succession planning for the Board and senior executives including recruitment, talent development and identification of potential candidates internally or externally and making such recommendations to the Board.

Current Committee members are set out above. Other members of the Board attend Nominations Committee meetings by invitation and where there is no conflict.

Nominations Committee activities in 2018 and plans for 2019

During 2018 the Nominations Committee focused attention on Board succession and succession planning for the Executive Directors, Executive Management Board and senior management. Notably the Committee received detailed presentations on talent development in the Company. In the early part of 2018, the Committee was principally focused on the recruitment process for new independent Non-Executive Directors. This culminated in Richard Tyson being appointed on 2 April 2018 and Duncan Penny on 1 September 2018.

In late 2018, the Committee received a detailed update on executive talent and succession plans around the Group. Notably this covered each Division's senior management team, succession plans and emerging talent and associated development plans.

In the second half of 2018 and early 2019, the Nominations Committee led by Christopher Humphrey and Caroline Thomson conducted a search for a new Chairman of the Company, to succeed John McDonough. This process involved the Group Chief Executive, Stephen Bird and the use of an external recruitment company, JCA, to conduct a search for suitable candidates against a detailed and bespoke brief for the role. A list of potential candidates was provided to the Committee (excluding John McDonough) and after review, a short list of suitable candidates was interviewed by Christopher Humphrey, Caroline Thomson and Stephen Bird. Having identified a preferred candidate, the wider Board met with the individual as well as senior Company executives and selected Company external advisors. Having gone through this process, the Board approved the appointment of Ian McHoul as an independent Non-Executive Director and Chairman Designate with effect from 25 February 2019. Ian will succeed John McDonough as Chairman at the close of the 2019 AGM on 21 May 2019. This will enable a suitable induction to the Company and handover for the role.

In 2019 the Committee will focus in further detail on succession planning and talent development for the direct reports of the Executive Directors and senior management within each of the Group's Divisions.

→ 2018 Highlight

The Nominations Committee in 2018 dealt with the recruitment of two independent Non-Executive Directors and succession for the Chairman

New Director appointment process

Once the Board has identified the need for a new Director, the Chairman, except where the search relates to his role, engages the support of an external executive search consultant where necessary to facilitate the search. The Chairman works with the consultant to draft a clear brief on the role, skills and personal attributes that the Board is looking for, taking into account Board diversity. This is followed up with a search process to identify suitable candidates. Initial interviews would be held with candidates with both the Chairman and the Group Chief Executive, where appropriate, following which a shortlist would be created taking into account the skills of each candidate and perceived cultural fit with the Board and senior management. Following further meetings a preferred candidate would be chosen and each member of the Board would then meet with, or speak to, the preferred candidate individually to ensure that a person with the right skills, diversity and dynamic fit with the Board was appointed. This same process would occur whether the role was executive or non-executive in nature. However, should the search be for the role of Chairman, it would be conducted by the Senior Independent Director with the support of the Board. Subject to the outcome of each search, a formal recommendation on an appointment is made by the Nominations Committee to the Board for approval.

The Nominations Committee used the services of JCA Group in 2018 and followed the process above for the recruitment of Richard Tyson, Duncan Penny and Ian McHoul.

Board balance and diversity

I am confident that we have the necessary mix and balance of skills, personalities and diversity on the Board to meet the challenges the Group faces, deliver on strategy, monitor ongoing performance and exercise good corporate governance. During 2018 each Board member assessed the current mix of the Board and skills of Directors to identify potential areas for improvement. This helped to support the recruitment of new Directors as we move forward. The recruitment of the new Non-Executive Directors took into account the current mix of the Board and the need to ensure continued diversity of experience and background in conjunction with the Group's strategy. I will remain mindful of the need to have the right balance on the Board and future Board changes will take this into consideration. The Nominations Committee will continue to monitor Board structure and succession plans, including talent development and succession plans of senior management below Board level.

Nominations Committee activities during 2018

At each main meeting the Committee considers:

- Directors' duties and conflicts of interest
- Minutes of previous meetings and matters arising

The Committee had four meetings in 2018 and covered the following matters:

February	<ul style="list-style-type: none"> – Chairman's reappointment for maximum tenure of three years – Recommendation of Richard Tyson as independent Non-Executive Director to replace Mark Rollins
May	<ul style="list-style-type: none"> – Review of Board succession plans including Duncan Penny's appointment
October	<ul style="list-style-type: none"> – Review of Non-Executive Director appointments and gender balance
December	<ul style="list-style-type: none"> – Board succession planning review and update – Senior management review, talent development and succession planning across the Divisions

Remuneration Committee report



Chairman

Caroline Thomson

Members during 2018

- Christopher Humphrey
- Mark Rollins (resigned 2 April 2018)
- Richard Tyson (appointed 2 April 2018)
- Lorraine Rienecker (resigned 1 September 2018)
- Duncan Penny (appointed 1 September 2018)

Role of the Committee

The Board has delegated to the Remuneration Committee the setting of a remuneration framework for the Company's Group Chief Executive, other Executive Directors and members of the Executive Management Board. An overview of the work completed by the Remuneration Committee during the year is set out in the table opposite. The Committee in 2019 will expand its role to take into account wider workforce remuneration and related policies and the alignment of incentives and rewards with culture. The Remuneration Committee is chaired by Caroline Thomson and comprises exclusively independent Non-Executive Directors. The Chairman, Group Chief Executive, Group Finance Director, Group Business Development Director and Group Company Secretary were all invited to attend meetings throughout 2018.

The Remuneration Report for the year ended 31 December 2018 on pages 72 to 98 provides an introduction from the Committee Chairman. It sets out an overview of the Group's remuneration policy for Executive and Non-Executive Directors which was approved by shareholders at the 2017 AGM and will next be put to shareholders at the 2020 AGM. The Remuneration Report gives full details of Executive and Non-Executive Directors' remuneration during 2018 including any payments made to previous directors.

Remuneration Committee activities during 2018

→ 2018 Highlight

2018 AGM approved the 2017 Remuneration Report with over 99.9% of shareholder votes cast in its favour

During 2018 the Remuneration Committee had three meetings. At each meeting the Committee considered the following matters:

- Directors' duties and conflicts of interest
- Minutes of previous meetings and matters arising
- Reviewed progress against objectives

The following specific business was dealt with at each meeting held in 2018:

February	<ul style="list-style-type: none"> – Approved the 2017 Remuneration Committee Report – Approved the outcome of personal objectives for Executive Directors for 2017 and agreed Executive Directors' 2018 objectives – Approved the outcome of 2017 Annual Bonus Plan and confirmed financial targets for 2018 Annual Bonus Plan – Approved the outcome of performance conditions tied to 2015 Long Term Incentive Plan (LTIP) awards – Approved 2018 awards to be made under the LTIP
October	<ul style="list-style-type: none"> – Noted an update on executive remuneration from remuneration consultants, Mercer – Considered the impact of the changes to disclosures required by the Companies (Miscellaneous Reporting) Regulations and 2018 UK Corporate Governance Code – Considered the treatment of acquisitions and disposals on the outcome of LTIP awards and 2018 Annual Bonus Plan
December	<ul style="list-style-type: none"> – Approved the outcome of the Committee's 2018 objectives and set 2019 objectives – Considered the treatment of acquisitions and disposals on the outcome of LTIP Awards and 2018 Annual Bonus Plan – Updated on indicative outcome for the 2018 Annual Bonus Plan – Approved proposed salary increases for 2019 for the Executive Directors and Executive Management Board – Approved the structure of the 2019 Annual Bonus Plan – Reviewed Corporate Governance changes and voting guidance reports published by the Investment Association and ISS

Remuneration Committee performance measurement

The Remuneration Committee set itself several objectives for 2018, the detail and progress against which is shown in the table below.

2018 Remuneration Committee objectives	Progress during 2018
Ensure that the 2017 Remuneration Report submitted to shareholders at the May 2018 AGM is approved with no material issues of concern and over 90% of shareholders to vote in favour of the resolution.	– 2017 Remuneration Report compliant with regulations and received 99.9% support of shareholders voting on the advisory resolution at the 2018 AGM.
Ensure that remuneration arrangements for Executive Directors and Executive Management Board members remain appropriate, balancing the right incentives for executives and fair reward with the interests of shareholders and the long-term good of the Company as a whole. To include an appropriately stretching Annual Bonus Plan with financial targets and EPS corridor for LTIP awards made in February/March 2018.	<ul style="list-style-type: none"> – Executive Directors and Executive Management Board salaries for 2018 were approved at the December 2017 meeting and took into account current financial performance, wider employee remuneration and market conditions. Notably, the financial performance of the Company and share price is aligned with executive remuneration. – LTIP awards and associated performance conditions (including EPS targets) for 2018 awards were considered and approved in February 2018. – LTIP awards for 2015 that vested in March 2018 were aligned with growth in the Company's earnings and share price over the three-year performance period.
Take into account changes to be made to UK Corporate Governance Code and company law in mid-2018 and implement appropriate measures to ensure that the Company remains compliant with the Code and company law in the context of executive remuneration. This covers: (i) pay ratios between the CEO and the average UK worker; (ii) disclosing a wider range of remuneration outcomes for share based incentives as a consequence of share price growth; (iii) potentially wider Committee responsibility for demonstrating how pay and incentives align across the Company; (iv) clear policy on how to address a significant shareholder opposition vote to remuneration; and (v) vesting periods for share incentives potentially being extended – including post-performance holding periods.	<ul style="list-style-type: none"> – Mercer provided the Committee with an in-depth analysis of the governance changes in 2018 which come into effect for financial years commencing 1 January 2019 onwards. – Terms of Reference for the Committee were reviewed to cover the new Code provisions and the Remuneration Report for 2018 Annual Report has been drafted to include certain provisions of the new Code.
Ensure that the Committee receives ongoing training in 2018 on emerging issues around executive remuneration including market trends, governance issues and shareholder/investor guidance bodies' views.	– Mercer, Slaughter & May and Deloitte have provided training to the Board and its Committees during 2018 and the Remuneration Committee has further been provided with detailed updates from the Company Secretary on governance changes and proxy voting guidance reports.

The Remuneration Committee has set itself objectives for 2019 and will report on progress against these in the 2019 Annual Report.

Accountability

Financial and business reporting

The Board considers that this report accords with the Financial Reporting Council's ("FRC") Guidance on Risk Management, Internal Control and related Financial and Business Reporting, as issued in 2014, and has reported against the recommendations in this Annual Report.

Board oversight of internal control and risk management

The Board has delegated responsibility to the Audit Committee for oversight of the Group's system of internal controls to safeguard shareholders' investments and the Company's assets. As part of its responsibility, the Audit Committee formally reviews the effectiveness of the Group's internal controls twice a year. There are systems and procedures in place for internal controls that are designed to provide reasonable control over the activities of the Group and to enable the Board and Audit Committee to fulfil their legal responsibility for the keeping of proper accounting records, safeguarding the assets of the Group and detecting fraud and other irregularities. This approach provides reasonable assurance against material misstatement or loss, although it is recognised that as with any successful company, business and commercial risks must be taken and enterprise, initiative and the motivation of employees must not be unduly stifled. It is not our intention to avoid all commercial risks and commercial judgements in the course of the management of the business.

The Board has adopted a risk-based approach to establishing the system of internal controls. The application and process followed by the Board in reviewing the effectiveness of the system of internal controls during the year were as follows:

- Each business unit is charged with the ongoing responsibility for identifying the risks it faces and for putting in place procedures to monitor and manage those risks;
- The responsibilities of senior management in each business unit to manage risks within their businesses are periodically reinforced by the Executive Management Board;
- Major strategic, operational, financial, regulatory, compliance and reputational risks are formally assessed during the annual long-term business planning process around mid-year. These plans and the attendant risks to the Group are reviewed and considered by the Board;
- Large financial capital projects, property leases, product development projects and all acquisitions and disposals require advance Board approval;
- The process by which the Board reviews the effectiveness of internal controls has been agreed by the Board and is documented. This involves regular reviews by the Board of the major business risks of the Group, together with the controls in place to mitigate those risks. In addition, every business unit conducts a self-assessment of its internal controls. Every year, the results of these assessments are reviewed by the Group Risk Assurance Manager who provides a report to the Group Finance Director and the Chairman of the Audit Committee. The Board is made aware of any significant matters arising from the self-assessments. The risk and control identification and certification process is monitored and periodically reviewed by Group financial management;
- A register of risks facing the Group, as well as each individual business, and an evaluation of the impact and likelihood of those risks is maintained and updated regularly by the Group Risk Assurance Manager. The Group's principal risks and

uncertainties and mitigation for them are set out on pages 18 to 21 of this Annual Report;

- The Board has established a control framework within which the Group operates. This contains the following key elements:
 - organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements;
 - defined expenditure authorisation levels;
 - operational review process covering all aspects of each business conducted by Group executive management on a regular basis throughout the year;
 - strategic planning process identifying key actions, initiatives and risks to deliver the Group's long-term strategy; and
 - comprehensive system of financial reporting including weekly flash reports, monthly reporting, quarterly forecasting and an annual budget process. The Board approves the Group budget, forecasts and strategic plans. Monthly actual results are reported against prior year, budget and latest forecasts and are circulated to the Board. These forecasts are revised where necessary but formally at least once every quarter. Any significant changes and adverse variances are reviewed by the Group Chief Executive and Executive Management Board and remedial action is taken where appropriate. Group tax and treasury functions are coordinated centrally. There is regular cash and treasury reporting to Group financial management and monthly reporting to the Board on the Group's tax and treasury position.

This system has been in place for the year under review and up to the date of approval of the Annual Report.

The Group's internal audit function, led by the Group Risk Assurance Manager, conducted a number of internal audits and additional assurance reviews during 2018, the details of which were presented to the Audit Committee. The audits included reviews of the appropriateness and effectiveness of controls within the Group including, but not limited to: purchasing and payments; sales and cash collection; inventory management; accounting and reporting; and IT processes. An internal audit plan for 2019 was prepared and agreed with the Audit Committee at its February 2019 meeting.

Relations with shareholders and stakeholders

Maintaining shareholder dialogue

Maintaining regular contact with our shareholders remains an important part of our activities and is fundamental to good corporate governance. During 2018, the Group Chief Executive and Group Finance Director held investor presentations and face-to-face meetings with each of our major shareholders tied into the publication of our full year and half year results and also periodically as requested by existing and potential shareholders. I also make myself available to shareholders as required to discuss the Group's strategy, governance and remuneration matters. We held a Capital Markets Day in September 2018 and took some of our major shareholders and analysts to visit our new site and facilities in Bury St Edmunds, UK – the site of our UK Production Solutions Division. The visit included a tour of our operations and allowed the shareholders and analysts to meet with more of our employees and receive presentations from key senior management. We will repeat such events in the future where we deem it beneficial to ensure that shareholders gain a greater understanding of the business.

Annual General Meeting

I was pleased to meet some of our shareholders at the 2018 AGM and look forward to meeting shareholders again at the 2019 AGM. This offers an opportunity for you to meet with our Directors and to hear more about the Group's strategy. Shareholders are encouraged to attend the AGM and to ask questions about the business. The Group Chief Executive gives a short business update to the AGM. I confirm that all Board members will attend the 2019 AGM, including each of the Committee Chairmen. Details of the AGM are included in the Notice of Meeting that accompanies this Annual Report and which is available on our website.

Shareholders voting at the AGM

All resolutions are voted on by way of a poll. This reflects best practice and ensures that all the views of all shareholders who submit proxy forms are taken into account in terms of the actual voting at the general meeting. The outcome of the voting at the AGM will be announced by way of a Stock Exchange announcement and full details will be published on the Company's website shortly after the AGM. At the 2018 AGM, over 80% of our issued shares were voted by way of proxies submitted. Separate resolutions are proposed for each substantive issue upon which shareholders are asked to vote.

→ 2018 Highlight

All resolutions at the 2018 AGM received over 99% in favour votes

Shareholders attending the AGM have the opportunity to ask questions at the meeting. In the event that a resolution is opposed by a significant proportion of shareholders, the Company will endeavour to explain, as soon as practically possible following the meeting, the actions it intends to take to understand shareholders' concerns and how best to address the concerns being raised. The Board considers that a vote in excess of 20% of shareholders voting to be significant.

Other forms of shareholder communication

We publish an Annual Report each year, usually in March, following the end of the financial year on 31 December. To allow shareholders to review the Annual Report in advance of the AGM and create an informed view of the Group, we comply with the requirement set out in the current UK Corporate Governance Code in respect of shareholder meetings and to send the Notice of Meeting and related papers at least 20 working days before the meeting and we will continue to comply with this requirement. The Board communicates with its shareholders via a combination of public announcements through the London Stock Exchange, analyst briefings, roadshows and press interviews at the time of the announcements of the half year and full year results and, when appropriate, at other times in the year.

Regular updates from the Executive Directors at Board meetings keep the Board advised of the views of major shareholders. We also receive monthly reports on market and investor sentiment along with a full shareholder analysis.

Our website contains information on the Group including financial results, presentations, investor relations and products and services. Shareholders and other stakeholders are encouraged to view the website to receive up-to-date information about us.

John McDonough CBE

Chairman

20 February 2019

Audit Committee report



Chairman

Christopher Humphrey

Members during 2018

- Caroline Thomson
- Mark Rollins (resigned 2 April 2018)
- Richard Tyson (appointed 2 April 2018)
- Lorraine Rienecker (resigned 1 September 2018)
- Duncan Penny (appointed 1 September 2018)

Role of the Committee

The Audit Committee's primary responsibilities are as follows:

1. Risk management
 - On behalf of the Board, review and give supervision to the processes by which risks are managed;
 - Undertake stress testing where required in order to substantiate the Group's Viability Statement and going concern statement, as well as stress testing each Division in the business at various intervals.
2. Financial reporting
 - Oversee the reporting against various accounting policies, including compliance with accounting standards;
 - Ensure that financial statements have integrity and comply with all applicable UK legislation and regulation as appropriate;
 - Ensure that the Annual Report and Accounts is fair, balanced and understandable, to be able to recommend approval to the Board;
 - Oversee financial results and trading announcements with the market.
3. Internal controls
 - Monitor compliance with the UK Corporate Governance Code and other applicable regulations;
 - Test and monitor effectiveness and robustness of all internal controls including internal financial controls and processes.

4. Internal audit

- Supervise internal audit programme of work and monitor progress;
- Review reports from internal audits and ensure actions are completed in a timely manner to avoid overdue actions;
- Monitor the resourcing of the internal audit function;
- Review the effectiveness of the internal audit function;
- Consider where third party review of the internal audit control mechanism may be required.

5. External audit

- Make recommendations to the Board for the appointment or reappointment of the external auditor;
- Lead the process of and make recommendations of any successful party to an audit tender process;
- Manage the overall relationship with the external auditor;
- Review the independence and evaluate the effectiveness of the external auditor;
- Monitor the policy on any non-audit services carried out by the external auditor;
- Review and approve the external auditor's fee, scope of the audit and terms of their engagement.

6. Fraud and whistleblowing

- Oversee the processes in place to prevent and detect fraud and which enable employees to raise concerns without fear of recriminations;
- Digest reports of fraud, bribery or whistleblowing that occur in the Group and to oversee any remedial action.

Audit Committee Chairman – skills

I was appointed as Chairman of the Audit Committee on 12 May 2015. The Board believes I continue to have the necessary recent and relevant financial experience, along with financial competence, as required by the UK Corporate Governance Code. I am a Chartered Management Accountant and a Fellow of CIMA, and most recently held the role of Chief Executive Officer and previously Group Finance Director of Anite plc, formerly a UK listed company. In my earlier career I held senior positions in finance at Conoco, Eurotherm International plc and Critchley Group plc. I continue to maintain an up-to-date understanding of financial and corporate governance knowledge and best practice by attending training sessions and updates presented by major accounting firms. The Board also considers that the other members of the Committee have a broad range of appropriate skills and experiences covering financial, commercial and operational matters, along with competence of the manufacturing and technological aspects of the industry in which Vitec operates, and their biographies are summarised on pages 52 and 53.

Committee activities in 2018

In 2018 I chaired four scheduled meetings of the Committee and I worked closely with the Group Finance Director, the Group Risk Assurance Manager and the Deputy Company Secretary to ensure the Committee is provided with the necessary information it requires to discharge its duties. We operate with a rolling agenda programme, taking into account our terms of reference (which can be found on our website), the Group's annual reporting requirements and any other matters which arise on an ad hoc basis. The Committee sets aside appropriate time for the review of financial reporting and the risk assurance process to ensure they both receive robust consideration and challenge. A priority in 2018 was to ensure the smooth handover of external auditor duties from KPMG LLP to Deloitte LLP, following a tender process undertaken in the latter part of 2017. During the four scheduled meetings in 2018, the Committee considered the following matters:

- Directors' duties and any new conflicts of interest
- Minutes of previous meetings and matters arising
- Progress against agreed objectives
- Risk Assurance Report covering risk, assurance, internal audit and internal controls
- Any whistleblowing reports

Engagement of external auditor – Deloitte LLP

KPMG had been the Company's auditor since 19 July 1995. However, following a comprehensive audit tender process in late 2017, Deloitte LLP were chosen as the Group's new external auditor. The change became effective from the date of the Company's 2018 AGM following the successful passing of a resolution seeking the approval of Deloitte's appointment and a separate resolution allowing for the Board to set Deloitte's remuneration. David Halstead is the audit partner and will be in attendance at the 2019 AGM.

External auditor effectiveness review

The effectiveness of the external audit process is assessed by the Committee, which meets regularly throughout the year with the audit partner and senior audit managers.

I also meet regularly with the Group Finance Director and external audit partner to provide necessary support to their roles, and also individually with the Group Risk Assurance Manager to discuss the findings of his work and to maintain an open line of communication.

Auditor independence

At each meeting, the Committee receives a summary of all fees, audit and non-audit, payable to the external auditor. A summary of the fees paid to the external auditor is detailed in note 2.1 to the financial statements. Deloitte LLP have confirmed their independence as external auditor of the Company in a letter addressed to the Directors.

FRC reviews

The Company was not subject to any FRC reviews during 2018. Should this occur in future, we will advise shareholders in the subsequent Annual Report.

The following specific business was dealt with at each meeting held in 2018:

February	<ul style="list-style-type: none"> – Annual results for 31 December 2017, including: <ul style="list-style-type: none"> – Accounting issues report – Full year report from the external auditor including Auditor's Report to be included in the 2017 Annual Report – Consolidated financial statements for the year ended 31 December 2017 – Principal risks and uncertainties – Report on internal controls – Separate report on the work of the Audit Committee – Performance, effectiveness and independence of the external auditor – Fees for non-audit services and professional fees – KPMG LLP – Process behind the drafting of the Viability Statement – Recommendations to the Board on: <ul style="list-style-type: none"> – Consolidated financial statements – Appointment of Deloitte LLP as new external auditor of the Group – Independence and objectivity of KPMG – Management's representation letter to KPMG – Viability Statement – Reviewed results of enhanced controls self-assessment process – Reviewed 2018 internal audit plan – Reviewed the Group tax strategy – Internal audit business reviews – Private meeting between the Committee and external auditor without executive management present
June	<ul style="list-style-type: none"> – Reviewed risk assurance report including internal audit report – Received insurance site survey reports for Bury St Edmunds (UK), Cartago (Costa Rica), and Feltre (Italy). – Reviewed external audit strategy for the year ended 31 December 2018 – Regulatory update from Deloitte LLP on technical and governance issues
August	<ul style="list-style-type: none"> – Reviewed scope for the external audit for 31 December 2018 – Half year results for 30 June 2018, including reviews of: <ul style="list-style-type: none"> – Accounting issues report – Report from the external auditor – Results for the half year ended 30 June 2018 – Fees for non-audit services and professional fees – Principal risks and uncertainties – Recommendations to the Board on: <ul style="list-style-type: none"> – The half year results – Management's representation letter to Deloitte LLP – Summaries of third party reputational risk – Overview of the whistleblowing service and updates to usage – Group tax update
December	<ul style="list-style-type: none"> – Considered the outcome of 2018 objectives and agreed 2019 objectives – Update on whistleblowing and third party reputational risk received – Presentation on the Group's tax strategy – Update on Brexit and Company mitigation plans – Update on IT strategy given – Presentation and update on legal and regulatory matters

Assessing the content of the Annual Report

As already explained by the Chairman, the Board takes responsibility for determining that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. At the request of the Board, the Audit Committee concentrated its review of the full year results on the financial statements only and the process which underpinned the drafting of the Viability Statement. The process for determining content of the financial statements and the Viability Statement was reviewed by the Audit Committee who recommended to the Board at its meeting on 18 February 2019, the adoption of the financial statements as at 31 December 2018, and that they provide a true and fair view of the financial position and performance of the Group.

Significant accounting issues

Significant accounting issues and judgements are identified by the finance team, or through the external audit process and are reviewed by the Audit Committee. The significant issues considered by the Committee in respect of the year ended 31 December 2018 are set out in the following table:

Significant issue	How was it addressed
Working capital management	The Committee critically reviewed the carrying value of the Group's working capital. This took into account management's assessment of the appropriate level of provisioning including collectability of receivables and inventory obsolescence. Management presented to the Committee the experience of bad debts during the year, and the debtor concentration and days outstanding. With regard to inventory, the gross levels held by inventory type, the provisions recorded against obsolescence, and inventory days analysis were also presented to the Committee. In addition, the external auditor presented their findings with regard to the key audit testing over working capital covering all the major locations. The Committee concurred with management's assessment of the Group's working capital position.
Provisions and liabilities	The Committee considered the judgemental issues relating to the level of provisions and other liabilities. The more significant items include post-employment and taxation. For each area management presented to the Committee the key underlying assumptions and key judgements and, where relevant, the range of possible outcomes. The external auditor also presented on each of these areas and their assessment of these judgements. The Committee has used this information to review the position adopted in terms of the amounts charged and recorded as provisions, acknowledging the level of subjectivity that needs to be applied.

Acquisition accounting	The Committee considered the validity of estimates and assumptions, and adequacy of disclosures, relating to the accounting for the acquisitions of Amimon, Rycote and Adeal during 2018 and the acquisition of JOBY and LowePro in 2017. Management presented to the Committee the analysis, at fair value, of the net assets acquired and an analysis of transaction costs and charges associated with acquired businesses. The most significant item related to the valuation of intangible assets following the acquisition of Amimon, which was substantiated by an independent valuation expert. The external auditor presented the outcome of their review of acquisition accounting, in particular, the valuation of acquired intangible assets, purchase price consideration, and other management estimates and assumptions. The external auditor validated the assumptions used in deriving the fair value of the intangible assets acquired, and were satisfied that the valuation was fairly stated. The Committee has used this information to review the amounts recorded in goodwill, intangible assets and profit and loss charges, and agreed with management's accounting and disclosures.
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Attendance at Committee meetings

The Chairman, Group Chief Executive, Group Finance Director, Group Risk Assurance Manager, Group Company Secretary and Deputy Company Secretary attend meetings by invitation and other members of the senior management team attend as required. I invite the audit partner from the Company's external auditor to attend meetings of the Committee on a regular basis and during 2018 David Halstead, as the audit partner of Deloitte LLP, attended three of the four scheduled meetings, either in whole or for part of the meeting, following Deloitte's appointment on 21 May 2018. Representatives of KPMG LLP attended the February 2018 Audit Committee meeting in connection with the 31 December 2017 year end audit. At two of the meetings the Executive Directors and senior management were not present for part of the meeting so that members of the Committee could meet with the external auditor in private. The Committee will continue with the practice of meeting in private with the external auditor in the future.

Non-audit services provided by the external auditor

We have a policy on the use of the external auditor for non-audit services which is reviewed annually. There were no changes to the items of work covered by the policy. Written permission must be obtained from the Chair of the Audit Committee before the external auditor is engaged for any non-audit work. The use of the external auditor is determined by their demonstrable competence, knowledge of the Group, and competitive pricing, and monetary thresholds for the approval of non-audit work by Deloitte have been set by the Committee. The policy ensures that the non-audit work provided by Deloitte does not impair their independence or objectivity and is divided into two parts:

Excluded	Appropriate
This includes but is not limited to: internal accounting or other internal financial services, design, development or implementation of financial information or internal controls systems, internal audit services or their outsourcing, forensic accounting services, executive or management roles and functions, IT consultancy, litigation support services and other financial services such as broker, financial adviser or investment banking services.	Subject to pre-approval from the Group Finance Director and Chairman of the Audit Committee: this includes accounting advice in relation to acquisitions and divestments, corporate governance and risk management advice, defined audit related work and regulatory reporting, reporting accountant services, compliance services, transaction work (mergers, acquisitions and divestments), fairness opinions and contribution reports.

I confirm that during 2018 the policy was followed without exception. A report on the level of non-audit work provided by Deloitte is given to the Committee half-yearly and the Committee is satisfied that the advice they received from Deloitte has been objective and independent. During 2018, £0.3 million was paid to Deloitte in respect of non-audit work compared to an audit fee of £0.5 million. This non-audit work mainly comprised the review of the half-yearly financial statements and due diligence in relation to business acquisitions.

Committee performance in the annual evaluation

Our performance as a Committee was assessed through the internal Board performance evaluation, information on which is provided in the Corporate Governance report. The Audit Committee is working effectively and supported by internal finance and internal audit teams. A number of suggestions for areas to focus on have been incorporated in our 2019 objectives. To ensure that we continue to be an effective Committee, we set and measure our performance against specific objectives every year. These objectives are set annually and the details of our objectives for 2018 and the progress made is summarised below. I am pleased to confirm that we successfully achieved most of these objectives. Progress on achievement against our 2019 objectives will be reported in next year's Annual Report.

2018 Audit Committee objectives

The following table sets out the agreed Audit Committee objectives for 2018 and an assessment of progress achieved against each:

2018 Audit Committee objectives	Progress during 2018
Ensure management continued to coordinate risk assessments to support the Group's strategic objectives	<ul style="list-style-type: none"> – Reviewed the approach taken to internal audit and risk assurance and provided support to the processes – Critically reviewed and approved the principal risks disclosed in the 2017 Annual Report and made suggestions for improvement – Reviewed regular risk assurance reports from the Group Risk Assurance Manager – Regularly reviewed progress against the agreed Internal Audit programme – Approved the 2018 Internal Audit Plan – Finalised the recruitment of an additional internal audit resource based in the US – Update on Brexit as a key risk
Oversee resources of internal audit team and ensure appropriate	
Ensure that process and timelines improve with the external auditor for the 2018 year end process, and ensure that an effective audit tender process is held	<ul style="list-style-type: none"> – External audit tender held in late 2017 and Deloitte LLP chosen as new external auditor to be effective from the 2018 AGM – Worked with the finance team to ensure an effective handover to Deloitte
Oversight of the Group's IT strategy and processes	<ul style="list-style-type: none"> – The Committee received a detailed update on the Group's IT strategy whereupon it was agreed that the IT strategy updates be brought to Board level for information as a key business risk
Oversee the Group's Treasury strategy	<ul style="list-style-type: none"> – The Committee received an update of the Treasury strategy in early 2018
Oversee the Group's Tax strategy	<ul style="list-style-type: none"> – The Committee received an in-depth update of the Tax strategy at the meetings held in February and December 2018
Ensure successful induction of new Non-Executive Directors	<ul style="list-style-type: none"> – Richard Tyson was appointed on 2 April 2018 and Duncan Penny was appointed on 1 September 2018. Both are following induction programmes to ensure they are up to speed on Company matters and have had briefings on the Audit Committee and discussions with the external auditor
Receive updated governance materials and discuss their impact on the Group, and oversee the Group's whistleblowing arrangements, as well as receiving related training as required from the external auditor	<ul style="list-style-type: none"> – Received updates on the new UK Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018 – Oversaw the Group's whistleblowing and anti-bribery arrangements – Regular updates were given by internal finance employees and the external auditor at each Committee meeting

Christopher Humphrey
Chairman, Audit Committee
20 February 2019

Remuneration Report

Annual Statement by Caroline Thomson,
Chairman of the Remuneration Committee



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Vitec’s remuneration policy is structured to be aligned with shareholder interests and drive growth in the Company.

Caroline Thomson
Chairman of the
Remuneration Committee

Dear Shareholder

I am pleased to present Vitec’s Remuneration Report for 2018 in three separate sections:

- Section 1 – my annual statement setting out the work of the Remuneration Committee in 2018 and priorities for 2019.
- Section 2 – a summary of the Remuneration Policy Report (“the Policy”) that was approved by over 99% of shareholders voting at the 2017 Annual General Meeting. The Policy sets out the Company’s policy on Directors’ remuneration until May 2020.
- Section 3 – the 2018 Annual Report on Remuneration that sets out the remuneration paid to Directors in 2018 as well as details of how the Committee intends to implement our remuneration policy for 2019. Shareholders will have the opportunity for an advisory vote on this report at the AGM to be held on 21 May 2019.

2018 performance

Vitec achieved record performance in revenue, adjusted profit before tax* and EPS in 2018. This included a favourable impact on profit from foreign exchange and a benefit from acquisitions including JOBY and Lowepro, which have been fully integrated. The Group delivered underlying growth in sales and adjusted profit* despite disruption at the SmallHD business early in the year and challenging market conditions for the Imaging Solutions Division. Management made significant progress on strategy, with organic growth, improved margins and three acquisitions during the year. The Group’s Return on Capital Employed (“ROCE”) also grew in 2018. The Group delivered a strong cash performance and is well positioned for future growth with a robust balance sheet.

Committee activities in 2018

The Remuneration Committee in 2018 dealt with the following matters:

- The Committee approved an increase in the Group Chief Executive’s, Group Finance Director’s and Group Business Development Director’s salaries with effect from 1 January 2019 of 2.5%, reflecting pay increases within the Group’s workforce and current market conditions. The Group Business Development Director’s salary was increased by an additional 6.5% with effect from the same date making the total increase 9%. This increase was deemed appropriate to reflect the increased importance of Martin Green’s contribution to the work of the Board since he was appointed a Director in January 2017, in particular his role in acquisition strategy and implementation. The Committee believed he met the first three criteria set out in the Policy Report table on page 74.
- Fees paid to the Non-Executive Directors have also been increased with effect from 1 January 2019 as detailed on page 97 of this report. The increase was deemed appropriate, reflecting that: the market capitalisation of the Company grew from £270 million to £510 million in two years; the Company announced its best financial results for 2018 in the Company’s history; that market data provided by Mercer shows that Non-Executive Directors’ fees were at the lower end of the market range; and that the time commitment of the Non-Executive Directors over the last 18 months increased, with several short notice Board meetings to deal with M&A activity and development of the Company’s strategy.

- Bonus payments for 2018 were 66.9%, 63.7% and 66.9% respectively of the maximum potential award for the Group Chief Executive, Group Finance Director and Group Business Development Director. The 2018 Annual Bonus Plan paid out against the profit and operating cash* performance measures at 50.6% and 81.5% respectively as well as an individual assessment against personal objectives for each Executive Director. In determining the operating cash measure, the Committee exercised its discretion taking the Company's operating cash performance at the half year and full year into account rather than the quarterly basis previously disclosed. The Committee felt this approach aligned with shareholders' interests and expectations around operating cash performance at these two measurement points, providing consistency with the approach taken in Divisional plans, and also rewarded the Directors for an excellent cash performance in 2018. Executive Directors are required to defer half of their earned 2018 bonus into the Deferred Bonus Plan ("DBP") held in the form of the Company's shares for three years ensuring focus on long-term growth for the Group.
- LTIP awards made in 2016 to Executive Directors fully achieved their performance conditions based upon TSR and adjusted basic Earnings Per Share* growth. Note that for LTIP purposes, the 2018 EPS has been normalised for volatility in the Effective Tax Rate. 100% of the 2016 LTIP will vest to Executive Directors (and other participants) on the third anniversary of the award on 1 March 2019. Awards vesting to Stephen Bird will be subject to a further two year holding period. Since Martin Green's award pre-dated his appointment as an Executive Director, his award will not be subject to this additional two-year holding period.
- The Committee made LTIP awards to Executive Directors and senior managers on 2 March 2018 with performance conditions based on TSR and EPS growth (with a discretionary ROCE underpin). Share awards made to Executive Directors under the LTIP are subject to a further two-year holding period following a three-year performance period.
- The 2018 AGM approved the Company's 2017 Annual Report on Remuneration with over 99.9% of shareholders voting in favour of the report, which was in accordance with the Policy approved by shareholders in 2017.
- The Remuneration Committee approved the structure of the 2019 Annual Bonus Plan to ensure that it motivates Executive Directors to deliver against challenging targets for 2019. Its structure is the same combination of both financial targets (Group adjusted profit before tax* and operating cash flow* generation) and personal objectives as was used in 2018 with operating cash performance measured at the half year and full year. Financial targets for the 2019 Annual Bonus Plan, against which actual performance will be measured, will be disclosed in the 2019 Remuneration Report.
- The Committee considered forthcoming changes around reporting requirements for Directors' remuneration introduced through the 2018 UK Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018.

Committee priorities for 2019

The Committee in 2019 will focus on the following matters:

- Securing shareholder approval at the 2019 AGM for the Annual Report on Remuneration.
- Granting LTIP awards in 2019 with appropriately stretching performance conditions based on the Company's EPS and TSR performance and with a ROCE underpin.
- Ensuring that the 2019 Annual Bonus Plan drives performance and rewards growth in the Company.
- Preparation of a new Remuneration Policy Report in the second half of 2019 with the aim to submit that for approval to shareholders at the 2020 AGM. This new Policy Report will set out the scope and remit of Directors remuneration for a three-year period until the 2023 AGM.
- Implementing actions necessary under the 2018 UK Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018, relating to Directors' remuneration and applying to for accounting periods beginning on or after 1 January 2019.

Annual General Meeting

The Annual Remuneration Report will be put to the Company's shareholders for an advisory vote at the 2019 AGM. I encourage all shareholders to vote in favour of this resolution and I look forward to the opportunity to meet with shareholders at the 2019 AGM.

Caroline Thomson
Chairman, Remuneration Committee
20 February 2019

* This report provides alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards ("IFRS"). The Group uses these APMs to improve the comparability of information between reporting periods and Divisions, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group's businesses. APMs are used by the Directors and management for performance analysis, planning, reporting and incentive purposes. A summary of APMs used and their closest equivalent statutory measures is given in the Glossary on page 165.

74 **Remuneration Report**
Summary of the Remuneration Policy Report

Policy Report

The following is a summary of the Policy that covers remuneration for Directors of the Company for a three-year period from the Company's AGM on 17 May 2017 until the 2020 AGM. The full Policy, as approved by shareholders, is available on the Company's website and is contained in the 2016 Annual Report. Should there be any need to change the Company's Policy ahead of the 2020 AGM, shareholders will be asked to approve a revised Policy.

This Report contains further information required under the Listing Rules and the UK Corporate Governance Code as published in April 2016.

Remuneration policy table for Executive Directors

	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	Base salary is set at a level to secure the services of talented Executive Directors with the ability to develop and deliver a growth strategy.	<p>Fixed contractual cash amount usually paid monthly in arrears.</p> <p>Normally reviewed annually, with any increases taking effect from 1 January each year, although the Committee may award increases at other times of the year if it considers it appropriate.</p> <p>This review is dependent on continued satisfactory performance in the role of an Executive Director. It also includes a number of other factors, including experience, development and delivery of Group strategy and Group profitability, as well as external market conditions and pay awards across the Company.</p>	<p>The Committee has not set a maximum level of salary and the Committee will usually award salary increases in line with average increases awarded across the Company.</p> <p>Larger increases may, in certain circumstances, be awarded where the Committee considers that there is a genuine commercial reason to do so, for example:</p> <ul style="list-style-type: none"> – where there is a significant increase in the Executive Director's role and duties; – where an Executive Director's salary falls significantly below market positioning; – where there is significant change in the profitability of the Company or material change in market conditions; and – where an Executive Director was recruited on a lower than market salary and is being transitioned to a more market standard package as he or she gains experience. 	Not applicable
Benefits	To provide Executive Directors with ancillary benefits to assist them in carrying out their duties effectively.	<p>Executive Directors are entitled to a range of benefits including car allowance, private health insurance and life assurance.</p> <p>Other ancillary benefits may also be provided where relevant, such as expatriate travel or accommodation allowances.</p> <p>Executive Directors are entitled to participate on the same terms as all UK employees in the Sharesave Plan or any other relevant all-employee share plan.</p>	<p>There is no maximum level of benefits set, given that the cost of certain benefits will depend on the individual's particular circumstances. However, benefits are set at an amount which the Committee considers to be appropriate, based on individual circumstances and local market practice.</p> <p>Executive Directors' participation in the UK all-employee Sharesave Plan is capped by the rules of the relevant all-employee share plan (currently £500 per month maximum).</p>	Not applicable

	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	<p>To provide a material incentive to drive Executive Directors to deliver stretching strategic and financial performance and to grow long-term sustainable shareholder value.</p> <p>Half of any earned annual bonus (after tax) is deferred into the Deferred Bonus Plan and focuses the Executive Director on long-term value delivery and growth.</p>	<p>Paid annually based on performance in the relevant financial year. The amount is determined based on published full year results after the financial year end.</p> <p>Award levels and performance measures are reviewed annually. The Committee ensures that performance measures remain aligned to the Company's business objectives and strategic priorities for the year.</p> <p>Half of the annual bonus paid (after tax) is deferred into awards under the Deferred Bonus Plan for a period of three years on a mandatory basis unless the Committee determines an alternative deferral period is appropriate. Awards may be granted in the form of conditional awards, nil-cost options, forfeitable shares or similar rights. After a period of three years, the awards are paid out to Directors in the form of shares in the Company.</p> <p>The Committee retains full discretion to amend the bonus payout (upwards or downwards), if in its opinion any calculation of payout does not produce a fair result for either the individual or the Company, taking into account the overall business performance of the Company. Any such use of discretion will be clearly reported in the next published Remuneration Report.</p> <p>Participants may also receive the value of any dividends which would have been paid on shares in respect of which the award vests, which may be calculated assuming reinvestment of the dividends in the Company's shares on a cumulative basis. Such dividends are paid out in the form of additional shares in the Company.</p> <p>In the event of any material misstatement of the Company's financial results or serious reputational damage to the Company caused by a breach of the Company's Code of Conduct or otherwise, the Committee may reduce, cancel or impose further conditions on awards.</p>	An absolute maximum of 125% of base salary to be paid in each year.	<p>Measures and targets for the annual bonus are set annually by the Committee.</p> <p>Currently, half of the annual bonus is based on the achievement of annual targets set against the Group's adjusted profit before tax*, with the remainder based on the achievement of annual personal objectives and achievement of annual targets set against the Group's operating cash flow* generated as a percentage of adjusted operating profit*.</p> <p>The Committee reserves the right to vary these proportions and also the measures annually to ensure the annual bonus remains appropriate and challenging.</p> <p>Targets are measured over a one-year period. Payments range between 0% and 125% of base salary for threshold and maximum performance.</p> <p>Awards granted under the Deferred Bonus Plan are not subject to any performance conditions.</p>

Remuneration Report

Summary of the Remuneration Policy Report continued

	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Long Term Incentive Plan ("LTIP")	To provide a long-term performance and retention incentive for the Executive Directors involving the Company's shares. To link long-term rewards to the creation of long-term sustainable shareholder value by way of delivering on the Group's agreed strategic objectives.	<p>Under the LTIP, awards are made over a fixed number of shares, which will vest based on the achievement of performance conditions over a performance period of, unless the Committee determines otherwise, at least three years. The performance conditions are set by the Committee at the start of the performance period. Awards can take the form of a conditional award of shares, a nil-cost option or similar rights.</p> <p>Participants may also receive the value of any dividends which would have been paid on shares in respect of which the award vests, which may be calculated assuming reinvestment of the dividends in the Company's shares on a cumulative basis.</p> <p>Awards made to Executive Directors are subject to a mandatory two-year holding period for any shares that vest.</p> <p>In the event of any material misstatement of the Company's financial results or serious reputational damage to the Company caused by a breach of the Company's Code of Conduct or otherwise the Committee may reduce or impose further conditions on awards.</p>	The maximum value of shares over which awards may be granted in respect of each year is 150% of base salary (although 200% is permitted in exceptional circumstances determined by the Committee). Awards to Executive Directors in 2019 will be at a level representing 125% of base salary.	<p>LTIP awards may be based on both financial and share price-based performance conditions as determined from time to time by the Committee. LTIP awards from 2017 onwards have 33% of the award subject to the Company's TSR compared to a comparator group measured over a three-year performance period and 67% of the award subject to targets set against growth (adjusted by the Committee as it considers appropriate) in the Company's adjusted basic Earnings Per Share* over the same performance period. However, the Committee reserves the right to change the balance of the measures as it deems appropriate, such that no measure accounts for less than 25% of the total award. For LTIP awards from 2017 onwards the Remuneration Committee has also adopted a discretionary underpin on vesting of the LTIP, whereby the Committee will assess the Group's underlying performance in finalising vesting outcomes. In particular, the Committee will assess the Group's ROCE performance when approving outcomes under the EPS element of awards.</p> <p>At threshold, 25% of the award will vest, increasing on a straight-line basis up to 100% for performance in line with maximum. Below threshold none of the award will vest.</p> <p>There is no retesting of any performance measure.</p>
Pension contribution	To provide a benefit comparable with market rates, helping with the recruitment and retention of talented Executive Directors able to deliver a long-term growth strategy.	<p>Usually paid monthly in arrears.</p> <p>Executive Directors may receive a contribution into the Company's Defined Contribution Plan, a personal pension arrangement and/or a payment as a cash allowance.</p>	<p>Executive Directors appointed before 2017 receive a pension contribution of 20% of base salary. Executive Directors appointed from 2017 onwards receive a pension contribution of 15% of base salary.</p> <p>Salary is the only pensionable element of Executive Director remuneration.</p>	Not applicable.

Notes to the remuneration policy table for Executive Directors

Under the Company's share plans the Committee may: (1) in the event of any variation of the Company's share capital, demerger, delisting, special dividend or other event which may affect the price of shares, adjust or amend awards in accordance with the terms of the plan; and (2) amend a performance condition if an event occurs which causes it to consider an amended condition would be more appropriate and not materially less difficult to satisfy.

Legacy plans

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed: (1) before the policy came into effect; or (2) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Performance measures

The Annual Bonus Plan is based on both personal and financial measures. Typically, the majority of the bonus will be based on financial measures such as Group adjusted profit before tax*.

The measures have been chosen to provide a balance between incentivising the delivery of the Group's key financial priorities in any particular year and important individual strategic objectives. The Committee may vary the specific measures and targets year-on-year to ensure that they reflect the key financial and strategic priorities for the Company in any given year.

LTIP awards from 2017 onwards are based 67% on adjusted basic Earnings Per Share* growth and 33% on TSR performance against a specific comparator group. The Committee considers these to be important measures of performance for the Company over the longer term. While TSR links a portion of the LTIP to the creation of value for shareholders, adjusted basic Earnings Per Share* growth is a Key Performance Indicator for the Group with the combination providing an appropriate balance between growth and returns. For LTIP awards from 2017 onwards, the Committee adopted a discretionary underpin on vesting of the LTIP, whereby the Committee will assess the Group's underlying performance in finalising vesting outcomes. In particular, the Committee will assess the Group's ROCE performance when approving outcomes under the EPS element of awards. While we will not be disclosing a formulaic target in advance, the Committee will ensure that it provides full retrospective disclosure around our decision-making process, including a summary of the ROCE trajectory over the performance period. The Committee will measure ROCE using a standard definition of adjusted operating profit* divided by average total assets less current liabilities excluding the current portion of interest-bearing borrowings, calculated on an average monthly basis at constant currency. Any changes to these measures will be aligned with the long-term strategy of the Group.

Provisions for the withholding and recovery of sums from the Directors are as set out on page 96.

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Summary of the Remuneration Policy Report continued

Remuneration policy table for the Chairman and Non-Executive Directors

The table below sets out a description of the Chairman and Non-Executive Directors' remuneration for the period through to the 2020 AGM.

Neither the Chairman nor the Non-Executive Directors participate in any annual bonus plan or the Company's share plans:

Role	Purpose	Operation
Chairman	To recruit and retain an independent Non-Executive Chairman reflecting the responsibilities and time commitment for the role. To lead an effective Board enabling delivery on the Group's growth strategy and creation of long-term sustainable shareholder value.	<p>While the Board has not set a maximum level of fee payable to the Chairman, the Board will review the level of fee paid usually on an annual basis and determine whether that is sufficient in terms of market conditions and also the time commitment for the role.</p> <p>The Chairman's fee is an all-inclusive consolidated amount. It is paid in cash, not shares, usually on a monthly basis in arrears.</p> <p>Fees are benchmarked against FTSE-listed companies of a similar size and complexity to Vitec. Any future increases will take into account the need to ensure that the fee remains competitive and reflects the time commitment for the role.</p> <p>The Chairman's remuneration also covers his chairmanship of the Nominations Committee.</p>
Non-Executive Director	To recruit and retain independent Non-Executive Directors reflecting the responsibilities and time commitment for the role to contribute to an effective Board and to deliver on the Group's growth strategy and creation of long-term sustainable shareholder value.	<p>Fees paid to Non-Executive Directors of the Company consist of the following:</p> <ul style="list-style-type: none"> – A base fee; – An additional fee for the role of the Senior Independent Director; and – An additional fee for chairing Board Committees. <p>Fees are usually reviewed annually and are benchmarked against FTSE-listed companies of a similar size and complexity to Vitec. All fees are paid in cash, not shares, usually on a monthly basis in arrears.</p> <p>Any future increases will take into account the need to ensure that the fee remains competitive and reflects the time commitment for the role. The Board has not imposed a maximum level of fee payable.</p>
Benefits	To reimburse Non-Executive Directors for reasonable expenses incurred and bear any costs associated with tax, where relevant.	Expenses are reimbursed as and when incurred relating to the Company's business (including travel and hotel accommodation).

Illustrative remuneration performance scenarios

The following charts set out scenarios for the remuneration of Stephen Bird, Kath Kearney-Croft and Martin Green for 2019 in line with the Policy. This includes scenarios for full vesting of LTIP awards with one chart showing no share price appreciation and one chart showing a 50% appreciation in share price as required under the new reporting regulations:

Stephen Bird

Basic remuneration

Minimum base salary	£463,053
Benefits	£33,212
Pension (20% of salary)	£92,611
Total fixed pay (minimum)	£588,876

On target performance (no share price appreciation):

Fixed pay	£588,876
Annual bonus	£289,408
LTIP	£144,704
Total on target pay	£1,022,988

Maximum pay (no share price appreciation):

Fixed pay	£588,876
Annual bonus	£578,816
LTIP	£578,816
Total maximum pay	£1,746,508

Maximum pay (including 50% share price appreciation for LTIP award):

Fixed pay	£588,876
Annual bonus	£578,816
LTIP	£868,224
Total maximum pay	£2,035,916

Kath Kearney-Croft

Basic remuneration

Minimum base salary	£325,694
Benefits	£24,419
Pension (15% of salary)	£48,854
Total fixed pay (minimum)	£398,967

On target performance (no share price appreciation):

Fixed pay	£398,967
Annual bonus	£203,558
LTIP	£101,779
Total on target pay	£704,304

Maximum pay (no share price appreciation):

Fixed pay	£398,967
Annual bonus	£407,118
LTIP	£407,118
Total maximum pay	£1,213,203

Maximum pay (including 50% share price appreciation for LTIP award):

Fixed pay	£398,967
Annual bonus	£407,118
LTIP	£610,677
Total maximum pay	£1,416,762

Martin Green

Basic remuneration

Minimum base salary	£290,485
Benefits	£23,908
Pension (15% of salary)	£43,573
Total fixed pay (minimum)	£357,966

On target performance (no share price appreciation):

Fixed pay	£357,966
Annual bonus	£181,553
LTIP	£90,776
Total on target pay	£630,295

Maximum pay (no share price appreciation):

Fixed pay	£357,966
Annual bonus	£363,106
LTIP	£363,106
Total maximum pay	£1,084,178

Maximum pay (including 50% share price appreciation for LTIP award):

Fixed pay	£357,966
Annual bonus	£363,106
LTIP	£544,659
Total maximum pay	£1,265,731

The illustrations are based on the following assumptions:

- Fixed pay – base salary as at 1 January 2019.
- The total value of benefits received in the year ended 31 December 2018 which include car allowance, private healthcare, income protection and sharesave options granted during 2018.
- Pension contribution of 20% for Stephen Bird and 15% for Kath Kearney-Croft and Martin Green.
- Annual bonus
 - At minimum – nil.
 - On target – 50% of maximum payout (i.e. 62.5% of base salary).
 - At maximum – 100% of the maximum payout (i.e. 125% of base salary).
- LTIP
 - At minimum – nil.
 - On target – 25% vesting under the LTIP (i.e. 25% of base salary) and set out at face value, with no share price growth or dividend assumptions.
 - At maximum – 100% of the maximum payout (i.e. 125% of base salary) and set out at face value, with no share price growth or dividend assumptions.
 - At maximum – 100% of the maximum payout (i.e. 125% of base salary) and showing a 50% appreciation in the share price over the vesting period.

Remuneration Report

Summary of the Remuneration Policy Report continued

Consideration of employment conditions elsewhere in the Company

The Committee, when determining Executive Directors' remuneration, takes into account remuneration and employment terms and conditions, including levels of pay for all employees of the Company. The Committee is kept informed of:

- Salary increases for the general employee population
- Company-wide benefits including pensions, share incentives, bonus arrangements and other ancillary benefits
- Overall spend on annual bonus
- Participation levels and outcomes in the Annual Bonus Plan and the LTIP

When setting the remuneration of the Executive Directors, the Committee has regard to general employment terms and conditions within the Company as set out above. However, it is recognised that the roles and responsibilities of Executive Directors are such that different levels of remuneration apply, with a greater proportion of remuneration tied to the financial performance of the Company. The Committee did not consult with the Company's employees when drawing up the Directors' remuneration policy set out in this report.

Policy on outside appointments

The Committee believes it is beneficial both for the individual and the Company for an Executive Director to take up one external non-executive appointment. Remuneration received by an Executive Director in respect of such an external appointment would be retained by the Director. Stephen Bird is an independent non-executive director of Dialight plc. In this role he receives a basic fee of £42,000 per annum and an additional £5,100 per annum in the role of senior independent director. Under the terms of their service contracts, Kath Kearney-Croft and Martin Green, with the agreement of the Chairman and Group Chief Executive, may take up one external non-executive appointment of a listed company. As of the date of this report neither Executive Director had taken up any such external non-executive appointment.

Executive Directors' service contracts

The Executive Directors' service contracts are as follows:

	Date of Contract	Notice period from the Company to the Executive	Notice period from the Executive to the Company
Stephen Bird, Group Chief Executive – appointed on 14 April 2009	28 January 2009	12 months	6 months
Kath Kearney-Croft, Finance Director – appointed on 24 April 2017	21 February 2017	12 months	6 months
Martin Green, Group Business Development Director – appointed on 4 January 2017	3 January 2017	12 months	6 months

Details of the Committee's approach and policy on payment for loss of office are given in full in the 2016 Remuneration Policy Report and are available on the Company's website.

Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors do not have service contracts but serve under letters of appointment.

The initial period of their appointments is three years but their appointments may, by mutual consent and with the approval of the Nominations Committee and the Board, be extended for a further three years. Appointments may be extended beyond six years by mutual consent and with the approval of the Nominations Committee and the Board, if it is in the interest of the Company to do so. Under the letters of appointment notice can be given by either party upon one month's written notice. Apart from the disclosure under the remuneration policy table for the Chairman and Non-Executive Directors there are no further obligations which could give rise to a remuneration or loss of office payment under the letters of appointment. All the Non-Executive Directors and Chairman (as well as the Executive Directors) are subject to annual reappointment by the shareholders at the AGM.

Copies of the Executive Directors' service contracts, Chairman's and each Non-Executive Director's letters of appointment are available on our website.

Consideration of shareholder views

The Committee has continued to take into account the views of its shareholders concerning the policy on remuneration of Directors.

The Company received over 99% support for the 2016 Remuneration Policy Report at the 2017 AGM. A new Policy Report will be put to shareholders for approval at the 2020 AGM. The Company further received over 99% support for the 2017 Annual Report on Remuneration at the 2018 AGM, clearly indicating a strong level of support for the structure and implementation of Directors' remuneration.

The Committee would engage with shareholders ahead of any material change to the remuneration policy for the Company relating to its Directors and would also engage with shareholders should there be a material level of dissatisfaction from shareholders with Directors' remuneration. It is likely that in the second half of 2019 the Committee will engage with its major shareholders on Directors' remuneration as part of the process of preparing a new Policy to be considered at the 2020 AGM. A material level of dissatisfaction from shareholders would be more than 20% of shareholders voting against, or abstaining on, a vote related to Directors' remuneration.

Remuneration Report

Annual Report on Remuneration

This Annual Report on Remuneration will be put to an advisory vote at the AGM to be held on Tuesday, 21 May 2019.

Directors' single figure of total remuneration (audited)

The following table sets out the single figure of total remuneration for Directors for the financial years ended 31 December 2018 and 2017:

	Base salary/fee		Benefits		Pensions		Annual bonus		Long-term incentives		Total	
	2018 £	2017 £	2018 ⁽¹⁾ £	2017 ⁽¹⁾ £	2018 ⁽²⁾ £	2017 ⁽²⁾ £	2018 ⁽³⁾ £	2017 £	2018 ⁽⁴⁾ £	2017 ⁽⁴⁾ £	2018 £	2017 £
Stephen Bird	451,758	440,740	33,212	28,286	90,352	88,148	377,925	486,771	1,383,287	552,269	2,336,534	1,596,214
Kath Kearney-Croft	317,750	213,125	24,419	15,426	47,663	31,969	252,909	235,043	–	–	642,741	495,563
Martin Green	266,500	260,000	23,908	22,200	39,975	39,000	222,944	287,155	579,059	283,037	1,132,386	891,392
Paul Hayes (left 28 April 2017)	–	98,534	–	7,542	–	19,707	–	–	–	–	–	125,783
John McDonough	153,750	150,000	–	–	–	–	–	–	–	–	153,750	150,000
Christopher Humphrey	59,755	54,152	–	–	–	–	–	–	–	–	59,755	54,152
Caroline Thomson	54,255	53,152	–	–	–	–	–	–	–	–	54,255	53,152
Mark Rollins (left 2 April 2018)	12,993	50,152	–	–	–	–	–	–	–	–	12,993	50,152
Lorraine Rienecker (left 1 September 2018)	30,170	44,152	–	–	–	–	–	–	–	–	30,170	44,152
Richard Tyson (appointed 2 April 2018)	33,941	–	–	–	–	–	–	–	–	–	33,941	–
Duncan Penny (appointed 1 September 2018)	15,085	–	–	–	–	–	–	–	–	–	15,085	–
TOTAL	1,395,957	1,364,007	81,539	73,454	177,990	178,824	853,778	1,008,969	1,962,346	835,306	4,471,610	3,460,560

Notes:

- (1) Taxable benefits include car allowance, healthcare cover and income protection. This also includes the grant of Sharesave options to Directors in 2018 and shows the value of the 20% discount on the options granted. Stephen Bird was granted 1,739 Sharesave options; Martin Green was granted 521 Sharesave options; and Kath Kearney-Croft was granted 521 Sharesave options. The discounted option price was £10.35 per share, compared to a market share price of £12.93.
- (2) Stephen Bird receives a pension contribution of 20% of base salary. Both Kath Kearney-Croft and Martin Green receive a pension contribution of 15% of base salary. Each Executive Director currently takes this contribution in the form of a cash payment.
- (3) For the Annual Bonus Plan 2018, Stephen Bird's, Kath Kearney-Croft's and Martin Green's bonus potential was 125% of base salary. Further details are set out in the "Further notes" section on the following page.
- (4) Long-term incentives comprise LTIP awards. Awards made in 2016 have fully achieved performance conditions based on TSR and growth in adjusted basic Earnings Per Share and will vest on 1 March 2019. Further details on the vesting of the 2016 LTIP awards are set out in the "Further notes" section on the following pages. A value for the 2016 LTIP has been calculated using the Q4 2018 average share price of £12.54 and associated dividend shares paid on shares vesting (84.3 pence per share). The 2019 Remuneration Report will reflect updated final values. Awards made in 2015 partly achieved their performance conditions also based on the same performance conditions with 67.5% of awards vesting on 9 April 2018. The value in the table above has been updated to reflect the actual value received by the Director in April 2018 in contrast to the estimated value given in the 2017 Remuneration Report. Each Director has confirmed in writing to the Company that the information in the single figure remuneration table is correct and that they have not received from the Company any other items of remuneration other than disclosed.

Further notes to the Directors' single figure of total remuneration table (audited)

(1) Base salary

The table below shows base salaries for 2018:

Executive Director	2018 Salary
Stephen Bird	£451,758
Kath Kearney-Croft	£317,750
Martin Green	£266,500

(2) Benefits

The single figure of total remuneration table sets out the total value of benefits received by each Executive Director in 2018. Details are as follows:

Executive Director	Car allowance	Healthcare cover	Income protection	Other (Sharesave)	Total
Stephen Bird	£22,582	£1,343	£4,800	£4,487	£33,212
Kath Kearney-Croft	£16,932	£1,343	£4,800	£1,344	£24,419
Martin Green	£16,932	£832	£4,800	£1,344	£23,908

(3) Pension allowance

The table below sets out the value of the cash payment in lieu of pension for each Executive Director in 2018:

Executive Director	Pension allowance
Stephen Bird	£90,352
Kath Kearney-Croft	£47,663
Martin Green	£39,975

(4) Annual bonus

In 2018, each Executive Director was entitled to receive, subject to performance, a maximum bonus of up to 125% of base salary, half of which is deferred into the Deferred Bonus Plan.

The financial elements of the Annual Bonus Plan for each Executive Director were based upon actual financial results achieved for Group adjusted profit before tax* and Group conversion of adjusted operating profit* into operating cash flow* (over a quarterly and full year average target) measured against financial targets set by the Board. The Group adjusted profit before tax* financial element represents 50% of the maximum bonus that could be earned and the Group conversion of adjusted operating profit* into operating cash flow* represents 25% of the maximum bonus that could be earned.

Under the rules of the Annual Bonus Plan there is a link between the two financial performance conditions so that the conversion of adjusted operating profit* into operating cash flow* element will only pay out if the Group adjusted profit before tax* element has at least achieved threshold performance.

The Remuneration Committee considered that these two financial performance conditions are key financial measures for the Group driving the right behaviour in terms of achieving profit* and operating cash flow* generation and had the most direct impact upon shareholder value for the year ended 31 December 2018.

The personal objective element of the 2018 Annual Bonus Plan for each Executive Director, representing 25% of the maximum bonus that could be earned, is based upon individual performance measured against stretching personal objectives set by the Board and Remuneration Committee, as set out below:

Remuneration Report**Annual Report on
Remuneration continued****Stephen Bird – 2018 personal objectives**

- Continue to build a world class organisation: develop Divisional Chief Executives and succession plans around them as well as succession plans for the senior management team; clearly communicate Group strategy to wider workforce.
- Execution and refresh of growth strategy: improve the core business, focus on new markets and technologies, expansion in APAC, get closer to customers, hold a successful Blue Sky strategy session for the Board and successfully integrate JOBY/Lowepru following acquisition in late 2017.
- Execute on synergy projects: while preserving decentralised organisation and entrepreneurial spirit, deliver on synergy projects including operational synergy savings, growth in APAC and growth in customers, particularly in ICC market.
- M&A funnel: develop M&A funnel in adjacent markets.
- Embed and develop Creative Solutions management structure following the creation of that Division at the start of 2018, retaining entrepreneurial spirit of component businesses.
- Investor Relations strategy: refresh IR strategy delivering increased liquidity and a wider shareholder base and secure readmittance to the FTSE SmallCap Index.

Kath Kearney-Croft – 2018 personal objectives

- Continue to build a world class finance team: develop talent and succession plans for global finance team; review and refresh senior finance team if necessary; foster global finance team communication and champion the finance function to be an effective business partner.
- Execution of growth strategy: support Group Chief Executive on growth strategy review including support on Blue Sky strategy session, active role in M&A opportunities and financial due diligence and ensuring that appropriate finance is in place to support growth strategy.
- Lead on synergy project focused on operations including sourcing, logistics, R&D collaboration and insource to Costa Rica.
- Investor Relations strategy: refresh IR strategy to drive improved liquidity and a wider shareholder base and secure readmittance to the FTSE SmallCap Index.
- Audit Partner: manage a successful audit tender process.
- Upgrade key financial processes: develop hedging strategy, support the Group Chief Executive with global R&D process, and review/improve Group capital expenditure and investment appraisal process.

Martin Green – 2018 personal objectives

- Execution and refresh of growth strategy: improve the core business, focus on new markets and technologies, expansion in APAC, get closer to customers and organise a Blue Sky strategy session for the Board.
- Talent development: support Group Chief Executive by improving the quality of succession plans and talent development across the Group; support Group Chief Executive and Divisional Heads in improving employee communication; and lead HR Directors at Divisional level to support execution of strategy.
- Corporate Development: refresh M&A funnel including opportunities in adjacent markets.
- Synergy project: execute on synergy project, notably expansion in APAC.

2018 annual bonus outcome

The table below sets out the annual bonus awards made to Executive Directors in respect of the year ended 31 December 2018 including the financial trigger points used in determining whether a bonus was payable.

Name	Bonus potential	Elements of bonus potential	Threshold	Target	Maximum	Actual Group performance/assessment of personal objective performance	Payout and % of maximum
Stephen Bird Group Chief Executive	125% of annual salary	50% Group PBT*	£44.2m	£49.2m	£54.2m	£49.3m**	£142,869 50.6%
		25% Group conversion of operating profit* into operating cash flow*	H1: 53% FY: 72%	59% 80%	64% 88%	H1: 75% FY: 82%	£115,057 81.5%
		25% Personal objectives				85%	£119,998
		TOTAL					£377,925 66.9%
Kath Kearney-Croft Group Finance Director	125% of annual salary	50% Group PBT*	£44.2m	£49.2m	£54.2m	£49.3m**	£100,488 50.6%
		25% Group conversion of operating profit* into operating cash flow*	H1: 53% FY: 72%	59% 80%	64% 88%	H1: 75% FY: 82%	£80,927 81.5%
		25% Personal objectives				72%	£71,494
		TOTAL					£252,909 63.7%
Martin Green Group Business Development Director	125% of annual salary	50% Group PBT*	£44.2m	£49.2m	£54.2m	£49.3m**	£84,281 50.6%
		25% Group conversion of operating profit* into operating cash flow*	H1: 53% FY: 72%	59% 80%	64% 88%	H1: 75% FY: 82%	£67,874 81.5%
		25% Personal objectives				85%	£70,789
		TOTAL					£222,944 66.9%

** The £49.3 million Group adjusted profit before tax* represents an average of:
 – £49.9 million being the reported Group adjusted profit before tax* after adjusting for integration costs relating to the acquisition of JOBY and Lowepro; and
 – £48.6 million being the Group adjusted profit before tax* adjusted for constant foreign exchange rates with those of 2017, after adjusting for integration costs relating to the acquisition of JOBY and Lowepro

A straight-line sliding scale operates between each of the above trigger points for both financial targets. The Remuneration Committee considered that these trigger points were appropriate and sufficiently stretching for 2018 given the uncertain macroeconomic environment, challenging markets that the Group faced and performance in the prior year.

Under the rules of the Annual Bonus Plan the Remuneration Committee retains full and absolute discretion as to whether a bonus is payable or not, and that discretion may only be used in exceptional circumstances, taking into account the overall financial performance of the Company. Any use of this discretion in connection with an Executive Director will be clearly explained in the Remuneration Report. For the 2018 Annual Bonus Plan, the Remuneration Committee exercised its discretion as follows:

Remuneration Report

Annual Report on Remuneration continued

Group PBT element

- For the acquisition of Adeal, Rycote and Amimon, in line with previous practice, their actual results and base case financials for the acquisitions were included in the financial results from the dates of acquisition until 31 December 2018.
- JOBY and Lowe pro integration costs for 2018 were included both in the target (£1.3 million assumed to be incurred in 2018) and in the actuals (£1.3 million).

Group conversion of operating profit into operating cash flow

- The cash conversion element of the Group Annual Bonus Plan (ratio of operating profit to operating cash flow) has traditionally been based on an average of; (a) the average of the four quarterly measurements; and (b) the full year. Divisional cash conversion methods for 2018 were based one-third on cash conversion on H1 2018 and two-thirds based on full year. The Committee recognised that in 2018 the Group cash conversion methodology led to an anomalous result as it led to 0% pay-out despite the strong overall Group cash conversion performance at half year and full year 2018. As a consequence, the Committee exercised its discretion for the cash conversion metric for the Group plan applying to Executive Directors and aligned the measure to match that operating at Divisional level resulting in a pay out of 82% of maximum for this element of the Group Bonus Plan. As mentioned later in this report, for 2019 the Group and Divisional cash conversion methodologies will be aligned to be based one-third on the first half and two thirds based on the full year.

Half of the 2018 annual bonus (after tax) will be deferred into the Deferred Bonus Plan. The 2018 deferred bonus will be used to purchase core award shares to be held in trust for a three-year period. No matching award shares can be earned under the Deferred Bonus Plan. After three years, the core award shares are released from the trust to the Executive Directors.

(5) Long-term incentives – Long Term Incentive Plan (“LTIP”) and Deferred Bonus Plan (“DBP”)

The long-term incentive awards value shown in the single figure of total remuneration table relate to the following awards:

Awards made in 2016 and vesting in respect of performance to 31 December 2018

These relate to awards made in 2016 under the LTIP. Awards are measured based 50% upon the Company’s TSR measured against a comparator group and 50% subject to growth in the Company’s adjusted basic Earnings Per Share*. Each performance condition is entirely independent from the other performance condition and there is no retesting of either performance condition. The detail of each performance condition for each award is set out below.

For that part of an award made in 2016 under the LTIP measured against TSR, if the Company’s TSR performance is at the median of the comparator group at the end of the three-year performance period, 25% of that element of an award may vest. The full element of an award may vest if the Company’s TSR performance is in the top 25% of the comparator group. There is a pro rata straight-line vesting between these two points. The comparator group comprises the constituents of the FTSE 250 index (excluding financial services companies and investment trusts) over a three-year performance period. The Remuneration Committee considered that this index has a greater level of complexity and internationality and was most comparable to Vitec’s business operations where approximately 90% of revenues are generated outside of the UK.

For that part of an award made in 2016 under the LTIP measured against EPS growth, if the percentage growth in the EPS of the Company exceeds 5% per annum (Compound Average Annual Growth Rate), 25% of that element of an award may vest. Full vesting of an award occurs if the growth in EPS over the performance period exceeds growth by 12% (Compound Average Annual Growth Rate) or greater. There is a pro rata straight-line vesting between these two points.

An award lapses if the lower point under both performance conditions is not achieved during the performance period.

The Remuneration Committee also considered the underlying financial performance of the Company before it confirmed vesting.

The adjusted Effective Tax Rate* for 2018 was 18% (2017: 27%) which had the effect of inflating the adjusted EPS to 93.2p. However, the Committee determined that this adjusted EPS rate was anomalous and did not reflect underlying performance as the adjusted Effective Tax Rate was expected to revert to more normal levels in 2019 of c.25%. As a result, the Committee has decided to calculate adjusted EPS for LTIP purposes based on an Effective Tax Rate of 25%. This resulted in a “normalised” Adjusted EPS for LTIP purposes of 85.2p instead of 93.2p. This remained above the maximum EPS level of 69.4p for 100% vesting of the 2016 LTIP awards.

Performance out-turn

The table below summarises the value of awards vesting for the 2016 award.

2016 awards	Actual performance	Vesting as a % of award
TSR	Vitec ranked in the 94th percentile of the comparator group with TSR performance of 124.9% over the three-year performance period.	(50%)
EPS	Adjusted “normalised” EPS of 85.2p compared to a base EPS point of 49.4 pence	(50%)
Total vesting		(100%)

TSR is calculated on the basis of growth in the Company's share price over a three-year performance period plus dividends paid during that period and is expressed as a percentage of average compound annual growth. Share price performance is averaged over three months at the start and end of a performance period to eliminate volatility that may result in anomalous outcomes. The TSR performance is independently verified by Mercer on behalf of the Committee and is ranked against the comparator group companies' TSR performance to determine the outcome.

EPS is determined in accordance with note 2.5 of the Financial Statements on page 127. The base point for the EPS performance condition was 49.4 pence per share, being the EPS figure for the year ended 31 December 2015.

The Remuneration Committee at its meeting on 18 February 2019 confirmed that 2016 awards will therefore vest at a level of 100% on the third anniversary of the awards on 1 March 2019. Indicative values for vesting awards for the Executive Directors are shown in the remuneration table on page 82. Stephen Bird will be required to hold his vesting 2016 award for a further two-year holding period.

Indicative values for vesting awards for the Executive Directors are shown in the Remuneration Table on page 82, calculated on the following basis:

Director	Number of awards held	Vesting %	Number of awards vesting ⁽¹⁾	Date of vesting	Assumed market price ⁽²⁾	Estimated value ^(1,2)	(of which, due to share price growth)
Stephen Bird	103,362	100%	110,310	1 March 2019	£12.54	£1,383,287	£809,675 (58.53% of total)
Martin Green	43,269		46,177			£579,059	£338,938 (58.53% of total)

(1) Includes estimated associated dividend shares payable in respect of shares vesting (84.3 pence per share)

(2) Based on average share price during the final quarter of 2018

A significant proportion of the value delivered to Directors is as a result of the Group's share price growth over the vesting period. The estimated values above include the impact of a 141.2% increase in the assumed market price compared to the share price at grant (£5.20). This is equivalent to £809,675 and £338,938 (in both cases 58.53% of the total estimated value) for Stephen Bird and Martin Green respectively.

Awards made in 2015 and vesting in respect of performance to 31 December 2017

These relate to awards made in 2015 under the LTIP. The performance conditions for these awards are the same as those made in 2016 and summarised above. The adjusted EPS growth targets were 6% growth per annum (Compound Average Annual Growth Rate) for 25% of that element of an award to vest and 12% or more growth per annum for full vesting respectively. The Remuneration Committee also considered the underlying financial performance of the Company before it confirmed vesting.

As disclosed in the 2017 Annual Report on Remuneration, both performance conditions were measured to 31 December 2017 and the final outcome resulted in 67.5% of the total LTIP award vesting (50% for TSR and 17.5% for EPS). As a consequence, 67.5% of the 2015 LTIP vested on 9 April 2018. The actual value of this vested award for each of the Executive Directors is shown in the Directors' single figure of total remuneration table on page 82.

Other outstanding awards made in 2017 and vesting in respect of performance to 31 December 2019

For awards made in 2017, 33% of an award is subject to TSR with the Company's TSR performance ranked against the constituents of the FTSE 250 index (excluding financial services companies and investment trusts) over a three-year performance period. Threshold performance for the TSR performance condition will be at the median point of the comparator group and will result in 25% of an award vesting. Full vesting for the TSR element will be at the upper quartile point of the comparator group. A straight-line sliding scale will operate between each of the above points. Below threshold performance none of the award will vest.

67% of the award will be subject to adjusted EPS growth over a three-year performance period. For awards made in 2017 the adjusted EPS* growth figures are set at 6% per annum for 25% vesting and 14% plus per annum for full vesting. A straight line sliding scale will operate between each of the above points and below 6% adjusted EPS* growth none of the award will vest. Subject to satisfaction of performance conditions to 31 December 2019, these awards will vest in May 2020.

Vesting will be underpinned by Remuneration Committee discretion that will take into account, in particular, Return on Capital Employed ("ROCE") performance over the performance period for the EPS element of the award.

Awards made in 2018 and vesting in respect of performance to 31 December 2020

The table below provides details of the awards made under the LTIP on 2 March 2018 to Stephen Bird, Kath Kearney-Croft and Martin Green. Performance for these awards is measured over the three financial years from 1 January 2018 to 31 December 2020. As reported to shareholders in the 2016 Annual Report, while the performance conditions of TSR and EPS growth targets remain, awards from 2017 and in the future have been re-balanced so that the split in performance conditions is changed to 33% / 67% split between TSR and EPS respectively. Vesting will be underpinned by Remuneration Committee discretion that will take into account, in particular, ROCE performance over the performance period for the EPS element of the award.

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The performance required for threshold vesting (25% of this part of the award) is adjusted EPS* growth of 6% per annum. Full vesting of this part of the award required adjusted EPS* growth of 14% plus per annum, with a straight-line sliding scale between these two points. None of this part of the award will vest for adjusted EPS* absolute growth lower than 6% per annum.

Dividends that would have been paid on shares vesting under the LTIP during the performance period are reinvested in additional shares for each of the above awards. There is no retesting of any performance condition under any of the above awards.

TSR is calculated on the basis of growth in the Company's share price over a three-year performance period plus dividends paid during that period and is expressed as a percentage of average compound annual growth. Share price performance is averaged over three months at the start and end of a performance period to eliminate volatility that may result in anomalous outcomes. The TSR performance is independently verified by Mercer on behalf of the Committee and is ranked against the comparator group companies' TSR performance to determine the outcome.

Director	Type of award	Number of shares awarded	Face value ⁽¹⁾ (£)	Face value (% of salary)	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of performance period
Stephen Bird	Performance shares	50,106	£564,695	125%			
Kath Kearney-Croft		35,242	£397,177	125%	25%	100%	31 December 2020
Martin Green		29,558	£333,119	125%			

(1) Face value has been calculated using the Company's share price at the date of the award of £11.27

Deferred Bonus Plan 2018 awards

The following table provides details of the awards made under the DBP on 9 April 2018 in respect of the 2017 Annual Bonus. There are no performance conditions or matching shares associated with these awards. The core shares are held in an Employee Trust on behalf of the Directors for three years and will be released to the individuals on 9 April 2021.

Director	Type of award	Number of core shares awarded	Face value ⁽¹⁾ (£)	End of holding period
Stephen Bird	Core award shares using deferred annual cash bonus	10,704	£128,983	9 April 2021
Kath Kearney-Croft		5,168	£62,274	8 April 2021
Martin Green		6,314	£76,084	8 April 2021

(1) Face value has been calculated using the Company's share price at the date of the award of £12.05

Payments to past Directors for loss of office (audited)

There were no payments in 2018 to past Directors of the Company for loss of office.

Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors were paid the following fees in 2018:

Role	2018 annual fee	Comment
Chairman	£153,750	Increased to £153,750 from £150,000 with effect from 1 January 2018
Non-Executive Director	£45,255	Base fee increased to £45,255 from £44,152 with effect from 1 January 2018
Chairman of Audit Committee	£10,000	Fee was last increased on 1 January 2014
Chairman of Remuneration Committee	£9,000	Fee was last increased on 1 January 2014
Senior Independent Director	£6,000	Fee was last increased on 1 January 2014

Fees for the Chairman, Non-Executive Directors, Committee Chairmen and Senior Independent Director roles are reviewed annually by the Board with the support of Mercer providing market data to ensure that fees remain appropriate given the size of the Company, time commitment and the need to attract the right experience for the role. The Chairman and Non-Executive Directors do not receive any other benefits from the Company.

Directors' shareholding requirements and share interests (audited)

The Board has determined that Executive Directors of the Company are required to build up, over a reasonable period of time, a substantial holding of shares in the Company of at least one times base salary. A reasonable period is considered to be the life of a performance period tied to an award vesting under the Company's LTIP or DBP. Stephen Bird and Martin Green satisfied this requirement throughout the whole of 2018 and up to the date of this report. Kath Kearney-Croft, having been appointed Group Finance Director on 24 April 2017, is building a shareholding towards this requirement. Other members of the Executive Management Board are encouraged to do the same up to a level of 50% of base salary.

The Chairman and Non-Executive Directors of the Company have no such requirement and have discretion as to whether to hold shares in the Company or not. The following tables set out the interests in the ordinary shares of the Company held by each Director (or connected persons) of the Company during the year ended 31 December 2018.

We note the requirement under the 2018 UK Corporate Governance Code for the Company to develop a post-employment shareholding policy, encompassing vested and unvested shares. This will be reviewed and developed for the financial year commencing 1 January 2019 and will be reported on in the 2019 Remuneration Report.

Executive Directors' shareholdings as at 31 December 2018 (audited)

Executive Director	Share ownership requirement (% of salary)	Number of shares owned outright (including connected persons)	Number of shares beneficially owned (DBP core award shares)	Number of shares unvested and subject to performance (LTIP shares)	Number of shares under option (Sharesave)	Ownership requirements met (based on shares owned outright and DBP core award shares)
Stephen Bird	100%	178,833	28,764	232,115	1,739	548%
Kath Kearney-Croft	100%	2,700	5,168	77,118	2,128	29.5%
Martin Green	100%	38,279	12,003	119,222	3,118	225%

Chairman and Non-Executive Directors' shareholdings as at 31 December 2018 (audited)

Director	1 January 2018*	31 December 2018**
John McDonough, Chairman	50,000	50,000
Christopher Humphrey	10,000	10,000
Duncan Penny (appointed 1 September 2018)	3,000	3,000
Lorraine Rienecker (resigned 1 September 2018)	3,248	3,248
Mark Rollins (resigned 2 April 2018)	10,000	10,000
Caroline Thomson	8,407	8,407
Richard Tyson (appointed 2 April 2018)	0	0

* Or on date of appointment if later

** Or date of leaving

- The closing mid-market share price on 31 December 2018 was £11.92 and the calculation of the percentage shareholding requirement achieved for the Executive Directors is based on this closing mid-market share price.
- The shares shown in the beneficial holdings table above were acquired by the Directors using their own funds and not through any share incentive scheme (or similar) with the exception of the following disclosures in notes 3, 4 and 5 below.
- Stephen Bird's share interests include 28,764 shares (at 31 December 2018) purchased in the market using deferred annual cash bonus and held by the Employee Benefit Trust, the trust used to hold shares in respect of awards made under the Vitec Group DBP. These shares will vest out of the DBP in 2019, 2020 and 2021 respectively. Neither these shares nor any of the other shares held by Stephen Bird have any performance conditions attached to them. During the year ended 31 December 2018 Stephen Bird had the following share dealings:
 - Acquired 24,700 ordinary shares on 9 April 2018 through the exercise of the 2015 LTIP award
 - Acquired 10,704 ordinary shares on 9 April 2018 through the DBP that are held in the Employee Benefit Trust

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- Sold 32,000 ordinary shares on 9 April 2018
- On 16 April 2018, exercised and retained core award shares under the DBP for 2015 over 9,240 ordinary shares and 602 dividend shares
- Acquired 2,560 ordinary shares on 12 November 2018 through the exercise of a 2015 Sharesave option

2,000 shares of Stephen Bird's holding are held by his spouse.

- Kath Kearney-Croft's share interests include 5,168 shares (at 31 December 2018) purchased in the market using deferred annual cash bonus and held by the Employee Benefit Trust, the trust used to hold shares in respect of awards made under the Vitec Group DBP. These shares will vest out of the DBP in 2020. Neither these shares nor any of the other shares held by Kath Kearney-Croft have any performance conditions attached to them.
- Martin Green's share interests include 12,003 shares (at 31 December 2018) purchased in the market using deferred annual cash bonus and held by the Employee Benefit Trust, the trust used to hold shares in respect of awards made under the Vitec Group DBP. These shares will vest out of the DBP in 2019, 2020 and 2021 respectively. Neither these shares nor any of the other shares held by Martin Green have any performance conditions attached to them. During the year ended 31 December 2018, Martin Green had the following share dealings:
 - Sold 2,400 ordinary shares on 15 March 2018
 - Acquired 10,785 ordinary shares on 9 April 2018 through the exercise of the 2015 LTIP award
 - Acquired 6,314 ordinary shares on 9 April 2018 through the DBP that are held in the Employee Benefit Trust
 - On 16 April 2018, exercised and retained core award shares under the DBP for 2015 over 2,777 ordinary shares and 180 dividend shares
- There has been no change to the Directors' shareholdings described in the table above in the period from 31 December 2018 to 20 February 2019.

Sharesave

The Group operates an all-employee savings-related share option scheme in the UK ("Sharesave") and a similar international plan in respect of overseas employees in certain countries (US, Italy, Costa Rica, Japan, France, Singapore, Hong Kong, Australia and Germany). The scheme and plan are open to all the Group's employees in those countries, including the Executive Directors, and approximately 1,000 of the Group's employees participate in this valuable benefit. As at 31 December 2018 Stephen Bird, Kath Kearney-Croft and Martin Green participate in the UK scheme and the details are shown below.

Director	Date of grant	At 1 January 2018 (shares)	Options exercised during the year	Options lapsed during the year	Options granted during the year	At 31 December 2018 (shares)	Exercise price (pence)	Market price at date of grant (pence)	Date from which exercisable ⁽⁵⁾	Expiry date
Stephen Bird	25 September 2015	2,560	2,560 ⁽⁶⁾	–	–	–	492	614 ⁽¹⁾	1 November 2018	30 April 2019
	26 September 2018	–	–	–	1,739	1,739	1035	1293 ⁽⁴⁾	1 November 2021	30 April 2022
Kath Kearney-Croft	9 October 2017	1,607	–	–	–	1,607	784	980 ⁽³⁾	1 November 2020	30 April 2021
	26 September 2018	–	–	–	521	521	1035	1293 ⁽⁴⁾	1 November 2021	30 April 2022
Martin Green	27 September 2016	2,597	–	–	–	2,597	485	606 ⁽²⁾	1 November 2019	30 April 2020
	26 September 2018	–	–	–	521	521	1035	1293 ⁽⁴⁾	1 November 2021	30 April 2022

(1) The market price for the grant of shares under option was calculated on the basis of a three-day average of the closing mid-market share price from 27 August 2015 to 1 September 2015 inclusive. A 20% discount was applied to this price under this HMRC approved Sharesave plan. Stephen Bird exercised this option on 12 November 2018 retaining all the shares.

(2) The market price for the grant of shares under option was calculated on the basis of a three-day average of the closing mid-market share price from 31 August 2016 to 2 September 2016 inclusive. A 20% discount was applied to this price under this HMRC approved Sharesave plan.

(3) The market price for the grant of shares under option was calculated on the basis of a three-day average of the closing mid-market share price from 11 September 2017 to 13 September 2017 inclusive. A 20% discount was applied to this price under this HMRC approved Sharesave plan.

(4) The market price for the grant of shares under option was calculated on the basis of a three-day average of the closing mid-market share price from 28 August 2018 to 30 August 2018 inclusive. A 20% discount was applied to this price under this HMRC approved Sharesave plan.

(5) There is no performance condition attached to the exercise of the Sharesave plan which is an all-employee plan.

(6) Stephen Bird exercised an option over 2,560 shares at an option price of £4.92 per share on 12 November 2018, retaining all of the shares. The closing mid-market share price on 12 November 2018 was £12.60 and therefore the notional gain was £19,661.

Long Term Incentive Plan

Each year the Executive Directors are made a conditional award of shares in the Company. Awards to Executive Directors are currently at a level representing 125% of annual base salary. The award is subject to satisfaction of performance conditions over a three-year performance period. The following table sets out the outstanding awards under the LTIP as at 31 December 2018 for the Executive Directors:

Director	Date of award	Awards at 1 January 2018	Award exercised during the year	Associated dividend shares with the exercised award	Awards lapsed during the year	Awards made during the year	At 31 December 2018	Market price on which award made (pence)	Market price at exercise date (pence)	Face value of award	Percentage of interest that vests if threshold performance achieved	End of performance period
Stephen Bird	8 April 2015 ⁽¹⁾	64,838	43,765	2,840	21,073	–	–	647	1185	100% of annual salary	25%	31 December 2017
	1 March 2016 ⁽²⁾	103,362	–	–	–	–	103,362	520	–	125% of annual salary	25%	31 December 2018
	28 Feb 2017	78,647	–	–	–	–	78,647	700	–	125% of annual salary	25%	31 December 2019
	2 March 2018	–	–	–	–	50,106	50,106	1127	–	125% of annual salary	25%	31 December 2020
Total		246,847	43,765	2,840	21,073	50,106	232,115					
Kath Kearney-Croft	15 May 2017	41,876	–	–	–	–	41,876	925	–	125% of annual salary	25%	31 December 2019
	2 March 2018	–	–	–	–	35,242	35,242	1127	–	125% of annual salary	25%	31 December 2020
Total		41,876	–	–	–	35,242	77,118					
Martin Green ⁽³⁾	8 April 2015 ⁽¹⁾	33,230	22,430	1,455	10,800	–	–	647	1185	100% of annual salary	25%	31 December 2017
	1 March 2016 ⁽²⁾	43,269	–	–	–	–	43,269	520	–	125% of annual salary	25%	31 December 2018
	28 Feb 2017	46,395	–	–	–	–	46,395	700	–	125% of annual salary	25%	31 December 2019
	2 March 2018	–	–	–	–	29,558	29,558	1127	–	125% of annual salary	25%	31 December 2020
Total		122,894	22,430	1,455	10,800	29,558	119,222					

- (1) The LTIP award made on 8 April 2015 achieved 100% of the TSR performance condition and 35% of the EPS* growth performance condition, resulting in a blended level of vesting of 67.5%. As a consequence 67.5% of this award, plus associated dividend shares, vested on its third anniversary of 8 April 2018. Details of the actual associated value are shown in the remuneration table for the year ended 31 December 2018 on page 82.
- (2) The LTIP award made on 1 March 2016 achieved 100% of the TSR performance condition and 100% of the adjusted EPS growth performance condition, resulting in 100% of the award vesting. As a consequence 100% of this award, plus associated dividend shares, will vest on its third anniversary of 1 March 2019. Details of the estimated associated value are shown in the remuneration table for the year ended 31 December 2018 on page 82.
- (3) Martin Green's LTIP awards in 2015 and 2016 pre-date his appointment as an Executive Director of the Company. The awards are therefore not subject upon vesting to a two-year holding period. Awards from 2017 onwards however are subject to a two-year holding period post vesting.

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Deferred Bonus Plan

Each year, Executive Directors are required to defer a proportion of their annual bonus into the DBP. No matching awards can be earned on deferred shares.

Director	Date of award	Awards at 1 January 2018 (shares)	Awards exercised during the year	Associated dividend shares with the exercised awards	Awards lapsed during the year	Awards made during the year	At 31 December 2018	Market price on which award made (pence)	Market price at exercise date (pence)	Face value of award	Percentage of interest that vests if threshold performance achieved	End of performance period
Stephen Bird	16 April 2015 (core award) ⁽¹⁾	9,240	9,240	602	–	–	–	649	1180	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	11 April 2016 (core award) ⁽²⁾	4,716	–	–	–	–	4,716	589	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	5 April 2017 (core award)	13,344	–	–	–	–	13,344	831	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	9 April 2018 (core award)	–	–	–	–	10,704	10,704	1205	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
Total		27,300	9,240	602	–	10,704	28,764					
Kath Kearney-Croft	9 April 2018	–	–	–	–	5,168	5,168	1205	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	Total	–	–	–	–	5,168	5,168					
Martin Green ⁽³⁾	16 April 2015 (core) ⁽¹⁾	2,777	2,777	180	–	–	–	649	1180	30% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	11 April 2016 (core) ⁽²⁾	1,486	–	–	–	–	1,486	589	–	30% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	5 Apr 2017 (core)	4,203	–	–	–	–	4,203	831	–	30% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	9 April 2018	–	–	–	–	6,314	6,314	1205	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
Total		8,466	2,777	180	–	6,314	12,003					

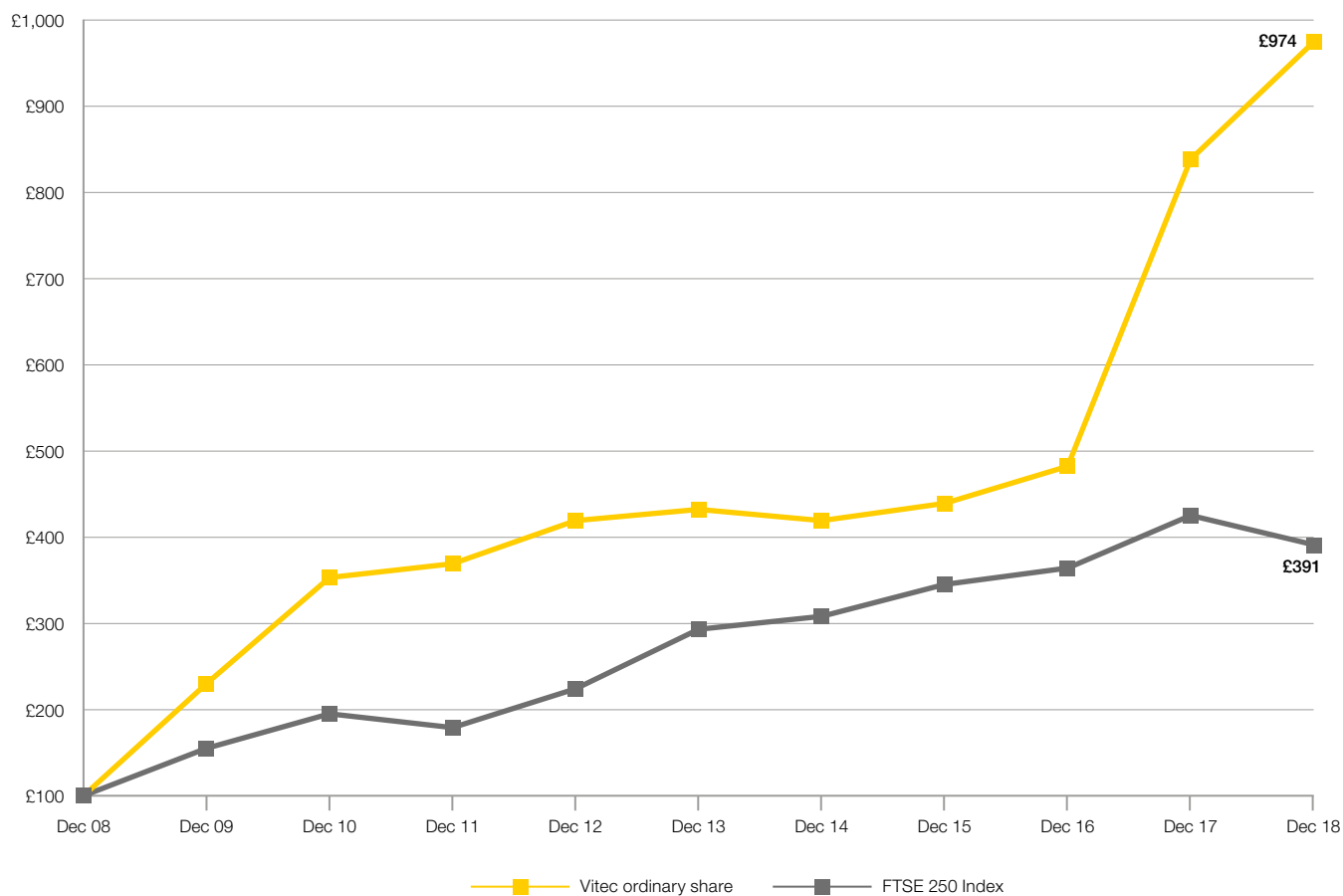
(1) The DBP core award made on 16 April 2015 vested on 16 April 2018. The core award plus associated dividend shares were paid out to the participants on 16 April 2018.

(2) The DBP core award made on 11 April 2016 will vest on its third anniversary of 11 April 2019. The core award plus associated dividend shares will be paid out to the participants on this anniversary.

(3) Martin Green's DBP awards for 2015, 2016 and 2017 relate to bonus periods prior to his appointment as an Executive Director of the Company.

Ten-year performance graph of the Company’s ordinary shares compared to comparator group

The Company is required to include a line graph showing the Company’s ordinary share performance compared to an appropriate index over a ten-year performance period ending 31 December 2018. The graph below illustrates the Company’s annual Total Shareholder Return (TSR) (share price growth plus dividends that have been declared, paid and reinvested in the Company’s shares) relative to the FTSE 250 for the preceding ten-year period ending 31 December 2018, assuming an initial investment of £100. This index has been chosen since it is the comparator group (excluding financial services companies and investment trusts) for one of the performance conditions tied to awards under the LTIP. The Committee notes that the FTSE 250 index is a recognised broad market equity index, relatively complex and international in nature and is comparable to the Company’s business operations where approximately 90% of revenues are generated outside the UK. Each point is a 30 trading day average of the indices. TSR data is taken from Datastream.



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Performance table setting out the total remuneration of the Group Chief Executive

The following table sets out the single figure of total remuneration paid and the amount vesting under short-term and long-term incentives (as a percentage of the maximum that could have been achieved) to the Group Chief Executive for each of the ten years ended 31 December 2018.

Year (ended 31 December)	Group Chief Executive	CEO single figure of total remuneration	Annual bonus payout against maximum opportunity % (including actual amount paid)	Long-term incentive vesting rates against maximum opportunity %
2018	Stephen Bird	£2,336,534	66.9% £377,925	100%
2017	Stephen Bird	£1,596,214	88.4% (£486,771)	67.5%
2016	Stephen Bird	£962,299	77.9% (£418,450)	0%
2015	Stephen Bird	£636,374	20% (£104,876)	0%
2014	Stephen Bird	£745,388	44.25% (£226,378)	0%
2013	Stephen Bird	£1,057,407	71% (£355,616)	28.55% (£195,634)
2012	Stephen Bird	£1,697,841	79.4% (£386,434)	92.4% (£817,428)
2011	Stephen Bird	£2,053,828	87.3% (£323,816)	100%
2010	Stephen Bird	£812,946	98.75% (£355,994)	0%
2009	Stephen Bird (from 14 April 2009)	£487,087	68.7% (£172,069)	0%
2009	Alastair Hewgill (from 1 January 2009 to 14 April 2009)	£151,634	42% (£51,911)	0%

Percentage change in remuneration of the Group Chief Executive

The table below sets out a comparison of the following elements of remuneration paid to the Group Chief Executive, Stephen Bird, in the year ended 31 December 2018 compared to the year ended 31 December 2017 and compared to that of UK based employees: annual salary; taxable benefits; and annual bonus. The Remuneration Committee has selected this comparator group on the basis that the Group Chief Executive is UK based and this provides a local market reference, is a sizeable population and a fair representation of the Group's employee base. The Committee will report on The Companies (Miscellaneous Reporting) Regulations 2018 CEO pay ratio compared to full-time employees in the UK in the 2019 Remuneration Report to be published in March 2020 as the regulations apply to financial years commencing on 1 January 2019 and the Company needs to set in place appropriate processes to comply with the new regulations.

	Annual salary (% change in 2018 compared to 2017)	Taxable benefits (% change in 2018 compared to 2017)	Annual bonus (% change in 2018 compared to 2017)
Stephen Bird, Group Chief Executive	2.5%	2.5%	-22.3%
UK based employees	2.5%	2.5%	-1.0%

Relative importance of spend on pay

The following table sets out for the year ended 31 December 2018 compared to the year ended 31 December 2017 the actual expenditure of the Company in terms of remuneration paid to or receivable by all employees of the Group and distributions to shareholders by way of dividends. In March 2018, the Company acquired 60,000 ordinary shares that are held in treasury to cover Employer's National Insurance Contribution costs in relation to the Company's LTIP. There are currently 75,600 ordinary shares held in treasury. There have been no other significant distributions and payments required to be disclosed that would assist in understanding the relative importance of spend on pay.

	Year ended 31 December 2018	Year ended 31 December 2017	% change
Total remuneration paid to all Vitec Group employees	£99.9m	£91.1m	9.7%
Total dividends paid to shareholders	£14.1m	£12.4m	13.7%

Statement of Implementation of Remuneration Policy in the year ending 31 December 2019

This section provides an overview of how the Committee is proposing to implement the Remuneration Policy in 2019.

(1) Base salary

The table sets out the 2019 base salary for each Executive Director, together with the percentage increase from 2018:

Executive Director	2019 Salary	Increase from 2018
Stephen Bird	£463,053	2.5%
Kath Kearney-Croft	£325,694	2.5%
Martin Green	£290,485	9%

In determining the increases for 2019, the Committee took into account a number of factors, including Company and individual performance, the executive's responsibilities and experience, pay increases for the Company's employees, market rates for Executive Director remuneration, the need for retention of a talented executive team and prevailing economic conditions. The Remuneration Committee decided the increase was deemed appropriate for Martin Green, reflecting the increased importance of his contribution to the work of the Board since he was appointed a Director in January 2017, in particular his role in acquisition strategy and implementation. Notably this was justified on account of the increase in Martin Green's role and duties and to address a shortfall in his salary compared to market positioning.

(2) Benefits

The car allowance taxable benefit has been increased in line with 2.5% base salary increases for 2019. The other taxable benefits of private healthcare and income protection are respectively premium and contractually based.

(3) Pension allowance

Pension allowances paid to Executive Directors are set out in the table below. Stephen Bird's allowance represents 20% of his base salary. For any Executive Director appointed since 1 January 2017 (Kath Kearney-Croft and Martin Green), the pension allowance has been set at 15% of base salary.

Executive Director	Pension allowance
Stephen Bird	£92,611
Kath Kearney-Croft	£48,854
Martin Green	£43,573

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(4) Annual bonus

The maximum opportunity remains unchanged at 125% of base salary. Half of any net after tax annual bonus earned for the year ended 31 December 2019 will be deferred into the DBP for a period of three years and held in the form of shares in the Company. There will be no matching award that can be earned on this deferred bonus. The table below provides information on the performance measures against which performance for the 2019 Annual Bonus Plan will be measured:

Core measures for 2019 Annual Bonus Plan	Weighting (% of overall opportunity)
Group profit before tax*	50%
Group percentage of operating profit* converted to operating cash flow*	25%
Role-specific personal objectives set by the Board and Remuneration Committee for the Executive Director	25%

The performance measures selected reflect the strategic and operational objectives of the Group. As noted on page 86, in a slight change to previous years, the Group percentage of operating profit converted to operating cash metric for 2019 will be measured against targets set for H1 2019 performance and full year 2019 performance, with one-third for H1 and two-thirds for full year. The Committee considers that the specific targets and personal objectives for 2019 are commercially sensitive and therefore has not disclosed them. The Committee will disclose these targets and objectives once a bonus has been paid and subject to the Committee considering that they are no longer commercially sensitive.

(5) Long Term Incentive Plan

Stephen Bird, Kath Kearney-Croft and Martin Green will each receive an award of shares under the LTIP equivalent to 125% of base salary in 2019. These awards will be made in the 42-day period following the announcement of the full year results for the year ended 31 December 2018 that will be announced on 21 February 2019. The performance conditions for the LTIP awards to be granted in 2019 will be as follows: 67% of the award will be subject to adjusted basic Earnings Per Share* growth over a three-year performance period. The Remuneration Committee has determined that the adjusted EPS targets will be 6% and 14% per annum growth over the three year performance period. EPS growth will be measured from the adjusted "normalised" 2018 EPS of 85.2p used to determine vesting of the 2016 LTIP awards, as disclosed on page 86. The remaining 33% of the award will be subject to TSR with the Company's TSR performance ranked against the constituents of the FTSE 250 index (excluding financial services companies and investment trusts) over a three-year performance period. Vesting will be underpinned by Committee discretion that will take into account, in particular, ROCE performance over the performance period for the EPS element of the award. Any awards vesting under the LTIP 2019, after deduction of taxes, will be subject to a further two-year holding period, thereby more closely aligning their interests with the long-term interests of shareholders.

(6) Chairman and Non-Executive Directors' remuneration

The fee structure for the Chairman and Non-Executive Directors for 2019 is set out in the following table:

Role	2019 fee	2018 fee
Chairman	£153,750 ⁽¹⁾	£153,750
Non-Executive Directors' base fee	£50,000 ⁽²⁾	£45,255
Chairman of Audit Committee	£10,000	£10,000
Chairman of Remuneration Committee	£10,000 ⁽³⁾	£9,000
Senior Independent Director	£8,000 ⁽³⁾	£6,000

(1) Upon Ian McHoul succeeding as Chairman on 21 May 2019, the Chairman's fee will increase to £170,000 per annum.

(2) Following a review of Non-Executive Directors' fees with the support of Mercer, it was concluded that an increase for 2019 was merited. This increase was justified on the basis that: the market capitalisation of the Company has significantly increased in recent years; the Company's continuing strong financial performance; a review of market data provided by Mercer showed that the Non-Executive Directors' base fee was at the lower end of the market range for companies with similar FTSE rankings; and that the time commitment for Non-Executive Directors has increased over recent years involving several short notice Board meetings.

(3) The Chairman of the Remuneration Committee and Senior Independent Director fees were reviewed with the support of Mercer and agreed to be increased to account for the nature of each role, the time commitment, performance of the respective individuals, market rates for the complexity of the roles and the calibre of individuals. The Audit Committee Chairman's fee upon review was considered to be in line with market rates and appropriate for the demands of the role and complexity of the Company.

The Board has agreed that fees will typically be reviewed annually to ensure that they remain appropriate.

Malus and clawback

Under the rules of the Annual Bonus Plan, LTIP and DBP, awards are subject to a malus rule whereby the Remuneration Committee has the power to reduce, cancel or impose further conditions upon a bonus or award in circumstances that the Committee determines such action is appropriate including circumstances where a material misstatement of the Company's audited financial results has occurred or serious reputational damage to the Company has occurred as a result of a participant having breached the Company's Code of Conduct. In addition, under the above plans, a clawback provision exists where in the same circumstances as for malus, any future award that is paid out can be clawed back from a participant for a period of up to three years from it vesting or being paid out.

Voting at Annual General Meeting

At the Company's last AGM held on 15 May 2018, shareholders were asked for an advisory vote on the Directors' Annual Remuneration Report for the year ended 31 December 2017. The Remuneration Policy Report was not voted on at the 2018 AGM as it had been approved by shareholders at the 2017 AGM and sets out the policy towards Directors' remuneration for a three-year period from the date of the 2017 AGM until 2020. The Policy Report was approved by 99% of votes cast at the 2017 AGM (36,268,829 votes for and 9,424 votes against). The Annual Remuneration Report resolution was approved by shareholders on a poll at the 2018 AGM. The table below sets out the proxy votes voted for, against and withheld for the advisory vote on the 2017 Remuneration Report resolution at the 2018 AGM.

Resolution	For proxy votes and % of votes cast	Against proxy votes and % of votes cast	Withheld proxy votes
Advisory vote on the Remuneration Report for the year ended 31 December 2017	30,651,988 (99.96%)	11,235 (0.04%)	11,500

As at the date of the Company's AGM on 15 May 2018 the Company had 45,016,477 ordinary shares in issue. The Remuneration Committee considers that an against or withheld vote of 20% or more of the votes cast is deemed to be significant in connection with a resolution on Directors' remuneration. Based on the level of support at the 2018 AGM, the Committee did not consider that there were any significant issues of concern. In the event that a significant level of concern is raised at future AGMs, both the Chairman of the Board and the Chairman of the Remuneration Committee will contact the Company's major shareholders following an AGM to understand the precise detail of the concern being raised. Subject to that, the Committee and the Board as a whole will consider how best to address the concern being raised. This may involve a revision to the Company's policy on Directors' remuneration at a subsequent AGM or some other change which can be implemented without further shareholder consultation. The Committee and the Board are committed to an open and transparent dialogue with shareholders on material matters of concern.

Remuneration Report

Annual Report on Remuneration continued

The Remuneration Committee

The Remuneration Committee comprised the following members during 2018: Caroline Thomson – Chairman, Mark Rollins (until 2 April 2018), Lorraine Rienecker (until 1 September 2018), Christopher Humphrey, Richard Tyson (from 2 April 2018) and Duncan Penny (from 1 September 2018).

All of the Committee members are independent Non-Executive Directors.

The Committee, on behalf of the Board, determines the policy, base salaries, annual cash bonus arrangements, participation in incentive schemes, pension arrangements and all other benefits received by the Executive Directors.

The Committee also oversees the framework of remuneration for the Operations Executive, including terms of service, pay structure, annual cash bonus, pensions, share incentive arrangements and all other benefits and also has regard to wider employee remuneration within the Group.

The Committee invites individuals to attend meetings, as it deems necessary, to assist with consideration of remuneration matters. The Chairman, John McDonough, the Group Chief Executive, Stephen Bird, the Group Finance Director, Kath Kearney-Croft, the Group Company Secretary, Jon Bolton and the Group Business Development Director, Martin Green, attended meetings by invitation in the year ended 31 December 2018. The Executive Directors or members of the Executive Management Board are not present when their own remuneration is being considered.

The remuneration of the Chairman and the Non-Executive Directors is determined by the Board as a whole, with the Chairman or the relevant Non-Executive Director abstaining when his or her remuneration is considered.

For further information regarding governance for the Remuneration Committee see pages 64 and 65 of this Annual Report.

External advisors

The Committee received independent advice from Mercer as the Committee's appointed remuneration advisor during 2018. During 2018 the level of fees paid to remuneration advisors totalled £14,938 (2017: £19,565) and this fee covered advice relating to disclosures in the 2017 Directors' Remuneration Report, measurement of performance conditions associated with long-term incentive arrangements and general remuneration advice. Mercer is a member of the Remuneration Consultants Group and operates under that group's voluntary code of practice for remuneration consultants in the UK. The Committee is satisfied that the advice it received from Mercer during 2018 was objective and independent. The Committee also received advice and administrative support during 2018 from the Group Company Secretary, Jon Bolton, and the Group Business Development Director, Martin Green.

This Annual Remuneration Report has been approved by the Remuneration Committee and signed on its behalf by:

Caroline Thomson

Chairman, Remuneration Committee

20 February 2019

Directors' Report

Strategic Report

The statements and reviews on pages 1 to 51 comprise the Strategic Report which contains certain information, outlined below, that is incorporated into this Directors' Report by reference:

- an indication of the Group's likely future business developments;
- an indication of the Group's research and development activities;
- information on the Group's policies for the employment of disabled persons and employee involvement; and
- the Group's disclosures regarding greenhouse gas emissions.

Directors

The Directors who held office at 31 December 2018 and up to the date of this report are set out on pages 52 and 53 along with their biographies and photographs.

Changes to the Board during the year and up to the date of this report were as follows:

Name	Effective date	Position
Mark Rollins	Resigned on 2 April 2018	Non-Executive Director
Richard Tyson	Appointed on 2 April 2018	Non-Executive Director
Lorraine Rienecker	Resigned on 1 September 2018	Non-Executive Director
Duncan Penny	Appointed on 1 September 2018	Non-Executive Director

All current Directors will be standing for reappointment at the forthcoming AGM to be held on Tuesday, 21 May 2019. The remuneration of the Directors including their respective shareholdings in the Company is set out in the Remuneration Report on pages 72 to 98.

It was announced on 19 February 2019, that Ian McHoul will be appointed an independent Non-Executive Director and Chairman Designate of the Company with effect from 25 February 2019. John McDonough will cease to be Chairman and a Director of the Company at the close of the Company's 2019 AGM on 21 May 2019 and Ian McHoul will succeed him as Chairman with effect therefrom.

Directors' and Officers' liability insurance and indemnification of Directors

The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for any legal action brought against its Directors. The Company has also granted indemnities to each of its Directors to the extent permitted by law. Qualifying third party indemnity provisions (as defined in Section 324 of the Companies Act 2006) have been adopted for each Director and indemnify in relation to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Company.

Share capital

The Company has only ordinary shares of 20 pence nominal value in issue along with 75,600 shares held in treasury. Note 4.3 to the consolidated financial statements on page 146 summarises the rights of the ordinary shares as well as the number issued during 2018. An analysis of shareholdings is shown on page 168. The closing mid-market price of a share of the Company on 31 December 2018, together with the range during the year, is also shown on page 168. For details of own shares held by the Company see note 4.3 to the consolidated financial statements.

Dividends

The Board has recommended a final dividend of 25.5 pence per share amounting to £11.5 million (2017: 20.1 pence per share, amounting to £9.0 million). The final dividend, subject to shareholder approval at the 2019 Annual General Meeting, will be paid on Friday, 24 May 2019 to shareholders on the register at the close of business on Tuesday, 23 April 2019. This will bring the total dividend for the year to 37.0 pence per share (up 21.3%). A dividend reinvestment alternative is available with details available from our registrars, Link Asset Services.

Substantial shareholdings

As at 20 February 2019, the Company had been advised under the Disclosure Guidance and Transparency Rules, or had ascertained from its own analysis, that the following held notifiable interests in the voting rights in the Company's issued share capital:

Shareholder	Number of voting rights	% of voting rights
Alantra Asset Management	6,563,313	14.48%
FIL Investment International	4,102,873	9.05%
Aberforth Partners	4,010,412	8.85%
Royal London Asset Management	2,110,251	4.66%
Franklin Templeton Investments	2,105,000	4.65%
Canaccord Genuity Wealth Management	2,036,070	4.49%
Gidema SPA	1,970,000	4.35%
NN Investment Partners	1,565,000	3.45%
Heronbridge Investment Management	1,522,915	3.36%
Schroder Investment Management	1,492,000	3.29%

Committees of the Board

The Board has established Audit, Nominations and Remuneration Committees. Details of these Committees, including membership and their activities during 2018, are contained in the Corporate Governance section of this Annual Report and in the Remuneration Report.

Corporate responsibility

The Group's report on corporate responsibility is set out on pages 40 to 51. The Group's Code of Conduct has been communicated to all employees and is available on the Company's website and intranet. The Group has also adopted specific policies which cover the following key areas: health and safety; risk and fraud; employment; whistleblowing; the environment; human rights; community impact and involvement; and relationships with suppliers, customers and other stakeholders. It regularly reviews these policies and revises them as and when necessary.

Corporate governance

The Group's report on corporate governance is on pages 54 to 71 and forms part of this Directors' Report.

Companies Act 2006 disclosures

In accordance with Section 992 of the Companies Act 2006 the Directors disclose the following information:

- The Company's capital structure and voting rights are summarised on page 146, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- The Company holds 75,600 ordinary shares in treasury which do not carry any voting rights (of which, 60,000 shares were purchased on 21 March 2018 at a price of £12.70 per share), to be used to cover NIC costs in relation to the LTIP;
- There exist no securities carrying special rights with regard to the control of the Company;
- Details of the substantial shareholders and their shareholdings in the Company are listed above;
- Shares awarded under the core award of the Company's Deferred Bonus Plan are held in a nominee capacity by the Employee Benefit Trust (EBT). The Trustees of the EBT do not seek to exercise voting rights on shares held in the EBT. No voting rights are exercised in relation to shares unallocated to individual beneficiaries;
- The rules concerning the appointment and replacement of Directors, amendment to the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- There exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- There exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

Articles of Association

The Company's Articles of Association set out the rights of shareholders including voting rights, distribution rights, attendance at general meetings, powers of Directors, proceedings of Directors as well as borrowing limits and other governance controls. A copy of the Articles of Association can be requested from the Group Company Secretary.

Conflicts of interest

During the year no Director held any beneficial interest in any contract significant to the Company's business, other than a contract of employment. The Company has procedures set out in the Articles of Association for managing conflicts of interest. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the Group, they are required to notify the Board as soon as reasonably practicable.

Political donations

Further to shareholder approval at the 2018 AGM empowering the Directors to make political donations, it is confirmed that no such donations were made in the year ended 31 December 2018. The Company's policy is not to make political donations.

Financial instruments

The financial risk management objectives and policies of the Group and the exposure of the Group to foreign currency risk, interest rate risk, and liquidity risk are outlined in note 4.2 to the consolidated financial statements on pages 142 to 146.

Going concern

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future, which comprises the period of at least 12 months from the date of approval of the financial statements. There are no material uncertainties that would prevent the Directors from being unable to make this statement. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy, at any time, the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance statement that complies with that law and those regulations.

Directors' Report continued

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and that it provides all the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information (as defined in Section 418(2) of the Companies Act 2006) of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Annual General Meeting (AGM)

The 2019 AGM will be held at 2.00p.m on Tuesday, 21 May 2019 at The Academy of Medical Sciences, 41 Portland Place, London W1B 1QH.

The Company will be making use of the electronic voting facility provided by its registrars, Link Asset Services. The facility includes CREST voting for members holding their shares in uncertificated form. For further information, please refer to the section on online services and electronic voting set out in the notes to the Notice of Meeting.

The notice of the AGM and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting accompanying this Annual Report. The Board fully supports all the resolutions and encourages shareholders to vote in favour of each of them as they intend to in respect of their own shareholdings.

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and separate resolutions will be proposed at the forthcoming AGM concerning their reappointment and to authorise the Board to agree their remuneration.

By order of the Board

Jon Bolton
Group Company Secretary
20 February 2019

Independent auditor's report to the members of The Vitec Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of The Vitec Group plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related group sections 1 to 5 and company notes (a) to (o).

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: <ul style="list-style-type: none">– Valuation of inventory obsolescence provision– Valuation of intangibles in respect of the acquisition of Amimon Inc.
Materiality	The materiality that we used for the Group financial statements was £1.9 million, which was determined on the basis of 5% of adjusted profit before tax.
Scoping	We focused our scope on the three trading divisions, Vitec Imaging Solutions, Vitec Productions Solutions and Vitec Creative Solutions. These were subject to either full scope audits or specified audit procedures which account for 88% of group revenue and 93% of net assets. The company-only financial statements of The Vitec Group plc were subject to a full-scope audit.
Significant changes in our approach	This is the first year that Deloitte LLP have audited The Vitec Group plc's financial statements.

Independent auditor's report to the members of The Vitec Group plc continued

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in section 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 18 to 21 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 39 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 39 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of inventory obsolescence provision

Key audit matter description

At 31 December 2018, the gross inventory balance was £95.2 million (2017: £83.4 million), of which there was a £15.1 million (2017: £13.6 million) allowance against the carrying value.



Significant management judgement is involved in determining the adequacy of the inventory obsolescence provision across both a wide range of products, and within differing geographical regions, set against a backdrop of ever changing technology in the image capture and sharing market. Given the high level of management judgement involved, we deemed this a potential fraud risk for our audit.

Management has highlighted inventory provisioning as a key accounting estimate in Section 1. The Audit Committee report on page 68 also refers to inventory provisioning as one of the significant issues and judgements. Further information is included in note 3.3.

How the scope of our audit responded to the key audit matter

Our audit procedures included assessing the design and implementation of key controls relating to inventory provisioning.



In order to address this key audit matter we have completed audit procedures including:

- considering the methodology used to calculate the inventory provision;
- challenging the reasonableness of management's judgements and the assumptions used, specifically by assessing the provision percentages in relation to sales demand with comparison to prior periods;
- assessing the integrity of the underlying calculation by checking the accuracy of the ageing of discontinued and slow moving inventory items;
- reviewing the level of inventory write offs in the year compared to the overall inventory provision at 31 December 2017; and
- reviewing the exposure of inventory relating to slow moving ranges but for which no provision is included, together with testing the appropriateness of a sample of manual adjustments.

Key observations

On the basis of our testing, we are satisfied the overall provision is appropriate and is prepared on a basis consistent with the prior period.



Independent auditor’s report to the members of The Vitec Group plc continued

Valuation of acquired intangible assets relating to Amimon Inc.

Key audit matter description On 9 November 2018, the Group completed the acquisition of Amimon Inc. for a net consideration of £40.1 million. The transaction has been accounted for in accordance with IFRS 3 Business Combinations.

£12.9 million of goodwill has been recognised as well as £23.4 million of acquired intangible assets relating to software, patents and customer relationships, and £8.8 million of other assets and liabilities.

We identified a key audit matter in relation to the key assumptions underpinning the valuation of the acquired intangibles. The determination of these assumptions requires significant management judgement.

Management has highlighted acquisitions as a key accounting estimate in Section 1. The Audit Committee report on page 68 also refers to acquisitions as one of the significant issues and judgements. Further information is included in note 3.4.



How the scope of our audit responded to the key audit matter Our audit procedures included assessing the design and implementation of key controls which relate to the valuation of acquired intangible assets.

In order to address this key audit matter we have completed audit procedures including:

- assessing the key valuation assumptions such as discount rate, software development replacement cost, royalty rate and reseller discount, with the support of our own valuation specialist;
- challenging management’s key assumptions with reference to industry benchmarks and historical performance; and
- considering any contradictory evidence available to challenge the valuation assumptions applied.



Key observations Based on the audit procedures performed, the valuation of the acquired intangibles is fairly stated.

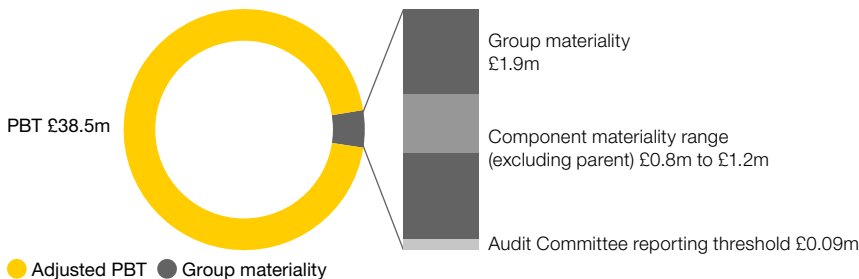


Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£1.9 million (Predecessor auditor 2017: £1.5 million)	£1.8 million (Predecessor auditor 2017: £0.4 million)
Basis for determining materiality	5% of adjusted profit before tax	Parent company materiality equates to 0.5% of net assets.
Rationale for the benchmark applied	Adjusted items relate solely to the £0.6 million impact of the Guaranteed Minimum Pensions Equalisation to facilitate a better understanding of the Group’s underlying trading performance.	Net assets has been used as this is a non-trading holding company and we consider this to be the most appropriate basis. We have capped this at 95% of group materiality.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £96,250 (Predecessor auditor 2017: £72,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment we focused our scope on the three trading divisions: Vitec Imaging Solutions, Vitec Productions Solutions and Vitec Creative Solutions. These were subject to either full scope audits or specified audit procedures which account for 88% of group revenue and 93% of net assets.

The Group audit team instructed component auditors as to the significant areas to be addressed, including the relevant risks detailed above and the information to be reported back. Our audit work and specified procedures at these entities was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged between £0.8 million and £1.2 million of Group materiality.

The Group audit team visited the Divisional head office of each of the three trading divisions in Italy, the UK and US as well as visiting a number of individual components. Telephone conference meetings were also held with component auditors. At these visits and meetings the findings reported to the Group team were discussed in more detail, with the Group team giving direction for further work, if required.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Independent auditor's report to the members of The Vitec Group plc continued

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, the Group's in-house legal counsel and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have any knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team regarding how and where material fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion we identified potential for fraud in the following area: valuation of the inventory provision; and
- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act 2006; Listing Rules; pensions legislation; and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified the valuation of inventory and acquired intangibles as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and both in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of potential bias; and evaluating the business rationale for any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the members at the Company's Annual General Meeting on 15 May 2018 to audit the financial statements of the Company for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement of the firm is 1 year.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Halstead FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
St Albans
20 February 2019

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Each section sets out the accounting policies applied in producing these financial statements together with any key judgements and estimates used. Text boxes provide an introduction to each section.

Consolidated Income Statement

For the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Revenue	2.1	385.4	353.3
Cost of sales	2.2	(219.4)	(196.8)
Other income	2.1	7.8	–
Gross profit		173.8	156.5
Operating expenses	2.1/2.2	(133.6)	(126.3)
Operating profit	2.1	40.2	30.2
Comprising			
– Adjusted operating profit		53.5	45.2
– Charges associated with acquisition of businesses and material non-operating events	2.2	(13.3)	(15.0)
		40.2	30.2
Net finance expense	2.3	(2.3)	(2.8)
Profit before tax		37.9	27.4
Comprising			
– Adjusted profit before tax		51.2	42.4
– Charges associated with acquisition of businesses and material non-operating events	2.2	(13.3)	(15.0)
		37.9	27.4
Taxation	2.4	(3.6)	(16.9)
Comprising taxation on			
– Adjusted profit		(9.2)	(10.8)
– Charges associated with acquisition of businesses and material non-operating events		5.6	(6.1)
		(3.6)	(16.9)
Profit from continuing operations		34.3	10.5
Profit after tax from discontinued operations	3.5	–	17.0
Profit attributable to owners of the parent		34.3	27.5
Earnings per share from continuing operations	2.5		
Basic earnings per share		76.1p	23.4p
Diluted earnings per share		75.6p	23.3p
Earnings per share from continuing and discontinued operations	2.5		
Basic earnings per share		76.1p	61.4p
Diluted earnings per share		75.6p	61.0p
Average exchange rates			
Euro		1.13	1.14
US\$		1.33	1.29

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 £m	2017 £m
Profit for the year	34.3	27.5
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of defined benefit obligation	4.0	0.6
Related tax	(0.7)	(0.1)
Items that are or may be reclassified subsequently to profit or loss:		
Foreign exchange gain recycled to the Income Statement on disposal of businesses	–	(17.3)
Currency translation differences on foreign currency subsidiaries	7.6	(10.8)
Net investment hedges – net (loss)/gain	(3.7)	2.7
Cash flow hedges – reclassified to the Income Statement, net of tax	(0.2)	3.3
Cash flow hedges – effective portion of changes in fair value, net of tax	(1.8)	1.9
Other comprehensive income/(expense), net of tax	5.2	(19.7)
Total comprehensive income for the year attributable to owners of the parent	39.5	7.8

Consolidated Balance Sheet

As at 31 December 2018

	Notes	2018 £m	2017 £m
Assets			
Non-current assets			
Intangible assets	3.1	130.8	88.4
Property, plant and equipment	3.2	33.7	31.0
Trade and other receivables	3.3	2.0	0.9
Derivative financial instruments	4.2	–	0.4
Deferred tax assets	2.4	29.7	17.7
		196.2	138.4
Current assets			
Inventories	3.3	80.1	69.8
Trade and other receivables	3.3	68.7	65.8
Derivative financial instruments	4.2	0.1	1.9
Current tax assets	2.4	1.6	1.2
Cash and cash equivalents	4.1	17.5	12.6
		168.0	151.3
Total assets		364.2	289.7
Liabilities			
Current liabilities			
Bank overdrafts	4.1	2.4	–
Interest-bearing loans and borrowings	4.1	0.5	0.5
Trade and other payables	3.3	70.3	67.4
Derivative financial instruments	4.2	1.1	0.4
Current tax liabilities	2.4	5.2	4.4
Provisions	3.6	3.2	9.3
		82.7	82.0
Non-current liabilities			
Interest-bearing loans and borrowings	4.1	95.6	55.0
Derivative financial instruments	4.2	–	0.1
Other payables	3.3	0.8	–
Post-employment obligations	5.2	9.4	12.6
Provisions	3.6	1.7	1.7
Deferred tax liabilities	2.4	11.7	2.7
		119.2	72.1
Total liabilities		201.9	154.1
Net assets		162.3	135.6
Equity			
Share capital		9.1	9.0
Share premium		18.6	16.8
Translation reserve		(4.7)	(8.6)
Capital redemption reserve		1.6	1.6
Cash flow hedging reserve		(0.7)	1.3
Retained earnings		138.4	115.5
Total equity	4.3	162.3	135.6
Balance Sheet exchange rates			
Euro		1.11	1.13
US\$		1.27	1.35

Approved and authorised for issue by the Board on 20 February 2019 and signed on its behalf by:

Kath Kearney-Croft
Group Finance Director

Consolidated Statement of Changes in Equity

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2018		9.0	16.8	(8.6)	1.6	1.3	115.5	135.6
Adoption of IFRS 9	1	–	–	–	–	–	(0.1)	(0.1)
Balance at 1 January 2018 (adjusted)		9.0	16.8	(8.6)	1.6	1.3	115.4	135.5
Total comprehensive income for the year								
Profit for the year		–	–	–	–	–	34.3	34.3
Other comprehensive income/(expense) for the year		–	–	3.9	–	(2.0)	3.3	5.2
Contributions by and distributions to owners								
Dividends paid		–	–	–	–	–	(14.1)	(14.1)
Own shares purchased		–	–	–	–	–	(3.7)	(3.7)
Share-based payment charge, net of tax		–	–	–	–	–	3.2	3.2
New shares issued		0.1	1.8	–	–	–	–	1.9
Balance at 31 December 2018		9.1	18.6	(4.7)	1.6	(0.7)	138.4	162.3
Balance at 1 January 2017		9.0	15.4	16.8	1.6	(3.9)	100.9	139.8
Total comprehensive income for the year								
Profit for the year		–	–	–	–	–	27.5	27.5
Other comprehensive (expense)/income for the year		–	–	(25.4)	–	5.2	0.5	(19.7)
Contributions by and distributions to owners								
Dividends paid		–	–	–	–	–	(12.4)	(12.4)
Own shares purchased		–	–	–	–	–	(3.5)	(3.5)
Share-based payment charge		–	–	–	–	–	2.2	2.2
Tax on share-based payment charge		–	–	–	–	–	0.3	0.3
New shares issued		–	1.4	–	–	–	–	1.4
Balance at 31 December 2017		9.0	16.8	(8.6)	1.6	1.3	115.5	135.6

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Profit for the year		34.3	27.5
Adjustments for:			
Taxation		3.6	13.3
Depreciation		7.2	10.3
Impairment losses on property, plant and equipment		–	0.2
Amortisation of intangible assets		10.6	12.2
Write-off of intangible assets		0.6	–
Net gain on disposal of property, plant and equipment and software		(0.2)	(0.7)
Fair value losses/(gains) on derivative financial instruments		0.2	(0.6)
Foreign exchange losses		0.3	–
Share-based payment charge		3.1	2.2
Earnout charges		1.4	4.1
Profit on disposal of businesses, before tax		–	(15.0)
Net finance expense		2.3	2.8
Operating profit before changes in working capital and provisions		63.4	56.3
Increase in inventories		(0.8)	(9.9)
Increase in receivables		(0.5)	(5.6)
(Decrease)/increase in payables		(4.3)	6.1
(Decrease)/increase in provisions		(3.8)	1.8
Cash generated from operating activities		54.0	48.7
Interest paid		(2.5)	(2.6)
Tax paid		(4.1)	(11.0)
Net cash from operating activities		47.4	35.1
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and software		0.5	3.5
Purchase of property, plant and equipment		(8.4)	(10.8)
Capitalisation of software and development costs		(6.0)	(4.3)
Acquisition of businesses, net of cash acquired		(51.8)	(12.4)
Cash inflow on previous disposal	3.5	0.5	32.4
Net cash (used in)/from investing activities		(65.2)	8.4
Cash flows from financing activities			
Proceeds from the issue of shares		1.9	1.4
Own shares purchased		(3.7)	(3.5)
Repayment of interest-bearing loans and borrowings		(101.7)	(144.5)
Borrowings from interest-bearing loans and borrowings		138.1	110.7
Dividends paid		(14.1)	(12.4)
Net cash used in financing activities		20.5	(48.3)
Increase/(decrease) in cash and cash equivalents	4.1	2.7	(4.8)
Cash and cash equivalents at 1 January		12.6	16.8
Effect of exchange rate fluctuations on cash held		(0.2)	0.6
Cash and cash equivalents at 31 December		15.1	12.6

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

The Vitec Group plc (the "Company") is a company domiciled and incorporated under the Companies Act in the United Kingdom. The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

As required by EU law (IAS Regulation EC 1606/2002) the Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"), and have been approved by the Directors.

The financial statements are principally prepared on the basis of historical cost. Areas where other bases are applied are identified in the accounting policy outlined in the relevant note.

In reporting financial information, the Group presents alternative performance measures ("APMs") which are not defined or specified under the requirements of IFRS. The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information to better reflect the underlying business and enable more meaningful comparison over time. A glossary on page 165 provides a comprehensive list of APMs that the Group uses, including an explanation of how they are calculated, why they are used and how they can be reconciled to a statutory measure where relevant.

The Company has elected to prepare its parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review. In addition, note 4.2 "Financial instruments" includes the Group's financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to foreign currency risk, interest rate risk and liquidity risk.

The Group has considerable financial resources, including undrawn borrowing facilities at the end of the year of £64.7 million (see note 4.2 "Financial instruments"). The Directors believe that the Group is well placed to manage its business risks.

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have considered the potential near-term risks of Brexit and, whilst continuing to monitor developments as the Group implements contingency plans, they currently consider these risks to be minimal. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists when the Group has the rights to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries sold or acquired during the year are included in the accounts up to, or from, the date that control exists.

Foreign currencies

The consolidated financial statements are presented in Sterling with the reporting currency of the Group's subsidiaries generally being that of the local country.

Transactions in foreign currencies are translated at the exchange rate on that day.

Foreign currency monetary assets and liabilities are translated at the year end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year end, a currency translation gain or loss may arise. Any such differences are recognised in the Income Statement.

Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate on the day of the transaction, unless they are stated at fair value in which case they are translated at the exchange rate on the day the fair value was determined.

The assets and liabilities of overseas companies, including goodwill and fair value adjustments arising on consolidation, are translated at the year end exchange rate. The revenues and expenses of these companies are translated at the weighted average exchange rate for the year. Where differences arise between these rates, they are recognised in the translation reserve within equity and other comprehensive income.

The cash flows of these companies are typically translated at the weighted average exchange rate for the year.

In the consolidated financial statements, currency translation gains and losses on external loans and borrowings and on long-term inter-company loans that form part of the net investment in the subsidiaries are recognised directly in the translation reserve within equity and other comprehensive income.

In respect of all overseas companies, only those translation differences arising since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. On disposal of such a company, the related translation reserve is released to the Income Statement as part of the gain or loss on disposal.

Significant judgements, key assumptions and estimates

The following provides information on those policies that the Directors consider critical because of the level of judgement and estimation required which often involves assumptions regarding future events which can vary from what is anticipated. The Directors review the judgements and estimates on an ongoing basis with revisions to accounting estimates recognised in the period in which the estimates are revised and in any future periods

affected. The Directors believe that the consolidated financial statements reflect appropriate judgements and estimates and provide a true and fair view of the Group's performance and financial position.

The following are the critical judgements which involve estimations that the Directors have made in the process of applying the Group's accounting policies and that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities within the next financial year.

Inventory

Judgement is applied to assess the level of provisions required to write down slow-moving, excess and obsolete inventory to its net realisable value. The estimation of inventory impairment is based on anticipated future sales of products over particular time periods. The anticipated level of future sales is determined primarily based on actual sales over a specified historic reference period which is determined by management and is deemed appropriate to the type of inventory. See note 3.3 "Working capital".

Pension benefits

The actuarial valuations associated with the pension schemes involve making assumptions about discount rates, future salary increases, future pension increases and mortality rates. Additionally, following the High Court's judgement in relation to Lloyds Bank's defined benefit pension schemes in the year, which concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, the Group has increased the liability recognised for its UK defined benefit pension scheme. All assumptions are reviewed at each reporting date. Further details about the assumptions used are set out in note 5.2 "Pensions".

Acquisitions

Acquisitions are accounted for under the acquisition method, based on the fair value of the consideration paid. Assets and liabilities, with limited exceptions are measured at their fair value at the acquisition date. Judgement is applied in relation to the estimation of the provisional fair values and useful lives of acquired assets and liabilities at the date of acquisition. Judgement is required to determine appropriate discount rates and the future cash flows, which impact the valuation of acquired intangibles. Determination of the useful economic lives of technology related intangible assets requires judgement about future market trends and future risk of replacement or obsolescence of those assets. Details concerning the acquisitions made in the year are set out in note 3.4 "Acquisitions". The useful economic lives of intangible assets are disclosed in note 3.1 "Intangible assets".

Tax

The Group is subject to income taxes in a number of jurisdictions. Management is required to make estimates in determining the provisions for income taxes and deferred tax assets and liabilities recognised in the consolidated financial statements. Tax benefits are recognised to the extent that it is probable that sufficient taxable income will be available in the future against which temporary differences and unused tax losses can be utilised.

In addition, the Group makes critical judgements, apart from those involving estimations (which are dealt with above), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. In relation to tax, these include the interpretation and application of existing legislation. Details on the tax charge and assets and liabilities recorded are set out in note 2.4 "Tax".

Impact of adoption of new accounting standards

The Group has applied IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018, which has resulted in new accounting policies as set out below.

IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. In accordance with the transitional provisions of IFRS 9, comparative figures have not been restated.

The Group was required to revise its provision methodology under IFRS 9 for its trade receivables and contract assets. The £0.1 million impact of the change in the Group's retained earnings is reported in the Consolidated Statement of Changes in Equity.

IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 retrospectively using the cumulative effect method and has chosen not to adjust contract consideration for the effects of a significant financing component when the period between delivery of a specified good or service and payment by a customer is less than one year. The Group generally does not have contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

There has been no material impact on the financial statements of adopting IFRS 15. The Group previously recognised a net provision for returns in trade receivables. Under IFRS 15, a refund liability of £0.9 million for the expected refunds to customers is recognised in other payables, and a separate asset for the right to the returned goods of £0.5 million is recognised in other receivables.

There has been no material impact on the financial statements of adopting other new standards or amendments.

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations will become effective for the Group in future years.

Section 1 – Basis of Preparation continued

Interpretation 23, “Uncertainty over Income Tax Treatments”

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. The interpretation is effective for annual periods beginning on or after 1 January 2019. The Group does not expect the interpretation to have a material impact on its financial statements.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. The amendments are effective for annual periods beginning on or after 1 January 2019. The Group does not expect the amendments to have a material impact on its financial statements.

IFRS 16 “Leases”

IFRS 16 was issued in January 2016. It requires lessees to recognise most leases on the balance sheet, as the distinction between operating and finance leases is removed. Currently, under IAS 17, leases categorised as operating leases are not recognised on the balance sheet. Under the new standard, a right-of-use asset and a lease liability are recognised. The only exceptions are for short-term leases and leases of low-value assets.

As at the reporting date, the Group has non-cancellable operating lease commitments of £23.7 million (see note 5.4 “Leases”). Of these commitments, an immaterial amount relates to short-term leases and leases of low-value assets which will continue to be expensed in the Income Statement. For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately £20 million and lease liabilities of £22 million on 1 January 2019. The expected impact to operating profit is an increase of approximately £1 million but no overall effect on the profit before tax.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. Right of use assets will be measured on transition as if the new rules had always applied. The Group has taken advantage of the practical expedients available for transition under the standard.

Other amended standards and interpretations are not expected to have a significant impact on the Group’s consolidated financial statements.

This section focuses on the profitability of the Group. On the following pages you will find disclosures relating to the following:

- 2.1 Profit before tax (including segmental information)
- 2.2 Charges associated with acquisition of businesses and material non-operating events
- 2.3 Net finance expense
- 2.4 Tax
- 2.5 Earnings per share

2.1 Profit before tax (including segmental information)

This shows the analysis of the Group's profit before tax by reference to its three Divisions. Further segmental information and an analysis of key operating expenses are also shown here.

Accounting policies

Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when the Group sells a product to a customer and control has passed. This is either once the product has been shipped or delivered to the customer, depending on the terms and conditions of the sale. Payment terms vary by Division and customer but where credit terms are given, payments are due generally 30 days after control of the goods has passed to the customer. Revenue is recognised at the transaction price exclusive of sales tax, adjusted for the expected level of returns, trade discounts and volume rebates. For the products expected to be returned, both a refund liability and a right to the returned goods are recognised using an expected value method based on past history.

Some contracts include multiple deliverables, such as the sale of the product and its installation. If material, distinct goods and services are accounted for as separate performance obligations. The transaction price is allocated to each performance obligation based on their stand-alone selling prices.

Service contracts

Revenue from rental service contracts which are fulfilled using the Group's equipment and operators is recognised in the accounting period in which the services are rendered. Payment terms vary and there can be small advance payments but generally payments are due as services are rendered.

Generally contracts with customers are for periods of one year or less. As a result, the transaction price allocated to any unsatisfied contracts is not disclosed as permitted by IFRS 15.

Licenses

Software licenses are sold by the Group on a standalone basis and together with a tangible product. If the license is considered distinct, the revenue recognition pattern is based on whether the license is a right to use intellectual property (revenue recognised at a point in time) or a right to access intellectual property (revenue recognised over time). The majority of the licenses granted by the Group represent a right to use intellectual property for which payments are generally in advance. From a right to access intellectual property, payments are normally on a monthly basis with a credit period of 30 days.

Financing components

The Group generally does not have contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

Section 2 – Results for the Year continued

Segment reporting

The Group has three reportable segments which are reported in a manner that is consistent with the internal reporting provided to the Chief Operating Decision Maker on a regular basis to assist in making decisions on capital allocated to each segment and to assess performance. Further details on the nature of these segments and the products and services they provide are contained in the Strategic Report.

	Imaging Solutions		Production Solutions		Creative Solutions		Corporate and unallocated		Consolidated	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
From continuing operations:										
Total revenue from external customers	201.6	175.9	118.7	114.2	65.1	63.2	–	–	385.4	353.3
Inter-segment revenue ⁽¹⁾	0.6	0.6	0.4	1.0	0.2	0.2	(1.2)	(1.8)	–	–
Total revenue	202.2	176.5	119.1	115.2	65.3	63.4	(1.2)	(1.8)	385.4	353.3
Adjusted operating profit/(loss)	31.1	29.9	20.1	15.2	15.7	13.0	(13.4)	(12.9)	53.5	45.2
Amortisation of acquired intangible assets	(1.0)	(0.4)	(0.7)	(1.1)	(4.7)	(5.9)	–	–	(6.4)	(7.4)
Effect of fair value of acquired inventory	–	–	–	–	(0.3)	–	–	–	(0.3)	–
Transaction costs relating to acquisition of businesses	(0.1)	(1.2)	–	–	(1.9)	(0.1)	–	–	(2.0)	(1.3)
Earnout charges	–	–	–	–	(1.4)	(4.1)	–	–	(1.4)	(4.1)
Integration costs	(1.4)	(2.2)	–	–	(0.5)	–	–	–	(1.9)	(2.2)
Development costs written off	–	–	–	–	(0.6)	–	–	–	(0.6)	–
Guaranteed minimum pension charge	–	–	(0.7)	–	–	–	–	–	(0.7)	–
Operating profit/(loss)	28.6	26.1	18.7	14.1	6.3	2.9	(13.4)	(12.9)	40.2	30.2
Net finance expense									(2.3)	(2.8)
Taxation									(3.6)	(16.9)
Profit for the year									34.3	10.5
Segment assets	134.5	124.9	87.2	87.6	92.1	41.4	1.6	4.3	315.4	258.2
Unallocated assets										
Cash and cash equivalents							17.5	12.6	17.5	12.6
Current tax assets							1.6	1.2	1.6	1.2
Deferred tax assets							29.7	17.7	29.7	17.7
Total assets									364.2	289.7
Segment liabilities	43.4	44.6	22.2	31.0	13.2	7.2	7.7	8.7	86.5	91.5
Unallocated liabilities										
Bank overdrafts							2.4	–	2.4	–
Interest-bearing loans and borrowings							96.1	55.5	96.1	55.5
Current tax liabilities							5.2	4.4	5.2	4.4
Deferred tax liabilities							11.7	2.7	11.7	2.7
Total liabilities									201.9	154.1
Cash flows from operating activities	26.0	13.8	21.1	19.5	13.0	11.7	(12.7)	(13.2)	47.4	31.8
Cash flows from investing activities ⁽²⁾	(8.2)	(13.5)	(5.8)	(6.9)	(51.7)	(4.9)	–	–	(65.7)	(25.3)
Cash flows from financing activities	–	–	–	–	–	–	20.5	(48.3)	20.5	(48.3)
Capital expenditure										
Property, plant and equipment	3.5	4.2	4.1	4.9	0.8	0.2	–	–	8.4	9.3
Software and development costs	2.2	2.0	1.9	1.6	1.9	0.6	–	–	6.0	4.2

(1) Inter-segment pricing is determined on an arm's length basis. These are eliminated in the corporate and unallocated column.

(2) Cash flows from investing activities exclude cash inflow of £0.5 million in the year, relating to a previous disposal.

One customer (2017: one) accounted for more than 10% of external revenue. In 2018, the total revenue from this customer, which was recognised in all three segments, was £50.7 million (2017: £42.1 million).

Geographical information

	2018 £m	2017 £m
Continuing operations – analysis of revenue from external customers, by location of customer		
United Kingdom	42.5	40.3
The rest of Europe	94.3	83.1
North America	158.9	144.3
Asia Pacific	78.6	73.5
The rest of the World	11.1	12.1
Total revenue from external customers	385.4	353.3

The Group's operations are located in several geographical locations, and sell products and services on to external customers in all parts of the world.

Other income

On 26 April 2018, the offices and warehouse of SmallHD LLC ("SmallHD") in North Carolina, US (part of the Creative Solutions Division) were damaged as a result of a fire in an adjacent office. An evacuation was conducted successfully with no injuries to our team. The insurance policy held by the Group covers both damage to assets and business interruption.

As at the date of the financial statements, the outcome of the insurance claim has not been finalised. At the balance sheet date, £7.8 million of staged cash payments have been received from the insurer. This has been recognised in other income.

Operating expenses

	2018 £m	2017 £m
Analysis of operating expenses		
From continuing operations:		
– Charges associated with acquisition of businesses and material non-operating events ⁽¹⁾	13.0	15.0
– Other administrative expenses	51.6	46.4
Administrative expenses	64.6	61.4
Marketing, selling and distribution costs	53.3	49.7
Research, development and engineering costs	15.7	15.2
Total from continuing operations	133.6	126.3
From discontinued operations:		
– Amortisation of acquired intangible assets	–	1.2
– Other administrative expenses	–	3.6
Administrative expenses	–	4.8
Marketing, selling and distribution costs	–	2.7
Total from discontinued operations	–	7.5

(1) Total charges associated with acquisition of businesses and material non-operating events are £13.3 million of which £13.0 million are recognised in operating expenses and £0.3 million in cost of sales. See note 2.2 "Charges associated with acquisition of businesses and material non-operating events".

Operating profit

	2018 £m	2017 £m
The following items are included in operating profit		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements ⁽²⁾	0.1	0.2
Fees payable to the Company's auditor and its associates for other services		
– The audit of the Company's subsidiaries pursuant to legislation	0.4	0.5
– Audit related assurance services	0.1	0.1
– Services related to corporate finance transactions	0.2	–

(2) 2017 audit fees were earned by KPMG LLP.

Section 2 – Results for the Year continued

2.2 Charges associated with acquisition of businesses and material non-operating events

Charges associated with acquisition of businesses and material non-operating events are excluded from key performance measures by virtue of their size and nature in order to more accurately show the underlying business performance of the Group in a consistent manner. This also reflects how the business is managed and measured on a day-to-day basis. Non-cash charges associated with acquisition of businesses include amortisation of acquired intangible assets and the effect of fair valuation of acquired inventory. Cash charges include transaction costs, earnout and significant costs relating to the integration of acquired businesses.

	2018 £m	2017 £m
From continuing operations:		
Amortisation of acquired intangible assets ⁽¹⁾	(6.4)	(7.4)
Effect of fair valuation of acquired inventory ⁽²⁾	(0.3)	–
Transaction costs relating to acquisition of businesses ⁽³⁾	(2.0)	(1.3)
Earnout charges ⁽⁴⁾	(1.4)	(4.1)
Integration costs ⁽⁵⁾	(1.9)	(2.2)
Development costs written off ⁽⁶⁾	(0.6)	–
Guaranteed minimum pension charge ⁽⁷⁾	(0.7)	–
Charges associated with acquisition of businesses and material non-operating events	(13.3)	(15.0)
From discontinued operations:		
Amortisation of acquired intangible assets	–	(1.2)

- (1) Acquired intangibles are measured at fair value, which takes into account the future cash flows expected to be generated by the asset rather than past costs of development. Additionally, acquired intangibles include assets such as brands, know-how and relationships which the Group would not normally recognise as assets outside of a business combination. The amortisation of the fair value of acquired intangibles is not considered to be representative of the underlying performance of the businesses within the Group. On an ongoing basis the Group capitalises development costs of intangible assets and the costs of purchasing software. These intangible assets are recognised at cost and the amortisation of these costs are included in adjusted operating profit.
- (2) As part of the accounting for business combinations, the Group measures acquired inventory at fair value as required under IFRS 3. This has resulted in the carrying value of acquired inventory being materially higher than its original cost based measure. The impact of the uplift in value has the effect of reducing the Group's profit margin which is not representative of ongoing performance. As a result, the fair value uplift of £0.3 million relating to acquired inventory which has been sold by the Group since the business combination is adjusted from cost of sales to arrive at adjusted operating profit.
- (3) Transaction costs of £2.0 million (Amimon: £1.8 million; Rycote: £0.1 million and Adeal: £0.1 million) were incurred in relation to acquisitions.
- (4) The charge of £1.4 million comprises an increase of £0.6 million in earnout payable in relation to Wooden Camera's performance for the year ending 31 December 2017, a charge of £0.8 million as a result of employment and certain non-financial targets being met during 2018 for RT Motion (£0.5 million) and the 2018 portion of such targets that are expected to be met during 2019 for Rycote (£0.3 million).
- (5) Integration costs of £1.9 million mainly comprise costs to terminate agreements with third party distributors in relation to the integration of JOBY and Lowepro and employment termination costs in relation to the integration of Amimon into the Group.
- (6) Following the acquisition of Amimon, an existing development project relating to radio frequency technology was abandoned. As such, the capitalised development costs of £0.6 million associated with the project were written off in the year.
- (7) In October 2018, the High Court reached a judgement in relation to Lloyds Bank's defined benefit pension schemes, which concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues arising from the judgement will apply to most other UK defined benefit pension schemes. To reflect the estimated impact of this judgement, the Group has recognised a past service cost of £0.7 million in the Income Statement and increased the liabilities of the defined benefit pension scheme by the same amount. See note 5.2 "Pensions".

2.3 Net finance expense

This note details the finance income and expense generated from the Group's financial assets and liabilities.

Accounting policies

Net finance expense comprises:

- foreign exchange gains and losses on cash and inter-company loans that are not net investment hedges; interest expense on borrowings and interest receivable on funds invested;
- net interest expense on net defined benefit pension scheme; and
- unwind of discount on liabilities.

Net finance expense

	2018 £m	2017 £m
Finance income		
Net currency translation gains	0.8	0.1
Finance expense		
Unwind of discount on liabilities	(0.2)	–
Interest expense on interest-bearing loans and borrowings	(2.7)	(2.6)
Interest expense on net defined benefit pension scheme ⁽¹⁾	(0.2)	(0.3)
	(3.1)	(2.9)
Net finance expense	(2.3)	(2.8)

(1) See note 5.2 "Pensions".

2.4 Tax

This note sets out the tax accounting policies, the total tax charge or credit in the Income Statement, and tax assets and tax liabilities in the Balance Sheet. This includes amounts relating to deferred tax.

Accounting policies

Income Tax

The tax expense in the Income Statement represents the sum of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised for all deductible temporary differences and carried forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and increased or reduced to the extent of the probable level of taxable profit that would be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax liabilities are not recognised for the following temporary differences:

- Goodwill not deductible for tax purposes or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- Differences relating to investments in subsidiaries to the extent that the timing of the reversal is controlled by the Company and they will probably not reverse in the foreseeable future.

Section 2 – Results for the Year continued

Tax – Income Statement

	2018 £m	2017 £m
The total taxation charge/(credit) in the Income Statement is analysed as follows:		
Summarised in the Income Statement as follows		
Continuing operations		
Current tax	4.3	6.2
Deferred tax	(0.7)	10.7
	3.6	16.9
Discontinued operations		
Current tax	–	0.4
Deferred tax	–	(4.0)
	–	(3.6)
Continuing and discontinued operations		
Current tax	4.3	6.6
Deferred tax	(0.7)	6.7
	3.6	13.3
Charges associated with acquisition of businesses, profit on disposal of businesses and material non-operating events		
Continuing operations		
Current tax ⁽¹⁾	(3.2)	(0.2)
Deferred tax ⁽²⁾	(2.4)	6.3
	(5.6)	6.1
Discontinued operations		
Current tax ⁽¹⁾	–	0.4
Deferred tax ⁽²⁾	–	(4.7)
	–	(4.3)
Continuing and discontinued operations		
Current tax ⁽¹⁾	(3.2)	0.2
Deferred tax ⁽²⁾	(2.4)	1.6
	(5.6)	1.8
Before charges associated with acquisition of businesses, profit on disposal of businesses and material non-operating events		
Continuing operations		
Current tax	7.5	6.4
Deferred tax	1.7	4.4
	9.2	10.8
Discontinued operations		
Current tax	–	–
Deferred tax	–	0.7
	–	0.7
Continuing and discontinued operations		
Current tax	7.5	6.4
Deferred tax	1.7	5.1
	9.2	11.5

(1) Current tax credit of £3.2 million (2017: £0.2 million charge) was recognised in the year of which £0.4 million credit (2017: £0.1 million) related to integration costs, £nil (2017: £0.1 million credit) to amortisation of intangible assets and £0.1 million credit (2017: £0.4 million charge) to tax on the disposal of businesses and £2.7 million credit for the Italian Patent Box benefit in respect of prior years (2017: £nil).

(2) Deferred tax credit of £2.4 million (2017: £1.6 million charge) was recognised in the year of which £0.4 million credit (2017: £0.2 million) relates to integration costs, £0.3 million credit (2017: £1.8 million) to acquisitions, £1.1 million credit (2017: £0.4 million charge) to amortisation of intangible assets, £nil (2017: £4.7 million credit) to the disposal of businesses and £0.6 million credit (2017: £7.9 million charge) to the impact of US tax reform.

	2018 £m	2017 £m
Current tax expense/(credit)		
Charge for the year	7.8	6.8
Adjustments in respect of prior years	(3.5)	(0.2)
Total current tax expense	4.3	6.6

The UK current tax charge represents a charge of £0.4 million (2017: £0.3 million) of the total Group current tax charge of £4.3 million (2017: £6.6 million), with the remaining £3.9 million (2017: £6.3 million) charge relating to overseas tax.

	2018 £m	2017 £m
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	0.3	5.8
Adjustments in respect of prior years	(1.0)	0.9
Total deferred tax (credit)/expense	(0.7)	6.7

The UK deferred tax represents £1.0 million credit (2017: £nil) and the US deferred tax charge represents £0.9 million (2017: £6.4 million) of the total Group deferred tax credit of £0.7 million (2017: £6.7 million), with £0.6 million credit (2017: £0.3 million) relating to overseas tax. A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The UK deferred tax asset at 31 December 2018 has been calculated based on these rates.

	2018 £m	2017 £m
Tax charge recognised in Statement of Changes in Equity ("SOCIE")		
Current tax recognised in SOCIE ⁽³⁾	–	–
Deferred tax recognised in SOCIE ⁽⁴⁾	0.1	0.3
	0.1	0.3

(3) No current tax deductions have been reflected in the SOCIE in both the current and prior year.

(4) A deferred tax charge of £0.1 million (2017: £0.3 million) relating to the impact of share-based payments on outstanding options, has been reflected in the SOCIE.

Reconciliation of Group tax charge

	2018 £m	2017 £m
Profit before tax	37.9	40.8
Income tax using the domestic corporation tax rate at 19% (2017: 19.25%)	7.2	7.8
Effect of tax rates in foreign jurisdictions	2.7	4.7
Non-deductible expenses	1.9	1.8
Non taxable income	(1.5)	(0.9)
Beneficial tax rates and incentives ⁽⁵⁾	(1.7)	(0.5)
Impact of intercompany financing arrangements	(2.4)	(2.3)
Movement on unrecognised deferred tax	1.1	4.7
Other	0.8	0.2
Adjustments in respect of prior years	(4.5)	(0.6)
Impact of US business disposals – non taxable income	–	(9.5)
Impact of US tax reform	–	7.9
Total income tax expense in Income Statement	3.6	13.3

(5) The beneficial tax rates and incentives of £1.7 million credit (2017: £0.5 million credit) relate to the current year benefit from the Italian Patent Box (£1.1 million) and beneficial tax rates in Costa Rica (£0.5 million) and Israel (£0.1 million). Italian Patent Box benefit relating to prior years (£2.7 million) and impact of US tax reform (£0.6 million) are included within "Adjustments in respect of prior years".

Section 2 – Results for the Year continued

Tax – Balance Sheet

Current tax

The current tax liability of £5.2 million (2017: £4.4 million) represents the amount of income taxes payable in respect of current and prior periods, including a provision in relation to uncertain tax positions. The current tax asset of £1.6 million (2017: £1.2 million) mainly relates to income tax receivable in the UK, the US, Australia, Germany, Italy, Netherlands and France.

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption in the UK controlled foreign company (“CFC”) rules. The Group Financing Exemption was introduced into the UK tax legislation in 2013. In common with other UK based international companies whose arrangements are in line with current CFC legislation, Vitec may be affected by the outcome of this investigation and continues to monitor developments. If the preliminary findings of the European Commission’s investigation are upheld, Vitec calculates its maximum potential liability to be £8.2 million. The detailed arguments of the European Commission are not yet available and it is unknown when the decision will be made. No provision has been made in the financial statements as the outcome of the investigation cannot be determined at this time.

The international tax environment has received increased attention and seen rapid change over recent years, both at a US and European level, and by international bodies such as the Organisation for Economic Cooperation and Development (“OECD”). In light of this, Vitec has been monitoring developments and continues to engage transparently with the tax authorities in countries where Vitec operates, to ensure that the Group manages its tax arrangements on a sustainable basis.

As for most multinationals, the current tax environment is creating increased levels of uncertainty and the Group is potentially subject to tax audits in many jurisdictions. By their nature these are often complex and could take a significant period of time to be agreed with the tax authorities. The Group estimates and accrues taxes that will ultimately be payable when reviews or audits by tax authorities of tax returns are completed. These estimates include Management judgements about the position expected to be taken by each tax authority, primarily in respect of transfer pricing as well as in respect of financing arrangements and tax credits and incentives.

Management estimates of the level of risk arising from tax audit may change in the next year as a result of changes in legislation or tax authority practice or correspondence with tax authorities during a specific tax audit. It is not possible to quantify the impact that such future developments may have on the Group’s tax positions. Actual outcomes and settlements may differ significantly from the estimates recorded in these consolidated financial statements.

Deferred tax assets and liabilities

	2018 £m	Recognised in income £m	Recognised in goodwill and reserves £m	Exchange movements £m	Transfer between categories £m	2017 £m
Assets						
Inventories	3.4	1.1	–	–	(1.4)	3.7
Intangible assets	1.2	0.1	0.1	0.1	0.5	0.4
Tax value of loss carry-forwards recognised	17.1	2.9	6.0	0.4	–	7.8
Property, plant, equipment & other	8.0	1.5	(0.3)	0.5	0.5	5.8
	29.7	5.6	5.8	1.0	(0.4)	17.7
Liabilities						
Property, plant, equipment & other	–	–	0.4	–	–	(0.4)
Intangible assets	(11.7)	(4.9)	(4.4)	(0.5)	0.4	(2.3)
	(11.7)	(4.9)	(4.0)	(0.5)	0.4	(2.7)
Net	18.0	0.7	1.8	0.5	–	15.0

	2017 £m	Recognised in income £m	Recognised in goodwill and reserves £m	Exchange movements £m	Transfer between categories £m	2016 £m
Assets						
Inventories	3.7	0.7	–	–	–	3.0
Intangible assets	0.4	0.9	(0.1)	(0.1)	–	(0.3)
Tax value of loss carry-forwards recognised	7.8	2.1	–	(0.6)	–	6.3
Property, plant, equipment & other	5.8	(10.4)	0.3	(0.5)	(1.2)	17.6
	17.7	(6.7)	0.2	(1.2)	(1.2)	26.6
Liabilities						
Property, plant, equipment & other	(0.4)	–	(1.6)	–	1.2	–
Intangible assets	(2.3)	–	(0.1)	0.2	–	(2.4)
	(2.7)	–	(1.7)	0.2	1.2	(2.4)
Net	15.0	(6.7)	(1.5)	(1.0)	–	24.2

Deferred tax assets have been offset against liabilities where assets and liabilities arise in the same jurisdiction and there is a legal right of offset. Deferred tax relating to cash flow hedges was a liability at 31 December 2017 and 31 December 2018.

The deferred tax asset increase of £1.8 million (2017: £1.5 million credit) recognised in goodwill and reserves relates to the following: £0.7 million increase recognised in other comprehensive income (OCI) in relation to cash flow hedges, £0.7 million decrease recognised in OCI in relation to defined benefit obligations, £4.3 million decrease recognised in relation to intangibles recognised on acquisition, £6.0 million increase for the recognition of the Israel losses on acquisition and £0.1 million increase reflected in the Consolidated Statement of Changes in Equity in relation to share options.

Deferred tax assets of £17.7 million (2017: £16.3 million) have not been recognised, comprising £2.6 million in relation to losses, £2.7 million in relation to intangibles and £12.4 million in relation to other timing differences because it is not sufficiently probable that these assets will reverse in the foreseeable future.

No taxes have been provided for liabilities which may arise on the distribution of unremitted earnings of subsidiaries on the basis of control, except where distributions of such profits are planned. Cumulative unremitted earnings of overseas subsidiaries totalled approximately £132.2 million at 31 December 2018 (2017: £54.2 million). As dividends remitted from overseas subsidiaries to the UK should be exempt from additional UK tax, no significant tax charges would be expected.

2.5 Earnings per share

Earnings per share (“EPS”) is the amount of post-tax profit attributable to each share.

Basic EPS is calculated on the profit for the year divided by the weighted average number of ordinary shares in issue during the year.

Diluted EPS is calculated on the profit for the year divided by the weighted average number of ordinary shares in issue during the year, but adjusted for the effects of dilutive share options. The key features of share option contracts are described in note 5.3 “Share-based payments”.

The adjusted EPS measure is used by management to assess the underlying performance of the ongoing businesses, and therefore excludes charges associated with acquisition of businesses, profit on disposal of businesses and material non-operating events, all net of tax.

Section 2 – Results for the Year continued

The calculation of basic, diluted and adjusted EPS is set out below:

	2018 £m	2017 £m
Profit for the financial year		
Continuing operations	34.3	10.5
Discontinued operations	–	17.0
	34.3	27.5
Add back charges associated with acquisition of businesses, material non-operating events and profit on disposal of businesses, all net of tax		
Continuing operations	7.7	21.1
Discontinued operations	–	(18.1)
	7.7	3.0
Adjusted profit after tax		
Continuing operations	42.0	31.6
Discontinued operations	–	(1.1)
	42.0	30.5

	Weighted average number of shares '000		Adjusted earnings per share		Earnings per share	
	2018 Number	2017 Number	2018 pence	2017 pence	2018 pence	2017 pence
From continuing and discontinued operations						
Basic	45,084	44,798	93.2	68.1	76.1	61.4
Dilutive potential ordinary shares	324	319	(0.7)	(0.5)	(0.5)	(0.4)
Diluted	45,408	45,117	92.5	67.6	75.6	61.0
From continuing operations						
Basic	45,084	44,798	93.2	70.5	76.1	23.4
Dilutive potential ordinary shares	324	319	(0.7)	(0.5)	(0.5)	(0.1)
Diluted	45,408	45,117	92.5	70.0	75.6	23.3
From discontinued operations						
Basic	45,084	44,798	–	(2.4)	–	38.0
Dilutive potential ordinary shares	324	319	–	–	–	(0.3)
Diluted	45,408	45,117	–	(2.4)	–	37.7

This section shows the assets and liabilities used to generate the Group’s trading performance. Liabilities relating to the Group’s financing activities are addressed in Section 4. Current tax and deferred tax assets and liabilities are shown in note 2.4 “Tax”.

On the following pages, there are disclosures covering the following:

- 3.1 Intangible assets
- 3.2 Property, plant and equipment
- 3.3 Working capital
- 3.4 Acquisitions
- 3.5 Disposals and discontinued operations in 2017
- 3.6 Provisions

3.1 Intangible assets

This shows the non-physical assets used by the Group to generate revenues and profits. These assets include the following:

- Goodwill
- Acquired intangible assets
- Software
- Capitalised development costs

Accounting policies

Goodwill

The goodwill recognised by the Group has all arisen as a result of acquisitions and is stated at cost less any accumulated impairment losses. Goodwill is allocated on acquisition to a cash-generating unit (“CGU”) that is anticipated to benefit from the combination, and is not subject to amortisation but is tested annually for impairment. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. This estimate of recoverable amount is determined at each Balance Sheet date.

The estimate of recoverable amount requires significant assumptions to be made and is based on a number of factors such as the near-term business outlook for the CGU, including both its operating profit and operating cash flow performance. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised. Impairment losses on goodwill are not reversed.

All acquisitions that have occurred since 1 January 2010 are accounted for by applying the acquisition method. Goodwill on these acquisitions represents the excess of the fair value of the acquisition consideration over the fair value of the identifiable net assets acquired, all measured at the acquisition date. Subsequent adjustments to the fair values of net assets acquired can be made within twelve months of the acquisition date where original fair values were determined provisionally. These adjustments are accounted for from the date of acquisition.

Other intangible assets

The other intangible assets are either acquired or internally generated (such as capitalised development costs).

Acquired intangible assets

Other intangible assets acquired as part of a business combination are shown at fair value at the date of acquisition less accumulated amortisation at the rates indicated below:

Order backlog	up to 2 years
Brand	3 to 15 years
Customer relationships	3 to 10 years
Technology	3 to 10 years

Section 3 – Operating Assets and Liabilities continued

Software

The cost of acquiring software (including associated implementation and development costs where applicable) is classified as an intangible asset. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are assessed as likely to generate economic benefits exceeding costs beyond one year, are also capitalised and recognised as intangible assets. Costs associated with maintaining computer software programs are recognised as an expense as incurred. Software expenditure is amortised over its estimated useful life of between three to five years, and is stated at cost less accumulated amortisation and impairment losses.

Capitalised development costs

Research and development costs are charged to the Income Statement in the year in which they are incurred unless development expenditure meets the criteria for capitalisation. Once detailed and strict criteria have been met that confirm that the product or process is both technically and commercially feasible and the Group has sufficient resources to complete the product, any further expenditure incurred on the project is capitalised, typically up to two to three years. The capitalised expenditure includes the cost of materials, direct labour and an appropriate portion of overheads. Capitalised expenditure is amortised over the life of the product, and is stated at cost less accumulated amortisation and impairment losses.

Impairment tests for cash-generating units (CGUs) containing goodwill

In accordance with the requirements of IAS 36, "Impairment of Assets", goodwill is allocated to the Group's CGUs which are expected to benefit and are identified by the way goodwill is monitored for impairment. The Group's total consolidated goodwill of £76.7 million at 31 December 2018 (£58.0 million at 31 December 2017) is allocated to: Production Solutions: £29.7 million (2017: £28.9 million); Imaging Solutions: £20.7 million (2017: £18.8 million); and Creative Solutions: £26.3 million (2017: £10.3 million). Each CGU is assessed for impairment annually and whenever there is a specific indication of impairment.

As part of the annual impairment test review, the carrying value of goodwill has been assessed with reference to value in use over a projected period of five years together with a terminal value. This reflects the projected cash flows of each CGU based on the actual operating results, the most recent Board approved budget, strategic plans and management projections.

The key assumptions on which the value in use calculations are based relate to business performance over the next five years, long-term growth rates beyond 2023 and the discount rates applied. The key judgements are the level of revenue and operating margins anticipated and the proportion of operating profit converted into cash flow in each year. Forecasts are based on past experience and take into account current and future market conditions and opportunities.

Growth rates for the period beyond 2023 are assumed to be 1.0% to 2.0% (2017: 1.5% to 2.0%), which is considered to be at or below long-term market trends for significant CGUs.

The cash flow projections have been discounted to present value using the Group's weighted average cost of capital adjusted for economic and CGU-specific risk factors including markets and size of business. Pre-tax rates of 12% to 13% (2017: 13% to 17%) reflecting different geographies have been used for impairment testing and applied to: Production Solutions CGU: 12% (2017: 13%); Imaging Solutions CGU: 12% (2017: 14%); and Creative Solutions CGU: 13% (2017: 17%).

The following specific individual sensitivities of reasonable possible change have been considered for each CGU in relation to the weighted average cost of capital and discounted cash flow used in the value in use calculations, resulting in the carrying amount not exceeding the recoverable amount for each CGU:

- a 10% increase in unlevered equity beta;
- a 10% decrease in gearing;
- a 1% increase in the pre-tax cost of debt;
- a 2% decrease in the terminal growth rate; and
- a 10% reduction in forecast cash flows over the next five years.

Intangible assets

	Total £m	Goodwill £m	Acquired intangible assets £m	Software £m	Capitalised development costs £m
Cost					
At 1 January 2017	179.6	83.2	65.8	18.1	12.5
Currency translation adjustments	(8.6)	(4.3)	(4.1)	0.1	(0.3)
Additions	4.3	–	–	1.1	3.2
Disposals – on disposal of businesses	(39.6)	(25.4)	(12.4)	(1.8)	–
Acquisitions	13.4	4.9	8.5	–	–
At 31 December 2017	149.1	58.4	57.8	17.5	15.4
At 1 January 2018	149.1	58.4	57.8	17.5	15.4
Currency translation adjustments	6.6	2.4	3.5	0.3	0.4
Additions	6.0	–	–	1.7	4.3
Disposals	(2.0)	–	–	(2.0)	–
Acquisitions ⁽¹⁾	43.5	16.4	27.1	–	–
At 31 December 2018	203.2	77.2	88.4	17.5	20.1
Amortisation and impairment losses					
At 1 January 2017	80.6	19.2	41.4	14.7	5.3
Currency translation adjustment	(3.7)	(1.1)	(2.5)	0.1	(0.2)
Amortisation in the year	12.2	–	8.6	1.2	2.4
Disposals – on disposal of businesses	(28.4)	(17.7)	(9.3)	(1.4)	–
At 31 December 2017	60.7	0.4	38.2	14.6	7.5
At 1 January 2018	60.7	0.4	38.2	14.6	7.5
Currency translation adjustment	2.5	0.1	1.9	0.2	0.3
Amortisation in the year	10.6	–	6.4	1.1	3.1
Write off in the year ⁽²⁾	0.6	–	–	–	0.6
Disposals	(2.0)	–	–	(2.0)	–
At 31 December 2018	72.4	0.5	46.5	13.9	11.5
Carrying amounts					
At 1 January 2017	99.0	64.0	24.4	3.4	7.2
At 31 December 2017 and 1 January 2018	88.4	58.0	19.6	2.9	7.9
At 31 December 2018	130.8	76.7	41.9	3.6	8.6

(1) See note 3.4 "Acquisitions".

(2) See note 2.2 "Charges associated with acquisition of businesses and material non-operating events".

3.2 Property, plant and equipment

This shows the physical assets used by the Group to generate revenues and profits. These assets include the following:

- Land and buildings
- Plant, machinery and vehicles
- Equipment, fixtures and fittings

Accounting policies

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Rental assets are recorded as plant and machinery.

Section 3 – Operating Assets and Liabilities continued

Depreciation

Depreciation is provided to write off the cost of property, plant and equipment, less estimated residual value, on a straight-line basis over their estimated useful lives. The annual depreciation charge is sensitive to the estimated useful life of each asset and expected residual value at the end of its life. The major categories of property, plant and equipment are depreciated as follows:

Freehold land	not depreciated
Freehold and long leasehold buildings	up to 50 years
Leasehold improvements	shorter of estimated useful life or remaining period of the lease
Plant and machinery	4 to 10 years
Motor vehicles	3 to 4 years
Equipment, fixtures & fittings	3 to 10 years
Rental assets	3 to 6 years

Impairment of assets

Property, plant and equipment that is subject to depreciation is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment may include changes in technology and market conditions.

Property, plant and equipment

	Total £m	Land and buildings £m	Plant, machinery and vehicles £m	Equipment, fixtures and fittings £m
Cost				
At 1 January 2017	153.4	25.4	116.0	12.0
Currency translation adjustments	(3.5)	(0.2)	(3.0)	(0.3)
Additions	10.8	1.5	8.0	1.3
Disposals	(6.6)	(1.7)	(4.7)	(0.2)
Disposals – on disposal of businesses	(50.7)	(0.7)	(47.7)	(2.3)
Acquisitions	0.4	–	0.2	0.2
At 31 December 2017	103.8	24.3	68.8	10.7
At 1 January 2018	103.8	24.3	68.8	10.7
Currency translation adjustments	2.4	0.7	1.4	0.3
Additions	8.4	2.0	4.9	1.5
Disposals	(3.8)	(0.1)	(2.1)	(1.6)
Acquisitions	1.0	0.1	0.8	0.1
At 31 December 2018	111.8	27.0	73.8	11.0
Depreciation				
At 1 January 2017	99.4	13.4	76.8	9.2
Currency translation adjustment	(1.5)	0.1	(1.4)	(0.2)
Impairment losses in the year	0.2	–	–	0.2
Depreciation charge in the year	10.3	0.8	8.5	1.0
Disposals	(3.8)	(0.5)	(3.1)	(0.2)
Disposals – on disposal of businesses	(31.8)	(0.6)	(29.3)	(1.9)
At 31 December 2017	72.8	13.2	51.5	8.1
At 1 January 2018	72.8	13.2	51.5	8.1
Currency translation adjustment	1.6	0.3	1.1	0.2
Depreciation charge in the year	7.2	1.0	5.1	1.1
Disposals	(3.5)	(0.1)	(1.9)	(1.5)
At 31 December 2018	78.1	14.4	55.8	7.9
Carrying amounts				
At 1 January 2017	54.0	12.0	39.2	2.8
At 31 December 2017 and 1 January 2018	31.0	11.1	17.3	2.6
At 31 December 2018	33.7	12.6	18.0	3.1

Plant, machinery and vehicles include equipment rental assets with an original cost of £8.5 million (2017: £8.4 million) and accumulated depreciation of £5.8 million (2017: £5.2 million).

Capital commitments at 31 December 2018 for which no provision has been made in the accounts amount to £0.1 million (2017: £0.6 million).

3.3 Working capital

Working capital represents the assets and liabilities the Group generates through its trading activities. These include inventories, trade and other receivables, and trade and other payables.

Careful management of working capital is vital as it ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle.

Accounting policies

Inventories

Inventories and work in progress are carried at the lower of cost and net realisable value. Inventory acquired as part of business combinations is initially measured at fair value. Cost represents direct costs incurred and, where appropriate, production or conversion costs and other costs to bring the inventory to its existing location and condition. In the case of manufacturing inventory and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Inventory is accounted for on an average cost or first-in, first-out method as appropriate. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Provisions for inventories are recognised when the book value exceeds its net realisable value.

In the ordinary course of business, judgement is applied to assess the level of provisions required to write down slow-moving, excess and obsolete inventory to its net realisable value.

Trade and other receivables

Trade receivables and contract assets are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the number of days past due. The expected loss rates are based on payment profiles of sales over a preceding 36-month period and the corresponding historical credit losses experienced within this period. When appropriate the historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables where a trend exists.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for an extended period.

Amounts recoverable on contracts are included in trade receivables and represent revenue recognised in excess of payments on account.

Trade and other payables

Trade payables are generally recognised at the value of the invoice received from a supplier.

Inventories

	2018 £m	2017 £m
Raw materials and components	22.4	19.2
Work in progress	7.9	5.9
Finished goods	49.8	44.7
Inventories, net of impairment provisions	80.1	69.8

During the year £5.1 million (2017: £1.5 million) was recognised as an expense resulting from the write-down of inventory. A reversal of £0.6 million (2017: £1.6 million) was recognised as a reduction of the amount of inventory recognised as an expense.

Section 3 – Operating Assets and Liabilities continued

Trade and other receivables

	2018 £m	2017 £m
Current receivables		
Trade receivables, net of impairment provisions	58.0	52.5
Other receivables	4.7	7.1
Right to returned goods ⁽¹⁾	0.5	–
Contract assets	0.9	0.6
Prepayments	4.6	5.6
	68.7	65.8
Non-current receivables		
Other receivables	2.0	0.9
Total receivables	70.7	66.7

(1) The Group has applied IFRS 15 “Revenue from Contracts with Customers” retrospectively using the cumulative effect method. The Group previously recognised a net provision for returns in trade receivables. Under IFRS 15, a refund liability of £0.9 million for the expected refunds to customers is recognised in total payables, and a separate asset for the right to the returned goods of £0.5 million is recognised in total receivables.

	2018 £m	2017 £m
Gross trade receivables – ageing⁽²⁾		
Current	47.8	43.1
1–30 days	8.5	8.8
31–60 days	1.2	0.9
61–90 days	0.8	0.5
over 90 days	2.4	2.0
Gross trade receivables	60.7	55.3

(2) Days overdue are measured from the date an invoice was due to be paid.

	Total £m	Overdue debts £m	Sales returns and discounts £m
Impairment provisions against trade receivables			
Balance at 1 January 2018	2.8	1.8	1.0
Adoption of IFRS 9	0.1	0.1	–
Balance at 1 January 2018 (adjusted)	2.9	1.9	1.0
Reclassification of sales returns to receivables and payables	(0.3)	–	(0.3)
Net increase during the year	1.2	0.2	1.0
Utilised during the year	(1.2)	(0.4)	(0.8)
Currency translation adjustments	0.1	–	0.1
Balance at 31 December 2018	2.7	1.7	1.0

Trade and other payables

	2018 £m	2017 £m
Current trade and other payables		
Trade payables	34.3	35.1
Other tax and social security costs	4.7	3.5
Contract liabilities	0.7	0.7
Expected refunds to customers ⁽¹⁾	0.9	–
Accruals	13.4	12.4
Other payables	16.3	15.7
	70.3	67.4
Non-current payables		
Other non-trade payables	0.8	–
Total payables	71.1	67.4

(1) The Group has applied IFRS 15 “Revenue from Contracts with Customers” retrospectively using the cumulative effect method. The Group previously recognised a net provision for returns in trade receivables. Under IFRS 15, a refund liability of £0.9 million for the expected refunds to customers is recognised in total payables, and a separate asset for the right to the returned goods of £0.5 million is recognised in total receivables.

3.4 Acquisitions

This note outlines how the Group has accounted for businesses that it has acquired.

Acquisitions are accounted for under the acquisition method of accounting. With limited exceptions, identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. A detailed exercise is undertaken to assess the fair value of assets acquired and liabilities assumed, with the use of third-party experts where appropriate.

The valuation of intangible assets requires the use of assumptions and estimates, including future growth rates, expected inflation rates, discount rates used and useful economic lives. This process continues as information is finalised, and accordingly the fair values presented in the tables below are provisional amounts. In accordance with IFRS 3, until the assessment is complete, the measurement period will remain open up to a maximum of 12 months from the acquisition date, so long as information remains outstanding.

The excess of the consideration transferred, any non-controlling interest recognised and the fair value of any previous equity interest in the acquired entity over the fair value of net identifiable assets acquired is recorded as goodwill. Acquisition-related costs are recognised in the Income Statement as incurred in accordance with IFRS 3.

Acquisitions provide opportunities for further development of the Group’s activities and create enhanced returns. Such opportunities and the workforces inherent in each of the acquired businesses represent much of the assessed value of goodwill.

Acquisition of Amimon

On 8 November 2018, the Group acquired 100% of the share capital of Amimon Inc (“Amimon”), for net consideration of US\$52.7 million (£40.1 million) after taking account of an adjustment of US\$0.5 million (£0.4 million) for a pre-existing contractual relationship, and US\$6.0 million (£4.6 million) of cash in the business at acquisition date. The fair value of the net assets acquired, excluding cash in the business at acquisition date, was £27.6 million resulting in goodwill of £12.9 million.

Amimon designs and develops chipsets and modules for real-time wireless video transmission, primarily for professional filmmaking and high-end productions. Amimon operates primarily from its headquarters in San Jose, California, and a research and development centre in Israel. The acquisition is part of Vitec’s strategy to develop and grow in the wireless video market and gives Vitec access to patented core technology as well as new intellectual property. Amimon operates within the Creative Solutions Division.

Section 3 – Operating Assets and Liabilities continued

A summary of the effect of the acquisition of Amimon is detailed below:

	Fair value of net assets acquired £m
Net assets acquired	
Intangible assets	23.4
Property, plant and equipment	0.7
Inventories	3.8
Trade and other receivables	0.7
Government grant liability	(0.5)
Trade and other payables	(2.6)
Cash	4.6
Deferred tax asset	5.8
Deferred tax liability	(3.7)
	32.2
Goodwill	12.9
Consideration	45.1

The trade receivables acquired had a fair value and a gross contractual value of £0.3 million.

Acquisition of Rycote

On 17 September 2018, the Group acquired 100% of the issued share capital of Rycote Microphone Holdings Limited ("Rycote"), a private company based in the UK, for net cash consideration of £5.6 million, after taking account of £0.3 million of cash in the business at acquisition date. The fair value of the net assets acquired, excluding cash in the business at acquisition date, was £3.6 million resulting in goodwill of £2.0 million.

Under the terms of the acquisition, there are two potential deferred payments of £1.25 million each payable in cash, one in January 2020 and the other in January 2021. These are dependent on the achievement of non-financial targets being met over a 24-month period following completion subject to the vendors remaining employed by the Group at the earnout date. In 2018 an amount of £0.4 million was provided for and charged to the Income Statement in relation to the remuneration expense.

Rycote manufactures advanced noise reduction equipment for the audio capture market. The acquisition complements the Group's existing activities in the expanding Independent Content Creator market and its products will be marketed through the Group's global distribution network. Rycote operates within the Creative Solutions Division.

A summary of the effect of the acquisition of Rycote is detailed below:

	Fair value of net assets acquired £m
Net assets acquired	
Intangible assets	3.7
Property, plant and equipment	0.2
Inventories	0.4
Trade and other receivables	0.3
Trade and other payables	(0.4)
Cash	0.3
Deferred tax	(0.6)
	3.9
Goodwill	2.0
Consideration satisfied from existing cash resources	5.9

The trade receivables acquired had a fair value and a gross contractual value of £0.2 million.

Acquisition of Adeal

On 6 March 2018, the Group acquired 100% of the issued share capital of Adeal Proprietary Limited ("Adeal"), a company based in Australia, for net cash consideration of A\$4.5 million (£2.5 million), after taking account of A\$0.2 million (£0.1 million) of cash in the business at acquisition date. The fair value of the net assets acquired, excluding cash in the business at acquisition date was £2.4 million resulting in goodwill of £0.1 million.

Adeal is a distributor of consumer and professional imaging products and accessories, and Vitec's former Imaging Solutions distribution partner in Australia. The acquisition complements the Group's global distribution network. Adeal operates within the Imaging Solutions Division.

A summary of the effect of the acquisition of Adeal is detailed below:

	Fair value of net assets acquired £m
Net assets acquired	
Property, plant and equipment	0.1
Inventories	2.3
Trade and other receivables	1.1
Trade and other payables	(0.9)
Cash	0.1
Provisions	(0.2)
Deferred tax	0.1
Current tax	(0.1)
	2.5
Goodwill	0.1
Consideration satisfied from existing cash resources	2.6

The trade receivables acquired had a fair value and a gross contractual value of £1.1 million.

The results of the acquisitions made during the year included in the Group's consolidated results comprise the following:

	Amimon £m	Rycote £m	Adeal £m
Revenue	0.6	0.9	6.1
Operating loss	(1.4)	(0.1)	(0.1)

The level of profitability is stated after charges associated with acquisition of businesses. Amimon's operating loss is stated after also eliminating profit on inventory sold to other businesses within the Group post acquisition, which remained within the Group at the balance sheet date.

Due to limitations in available data for the pre-acquisition period, the Directors consider that it is impracticable to disclose the results of the combined entity as though the acquisition of Amimon had impacted the Group's consolidated results for the full year.

Had the acquisitions of Rycote and Adeal been made at the beginning of the year they would have contributed £10.7 million to revenue and a loss of £0.3 million to the operating profit of the Group.

Section 3 – Operating Assets and Liabilities continued

An analysis of cash flows relating to acquisitions is provided below:

	2018 £m
Net outflow of cash in respect of acquisitions	
Total consideration	53.6
Deferred consideration	(0.3)
Settlement of pre-existing contractual relationship at the amounts recorded	(0.4)
Liability for pre combination amount related to unvested options	(0.3)
Cash consideration	52.6
Cash acquired	(5.0)
Net cash outflow in respect of 2018 acquisitions	47.6
Earnout payment for Wooden Camera (acquired in 2016)	4.3
Receipt of final working capital adjustment for RT Motion (acquired in 2017)	(0.1)
Net cash outflow in respect of acquisitions	51.8

Acquisition of Syrp in 2019

On 22 January 2019 the Group acquired 100% of the issued share capital of Syrp Ltd (“Syrp”), a company based in New Zealand, for an initial cash consideration of NZ\$4.5 million (£2.4 million).

Syrp designs and develops motorised camera sliders and motion control hardware and software, which enable independent content creators to control their camera equipment remotely. This acquisition is in line with the Group’s strategy to drive growth by increasing our addressable markets and expanding our higher technology capabilities.

At the time the financial statements were authorised for issue, the initial accounting for the business combination was incomplete as information is being finalised to enable valuations to be performed, and accordingly, the Group is unable to disclose any provisional fair values for major classes of assets and liabilities, including acquired receivables, the fair value of the receivables, the gross contractual amounts receivable and contractual cash flows not expected to be collected at the acquisition date.

Acquisition of JOBY and Lowepro in 2017

In the year, the process to measure the fair values of the assets and liabilities acquired was completed in respect of the JOBY and Lowepro acquisitions. An increase in goodwill of £1.4 million was recognised in the year as a result of fair value adjustments mainly to contingent liabilities.

3.5 Disposals and discontinued operations in 2017

Both Haigh-Farr and the US broadcast services business were disposed in 2017 and were classified as discontinued operations in accordance with IFRS 5 “Non-current assets held for sale and discontinued operations”.

The table opposite shows the results of the discontinued operations which were included in the Group Income Statement and Group Statement of Cash Flows respectively.

a) Income Statement – discontinued operations

	2018 £m	2017 £m
Revenue	–	24.8
Expenses	–	(26.4)
Operating loss	–	(1.6)
Comprising		
– Operating loss before amortisation of acquired intangible assets	–	(0.4)
– Amortisation of acquired intangible assets	–	(1.2)
	–	(1.6)
Taxation	–	(0.7)
Loss after tax from discontinued operations	–	(2.3)
Gain on disposal of discontinued operations before tax	–	15.0
Taxation	–	4.3
Gain on disposal of discontinued operations after tax	–	19.3
Profit after tax from discontinued operations attributable to owners of parent	–	17.0

b) Statement of Cash Flows – discontinued operations

	2018 £m	2017 £m
Net cash from operating activities	–	3.3
Net cash from investing activities ⁽¹⁾	0.5	33.7
Net cash from discontinued operations	0.5	37.0

(1) As a result of a final working capital adjustment, an amount of £0.5 million was received in the year in relation to disposal of businesses in the prior year.

3.6 Provisions

A provision is recognised by the Group where an obligation exists, relating to events in the past, and it is probable that an outflow of economic benefits will be required to settle it.

Accounting policies**Provisions**

Provisions are recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle it. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

Provisions for warranties, based on historical warranty data, are recognised when the underlying products or services are sold.

Provisions for onerous contracts are recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Section 3 – Operating Assets and Liabilities continued

	Total £m	Warranty £m	Onerous leases £m	Restructuring and integration £m	Other £m	Earnout and deferred payments £m
At 1 January 2018	11.0	1.4	0.5	2.4	2.8	3.9
Charged to the Income Statement	4.0	0.9	0.1	1.8	0.6	0.6
On acquisition	1.4	–	–	–	1.4	–
Reclassification	(0.1)	–	0.1	–	–	(0.2)
Provisions utilised during the year	(10.9)	(0.8)	(0.1)	(3.5)	(2.2)	(4.3)
Provisions reversed during the year	(0.6)	–	–	–	(0.6)	–
Currency translation adjustments	0.1	–	–	(0.1)	0.2	–
At 31 December 2018	4.9	1.5	0.6	0.6	2.2	–
Current	3.2	1.1	0.1	0.5	1.5	–
Non-current	1.7	0.4	0.5	0.1	0.7	–
	4.9	1.5	0.6	0.6	2.2	–

Warranty provisions

Warranties over the Group's products typically cover periods of between one and five years. The provision represents management's best estimate of the Group's liability based on past experience.

Onerous leases

Provisions of £0.6 million relate to potential dilapidation costs on the termination of leases on occupied property that the Group has entered into.

Restructuring and integration

Restructuring provision of £0.1 million is expected to be utilised by 2020. Integration costs provision of £0.5 million is in relation to costs associated with the integration of acquired businesses.

Other

The other provisions are in relation to costs associated with off-market contracts on the disposal of the US broadcast services business (£1.0 million) and legal disputes (£1.2 million).

In the year, the process to measure the fair values of the assets and liabilities acquired was completed in respect of the JOBY and Lowepro acquisitions. An increase of £1.4 million was recognised in the year as a result of fair value adjustments mainly to contingent liabilities. See note "3.4 Acquisitions".

Earnout and deferred payment

Wooden Camera's earnout (acquired in 2016) of £3.7 million at 31 December 2017 was increased in the year by £0.6 million. A payment of £4.3 million was made in the year. See note 2.2 "Charges associated with acquisition of businesses and material non-operating events" and note 3.4 "Acquisitions".

This section outlines the Group's capital structure. The Group defines its capital structure as its equity and non-current interest bearing loans and borrowings, and aims to manage this to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, it may return capital to shareholders, through dividends and share buy backs, issue new shares or sell assets to reduce debt. The Group considers its dividend policy at least twice a year ahead of announcing results in the context of its ability to continue as a going concern and deliver its business plan. The Group focuses on leverage, credit ratings and interest cost, particularly when considering investment.

On the following pages there are disclosures concerning the following:

- 4.1 Net debt
- 4.2 Financial instruments
- 4.3 Share capital and reserves

4.1 Net debt

The Group's net debt comprises the following:

- Interest-bearing loans and borrowings
- Cash and cash equivalents (cash on hand and demand deposits at banks)
- Bank overdrafts that are payable on demand

Accounting policies

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet represent cash on hand and at banks.

Cash and cash equivalents in the statement of cash flows includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Interest-bearing loans and borrowings

Interest-bearing borrowings are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these transaction costs are recognised in the Income Statement over the term of the related borrowings.

Analysis of net debt

The table below analyses the Group's components of net debt and their movements in the year:

	2018 £m	2017 £m
Increase/(decrease) in cash and cash equivalents	2.7	(4.8)
Government grant taken over on acquisition	(0.5)	–
Repayment of interest-bearing loans and borrowings	101.7	144.5
Borrowings from interest-bearing loans and borrowings	(138.1)	(110.7)
(Increase)/decrease in net debt resulting from cash flows	(34.2)	29.0
Effect of exchange rate fluctuations on cash held	(0.2)	0.6
Effect of exchange rate fluctuations on debt held	(3.7)	2.6
Effect of exchange rate fluctuations on net debt	(3.9)	3.2
Movements in net debt in the year	(38.1)	32.2
Net debt at 1 January	(42.9)	(75.1)
Net debt at 31 December	(81.0)	(42.9)
Cash and cash equivalents in the Balance Sheet	17.5	12.6
Bank overdrafts	(2.4)	–
Cash and cash equivalents in the Statement of Cash Flows	15.1	12.6
Interest-bearing loans and borrowings	(96.1)	(55.5)
Net debt at 31 December	(81.0)	(42.9)

Section 4 – Capital structure continued

4.2 Financial instruments

This provides details on:

- Financial risk management
- Derivative financial instruments
- Fair value hierarchy
- Interest rate profile
- Maturity profile of financial liabilities

Financial risk management

The Group's multinational operations and debt financing expose it to a variety of financial risks. In the course of its business, the Group is exposed to foreign currency risk, interest rate risk, liquidity risk and credit risk.

Financial risk management is an integral part of the way the Group is managed. Financial risk management policies are set by the Board of Directors. These policies are implemented by a central treasury department that has formal procedures to manage foreign currency risk, interest rate risk and liquidity risk, including, where appropriate, the use of derivative financial instruments. The Group has clearly defined authority and approval limits built into these procedures.

Foreign currency risk

Foreign currency risk arises both where sale or purchase transactions are undertaken in currencies other than the respective functional currencies of Group companies (transactional exposures) and where the results of overseas companies are consolidated into the Group's reporting currency of Sterling (translational exposures).

The Group has businesses that operate around the world and accordingly record their results in a number of different functional currencies. Some of these operations also have some customers or suppliers that transact in a foreign currency. The Group's results which are reported in Sterling are therefore exposed to changes in foreign currency exchange rates across a number of different currencies with the most significant exposures relating to the US Dollar (USD), Euro (EUR) and Japanese Yen (JPY). The Group proactively manages a proportion of its short-term transactional foreign currency exposures using derivative financial instruments, but remains exposed to the underlying translational movements which remain outside the control of the Group.

The Group manages its transactional exposures to foreign currency risks through the use of forward exchange contracts including the US Dollar, Euro and Japanese Yen. Forward exchange contracts are typically used to hedge approximately 75% of the Group's forecasted foreign currency exposure in respect of forecast cash transactions for the following 12 months. Forward exchange contracts may also be used to hedge a proportion of the forecast cash transactions for the following 13 to 24 months. The forward exchange contracts currently have maturities of less than two years at the Balance Sheet date.

The Group's translational exposures to foreign currency risks relate to both the Income Statement and net assets of overseas subsidiaries which are converted into Sterling on consolidation. The Group does not seek to hedge the translational exposure that arises primarily from changes in the exchange rates of the US Dollar, Euro and Japanese Yen against Sterling. However the Group does finance overseas investments partly through the use of foreign currency borrowings in order to provide a net investment hedge over the foreign currency risk that arises on translation of its foreign currency subsidiaries.

The Group ensures that its net exposure to foreign denominated cash balances is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. In addition the Group manages the denomination of surplus cash balances across the overseas subsidiaries to allow natural hedging where effective in any particular country.

It is estimated that the Group's adjusted operating profit for the year ended 31 December 2018 would have increased/decreased by approximately £3.2 million from a ten cent stronger/weaker US Dollar against Sterling, by approximately £1.6 million from a ten cent stronger/weaker Euro against Sterling and by approximately £0.3 million from a ten Yen stronger/weaker Japanese Yen against Sterling. This reflects the impact of the sensitivities to the translational exposures and to the proportion of the transactional exposures that are not hedged. The Group, in accordance with its policy, does not use derivatives to manage translational risks. During 2018 the Group's operating profit included a net profit of £0.6 million (2017: £2.3 million loss) in relation to the crystallisation of forward exchange contracts as described later in this note.

It is estimated that the statutory operating profit for the year ended 31 December 2018 would have increased/decreased by £2.5 million from a ten cent stronger/weaker US Dollar against Sterling, by approximately £1.5 million from a ten cent stronger/weaker Euro against Sterling and by approximately £0.3 million from a ten Yen stronger/weaker Japanese Yen against Sterling.

Interest rate risk

Interest rate risk comprises the interest cash flow risk that results from borrowing at variable rates.

For the year ended 31 December 2018, it is estimated that a general increase/decrease of one percentage point in interest rates, would decrease/increase the Group's profit before tax by approximately £0.8 million.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group increased its five year Multicurrency Revolving Credit Facility that expires in July 2021 from £125 million to £150 million in November 2018. The Group was utilising 63% of the £150 million Multicurrency Revolving Credit Facility at 31 December 2018.

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations. The Group is exposed to credit risk on financial assets such as trade receivables, cash balances and derivative financial instruments. The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Group Balance Sheet.

a) Trade receivables

The Group's credit risk is primarily attributable to its trade receivables. Trade receivables are subject to credit limits, and control and approval procedures in the operating companies. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables.

b) Cash balances and derivative financial instruments

Credit risk associated with cash balances is managed by transacting with a number of major financial institutions worldwide and periodically reviewing their credit worthiness. Transactions involving derivative financial instruments are managed centrally. These are only with banks that are part of the Group's £150 million Multicurrency Revolving Credit Facility Agreement and which have strong credit ratings. Accordingly, the Group's associated credit risk is limited. The Group has no significant concentration of credit risk.

Derivative financial instruments

This is a summary of the derivative financial instruments that the Group holds and uses to manage transactional exposure. The value of these derivatives changes over time in response to underlying variables such as exchange rates. They are carried in the Balance Sheet at fair value.

The fair value of forward exchange contracts is determined by estimating the market value of that contract at the reporting date. Derivatives with a positive fair value are recorded as assets and negative fair values as liabilities, and presented as current or non-current based on their contracted maturity dates.

Accounting policies**Financial assets classification and measurement**

The Group classifies its financial instruments depending on the business model for managing the financial assets and their contractual cash flows. Trade receivables and contract assets are measured at amortised cost while derivatives are measured at fair value through profit or loss unless designated in a qualifying hedging relationship.

Derivative financial instruments

In accordance with Board approved policies, the Group uses derivative financial instruments such as forward foreign exchange contracts to hedge its exposure to fluctuations in foreign exchange rates arising from operational activities. These are designated as cash flow hedges. It does not hold or use derivative financial instruments for trading or speculative purposes.

Cash flow hedge accounting

Cash flow hedges are used to hedge the variability in cash flows of highly probable forecast transactions caused by changes in exchange rates.

At 31 December 2017 the Group's foreign currency forward contracts which were designated in hedging relationships continue to qualify for hedge accounting under IFRS 9 and these relationships are therefore treated as continuing hedges. As a result of adopting IFRS 9, there have been no changes to the accounting for qualifying cash flow hedges.

Where a derivative financial instrument is designated in a cash flow hedge relationship with a highly probable forecast transaction, the effective part of any change in fair value arising is deferred in the cash flow hedging reserve within equity, via the Statement of Comprehensive Income. The gain or loss relating to the ineffective part is recognised in the Income Statement within net finance expense. Amounts deferred in the cash flow hedging reserve are reflected in the Income Statement in the periods when the hedged item is recognised in the Income Statement.

Section 4 – Capital structure continued

If a hedging instrument expires or is sold but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

For hedges of foreign currency sales, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item and the Group designates the forward exchange rate as the hedged risk. The Group therefore performs a qualitative assessment of effectiveness. In hedges of foreign currency sales, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

If a derivative financial instrument is not formally designated in a cash flow hedge relationship, any change in fair value is recognised in the Income Statement.

Forward exchange contracts

The following table shows the forward exchange contracts in place at the Balance Sheet date. These contracts mature in the next 13 months, therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 13 months.

Currency	As at 31 December 2018 millions	Average exchange rate of contracts	As at 31 December 2017 millions	Average exchange rate of contracts	
Cash flow hedging contracts					
USD/GBP forward exchange contracts	USD	9.1	1.31	9.0	1.30
USD/EUR forward exchange contracts	USD	30.2	1.20	25.2	1.14
EUR/GBP forward exchange contracts	EUR	15.9	1.09	17.6	1.15
JPY/GBP forward exchange contracts	JPY	542.2	143.5	508.8	143.0
JPY/EUR forward exchange contracts	JPY	891.7	128.9	946.6	123.7

A net profit of £0.6 million (2017: £2.3 million loss) relating to forward exchange contracts was reclassified to the Income Statement, to match the crystallisation of the hedged forecast cash flows which affect the Income Statement.

The table below provides further information on the Group's cash flow hedging relationships:

	2018 £m
Net forward exchange contracts liability	(1.0)
Maturity dates	January 2019 to January 2020
Hedge ratio	1:1
Change in value of hedging instruments since 1 January 2018	(2.1)
Change in value of the hedged item used to determine hedge effectiveness	2.1

The balances and movements into and out of the cash flow hedging reserve are shown in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity respectively. Amounts reclassified from the cash flow hedging reserve to the Consolidated Statement of Comprehensive Income are included in cost of sales.

Fair value hierarchy

The following summarises financial instruments carried at fair values and the major methods and assumptions used in estimating these fair values.

The different levels of fair value hierarchy have been defined as follows:

Level 1

Fair value measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of the Group's financial instruments approximate their fair value. The fair value of floating rate borrowings approximates to the carrying value because interest rates are at floating rates where payments are reset to market rates at intervals of less than one year. The Group's derivative financial instruments are Level 2.

Accounting policies

Net investment hedge accounting

The Group uses its US Dollar, Euro and Japanese Yen denominated borrowings as a hedge against the translation exposure on the Group's net investment in overseas companies. The Group designates the spot rate of the loans as the hedging instrument. There was no ineffectiveness to be recognised on hedges of net investments in foreign operations.

At 31 December 2017 the Group's borrowings which were designated in hedging relationships continue to qualify for hedge accounting under IFRS 9 and these relationships are therefore treated as continuing hedges. As a result of adopting IFRS 9, there have been no changes to the accounting for qualifying net investment hedges.

Where the hedge is fully effective at hedging the variability in the net assets of such companies caused by changes in exchange rates, the changes in value of the borrowings are recognised in the translation reserve within equity, via the Statement of Comprehensive Income. The ineffective part of any change in value caused by changes in exchange rates is recognised in the Income Statement.

The effective portion will be recycled into the Income Statement on the sale of the foreign operation.

The table below provides further information on the Group's net investment hedging relationships:

	2018 £m
Hedge ratio	1:1
Change in value of hedging instruments due to foreign currency movements since 1 January 2018	(3.7)
Change in value of the hedged item used to determine hedge effectiveness	3.7

The balances and movements into and out of the foreign currency translation reserve are shown in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity respectively.

Interest-bearing loans and borrowings

The table below analyses the Group's interest-bearing loans and borrowings including bank overdrafts, by currency:

Currency	Total £m	Fixed rate borrowings £m	Floating rate borrowings £m
US Dollar	62.5	–	62.5
GB Pound	7.4	–	7.4
Euro	25.0	1.7	23.3
Japanese Yen	3.6	–	3.6
At 31 December 2018	98.5	1.7	96.8
US Dollar	21.4	–	21.4
GB Pound	30.0	–	30.0
Euro	2.1	2.1	–
Japanese Yen	2.0	–	2.0
At 31 December 2017	55.5	2.1	53.4

The floating rate borrowings comprise borrowings bearing interest at rates based on LIBOR.

Maturity profile of financial liabilities

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the carrying amounts disclosed on the Balance Sheet.

Section 4 – Capital structure continued

The following are the contractual maturities of financial liabilities, including undiscounted future interest payments:

	Carrying amount £m	Total contractual cash flows £m	Within one year £m	From two to five years £m
2018				
Unsecured interest-bearing loans and borrowings including bank overdrafts ⁽¹⁾	(98.0)	(103.9)	(5.3)	(98.6)
Trade payables	(34.3)	(34.3)	(34.3)	–
Forward exchange contracts	(1.1)	(1.6)	(1.6)	–
	(133.4)	(139.8)	(41.2)	(98.6)
2017				
Unsecured interest-bearing loans and borrowings	(55.5)	(59.6)	(1.7)	(57.9)
Trade payables	(35.1)	(35.1)	(35.1)	–
Forward exchange contracts	(0.5)	(0.5)	(0.5)	–
	(91.1)	(95.2)	(37.3)	(57.9)

(1) This excludes an amount of £0.5 million of an interest bearing liability in relation to a government grant which does not meet the definition of a financial liability.

The Group had the following undrawn borrowing facilities at the end of the year:

	2018 £m	2017 £m
Expiring in:		
Less than one year		
– Uncommitted facilities	8.7	11.0
More than one year but not more than five years		
– Committed facilities	56.0	71.6
Total	64.7	82.6

4.3 Share capital and reserves

This note explains the movements in share capital, and the nature and purpose of other reserves forming part of equity. The movements in reserves are set out in the Consolidated Statement of Changes in Equity.

The Group utilises share award schemes as part of its employee remuneration packages. Options that have been granted and remain outstanding at 31 December 2018 are set out below. The various share-based payment schemes are explained in note 5.3 “Share-based payments”.

Share capital

	Number of shares (thousands)	Nominal value £m
Issued and fully paid		
At 1 January 2018	45,005	9.0
Exercise of share options	377	0.1
At 31 December 2018	45,382	9.1

Each ordinary share carries one vote, participates equally with the other ordinary shares in distribution of dividends and capital (including on a winding up) and is not redeemable.

At 31 December 2018 the following options had been granted and remained outstanding under the Company's share option schemes:

	Number of shares (thousands)	Exercise prices	Dates normally exercisable
UK Sharesave schemes	302	484p–1035p	2019–2023
International Sharesave schemes	999	485p–1100p	2019–2021
	1,301		

Other reserves

The nature and purpose of other reserves forming part of equity are as follows:

Translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries, including gains or losses arising on net investment hedges.

Cash flow hedging reserve

This reserve records the cumulative net change in the fair value of forward exchange contracts where they are designated as effective cash flow hedge relationships.

Other reserves

Reserves of £55.3 million represent a merger reserve of £9.7 million; the reduction of the share premium account; £22.7 million in 1989 and £37.3 million in 1995 less £16.0 million of share repurchases in 1995; and a capital redemption reserve of £1.6 million created on the repurchase and subsequent cancellation of 885 thousand ordinary shares by the Company in 1999.

Own shares held

Own shares held by the Company's Employee Benefit Trust are recognised as a deduction from retained earnings. As at 31 December 2018 the Company Employee Benefit Trust held 289,790 ordinary shares.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

	2018 £m	2017 £m
Amounts arising in respect of the year		
Interim dividend for the year ended 31 December 2018 of 11.5p (2017: 10.4p) per ordinary share	5.1	4.7
Proposed final dividend for the year ended 31 December 2018 of 25.5p (2017: 20.1p) per ordinary share	11.5	9.0
	16.6	13.7
The aggregate amount of dividends paid in the year		
Final dividend for the year ended 31 December 2017 of 20.1p (2016: 17.3p) per ordinary share	9.0	7.7
Interim dividend for the year ended 31 December 2018 of 11.5p (2017: 10.4p) per ordinary share	5.1	4.7
	14.1	12.4

The proposed final dividend for the year ended 31 December 2018 was recommended by the Directors. This is subject to approval by shareholders at the AGM on Tuesday, 21 May 2019 and, if approved, will be paid on Friday, 24 May 2019. The dividend has not been included as a liability in these financial statements.

This section explains items that are not explained elsewhere in the financial statements.

5.1 Employees

	2018 £m	2017 £m
Employee costs, including Directors' remuneration, comprise:		
Wages and salaries	79.6	71.2
Employers' social security costs	11.6	11.7
Employers' pension costs – defined benefit schemes	1.7	1.1
Employers' pension costs – defined contribution schemes	1.7	1.5
Other employment benefits	2.2	3.4
Share-based payment charge	3.1	2.2
	99.9	91.1

Details of Directors' remuneration and share incentives are disclosed in the Remuneration Report. Employee costs exclude employment termination costs.

	2018 Total	2017 Total
Average number of employees during the year		
Discontinued operations	–	86
Imaging Solutions	845	781
Production Solutions	600	591
Creative Solutions	252	194
Head Office	26	23
	1,723	1,675

5.2 Pensions

This note explains the accounting policies governing the Group's treatment of the pension schemes, followed by an analysis of these schemes.

Accounting policies

Defined contribution schemes

The assets are held separately from those of the Group in independently administered funds. The costs of providing pensions for employees under defined contribution schemes are expensed as incurred.

Defined benefit schemes

The Group operates pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Group. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to market yields at the Balance Sheet date on high quality corporate bonds.

The calculation is performed by a qualified actuary using the projected unit credit method. Actuarial gains and losses are recognised in full in the period in which they arise in the Statement of Comprehensive Income.

The Group recognises the ongoing service cost, past service costs and any cost or income relating to the curtailment or settlement of a pension scheme in operating expenses in the Income Statement. The unwinding of the discount (above) is recognised as part of net financial expense.

Pension schemes

The Group has defined benefit pension schemes in the UK, Italy, Germany, Japan and France. The UK defined benefit scheme was closed to future benefit accrual with effect from 31 July 2010. All UK employees of the Group are now offered membership of the defined contribution pension scheme. Other overseas subsidiaries have their own defined contribution schemes.

In October 2018, the High Court reached a judgement in relation to Lloyds Bank's defined benefit pension schemes, which concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues arising from the judgement will apply to most other UK defined benefit pension schemes. To reflect the estimated impact of this judgement, the Group has recognised a past service cost of £0.7 million in the Income Statement and increased the liabilities of the defined benefit pension scheme by the same amount. See note 2.2 "Charges associated with acquisition of businesses and material non-operating events".

Defined contribution schemes

The total Income Statement charge of the defined contribution schemes for the year ended 31 December 2018 was £1.7 million (2017: £1.5 million). There were no outstanding or prepaid contributions to these plans as at 31 December 2018 (or at 31 December 2017).

Defined benefit schemes

The Group's defined benefit schemes are disclosed below:

	2018 £m	2017 £m
Amounts recognised on the Group Balance Sheet		
Plan assets		
– Equities	19.3	23.0
– Bonds	30.0	31.9
– Other	11.6	9.2
Total fair value of plan assets	60.9	64.1
Present value of defined benefit obligation	(70.3)	(76.7)
Net deficit recognised in the Group Balance Sheet	(9.4)	(12.6)

	2018 £m	2017 £m
Analysis of net recognised deficit		
Total funded plan (UK Pension scheme)	(5.1)	(8.4)
Total unfunded plans (non-UK Pension schemes)	(4.3)	(4.2)
Liability recognised on the Group Balance Sheet	(9.4)	(12.6)

	2018 £m	2017 £m
Amounts recognised in the Income Statement		
– Administration costs incurred during the period	1.2	1.2
– Past service gains	(0.2)	(0.1)
– Past service cost (guaranteed minimum pension charge)	0.7	–
Included in operating expenses	1.7	1.1
Net interest expense on net defined benefit pension scheme liabilities	0.2	0.3
Total amounts charged to the Income Statement	1.9	1.4

UK pension scheme

The UK defined benefit pension scheme, being significant, is disclosed below.

The nature of the UK scheme is a funded final salary scheme closed to future benefit accrual with effect from 31 July 2010. As a result, since that date, no contributions are payable in respect of future accrual of benefits. As the 5 April 2016 funding valuation of the scheme disclosed a funding surplus, no recovery plan is required under the Pensions Act 2004. As such, member and employer contributions to the scheme over the year to 31 December 2019 are expected to be £nil. The scheme is subject to all legislation and regulations that apply to UK occupational pension schemes.

The main risk to which the Group is exposed by the scheme is that the cost of the benefits provided by the scheme is greater than expected, for example due to lower than expected investments returns or members of the scheme living longer than expected, which may result in additional contributions being required from the Group.

In accordance with UK trust and pensions law, the pension scheme has a corporate trustee. Although the Group bears the financial cost of the scheme, the responsibility for the management and governance of the scheme lies with the trustee, which has a duty to act in the best interest of members at all times. The assets of the scheme are held in trust by the trustee who consults with the Group on investment strategy decisions.

Section 5 – Other Supporting Notes continued

Impact on defined benefit obligation (“DBO”) of changes in the three key individual assumptions

	2018	2017
Discount rate increased by 0.1% points	-2%	-2%
Inflation increased by 0.1% points	+1%	+1%
Life expectancy increased by one year	+4%	+3%

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

	2018 % pa	2017 % pa
Assumptions used by the actuary to value the liability of the defined benefit plan, on 31 December were:		
Price inflation (RPI)	3.1	3.1
Price inflation (CPI)	2.1	2.1
Life expectancy of male/female aged 65 in 2018	22.4/24.4	22.5/24.4
Life expectancy of male/female aged 65 in 2033	23.1/25.3	23.3/25.3
Pension increase rate (% pa)		
– Discretionary (pre-6 April 1997 accrual in excess of GMP)	3.0	3.0
– Guaranteed LPI 5% (6 April 1997 – 30 June 2008)	3.0	3.0
– Guaranteed LPI 5%, with 3% floor	3.2	3.2
– Guaranteed LPI 2.5% (accrual from 1 July 2008)	2.1	2.1
Discount rate	2.9	2.4

	2018 £m	2017 £m
Change in DBO for the year to 31 December		
Present value of DBO at start of year	72.5	70.3
Interest cost	1.7	1.8
Actuarial loss on experience	–	0.3
Actuarial gain on demographic assumptions	(0.5)	(0.3)
Actuarial (gain)/loss on financial assumptions	(5.6)	2.3
Actual benefit payments	(2.6)	(1.8)
Past service costs/(gains)	0.5	(0.1)
Present value of DBO at end of year	66.0	72.5

At 31 December 2018, the weighted-average duration of the scheme's DBO was 16 years (2017: 18 years). The proportion of DBO in respect of pensions in payment is about 40% and that in respect of deferred pensioners is about 60%.

	Fair value 2018 £m	Quoted split %	Unquoted split %	Fair value 2017 £m
Scheme assets and proportion which have quoted market price, at 31 December				
Bonds	30.0	100	–	31.9
Equities	19.3	73	27	23.0
Infrastructure	8.8	–	100	8.5
Cash/non-cash assets	2.6	–	100	0.5
Insurance policies	0.2	–	100	0.2
Total value of assets	60.9			64.1

Note: The asset values shown are, where relevant, estimated bid values of market securities.

	2018 £m	2017 £m
Change in fair value of assets for the year to 31 December		
Fair value of assets at start of year	64.1	61.5
Interest income on scheme assets	1.5	1.6
Return on scheme assets (less)/greater than discount rate	(2.1)	2.9
Actual benefit payments	(2.6)	(1.8)
Administration expenses paid	0.0	(0.1)
Fair value of assets at end of year	60.9	64.1
	2018 £m	2017 £m
Development of net balance sheet position at 31 December		
Present value of defined benefit obligation	(66.0)	(72.5)
Assets at fair value	60.9	64.1
Net defined benefit scheme liability	(5.1)	(8.4)
	2018 £m	2017 £m
Reconciliation of net balance sheet position		
Net defined benefit scheme liability at start of year	(8.4)	(8.8)
Total amounts charged to the Income Statement	(0.7)	(0.2)
Remeasurement effects recognised in Other Comprehensive Income ("OCI")	4.0	0.6
Defined benefit scheme liability at end of year	(5.1)	(8.4)
	2018 £m	2017 £m
Amounts recognised in the Group Income Statement		
– Administration costs incurred during the period	0.0	0.1
– Past service gains	(0.2)	(0.1)
– Past service cost (guaranteed minimum pension charge)	0.7	–
Included in operating expenses	0.5	–
Net interest expense on net defined benefit pension scheme liability	0.2	0.2
Total amounts charged to the Income Statement	0.7	0.2
	2018 £m	2017 £m
Amounts recognised in OCI		
Actuarial loss due to liability experience	–	0.3
Actuarial (gain)/loss due to liability assumption changes	(6.1)	2.0
Actuarial (gain)/loss arising during the period	(6.1)	2.3
Return on scheme assets less/(greater) than discount rate	2.1	(2.9)
Remeasurement effects recognised in OCI	(4.0)	(0.6)
	2018 £m	2017 £m
Defined benefit pension scheme cost		
Administration costs incurred during the period	0.0	0.1
Past service costs/(gains)	0.5	(0.1)
Net interest expense on net defined benefit pension scheme liability	0.2	0.2
Remeasurement effects recognised in OCI	(4.0)	(0.6)
Total defined benefit pension scheme credit	(3.3)	(0.4)

Section 5 – Other Supporting Notes continued

5.3 Share-based payments

Group employees participate in a number of employee incentive schemes including a Sharesave Scheme, a Long Term Incentive Plan and a Deferred Bonus Plan.

This note explains the accounting policy governing share-based payments and the impact of various share schemes operated by the Group.

Accounting policies

Share-based payments

The Group operates a number of share-based incentive schemes. The fair value of the equity-settled employee share option grants is calculated at grant date and charged to the Income Statement over the vesting period of the schemes, with a corresponding adjustment to equity. The value of the charge is adjusted to reflect expected and actual levels of options that will vest, except where forfeiture arises from share prices not achieving the threshold for vesting.

The fair values of options are calculated using Black-Scholes or Monte Carlo simulation models. Vesting conditions are limited to non-market based conditions such as service conditions and performance conditions (adjusted earnings per share targets).

Any potential employer's Social Security liability on options granted is calculated based on the intrinsic value of the options and charged to the Income Statement over the vesting period of the schemes.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. Shares purchased in the market are held in the Company's Employee Benefit Trust.

A description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (for example whether in cash or equity) is set out in the Remuneration Report.

Share-based payment expense

The amount recognised in the Income Statement for share-based payment transactions with employees for the year ended 31 December 2018 was £3.1 million (2017: £2.9 million), of which £nil (2017: £0.7 million) related to employers' tax liability.

The outstanding employers' tax liability recognised in the Balance Sheet for UK awards was £0.8 million (2017: £1.0 million).

Share options outstanding at the end of the period

Options outstanding under the 2011 UK Sharesave Scheme, 2011 International Sharesave Plan as at 31 December 2018, together with their exercise prices and vesting periods, are as follows:

Range of Exercise Prices	Number outstanding (thousands)	Weighted average exercise price (£)	Weighted average remaining contractual life (years)
£4.51 – £5.00	245	4.86	1
£5.01 – £5.50	9	5.11	–
£7.50 – £8.50	410	8.02	1
£8.51 – £11.00	637	10.35	3
Total	1,301	8.55	2

Movements in these share option plans were as follows:

	Sharesave (thousands)	Weighted average exercise price (£)
Awards at 31 December 2016	1,030	4.98
Exercised during 2017	(273)	5.03
Lapsed during 2017	(103)	5.07
Granted during 2017	439	8.02
Awards at 31 December 2017	1,093	6.18
Exercised during 2018	(354)	5.01
Lapsed during 2018	(75)	6.02
Granted during 2018	637	10.35
Awards at 31 December 2018	1,301	8.55
Awards exercisable at 31 December 2018	46	4.95

The weighted average share price at the date of exercise for share options exercised during the year was £12.49 (2017: £10.38).

Arrangement	2011 International Sharesave Plan 2 Year	2011 UK and International Sharesave Scheme 3 Year	2011 UK and International Sharesave Scheme 5 Year	2014 Long Term Incentive Plan	2014 Deferred Bonus Plan
Nature of arrangement	“Save as you earn scheme”	“Save as you earn scheme”	“Save as you earn scheme”	Share award plan	Share award plan
Date of grant	26 Sep 2018	26 Sep 2018	26 Sep 2018	02 Mar 2018	09 Apr 2018
Number of instruments granted (thousands)	171	459	7	418	34
Exercise price	£11.00	£10.35	£10.35	n/a	n/a
Share price at date of grant	£14.10	£14.10	£14.10	£11.70	£11.51
Contractual life (years)	2.3	3.6	5.6	n/a	n/a
Expected option life (years)	2.1	3.3	5.3	n/a	n/a
Vesting Conditions	2 year service period and savings requirement	3 year service period and savings requirement	5 year service period and savings requirement	Relative TSR performance against comparator group and adjusted EPS growth	3 year service period
Settlement	Shares	Shares	Shares	Shares	Shares
Expected volatility ⁽¹⁾	23.0%	23.0%	23.0%	21.8%	–
Risk free interest rate	0.73%	0.81%	1.00%	n/a	n/a
Expected dividend yield	2.3%	2.3%	2.3%	n/a	n/a
Expected departures (per annum from grant date)	5%	5%	5%	8%	n/a
Expected outcome of non-market based related performance condition	n/a	n/a	n/a	93%	n/a
Fair value per granted instrument determined at the grant date	£3.69	£3.77	£3.90	£11.70/£5.15 ⁽²⁾	£11.51
Valuation model	Black-Scholes	Black-Scholes	Black-Scholes	Monte Carlo ⁽³⁾	n/a

(1) The expected volatility of 2011 Sharesave Plan is based on historical volatility determined by the analysis of daily share prices over a period commensurate with the expected lifetime of the award and ending on the date of grant of the award. Due to significant fluctuations in Vitec's share price during the year a uniform rate has been used for all the Sharesave options as a reasonable estimate of volatility going forward.

(2) The first figure (£11.70) represents fair value of awards subject to adjusted EPS growth criteria and the second figure (£5.15) represents fair value of awards subject to TSR criteria.

(3) For the 2014 LTIP, a Monte Carlo simulation has been used. Under this valuation method, the share price for Vitec is projected at the end of the performance period as the TSR for Vitec and the companies in the comparator group. Based on these projections, the number of awards that will vest is determined. Thousands of simulations are run and the fair value of the award is calculated as the product of the vesting probability and the share price at the date of grant.

Section 5 – Other Supporting Notes continued

5.4 Leases

Operating leases primarily relate to the Group's properties, which principally comprise offices, warehouses and factory facilities. None of the leases include contingent rentals.

Accounting policies

Leases

Operating leases are those which do not transfer substantially all the risks and rewards of ownership to the lessee, the rentals of which are charged to the Income Statement on a straight-line basis over the lease term.

	Land and buildings £m	Other £m	Total 2018 £m	Land and buildings £m	Other £m	Total 2017 £m
Total future minimum lease payments under non-cancellable operating leases						
Expiring within one year	4.8	0.6	5.4	4.2	0.6	4.8
Expiring within two to five years	11.7	0.9	12.6	12.0	1.0	13.0
Expiring after five years	5.7	–	5.7	6.0	–	6.0
	22.2	1.5	23.7	22.2	1.6	23.8

During the year £6.1 million (2017: £5.7 million) was recognised in the Income Statement in respect of operating lease payments.

5.5 Contingent liabilities

The Group has obtained cash receipts from government entities which have been accounted for as forgivable loans. The total contractual amount outstanding at 31 December 2018 is £2.6 million. The Group has recognised liabilities of £0.5 million in relation to amounts it does not have reasonable assurance will be forgiven.

5.6 Related party transactions

A related party relationship is based on the ability of one party to control or significantly influence the other.

The Group has identified the Directors, the Vitec Group Pension Scheme and members of the Operations Executive as related parties of the Group under IAS 24, "Related Party Disclosures".

Transactions with key management personnel

Details of Directors' remuneration along with their pension, share incentive, bonus arrangements and holdings of the Company's shares are shown in detail in the Remuneration Report. This also shows the highest paid Director.

The compensation of the ten (2017: ten) members of the Operations Executive during the year, including the Executive Directors, is shown in the table below:

	2018 £m	2017 £m
Salaries	2.6	2.5
Performance-related bonuses	1.9	2.3
Share-based payment charge ⁽¹⁾	1.2	1.1
Other short-term employee benefits	0.2	0.2
Post employment benefits	0.3	0.3

(1) IFRS 2 charge recognised in the Income Statement for share-based payment transactions with members of the Operations Executive.

5.7 Group investments

The Group's subsidiaries at 31 December 2018 are listed below. All subsidiaries are 100% owned within the Group.

Company	County of incorporation	Issued securities
ALC Broadcast Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Amimon Inc	United States ⁽³⁶⁾	Ordinary shares of NPV
Amimon Japan Co. Ltd	Japan ⁽³⁷⁾	Ordinary shares of 10,000 JPY each
Amimon Ltd	Israel ⁽³⁸⁾	Ordinary shares of NIS 0.01 each
Anton/Bauer Europe B.V.	Netherlands ⁽²⁾	Ordinary shares of €1 each
Autocue Limited	England & Wales ⁽¹⁾	Ordinary share of £1 each
Autocue LLC	United States ⁽³⁾	Membership units of NPV
Autoscript Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Bexel Global Broadcast Solutions Limited	England & Wales ⁽¹⁾	Ordinary share of £1 each
Bogen Imaging UK Limited	England & Wales ⁽¹⁾	Ordinary share of £1 each
Camera Corps, Inc.	United States ⁽³⁵⁾	Ordinary shares of US\$0.01 each
Camera Corps Ltd	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Camera Dynamics sarl	France ⁽⁴⁾	Ordinary shares of NPV
Chalfont Investments Inc.	United States ⁽⁵⁾	Ordinary shares of US\$0.01 each
Colorama Photodisplay Holdings Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Gitzo Limited	England & Wales ⁽¹⁾	Ordinary share of £1 each
Gitzo S.A.	France ⁽⁶⁾	Ordinary shares of NPV
JOBY Technology (Shenzhen) Co. Limited	China ⁽³⁴⁾	Ordinary share of RMB1,814,855 each
Kata UK Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Lastolite Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
LCB Beteiligungs GmbH	Germany ⁽⁹⁾	Ordinary shares of €25,000
Litepanels Ltd	England & Wales ⁽¹⁾	Ordinary shares of US\$1 each
Lowepro Dongguan Trading Co Ltd (formerly DayMen Dongguan Trading Co Limited)	China ⁽³³⁾	Ordinary share of HK\$3,000,000 each
Manfrotto Bags Ltd	Israel ⁽⁸⁾	Ordinary shares of ILS1 each
Manfrotto Distribution Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Mount Olive 2016, LLC	United States ⁽¹⁷⁾	Membership units of NPV
Offhollywood, LLC	United States ⁽¹⁸⁾	Membership units of NPV
Palmer Dollar Finance	England & Wales ⁽¹⁾	Ordinary shares of US\$1 each
Palmer Dollar Finance Ireland Investment DAC	Ireland ⁽¹⁹⁾	Ordinary shares of US\$1 each
Palmer Dollar Finance Luxembourg Investment Sarl	Luxembourg ⁽²⁰⁾	Ordinary shares of US\$1,000 each
Palmer Euro Finance Ireland Investment DAC	Ireland ⁽¹⁹⁾	Ordinary shares of €1 each
Palmer Euro Finance Luxembourg Investment Sarl	Luxembourg ⁽²⁰⁾	Ordinary shares of €1,000 each
Palmer Euro Finance Netherlands B.V.	Netherlands ⁽²¹⁾	Ordinary shares of €1 each
Palmer Finance	England & Wales ⁽¹⁾	Ordinary shares of €1 each
Palmer Yen Finance	England & Wales ⁽¹⁾	Ordinary shares of JP¥100 each
Panlight Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Petrol Bags Limited	Israel ⁽²²⁾	Ordinary shares of ILS1 each

Section 5 – Other Supporting Notes continued

Company	County of incorporation	Issued securities
Petrol Bags Limited	England & Wales ⁽¹⁾	Ordinary share of £1 each
Radamec Broadcast Systems Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
RECO Srl	Italy ⁽¹⁰⁾	Shares of NPV
RT Motion Systems Limited	Scotland ⁽⁷⁾	Ordinary shares of £0.0167 each
Rycote Microphone Holdings Ltd	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Rycote Microphone Windshields Ltd	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Rycote Partnership Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Sachtler Limited	England & Wales ⁽¹⁾	Ordinary share of £1 each
SmallHD LLC	United States ⁽²³⁾	Membership units of NPV
Teradek, LLC	United States ⁽²⁵⁾	Membership units of NPV
Teradek Ukraine LLC	Ukraine ⁽²⁴⁾	Membership interests of NPV
The Camera Store Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Vinten Broadcast Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Vitec Creative Solutions UK Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Vitec Group Holdings Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Vitecgroup Italia spa	Italy ⁽³⁰⁾	Ordinary shares of €1,000 each
Vitec Group Pensions Trust Company (UK) Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Vitec Group US Holdings, Inc.	United States ⁽⁵⁾	Ordinary shares of US\$0.01 each
Vitec Holdings Italia Srl	Italy ⁽¹⁰⁾	Ordinary share of €10,000 each
Vitec Holdings Limited	Guernsey ⁽²⁷⁾	Ordinary shares of £0.10 each
Vitec Imaging Distribution Australia Pty Ltd (formerly Adeal Proprietary Limited)	Australia ⁽²⁶⁾	Ordinary shares of AUD1 each
Vitec Imaging Distribution Benelux B.V. (formerly Manfrotto Distribution Benelux B.V.)	Netherlands ⁽¹¹⁾	Ordinary shares of €454 each
Vitec Imaging Distribution GmbH (formerly Manfrotto Distribution GmbH)	Germany ⁽¹²⁾	Shares of €25,000 each
Vitec Imaging Distribution HK Ltd (formerly Manfrotto Distribution HK Limited)	Hong Kong ⁽¹³⁾	Shares of HK\$1 each
Vitec Imaging Distribution Inc. (formerly Manfrotto Distribution Inc.)	United States ⁽¹⁴⁾	Ordinary shares of NPV
Vitec Imaging Distribution KK (formerly Manfrotto Distribution KK)	Japan ⁽¹⁵⁾	Shares of JP¥1 each
Vitec Imaging Distribution SAS (formerly Manfrotto Distribution SAS)	France ⁽⁶⁾	Ordinary shares of €16 each
Vitec Imaging Distribution Shanghai Limited (formerly Manfrotto Distribution Shanghai Limited)	China ⁽¹⁶⁾	Ordinary shares of US\$1 each
Vitec Imaging Solutions HK Ltd (formerly Daymen Asia Limited)	Hong Kong ⁽³²⁾	Shares of HK\$1 each
Vitec Imaging Solutions Spa (formerly Lino Manfrotto & Co Spa)	Italy ⁽¹⁰⁾	Ordinary shares of €5.556 each
Vitec Imaging Solutions UK Limited (formerly Manfrotto UK Limited)	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Vitec Investments Limited	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Vitec Production Solutions GmbH (formerly Vitec Videocom GmbH)	Germany ⁽⁹⁾	Ordinary share of DEM50,000 each
Vitec Production Solutions Inc (formerly Vitec Videocom, Inc)	United States ⁽⁵⁾	Ordinary shares of US\$0.01 each
Vitec Production Solutions KK (formerly Vitec Videocom KK)	Japan ⁽¹⁵⁾	Ordinary shares of JP¥1,000 each
Vitec Production Solutions Limitada (formerly Vitec Videocom Limitada)	Costa Rica ⁽²⁸⁾	Shares of CRC50 each

Company	County of incorporation	Issued securities
Vitec Production Solutions Limited (formerly Vitec Videocom Limited)	England & Wales ⁽¹⁾	Ordinary shares of £1 each
Vitec Production Solutions Pte. Limited (formerly Vitec Videocom Pte Limited)	Singapore ⁽²⁹⁾	Ordinary shares of SGD1 each
WHDI LLC	United States ⁽³⁶⁾	Single Member Limited Liability Company
Wooden Camera, Inc	United States ⁽³¹⁾	Ordinary shares of NPV

The registered address is as follows:

- (1) Bridge House, Heron Square, Richmond, TW9 1EN, United Kingdom
- (2) Sint Lambertuslann 9, 6212 AR Maastricht, Netherlands
- (3) 124 West 30th Street, Suite 312, New York, NY 10001, United States
- (4) 171 avenue des Grésillons, 92635 Gennevilliers cedex, France
- (5) Corporation Service Company, 2711 Centerville Road – Suite 400, Wilmington, DE 19808, United States
- (6) Parc Tertiaire Silic, 44 Rue De La Couture, 94150 Rungis, France
- (7) 272 Bath Street, Glasgow, Scotland, G2 4JR, United Kingdom
- (8) Abraham & Bachar cp., Keren Hayesod 36, Jerusalem, Israel
- (9) Parkring 29, 85748 Garching, Germany
- (10) Via Valsugana 100, 36022 Cassola VI, Italy
- (11) J.P. Poelstraat 5, 1483 GC De Rijp, Netherlands
- (12) Ferdinand-Porsche-Strasse 19, 41149 Cologne, Germany
- (13) Unit No.03, 3/F, Tower 3, Phase 1, Enterprise Square, No.9 Sheung Yuet Road, Kowloon Bay, Hong Kong
- (14) Corporation Service Company, 830 Bear Tavern Road, West Trenton, NJ 08628, United States
- (15) Shibakoen 3-chome Bldg, 1F, 3-1-38 Shibakoen, Mikato-ku, Tokyo 105-0011, Japan
- (16) Room 2704-05, Shanghai Mart Tower, No.2299, Yan'an Road (West), Shanghai, 200336, China
- (17) Corporation Service Company, 2595 Interstate Drive – Suite 103, Harrisburg, PA 17110, United States
- (18) Corporation Service Center, 2711 Centerville Road – Suite 440, Wilmington, New Castle County DE 19808, United States
- (19) Regus Dublin Airport, Tasc Building, Corballis Road North, Dublin Airport, Sword, Dublin, Ireland
- (20) 9B Boulevard du Prince Henri, L-1724, Grand Duchy of Luxembourg, Luxembourg
- (21) Kerkrade, Netherlands
- (22) 3 Hasolelim Street, 67897, Tel Aviv, Israel
- (23) Corporation Service Company, 327 Hillsborough Street, Raleigh, NC 27603, United States
- (24) Uspenskaya 2, Odessa, 65014, Ukraine
- (25) CSC-Lawyers Incorporating Service, 2710 Gateway Oaks Drive – Suite 150N, Sacramento, CA 95833-3505, United States
- (26) 2 Baldwin Road, Altona North VIC 2025, Australia
- (27) Mont Crevelt House, Bulwer Avenue, St. Sampson, GY2 4LH, Guernsey
- (28) Parque Industrial de Cartago, Edificio Numero 68, Cartago, Costa Rica
- (29) 6 New Industrial Road, #02-02 Hoe Huat Industrial Building, 536199, Singapore
- (30) Via Monte Rosa, 91, 20149 Milano, Italy
- (31) 1826 West Commerce Street, Dallas TX 75208, United States
- (32) Unit 901-2, 9/F, Metroplaza Tower 2, No. 223 Hing Fong Road, Kwai Fong, N.T. Hong Kong
- (33) No. 1101, Office Building, Block B, Zhixing Commercial Building, Banshi Village, Changping Town, Dongguan City, Guangdong Province, China
- (34) Suite 916, Office Tower, Shun Hing Square, Di Wang Commercial Centre, 5002 Shen Nan Dong Road, Shenzhen, 518008, China
- (35) Corporate Service Company, 251 Little Falls Drive, Wilmington, County of New Castle, DE, 19808, United States
- (36) 251 Little Falls Drive, Wilmington, County of New Castle, DE, 19808, United States
- (37) 701 A105 Gotanda Building, 1-10-7 Higashi Gotanda, Shinagawa-Ku, Tokyo, Japan
- (38) Zarhin26, POB 2308, Ra'anana 4366250, Israel

5.8 Subsequent events

On 22 January 2019 The Group acquired 100% of the issued share capital of Syrp Ltd (“Syrp”), a company based in New Zealand, for an initial cash consideration of NZ\$4.5 million (£2.4 million). See note “3.4 Acquisitions”.

Company Balance Sheet

As at 31 December 2018

	Notes	2018 £m	2017 £m
Fixed assets			
Intangible assets	f)	0.1	0.1
Investments in subsidiary undertakings	h)	468.4	371.9
Other receivables	i)	0.2	–
		468.7	372.0
Current assets			
Debtors	i)	9.9	4.0
Cash at bank and in hand		–	30.9
		9.9	34.9
Liabilities falling due within one year			
Creditors	j)	(8.7)	(6.8)
Provisions	l)	(0.4)	–
		(9.1)	(6.8)
Net current assets			
		0.8	28.1
Total assets less current liabilities			
		469.5	400.1
Liabilities falling due after one year – creditors			
	j)	(119.1)	(53.7)
Net assets			
		350.4	346.4
Capital and reserves			
Called up share capital	m)	9.1	9.0
Share premium account		18.6	16.8
Revaluation reserve		0.9	0.9
Other reserves	n)	55.3	55.3
Profit and loss account		266.5	264.4
Shareholders' funds			
		350.4	346.4

The Company's profit after tax for the year ended 31 December 2018 was £16.7 million (2017: £43.5 million).

Approved and authorised for issue by the Board of Directors on 20 February 2019 and signed on its behalf:

Kath Kearney-Croft
Group Finance Director

The Vitec Group plc
Registered in England and Wales no. 227691

Company Statement of Changes in Equity

	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2018	9.0	16.8	0.9	55.3	264.4	346.4
Total comprehensive income for the year						
Profit for the year	-	-	-	-	16.7	16.7
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(14.1)	(14.1)
Own shares purchased	-	-	-	-	(3.7)	(3.7)
Share-based payment charge, net of tax	-	-	-	-	3.2	3.2
New shares issued	0.1	1.8	-	-	-	1.9
Balance at 31 December 2018	9.1	18.6	0.9	55.3	266.5	350.4
Balance at 1 January 2017	9.0	15.4	0.9	55.3	234.3	314.9
Total comprehensive income for the year						
Profit for the year	-	-	-	-	43.5	43.5
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(12.4)	(12.4)
Own shares purchased	-	-	-	-	(3.5)	(3.5)
Share-based payment charge, net of tax	-	-	-	-	2.5	2.5
New shares issued	-	1.4	-	-	-	1.4
Balance at 31 December 2017	9.0	16.8	0.9	55.3	264.4	346.4

Notes to the Company Financial Statements

a) Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

Under Section 408(3) of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

b) Exemptions taken by the Company under FRS 101

The Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of The Vitec Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 "Share-Based Payments" in respect of Group settled share-based payments; and
- Certain disclosures required by IFRS 13 "Fair Value Measurement" and the disclosures required by IFRS 7 "Financial Instruments: Disclosures".

c) Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to these financial statements.

Property, plant and equipment

Depreciation is provided to write off the cost of property, plant and equipment, less estimated residual value, on a straight-line basis over their estimated useful lives.

Fixed assets are depreciated as follows:

Leasehold improvements	over the remaining period of the lease
Equipment, fixtures and fittings	3 to 10 years

Intangible assets

The cost of acquiring software (including associated implementation and development costs where applicable) is classified as an intangible asset. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Software expenditure is amortised over its estimated useful life of between three and five years, and is stated at cost less accumulated amortisation and impairment losses.

Investments in subsidiary undertakings

Investments in subsidiaries are stated at historical cost, less provision for any impairment in value.

Pensions

The Company participates in the Group's defined benefit scheme operated in the UK, which was closed to future benefit accrual with effect from 31 July 2010. All UK employees of the Company are now offered membership of the defined contribution scheme. The assets of the schemes are held separately from those of the Company. The Company has a very small proportion of the scheme's total members. As such, the Group has adopted a policy to recognise the full net pension cost, and hence pension deficit, in its subsidiary Vitec Production Solutions Limited's financial statements prepared in accordance with FRS 101.

Details in respect of the UK defined benefit pension scheme are disclosed in note 5.2 "Pensions" of the Group's consolidated financial statements.

Dividends receivable

Dividends received and receivable are credited to the Company's Income Statement.

Other significant accounting policies are consistent with the Group's consolidated financial statements and below are references where they are disclosed:

Foreign currencies	Section 1 – Basis of Preparation
Debtors and Creditors	3.3 "Working capital"
Cash and cash equivalents	4.1 "Net debt"
Provisions	3.6 "Provisions"
Derivative financial instruments and hedging activities	4.2 "Financial instruments"
Bank loans	4.1 "Net debt"
Leases	5.4 "Leases"
Share-based payments	5.3 "Share-based payments"
Share capital and reserves	4.3 "Share capital and reserves"

d) Employees

	2018 £m	2017 £m
Employee costs comprise:		
Wages and salaries	4.8	4.9
Employers' social security costs	0.6	0.7
Employers' pension costs – defined contribution schemes	0.1	0.1
Share-based payment charge	1.0	0.8
	6.5	6.5
	2018	2017
Average number of employees during the year	26	23

Further details of Directors' remuneration and share incentives are disclosed in the Remuneration Report.

e) Audit fees

The details regarding the remuneration of the Company's auditor are included in note 2.1 "Profit before tax" of the Group's consolidated financial statements under "Fees payable to the Company's auditor for the audit of the Company's annual financial statements".

f) Intangible assets

	Capitalised software £m
Cost	
At 1 January 2018	0.2
Disposals	(0.1)
At 31 December 2018	0.1
Accumulated amortisation	
At 1 January 2018	0.1
Disposals	(0.1)
At 31 December 2018	–
Net book value at 31 December 2017 and 31 December 2018	0.1

Notes to the Company Financial Statements continued

g) Property, plant and equipment

	Leasehold buildings £m	
Cost		
At 1 January 2018 and 31 December 2018	0.5	
Accumulated depreciation		
At 1 January 2018 and 31 December 2018	0.5	
Net book value at 31 December 2017 and 31 December 2018	–	
	2018 £m	2017 £m
Land and buildings		
Total commitments under non-cancellable operating leases expiring:		
Within one year	0.2	0.2
In two to five years	0.3	0.5
	0.5	0.7

During the year £0.2 million (2017: £0.2 million) was recognised as an expense in the profit and loss account in respect of operating lease payments.

h) Investments in subsidiary undertakings

	Total £m	Shares in Group undertakings £m	Loans to Group undertakings £m
Cost			
At 1 January 2018	598.9	556.6	42.3
Additions	96.5	42.9	53.6
At 31 December 2018	695.4	599.5	95.9
Provisions			
At 1 January 2018 and 31 December 2018	227.0	227.0	–
Net book value			
At 1 January 2018	371.9	329.6	42.3
At 31 December 2018	468.4	372.5	95.9

The additions in investments during the year reflect the Company's restructuring of certain subsidiary holding and financing companies.

The Company's investments in subsidiaries as at 31 December 2018 are included in note 5.7 "Group investments" of the Group's consolidated financial statements.

i) Debtors

	2018 £m	2017 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	6.2	–
Other debtors	0.1	0.3
Prepayments	0.8	0.9
Derivative financial instruments – forward exchange contracts	1.2	1.7
Deferred tax assets	1.6	1.1
	9.9	4.0
Long-term receivables		
Other receivables	0.2	–
Total receivables	10.1	4.0

Amounts owed by subsidiary undertakings are unsecured and payable on demand.

j) Creditors

	2018 £m	2017 £m
Amounts falling due within one year		
Bank overdraft (unsecured)	2.4	–
Amounts owed to subsidiary undertakings	1.1	0.8
Derivative financial instruments – forward exchange contracts	1.2	1.7
Corporation tax	0.4	0.4
Trade payables	0.3	–
Other creditors	0.4	0.1
Accruals	2.9	3.8
	8.7	6.8
Amounts falling due after more than one year		
Bank loans (unsecured)	93.9	53.4
Other creditors	0.4	–
Amounts owed to subsidiary undertaking	24.8	0.3
	119.1	53.7

Amounts owed to subsidiary undertakings are unsecured and payable on demand.

k) Contingent liabilities

There are no contingent liabilities at 31 December 2018 (2017: £nil).

l) Provisions

	Legal provision £m
At 1 January 2018	–
Provisions charged during the year	0.4
At 31 December 2018	0.4
Due within one year	0.4

Notes to the Company Financial Statements continued

m) Called up share capital

Disclosure in respect of the Company's share capital are provided in note 4.3 "Share capital" of the Group's consolidated financial statements.

Options over shares of the Company have been granted to employees of the Company under various plans. Details of the terms and conditions of each share-based payment plan are given in the Remuneration Report on pages 72 to 98 and note 5.3 "Share-based payments" of the Group's consolidated financial statements.

n) Other reserves

Other reserves of £55.3 million represent a merger reserve of £9.7 million; the reduction of the share premium account; £22.7 million in 1989 and £37.3 million in 1995 less £16.0 million of share repurchases in 1995; and a capital redemption reserve of £1.6 million created on the repurchase and subsequent cancellation of 885 thousand ordinary shares by the Company in 1999.

o) Related party transactions

The Company has identified a related party relationship with its Board, the Vitec Group Pension Scheme and members of the Operations Executive as disclosed in the Remuneration Report and note 5.6 "Related party transactions" of the Group's consolidated financial statements. There are no other related party transactions to disclose.

Glossary – Alternative Performance Measures (“APMs”)

APM	Closest equivalent statutory measure	Definition & purpose												
Income Statement Measures														
Adjusted operating profit	Operating profit	<p>Calculated as operating profit before charges associated with acquisition of businesses and material non-operating events. These are excluded by virtue of their size and nature in order to more accurately show the underlying business performance of the Group in a consistent manner. This is a key management incentive metric.</p> <p>Charges associated with acquisition of businesses include non-cash charges such as amortisation of acquired intangible assets and effect of fair valuation of acquired inventory. Cash charges include items such as transaction costs, earnout and deferred payments and significant costs relating to the integration of acquired businesses.</p> <p>See Consolidated Income Statement for reconciliation.</p>												
Adjusted operating profit margin	None	Calculated as adjusted operating profit divided by revenue. Progression in adjusted operating margin is an indicator of the Group's operating efficiency.												
Adjusted operating expenses	Operating expenses	<p>Calculated as operating expenses before charges associated with acquisition of businesses and material non-operating events. These are excluded by virtue of their size and nature in order to more accurately show the underlying operating cost base of the Group in a consistent manner.</p> <p>The table below shows the reconciliation for continuing operations: See note 2.1 “Profit before tax (including segmented information)”.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: right;">2018 £m</th> <th style="text-align: right;">2017 £m</th> </tr> </thead> <tbody> <tr> <td>Operating expenses</td> <td style="text-align: right;">133.6</td> <td style="text-align: right;">126.3</td> </tr> <tr> <td>Charges associated with acquisition of businesses and material non-operating events</td> <td style="text-align: right;">(13.0)</td> <td style="text-align: right;">(15.0)</td> </tr> <tr> <td>Adjusted operating expenses</td> <td style="text-align: right;">120.6</td> <td style="text-align: right;">111.3</td> </tr> </tbody> </table>		2018 £m	2017 £m	Operating expenses	133.6	126.3	Charges associated with acquisition of businesses and material non-operating events	(13.0)	(15.0)	Adjusted operating expenses	120.6	111.3
	2018 £m	2017 £m												
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Charges associated with acquisition of businesses and material non-operating events	(13.0)	(15.0)												
Adjusted operating expenses	120.6	111.3												
Adjusted profit before tax	Profit before tax	<p>Calculated as profit before tax, before charges associated with acquisition of businesses and material non-operating events. These are excluded by virtue of their size and nature in order to more accurately show the underlying business performance of the Group in a consistent manner. This is a key management incentive metric and is a measure used within the Group's incentive plans as set out in the Remuneration Report.</p> <p>See Consolidated Income Statement for reconciliation.</p>												
Adjusted profit after tax	Profit after tax	<p>Calculated as profit after tax before charges associated with acquisition of businesses and material non-operating events, and profit on disposal of businesses.</p> <p>See Consolidated Income Statement for reconciliation.</p>												

Glossary – Alternative Performance Measures (“APMs”) continued

APM	Closest equivalent statutory measure	Definition & purpose																																	
Adjusted basic earnings per share	Basic earnings per share	<p>Calculated as adjusted profit after tax divided by the weighted average number of ordinary shares in issue during the period. This is a key management incentive metric and is a measure used within the Group's incentive plans as set out in the Remuneration Report.</p> <p>See note 2.5 “Earnings per share.”</p>																																	
Cash Flow Measures																																			
Free cash flow	Net cash from operating activities	<p>Net cash from operating activities after proceeds from property, plant and equipment and software, purchase of property, plant and equipment, and capitalisation of software and development costs. This measure reflects the cash generated in the period that is available to invest in accordance with the Group's capital allocation policy.</p> <p>See “Five Year Financial Summary” on page 167.</p>																																	
Operating cash flow	Net cash from operating activities	<p>Free cash flow before payment of interest, tax, restructuring costs, transaction costs relating to acquisition of businesses and integration costs. This is a measure of the cash generation and working capital efficiency of the Group's operations. Operating cash flow as a percentage of adjusted operating profit is a key management incentive metric.</p> <table border="1"> <thead> <tr> <th></th> <th>2018 £m</th> <th>2017 £m</th> </tr> </thead> <tbody> <tr> <td>Net cash from operating activities</td> <td>47.4</td> <td>35.1</td> </tr> <tr> <td>Proceeds from sale of property, plant and equipment and software</td> <td>0.5</td> <td>3.5</td> </tr> <tr> <td>Purchase of property, plant and equipment</td> <td>(8.4)</td> <td>(10.8)</td> </tr> <tr> <td>Capitalisation of software and development costs</td> <td>(6.0)</td> <td>(4.3)</td> </tr> <tr> <td>Free cash flow</td> <td>33.5</td> <td>23.5</td> </tr> <tr> <td>Add back:</td> <td></td> <td></td> </tr> <tr> <td>Interest paid</td> <td>2.5</td> <td>2.6</td> </tr> <tr> <td>Tax paid</td> <td>4.1</td> <td>11.0</td> </tr> <tr> <td>Payment of restructuring costs, transaction costs relating to acquisition of businesses and integration costs</td> <td>4.6</td> <td>3.3</td> </tr> <tr> <td>Operating cash flow</td> <td>44.7</td> <td>40.4</td> </tr> </tbody> </table> <p>This is a measure used within the Group's incentive plans as set out in the Remuneration Report.</p>		2018 £m	2017 £m	Net cash from operating activities	47.4	35.1	Proceeds from sale of property, plant and equipment and software	0.5	3.5	Purchase of property, plant and equipment	(8.4)	(10.8)	Capitalisation of software and development costs	(6.0)	(4.3)	Free cash flow	33.5	23.5	Add back:			Interest paid	2.5	2.6	Tax paid	4.1	11.0	Payment of restructuring costs, transaction costs relating to acquisition of businesses and integration costs	4.6	3.3	Operating cash flow	44.7	40.4
	2018 £m	2017 £m																																	
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Operating cash flow	44.7	40.4																																	
Other Measures																																			
Return on capital employed (ROCE)	None	Calculated as adjusted operating profit for the last twelve months divided by average total assets less current liabilities excluding the current portion of interest-bearing borrowings. This is a measure of the efficiency of the Group's asset base.																																	
Adjusted EBITDA	Operating profit	Calculated as adjusted operating profit for the last twelve months before depreciation of tangible fixed assets and amortisation of intangibles (other than those already excluded from adjusted operating profit).																																	

Five Year Financial Summary

Years ended 31 December

	2018 ⁽¹⁾ £m	2017 ⁽¹⁾ £m	2016 ⁽¹⁾ £m	2015 £m	2014 £m
Revenue	385.4	353.3	318.9	317.8	309.6
Adjusted operating profit	53.5	45.2	41.4	35.4	38.8
Net interest on interest-bearing loans and borrowings	(2.7)	(2.6)	(4.2)	(4.0)	(3.6)
Other financial income/(expense)	0.4	(0.2)	0.2	0.1	0.1
Adjusted profit before tax	51.2	42.4	37.4	31.5	35.3
Cash generated from operating activities	54.0	48.7	64.8	41.7	42.0
Interest paid	(2.5)	(2.6)	(5.2)	(4.0)	(3.3)
Tax paid	(4.1)	(11.0)	(7.2)	(5.6)	(3.5)
Net cash from operating activities	47.4	35.1	52.4	32.1	35.2
Net capital expenditure on property, plant and equipment, software and development costs	(13.9)	(11.6)	(7.8)	(15.9)	(17.0)
Free cash flow	33.5	23.5	44.6	16.2	18.2
Capital employed					
Intangible assets	130.8	88.4	99.0	90.7	87.1
Property, plant and equipment	33.7	31.0	54.0	53.8	54.8
Other net assets	60.8	44.1	37.7	45.0	35.2
	225.3	163.5	190.7	189.5	177.1
Financed by					
Shareholders' funds – equity	162.3	135.6	139.8	126.3	118.6
Net debt	81.0	42.9	75.1	76.3	70.9
Deferred tax	(18.0)	(15.0)	(24.2)	(13.1)	(12.4)
	225.3	163.5	190.7	189.5	177.1
Statistics					
Adjusted operating profit (%)	13.9	12.8	13.0	11.1	12.5
Adjusted effective tax rate (%)	17.9	27.4	27.2	30.4	30.0
Adjusted basic earnings per share (p)	93.2	68.1	61.3	49.4	55.9
Basic earnings per share (p)	76.1	61.4	20.2	29.3	29.4
Dividends per share (p)	37.0	30.5	27.2	24.6	24.0
Year end mid-market share price (p)	1,192.5	1,130.0	648.5	602.5	594.0

(1) Revenue, adjusted operating profit and adjusted profit before tax for 2018, 2017 and 2016 reflect continuing operations only. The US broadcast services business and Haigh-Farr defence antennae business, both part of the previous Broadcast Division, have been classified as discontinued operations in these years. See note 3.5 "Disposals and discontinued operations in 2017."

Shareholder Information and Financial Calendar

Shareholder Information

The Investors section of the Group website, www.vitecgroup.com, contains detailed information on news, key financial information, annual reports, financial calendar, share price information, dividends and key contact details. The following is a summary and readers are encouraged to view the website for more detailed information.

Shareholder enquiries

For all enquiries about your shareholding please contact the Company's registrar, Link Asset Services:

Link Asset Services

Website	https://www.vitec-shares.com
Email	enquiries@linkgroup.co.uk
Address	The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
Phone from UK	0871 664 0300*

* Calls cost 12p per minute plus your phone company's access charge. If you are outside the UK, please call +44 371 664 0300. Calls outside the UK will be charged at the applicable international rate. Link Asset Services can be contacted between 9.00am and 5.30pm, Monday to Friday (excluding public holidays in England and Wales).

Dividend reinvestment plan

The Company offers a Dividend Reinvestment Plan that enables shareholders to reinvest cash dividends into additional shares in the Company. Application forms can be obtained from Link Asset Services. You must arrange for your Dividend Reinvestment Plan application form to be received by Link Asset Services no later than Thursday, 2 May 2019 to join the Plan for the final dividend for the year ended 31 December 2018.

International dividend payment service

Overseas shareholders can receive their dividends in a local currency instead of Sterling and can find out more about this by visiting <http://ips.linkassetservices.com>. Any election to receive dividends in local currency in respect of the final dividend for the year ended 31 December 2018 must be received by Link Asset Services no later than the record date for the final dividend, Tuesday, 23 April 2019.

Share price information

The closing mid-market price of a share of The Vitec Group plc on 31 December 2018, the last trading day of the year, was £11.93. During the year, the share price fluctuated between £10.65 and £14.15. The Company's share price is available on our website with a 15-minute delay, and from the Financial Times website, www.ft.com, with a similar delay.

Share scams

Shareholders should be aware that fraudsters may try and use high pressure tactics to lure investors into share scams. Information on share scams can be found on the Financial Conduct Authority's website, www.fca.org.uk/scams, or via their consumer helpline: 0800 111 6768.

Financial calendar

Ex-dividend date for 2018 final dividend	Thursday, 18 April 2019
Record date for 2018 final dividend	Tuesday, 23 April 2019
Last Day for DRIP Election	Thursday, 2 May 2019
Annual General Meeting	Tuesday, 21 May 2019 (2.00pm)
2018 final dividend payment date	Friday, 24 May 2019
Announcement of 2019 half year results	Thursday, 8 August 2019
Proposed 2019 interim dividend payment date	October 2019

Analysis of shareholdings as at 31 December 2018

Shares held	Number of holders	% of holders	Number of shares	% of shares
Up to 1,000	444	50.5	158,439	0.3
1,001 to 5,000	237	26.9	552,956	1.2
5,001 to 10,000	48	5.5	349,731	0.8
10,001 to 50,000	70	7.9	1,858,167	4.1
50,001 to 100,000	28	3.2	1,934,262	4.3
100,001 and over	53	6.0	40,525,259	89.3
	880	100x	45,378,814	100
Institutions and companies	329	37.4	43,723,478	96.4
Individuals including Directors and their families	551	62.6	1,655,336	3.6
	880	100	45,378,814	100



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Front cover image captured by: Dylan Furst, Manfrotto Ambassador, using the Manfrotto BeFree GT Carbon tripod.



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