

Corporate Governance

Chairman's statement



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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.

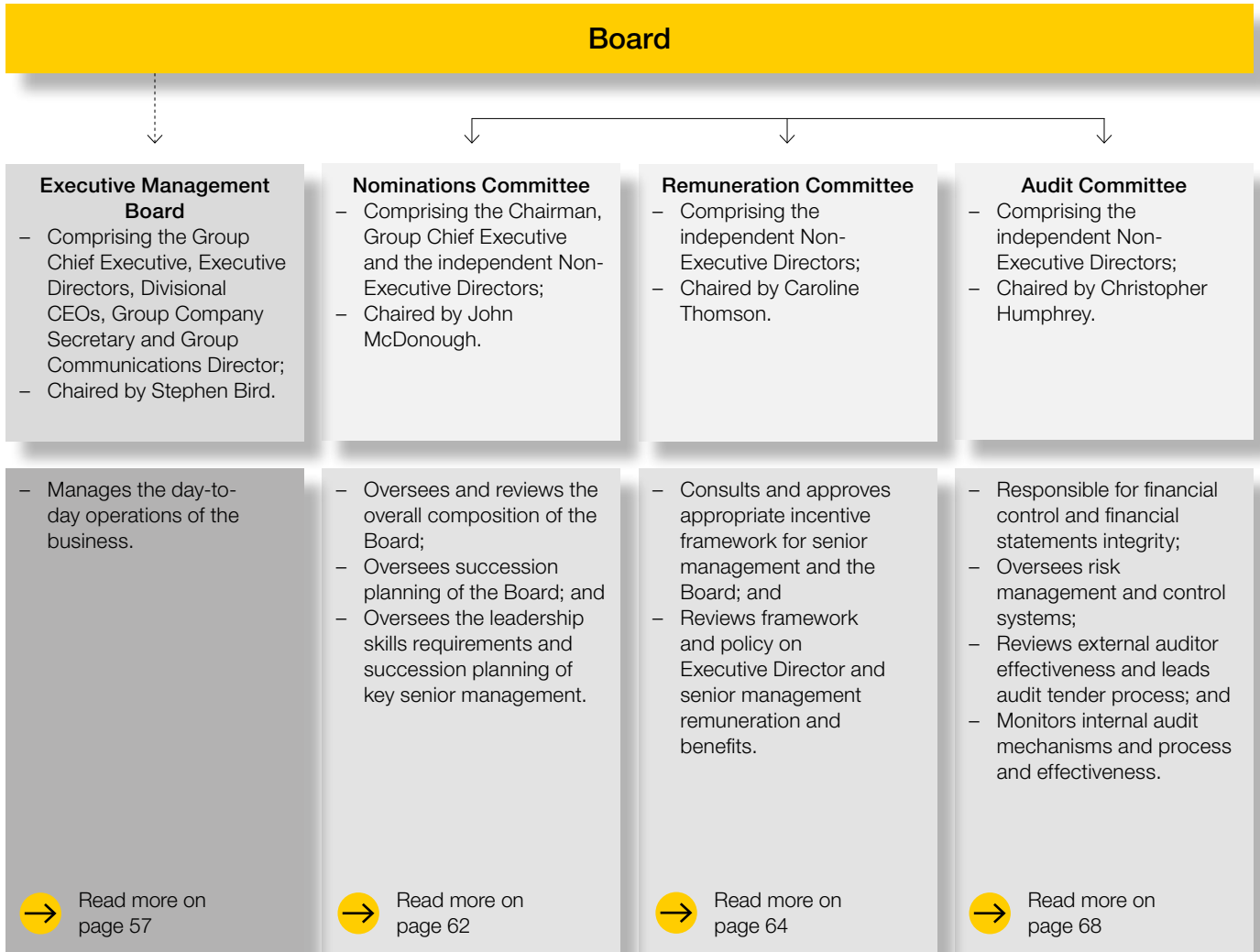
Company purpose

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.

Remuneration Committee report continued

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