

Corporate Governance

Chairman John McDonough, CBE explains Vitec's governance arrangements



2017 headlines

- 1) Significant progress on strategy
- 2) External board evaluation
- 3) Progress on succession, people and talent
- 4) Strong control environment whilst preserving entrepreneurial spirit

I am pleased to introduce my governance report for 2017 which sets out our culture and governance. Under my Chairmanship, the Board is responsible to all Vitec's stakeholders for the continued success of the Group. Culture and governance are critical to this.

Were there any Board changes in 2017?

Martin Green joined the Board on 4 January 2017 as Group Business Development Director and on 24 April 2017 Kath Kearney-Croft joined as Group Finance Director, succeeding Paul Hayes who left the Company on 28 April 2017. Both Martin and Kath bring excellent skills to the Board. Martin has been with the Group for over ten years and brings strong commercial insight into the Group's core markets and will be particularly focused on growth in APAC and opportunities in the Creative Solutions businesses as well as responsibility for corporate development and HR. Kath has undergone a thorough induction visiting our major operations and has made an excellent start during a period of significant change.

On 22 February 2018 we announced that Mark Rollins would leave the Board as a Non-Executive Director with effect from 2 April 2018. We also announced that Richard Tyson will join the Board as a Non-Executive Director with effect from 2 April 2018. I discuss the recruitment process later in this report. Christopher Humphrey will be taking on the role of Senior Independent Director following Mark's departure. I would like to thank Mark for his thoughtful insight into Board matters over the last five years and wish him well for the future. At the same time I welcome Richard Tyson to the Board and look forward to working with him.

Biographical details for each Board member as at 31 December 2017 can be found on pages 52 and 53 of the Annual Report and details for Richard Tyson can be found in the 2018 AGM notice circular.

How does the Board set the right culture and tone from the top?

We strongly believe in doing business in the right way. Our Code of Conduct sets out our expectations around behaviours and is given to all employees and is available to all our stakeholders including customers and suppliers. Our Code of Conduct was re-communicated to all employees in early 2018 and is available on our website. The Vitec Mindset sets out our values which remain unchanged and can be found on page 42. Health and Safety is a key performance indicator for our business with management focused on safe working conditions and accurate reporting of any near misses and accidents along with root cause investigations. Reports are provided to the Board on a monthly basis to track incidents and remedial actions taken as necessary. Our online governance training module has been completed by all new senior joiners during 2017, notably newly acquired businesses. In 2017 we also re-issued our independent whistleblowing service run by EXPOLINK.

This 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 Operations Executive visited a number of our businesses in 2017 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 2018 to further embed our values.

What has the Board done in terms of strategy and its implementation?

During 2017 the Board undertook a detailed review of the Group's strategy. As a result of the strategy review, we announced in November 2017 that we would be moving to a three divisional structure with effect from 1 January 2018 and this is set out in Stephen Bird's Group Chief Executive's Review. Coupled with this, the Board visited the Creative Solutions business in October, meeting that Division's senior management team and the Teradek business site in Irvine, California. The Board has further communicated with shareholders on strategy and business priorities, including results presentations, an investor visit to Italy and several one-to-one meetings with major shareholders to hear first-hand their views on the strategy and business performance. With clear focus on the core broadcast and photographic markets, the Board also took the decision in 2017 to sell the non-core businesses of Bexel, the US Services business, and Haigh-Farr and acquire the JOBY and Lowepro brands and RTMotion.

Does the Board have the right structure and skills, and which directors will be standing for reappointment at the AGM?

The Board currently comprises eight directors with three executive directors, four independent non-executive directors and myself as chairman. As noted above, there will be a change to the Board and I believe we have the right sized Board with the correct 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 also has a strong independent element to ensure that the interests of all stakeholders are reflected in the running of the Company.

All Directors will stand for reappointment at the 2018 AGM.

Is the Annual Report fair, balanced and understandable?

The Board considers 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 position and performance, business model and strategy, and has retained this power for itself. To achieve this we asked the Executive Directors and the Operations Executive to provide us with clear documentary evidence around the content and process of the 2017 Annual Report at our February 2018 Board meeting. The February 2018 Audit Committee confirmed to us that: the 2017 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 2017 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.

Has the Company complied with the UK Corporate Governance Code?

My governance review has taken into account the UK Corporate Governance Code ("Governance Code") as published in April 2016, and explains how we applied its main principles, supporting principles and provisions. Each was complied with throughout 2017, as required by the Listing Rules. The Board is aware that the Financial Reporting Council is consulting on a new Governance Code that is likely to come into effect for accounting periods beginning on or after 1 January 2019 and will adopt any new requirements as appropriate as and when the new Code is published.

Leadership

How do you lead the Board and how are decisions made by the Board?

The Board is responsible to shareholders for the creation and delivery of sustainable performance and long-term shareholder value. There are separate roles for each member of the Board 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 2017. The Board has a clear policy for dealing with any such conflicts or potential conflicts of interest.

How does your role interact with the Group Chief Executive?

The Group Chief Executive is responsible for managing the business. The Operations Executive supports the Group Chief Executive in this duty, the members of which are shown on page 17. The Group Chief Executive and I have an excellent 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 working of the Board, providing a forum in which matters are discussed openly and robustly.

Who is the Senior Independent Director?

Mark Rollins acted as Senior Independent Director throughout 2017 and until he ceases to be a director on 2 April 2018. Notably in this role, Mark led the evaluation of my performance as part of the 2017 Board evaluation, information on which is provided later in this report. With Mark ceasing to be a director, the Board has decided that Christopher Humphrey will be appointed Senior Independent Director with effect from 2 April 2018. The Board considers that Christopher Humphrey is clearly independent and has the right experience and background to fill this important role.

What is the Board responsible for?

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.

What are the Board's Committees responsible for?

The Board has delegated certain items of business to its principal Committees. 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 2017 are set out later in this report.

What did the Board do in 2017?

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 including litigation
- Key performance indicators

There were six scheduled Board meetings and five short notice Board meetings in 2017. In addition to the standing items, the following is a summary of the business considered at each meeting in 2017.

January (short notice meeting held by phone)

- Approved lease terms for the new Bury St. Edmunds site
- Considered performance conditions tied to 2017 LTIP awards
- Updates on potential acquisitions and disposals

February (held in Richmond, UK)

- Annual Results, including review and approval, where appropriate, of:
 - Principal risks and mitigation
 - Report on going concern and viability statement
 - Final dividend recommendation
 - Full year results announcement for the year ended 31 December 2016
 - 2016 Annual Report including an assessment that the Report was fair, balanced and understandable
 - Notice of AGM
 - Management representation letter
- Recommended the reappointment of external auditor
- Group strategy including post acquisition reviews of the Creative Solutions businesses and potential acquisitions and disposals
- Update on the Group's financing structure concerning the Revolving Credit Facility and the Private Placement Facility
- Production Solutions Division business update

May (short notice meeting held by phone)

- Approved the content of the trading update including the disposal of the Haigh-Farr business
- Received updates on potential acquisitions

May (held in central London, UK)

- AGM briefing
- Trading update (including reforecast of 2017 performance)
- Group strategy including potential acquisitions
- Update on the Group's financing arrangements
- Update on the Enterprise Video business
- Investor relations update from Investec
- Approval of the Group's Modern Slavery Statement

June (held in Richmond, UK)

- Review of Group and divisional strategies
- Capital expenditure proposal for European Services business
- Sharesave offer to all employees

June (short notice meeting held by phone)

- Update on potential acquisition and associated due diligence

July (short notice meeting held by phone)

- Update on potential acquisition and disposal and associated due diligence, including an approval for the disposal of Bexel, the US Services business.

August (held in Richmond, UK)

- Half year results, including review and approval, where appropriate, of:
 - Principal risks and mitigation
 - Report on going concern
 - Interim dividend
 - Half year results announcement for the period ended 30 June 2017
 - Management representation letter
- Update on Group strategy including potential acquisitions
- Reviewed the reforecast of 2017 performance
- Approved the format of the 2017 external Board evaluation

September (short notice meeting held by phone)

- Considered and approved the acquisitions of the JOBY and Lowepro brands and RTMotion

October (held in Los Angeles, US)

- Update on Group strategy
- Presentations from the Creative Solutions business
- Reviewed the reforecast of 2017 performance
- Received an update on Group synergies
- Update on progress with the external Board Evaluation
- Update on Group property matters including Chatsworth lease

December (held in Richmond, UK)

- Update on Group strategy
- Update on Group synergies project
- Approved the 2018 budget
- Presentation on investor relations strategy
- Presentation on the European Services business
- Presentation from Rothschild on strategic matters
- Outcome of the 2017 external Board evaluation and approved 2018 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
- Update on pension matters relating to the UK's Defined Benefit and Defined Contribution schemes

Did all Directors attend meetings in 2017?

Details of Directors' attendance at Board and Committee meetings is shown in the table on page 60. All Directors attended each scheduled Board meeting and the five called at short notice, with the exception of Lorraine Rienecker who could not attend the short notice meeting in July due to prior commitments. 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.

Did the Board visit any of the Group's sites during the year?

In October 2017 the Board visited the Creative Solutions business operations in California, US. The visit included management presentations on market trends, product development, innovation and operations. The Board intends to hold a meeting at an operational site each year to deepen its knowledge and understanding of the Group. In 2018 this will be at our new Bury St. Edmunds facility in the UK. Each Director is encouraged to visit our operations at their own convenience to further build on their understanding of the Group.

Did the Board meet outside of scheduled meetings, including Non-Executive Director only meetings?

We continue to spend time together outside of Board meetings to learn not only about the business but each other's skills and personalities, which helps ensure an effective Board. We hold a dinner for the Board before each scheduled Board meeting to enable Directors to informally discuss current business matters. It also gives an opportunity for the Operations Executive, 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 Executive Directors on these discussions and take any actions necessary to address matters raised.

How is the Board supported by executive management?

The Operations Executive 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 Operations Executive 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, market, products, customers and competitors.

Effectiveness

How do you measure the 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 issues. During 2017 we conducted an externally facilitated Board evaluation and the detail of this is set out later in this report. 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. In years where we do not have an external Board evaluation, we conduct an internal evaluation to ensure that we continue to challenge the Board on its effectiveness and performance.

Are the Non-Executive Directors independent?

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, Lorraine Rienecker, Caroline Thomson and Mark Rollins are independent in accordance with the recommendations of the Governance Code. Each of these Non-Executive Directors' tenure on the Board is less than five years and I lead the process of ensuring that each year the performance of each Director is objectively appraised. Each Director is also required to declare any conflict of interest arising on any matter and I confirm that no such conflicts arose in 2017. 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 skill set required to deliver the strategic objectives of the Group and to ensure its continued success. We have also appointed Richard Tyson as Non-Executive Director with effect from 2 April 2018 and Mark Rollins will cease to be a Director with effect from 2 April 2018. We consider that Richard Tyson is independent.

Do new Directors receive an induction?

On appointment, we provide each Director with a tailored and extensive induction to the Group. The induction programme for Kath Kearney-Croft included meetings with: senior colleagues internally; the Group's key advisors from KPMG, Investec, Rothschild, Slaughter and May and our relationship banks, including regular reviews with the KPMG Audit Partner; and the Audit Committee Chairman. Kath visited our businesses in Costa Rica, Bury St. Edmunds, UK, various locations in the US and Italy during 2017 to learn more about operations in each location and meet our employees. She attended all Board meetings and the strategy day held in June, allowing her to gain an in-depth understanding of the Group, as well as a senior management conference in October attended by over 60 of our senior employees. As part of the Board meetings she received presentations on the products and services we offer and how each business operates in its chosen markets and segments, along with the internal governance processes and procedures that exist to support our operations. Martin Green's induction was more finely tailored on account that he has been with the Group for over ten years. Each induction process is tailored to the individual and would be adjusted if it related to a Non-Executive Director. Each Director is encouraged to continue visiting the Group's operations as their schedule permits.

Does the Board receive ongoing 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 meetings of the Board and Committees 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. The Board regularly receives written updates on governance, regulatory and financial matters as they are published.

What if a Director needs to take independent external advice?

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 2017 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.

How do you ensure that Board meetings run effectively?

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 Board members 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 Board member 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 covering the ongoing performance of the business. The Board receives further information from time to time as and when necessary.

All Board and Committee meetings are minuted by the Group Company Secretary. In the first instance, minutes are reviewed by the Chairman of that meeting before being circulated to all Directors in attendance and then tabled for approval at the next meeting.

What is the Board's policy on appointing 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 shall hold office only until the next AGM and shall then put himself or herself forward to be reappointed by shareholders.

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 table below sets out the Chairman's and Non-Executive Directors' appointment dates and scheduled renewal of terms. Mark Rollins will cease to be a director on 2 April 2018 and has not been included in the table below. Having served on the Board for six years, the Chairman's term of appointment was renewed at the February 2018 Board meeting and he will be standing for re-election at the 2018 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.

Richard Tyson has been appointed as a Non-Executive Director with effect from 2 April 2018 and will be standing for re-election at the 2018 AGM.

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	Annually from 15 March 2019 onwards
Christopher Humphrey	1 December 2013	1 December 2016	1 December 2019	Annually from 1 December 2020 onwards
Lorraine Rienecker	1 December 2013	1 December 2016	1 December 2019	Annually from 1 December 2020 onwards
Caroline Thomson	1 November 2015	1 November 2018	1 November 2021	Annually from 1 November 2022 onwards

What is the Board's policy on diversity?

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, the Parker and McGregor-Smith reviews on Ethnic Diversity. We will report upon this issue annually in our Annual Report.

The Employees section of the Corporate Responsibility Report contains further information on diversity, including the disclosure of gender diversity statistics in accordance with the requirements of the Companies Act 2006.

What format did the Board's evaluation take in 2017?

In 2017 we conducted an external Board evaluation that was facilitated by Lintstock, who previously conducted our last external evaluation in 2014.

The process entailed individual meetings held with myself, Stephen Bird, Kath Kearney-Croft and the Group Company Secretary, where the performance of the Board and business were discussed. Following this, the Group Company Secretary and I worked with Lintstock to develop two bespoke questionnaires that focused on the work completed by the Board during 2017 including the strategy review held in June and the Board visit to the US in October along with general Board matters. These were issued to all Directors and the Group Company Secretary, and also covered reviews of the Board, the Audit, Remuneration and Nominations Committees, and the Chairman. Lintstock collated the findings from both questionnaires into five separate reports which were presented to the Board by Lintstock at the December 2017 Board meeting. I also met with each Director individually, allowing for a discussion to take place around any areas for improvement. Mark Rollins, as Senior Independent Director, coordinated the process for my own evaluation. The outcomes have helped to shape the Board and Committee objectives for 2018.

What was the outcome of the 2017 evaluation?

I am pleased to report that Lintstock concluded that your Board was performing well, with its dynamic rated highly, reflecting a collegiate and transparent approach during meetings. The Board's composition, skills and expertise were also rated favourably, with strong governance processes underpinning its performance. The relationship between the Chairman and Group Chief Executive continued to work well. The strategy review process had improved on the prior year and the Board's oversight of the resulting actions was effective. Visiting the US operations in California had allowed Directors to understand more about the Creative Solutions business and its people.

Each Committee was deemed to be effective along with individual Directors contributing time and effort both during and outside of meetings. Non-Executive Directors demonstrated a willingness to devote sufficient time and effort to understand the Company and its businesses and provided independent, rigorous and constructive challenge on strategy and operational performance. Board and Committee materials and papers are comprehensive, clear, appropriately detailed and circulated in good time, allowing for meetings to be managed efficiently.

What actions has the Board taken as a result of the 2017 evaluation?

The 2017 Board evaluation has been used as a basis to set Board objectives for 2018 and these focus on the areas of: strategy; governance and culture; financial performance; customers, technology and competitors; key performance indicators; and risk. The Board will track progress against each during 2018 and I will report on these objectives in the 2018 Annual Report.

Each of the Board Committees were reviewed with individual outputs and actions created. As with the Board, the output helped set the 2018 objectives that will be reported on by each Committee in the 2018 Annual Report. For the Audit Committee, 2018's focus will be on: reviewing the risk management of strategic objectives; a successful handover to the new external auditor; an overview of IT strategy and processes; oversight of treasury arrangements and tax strategy; the successful induction of the new Non-Executive Director and continued training on financial and governance matters. The Remuneration Committee's objectives for 2018 include: ensuring the Remuneration Report takes into account best practice and receives significant shareholder support at the 2018 AGM; ensuring remuneration structures for senior management remain appropriate and aligned to delivery of our Group strategy; preparing for changes concerning executive remuneration as a consequence of new legislation and a revision to UK Corporate Governance Code; and ensuring the Committee continues to receive appropriate ongoing training.

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



John McDonough and the Vitec Board visiting the offices and operating facilities of Teradek in October 2017.

Corporate Governance

How did the Board perform against the 2017 Board Objectives?

The Board set itself several objectives for 2017. These are summarised below with an assessment of performance against each.

2017 Board Objectives	Progress during 2017
Continue to review current strategy and ensure it is fit for purpose based on changing markets and customer needs, monitor progress of strategy against KPIs, continue to oversee acquisition strategy, and resolve long-term future of Bexel and Haigh-Farr	<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 Visited the Creative Solutions business to review operations, technology and people Undertook detailed strategic review, identified key areas concerning strategy and agreed programme for ongoing review, including splitting the Group into three Divisions Regular review of strategic KPIs Completed the acquisitions of the JOBY and Lowepro brands and RTMotion Sold the non-core businesses of Bexel and Haigh-Farr
Ensure that Executive Director succession planning is regularly discussed, talent development processes for senior roles are in place and the Board has visibility of senior management to support delivery of strategy	<ul style="list-style-type: none"> Received regular updates on talent and succession planning for Executive Directors and senior management roles across the Group Met with a number of senior employees during visits to operations in the US and during the strategic review Reviewed incentive proposals for roles below the Operations Executive Externally recruited Kath Kearney-Croft as Group Finance Director
Continue to develop understanding and knowledge of underlying and emerging technologies, and the risks associated with those technologies, along with customers and their technology needs and competitors' technological capabilities	<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 Considered capital expenditure requests for new products and acquisitions
Continue to ensure that robust governance processes are in place and that Group's culture and common values are well communicated and widely understood throughout the Group. Undertake an external board evaluation	<ul style="list-style-type: none"> Approved and published the Group's Modern Slavery statement in May 2017 Ensured that the governance disclosures in the 2017 Annual Report were robust and accurate and received over 99% support from shareholders voting on the 2016 Annual Report Health & Safety and Whistleblowing notices re-communicated to all employees to stress their importance All major customers vetted for reputational risk issues Engaged an external consultant to assist with corporate responsibility reporting Completed an external Board evaluation facilitated by Lintstock Code of Conduct re-communicated to all employees in February 2018
Develop detailed understanding of operations ensuring operations are optimised, aligned with future strategy and deliver improved financial performance	<ul style="list-style-type: none"> Regular presentations from business units covering operational matters Presentation from Group Finance Director on synergies across operations and back office functions including synergies action plan Site visits to the US to allow for oversight of operations
Closely monitor current financial performance and recommend actions as appropriate	<ul style="list-style-type: none"> Received regular updates from the Group Chief Executive and Group Finance Director on current trading Approved content of full and half year announcements and trading updates Reviewed quarterly reforecasts of 2017 performance Approved sales of US Services business (Bexel), and Haigh-Farr, along with agreeing three Divisional structure to optimise Group operations

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 2017 annual bonus.

Directors' Attendance table for 2017

	Board		Audit		Remuneration		Nominations	
	Scheduled	Short notice	Scheduled	Short notice	Scheduled	Short notice	Scheduled	Short notice
Number of meetings	6	5	4	-	3	-	3	-
Directors								
John McDonough	6	5	-	-	-	-	3	-
Christopher Humphrey	6	5	4	-	3	-	3	-
Lorraine Rienecker	6	4	4	-	3	-	3	-
Mark Rollins	6	5	4	-	3	-	3	-
Caroline Thomson	6	5	4	-	3	-	3	-
Stephen Bird	6	5	-	-	-	-	3	-
Kath Kearney-Croft (appointed 24 April 2017)	5/5	4/4	-	-	-	-	-	-
Paul Hayes (resigned 28 April 2017)	1/1	1/1	-	-	-	-	-	-
Martin Green (appointed 4 January 2017)	6	5	-	-	-	-	-	-

What is the purpose of the Nominations Committee?

The Board has appointed the Nominations Committee to oversee the composition of the Board (including skills, knowledge, experience and diversity), senior executive recruitment and succession, and the process for appointments of Directors.

Current Committee members are set out below and all served throughout 2017. Other members of the Board attend Nominations Committee meetings by invitation and where there is no conflict.

Chairman	Members
John McDonough	Stephen Bird Christopher Humphrey Lorraine Rienecker Mark Rollins Caroline Thomson

What did the Nominations Committee do in 2017 and what are its plans for 2018?

During 2017 the Nominations Committee focused its attention on executive management, receiving presentations on talent development and succession planning for the Executive Directors, Operations Executive and senior management. In the early part of 2017, the Committee was principally focussed on the recruitment process for a new Group Finance Director that culminated in Kath Kearney-Croft's appointment on 24 April 2017. In the latter part of 2017, the Committee commenced a search for a new Non-Executive Director following Mark Rollins' indication that he would wish to stand down as a Director in 2018. The Committee managed this search for his successor and made a recommendation on this to the Board at the February 2018 meeting. In 2018 the Committee will focus in 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.

What is the process for the appointment of a new Director?

Once the Board has identified the need for a new Director, the Chairman would, except where the search relates to his role, engage the support of an external executive search consultant where necessary to facilitate the search. The Chairman would work with the consultant to draft a clear brief on the role, skills and personal attributes that the Board was looking for, taking into account Board diversity, and follow this 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 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 2017 as part of the process for the recruitment of a new Non-Executive Director.

Does the Board have the right mix of Directors?

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 2017 each Board member assessed the current mix of the Board and skills of directors to identify potential areas for improvement. This has helped to support the recruitment of new Directors as we move forward. The recruitment of a new Non-Executive Director has taken into account the current mix of the Board and the need to ensure continued diversity of experience and background. 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 and succession plans of senior management below Board level.

Nominations Committee activities during 2017

At each main meeting the Committee considers:

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

The Committee had three scheduled meetings in 2017 and covered the following matters:

February

- Recommended to the Board the appointment of a new Group Finance Director

October

- Reviewed Board succession planning
- Received an update on senior management talent and succession planning in the Creative Solutions business

December

- Reviewed Board succession planning
- Received an update on senior management talent and succession planning across the Group

What is the purpose of the Remuneration 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 Operations Executive. An overview of the work completed by the Remuneration Committee during the year is set out in the following table. 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 have all been invited to attend meetings throughout 2017.

The Remuneration Report for the year ended 31 December 2017 on pages 70 to 90 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, unless changes to the remuneration policy need to be made before this date. The Remuneration Report gives full details of Executive and Non-Executive Directors' remuneration during 2017 including payments made to previous directors.

Current Committee members are set out below and all served throughout 2017.

Chairman	Members
Caroline Thomson	Christopher Humphrey Lorraine Rienecker Mark Rollins

Remuneration Committee activities during 2017

During 2017 the Remuneration Committee had three scheduled meetings. At each scheduled 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 2017:

February

- Approved the 2017 Remuneration Committee Report including the Remuneration Policy
- Approved the outcome of personal objectives for Executive Directors for 2016 and agreed Executive Directors' 2017 objectives
- Approved the outcome of 2016 Annual Bonus Plan and confirmed financial targets for 2017 Annual Bonus Plan
- Approved the outcome of performance conditions tied to 2014 LTIP and DBP awards
- Approved 2017 awards to be made under the LTIP and DBP
- Agreed the treatment of incentives for Paul Hayes ahead of his resignation as a Director

October

- Noted an update on performance conditions for the 2015 LTIP
- Considered the treatment of acquisitions and disposals on the outcome of LTIP awards and 2017 Annual Bonus Plan awards

December

- Approved the outcome of the Committee's 2017 objectives and set 2018 objectives
- Update on general remuneration matters from Mercer, the Committee's appointed remuneration advisor
- Considered the treatment of acquisitions and disposals on the outcome of LTIP Awards
- Update on indicative outcome for the 2017 Annual Bonus Plan
- Approved proposed salary increases for 2018 for the Executive Directors and Operations Executive
- Approved the structure of the 2018 Annual Bonus Plan
- Considered draft personal objectives for Executive Directors for 2018

How did the Remuneration Committee monitor its performance?

The Remuneration Committee set itself several objectives for 2017, the detail and progress against which is shown in the table on the following page.

The Remuneration Committee has set itself objectives for 2018 and will report on progress against these in the 2018 Annual Report.

2017 Remuneration Committee Objectives	Progress during 2017
Draft 2017 Remuneration Policy and ensure it is aligned to Group strategy, in line with best practice and receives over 80% approval at the 2017 AGM	<ul style="list-style-type: none"> Policy drafted to include introduction of ROCE underpin to LTIP, rebalance of performance conditions with an increased proportion based on EPS growth and a reduced proportion based on TSR, and a reduction of pension contribution for future Executive Directors Remuneration Policy approved by 99.9% of shareholders voting at the 2017 AGM. Successful consultation with shareholders completed as part of the process. Policy to be applicable for three years to 2020 AGM 2016 Remuneration Report compliant with regulations and received 99.9% support of shareholders voting on the advisory resolution at the 2017 AGM
Ensure appropriate remuneration structures for senior management taking into account business operations and global locations	<ul style="list-style-type: none"> Remuneration and incentives for Operations Executive agreed
Review performance of the remuneration advisor, Mercer, following the 2017 AGM	<ul style="list-style-type: none"> Mercer provided support on the drafting of the remuneration policy and shareholder consultation in late 2016 / early 2017 The Committee remains satisfied that Mercer continue to provide appropriate advice on executive remuneration including market context and Company specific issues
Make LTIP awards in conjunction with new remuneration policy and appropriately stretching performance conditions	<ul style="list-style-type: none"> 2017 LTIP awards made in line with the terms of the approved remuneration policy at the 2017 AGM and with appropriately stretching performance conditions attached
Support recruitment of a new Group Finance Director with appropriate remuneration structure	<ul style="list-style-type: none"> Remuneration of Group Finance Director in line with remuneration policy and market practice

Accountability

How does the Board oversee 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 at each business unit to manage risks within their businesses are periodically reinforced by the Operations Executive.

- 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 34 and 35 of this Annual Report.
- The Board has established a control framework within which the Group operates. This contains the following key elements:
 - an organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements;
 - defined expenditure authorisation levels;
 - an operational review process covering all aspects of each business conducted by Group executive management on a regular basis throughout the year;

- a strategic planning process identifying key actions, initiatives and risks to deliver the Group's long-term strategy; and
- a 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 Operations Executive 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 2017, 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 2018 was prepared and agreed with the Audit Committee at its February 2018 meeting.

What publications has the Board reviewed in consideration of compliance with internal control and risk matters?

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.

Relations with shareholders

How does the Board ensure it has a continued dialogue with its major shareholders?

Maintaining regular contact with our shareholders remains an important part of our activities and is fundamental to good corporate governance. During 2017, the Group Chief Executive and Group Finance Director held 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. In May 2017 we took some of our major shareholders and analysts to visit our facilities in Italy. The visit included a tour of our operations and allowed them to meet with more of our employees. We plan to run a similar visit to our new facility in Bury St. Edmunds that will open in 2018. We aim to ensure that our business, strategy, governance and remuneration policies are clearly understood and that any concerns are addressed through constructive engagement.

How does the Board use the AGM to communicate with all shareholders?

I was pleased to meet some of our shareholders at the 2017 AGM and look forward to meeting shareholders again at the 2018 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 forthcoming 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.

How do shareholders vote 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 2017 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.

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.

What about other types 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 Governance Code in respect of shareholder meetings 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

21 February 2018



The Audit Committee is responsible for ensuring the effective financial integrity of the Group through the regular review of its financial processes and performance. It is also responsible for ensuring that the Group has appropriate risk management and internal controls, and that internal and external audit processes are robust. I will explain the Committee's activities in more detail in my report.

The Audit Committee at the date of this report comprises four independent Non-Executive Directors. During 2017 the members were:

Chairman	Members
Christopher Humphrey	Lorraine Rienecker Mark Rollins Caroline Thomson

The Audit Committee provides effective governance over external financial reporting, risk management and internal controls and reports its findings and recommendations to the Board. As Chairman of the Audit Committee, I am pleased to report on the operations of the Committee during 2017, with emphasis on the specific matters we considered, including compliance with the Governance Code and associated Guidance on Audit Committees. We fully comply with the requirements of the Governance Code as issued in April 2016.

What qualifications and skills do you possess as Audit Committee Chairman?

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 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.

What did the Committee do in 2017?

In 2017 I chaired four scheduled meetings of the Committee and I worked closely with both Group Finance Directors, 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 2017 was to ensure the smooth handover to Kath Kearney-Croft as the new Group Finance Director and full details of her induction are contained earlier in this report. Her induction has been extremely thorough and she provides detailed input to the Audit Committee. The Committee also undertook in the latter part of 2017 a tender for the services of the external auditor. This was earlier than expected due to a number of business changes that I explain in more detail below. Full details of the work we completed during 2017 is set out in the table on page 68.

How long has KPMG been the Group's Auditor?

KPMG has been the Company's auditor since 19 July 1995 and we comply with the requirement to rotate the audit partner every five years. Adrian Wilcox was appointed as Audit Partner in 2016 and was in attendance at the 2017 AGM.

How did the Committee review the effectiveness of KPMG?

Before I explain about the tender process for the external auditor, I will explain how we formally assessed the effectiveness of the external auditor during 2017. Alongside collecting verbal feedback from each business unit on KPMG's performance, every three years we issue a feedback questionnaire to employees who had interaction with KPMG during the 2016 audit. The questionnaire was issued in mid-2017 and covered areas of: leadership and team structure; planning, approach and scope; execution and process; risks; communication; independence and objectivity; adding value; and cost effectiveness. The results of the questionnaire showed that KPMG was performing adequately and highlighted areas for improvement during the 2017 audit process.

The aggregated results of the questionnaires were shared with KPMG and allowed the Audit Committee to conclude that the KPMG audit process was robust, effective and in accordance with auditing standards. We also took into account publications made by the FRC, including the Audit Quality Practice Aid for Audit Committees as published in May 2015. These provided the Committee with comfort that an external and independent review of the quality of KPMG's overall audit work had taken place.

Why did you tender the external auditor?

In the 2016 Annual Report we reported that we expected to tender the external auditor in 2020, to coincide with the rotation of the audit partner, or earlier, if KPMG's performance fell short of the Audit Committee's expectations. In late 2017 we decided to accelerate the tender of the external auditor due to a number of factors, including: the appointment of a new Group Finance Director; the change to a three Divisional reporting structure; material changes to the composition of the Group following the sales of Bexel and Haigh-Farr and the acquisitions of the JOBY and Lowepro brands and RTMotion.

What process was undertaken in selecting a new external auditor?

Following a decision by the Audit Committee to put the external audit to tender, a number of firms were invited including Deloitte, EY, PwC and BDO. BDO declined to participate due to their limited knowledge of our business. Initial meetings were held with each firm and the Group Finance Director, following which a number of due diligence documents were shared with each firm to allow them to gain a better understanding of our business. Formal tender meetings were held with each firm where they presented their proposals and met with a number of head office and divisional finance colleagues. The proposed lead audit partners also met with myself as Chairman of the Audit Committee and the Group Finance Director. All three firms presented to the Audit Committee in December 2017 on a blind fee basis, and were rated on a pre-defined list of criteria before fees were disclosed. Two firms were shortlisted and a recommendation made to the Board. Following further discussion, the lead audit partner from the preferred firm met with the Board Chairman and Group Chief Executive. A final decision on the appointment of a new external auditor was made by the Board on 21 February 2018.

Which audit firm is being recommended to shareholders to be appointed as the external auditor at the 2018 AGM and why?

As a result of the tender process, the Audit Committee recommended to the Board that Deloitte LLP ("Deloitte") be appointed as the Group's external auditor. KPMG will not seek re-appointment at the 2018 AGM and therefore the Board recommend to shareholders for approval at the 2018 AGM, the appointment of Deloitte, to succeed KPMG as the external auditor for the financial year commencing 1 January 2018. As outgoing auditor, KPMG will provide the Company with a statement of the reasons for ceasing to hold office as the Company's external auditor and a copy will be circulated to shareholders attached to the 2018 AGM Notice of Meeting.

Deloitte was the strongest candidate firm and had built up a strategic relationship with the Group over a number of years. Its audit team impressed the Group head office and Divisional finance functions with their technical knowledge and its senior team was felt to have the best fit with the Group. Deloitte is currently the Group's tax advisor and due to independence issues will step down from this role at the commencement of the audit engagement.

A resolution will be put to shareholders at the 2018 AGM to recommend the appointment of Deloitte as auditor of the Group. A separate resolution for the approval of the external auditors remuneration will also be put to shareholders at the 2018 AGM.

We will review Deloitte's performance during 2018 and provide a summary in the 2018 Annual Report.

How do you keep on top of matters outside meetings?

I 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.

Was the Company subject to any reviews by the FRC during 2017?

The Company was not subject to any FRC reviews during 2017. Should this occur in future, we will advise shareholders in the subsequent Annual Report.

How has the Committee assessed 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 19 February 2018 the adoption of the financial statements as at 31 December 2017 and that they provide a true and fair view of the financial performance of the Group.

What were the significant accounting issues considered by the Committee?

The Committee considered several significant accounting issues, matters and judgements in relation to the Group's financial statements and disclosures for the year ended 31 December 2017. As part of the half year and full year reporting process, management present an accounting paper to the Committee, and the external auditor is asked to also comment on the key significant areas of accounting judgement and disclosure, specifically inventory and tax provisions. The information presented is used by the Committee to critically review and assess the key policies and judgements that have been applied, the consistency of policy application and the appropriateness of key disclosures made, together with compliance with the applicable accounting standards. The significant issues arising and a description of how each was addressed is shown in the following table.

Significant issue	How it was 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 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 other 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.

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 KPMG have been set by the Committee. The policy ensures that the non-audit work provided by KPMG does not impair their independence or objectivity and is divided into two parts:

- Work from which the external auditor is excluded: 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.
- Work where use of the external auditor may be deemed appropriate – 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), valuation and actuarial services, fairness opinions and contribution reports.

I confirm that during 2017 the policy was followed without exception. A report on the level of non-audit work provided by KPMG is given to the Committee half-yearly and the Committee is satisfied that the advice they received from KPMG has been objective and independent. During 2017, £0.1 million was paid to KPMG in respect of non-audit work compared to an audit fee of £0.7 million. This non-audit work mainly comprised the review of the half-yearly financial statements. The policy on non-audit services provided by the external auditor will continue to apply to Deloitte going forward from their appointment as external auditor.

Who else attends 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 2017 he attended three of the four scheduled meetings, either in whole or for part of the meeting. 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.

What is the policy on 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. During 2017 the policy was refined to include only two classes of work (previously three): services from which the external auditor is excluded and services for which the external auditor may be considered, which better represented how the policy was being applied in practice. There were no changes to the items of work covered by the policy except for being covered under two categories instead of three. An express provision was included in the policy that written permission must be obtained from the Group Finance Director before the external auditor is engaged for any

Corporate Governance

How was the Committee rated in the annual evaluation?

Our performance as a Committee was assessed through the external Board performance evaluation, information on which is provided in the 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 2018 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 2017 and the progress made is summarised below. I am pleased to confirm that we successfully achieved all of these objectives. Progress on achievement against our 2018 objectives will be reported in next year's Annual Report.

2017 Audit Committee Objectives Progress during 2017

2017 Audit Committee Objectives	Progress during 2017
Ensure continued appropriateness of the Group's Risk Management processes and that internal audit actions are aligned with critical business risks. Oversee resources of internal audit team	<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 2016 Annual Report Reviewed regular Risk Assurance Reports from the Group Risk Assurance Manager Approved the 2017 Internal Audit Plan Initiated the recruitment of an additional internal audit resource in the US
Receive updated governance materials and discuss their impact on the Group, and oversee the Group's whistleblowing arrangements	<ul style="list-style-type: none"> Received technical updates during the year from KPMG's Audit Committee Institute, other publications from major accounting firms and a legal and regulatory presentation Reviewed and recommended to the Board the Viability Statement as disclosed in the 2016 Annual Report Received a presentation from Adrian Wilcox, the senior KPMG partner, on forthcoming technical and governance changes Oversaw the Group's whistleblowing arrangements and the recommunication of the whistleblowing service to all employees in August 2017 Update on suppliers vetted through the Group's reputational risk database
Oversee the Group's Treasury function	<ul style="list-style-type: none"> Presentation from Group Treasurer on the Group's Treasury function Recommended the Group's Treasury policy to the Board for approval
Review the Group's Tax strategy	<ul style="list-style-type: none"> Scheduled for February 2018 Audit Committee meeting
Ensure successful induction of Group Finance Director	<ul style="list-style-type: none"> Met with finance team to understand Vitec's finance function Met with key external advisors including KPMG, Investec, Slaughter and May and Rothschild and key banking relationship managers Met with Christopher Humphrey to discuss the finance function and workings of the Audit Committee Visited major sites including: Costa Rica, Bury St. Edmunds, various sites in the US and Italy Attended NAB in Las Vegas Participated in the AGM and met with a number of investors and analysts following the half year results Received a governance induction from the Group Company Secretary Led the finance process around the 2017 half and full year results Led the re-forecast process for 2017 and the budget process for 2018 Managed the tender process for the external audit services alongside Christopher Humphrey Reviewed the Group's Investor Relations strategy

Audit Committee activities during 2017

During 2017 the Audit Committee had four scheduled meetings. At each scheduled meeting 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

The following specific business was dealt with at each meeting held in 2017:

February

- Annual results for 31 December 2016, including:
 - Accounting issues report
 - Full year report from the external auditor including Auditor's Report to be included in the 2016 Annual Report
 - Consolidated financial statements for the year ended 31 December 2016
 - 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
 - Process behind the drafting of the Viability Statement
- Recommendations to the Board on:
 - The consolidated financial statements
 - The reappointment of, and fees for, KPMG
 - The independence and objectivity of KPMG
 - Management's representation letter to KPMG
 - The Viability Statement
- Reviewed results of enhanced controls self-assessment process
- Reviewed 2017 internal audit plan
- Summaries of internal audit's reviews of the business
- Private meeting between the Committee and external auditor without executive management present

June

- Reviewed progress on compliance with General Data Protection Regulations
- Approved policy on audit and non-audit services provided by the external auditor
- Reviewed outcome of review of the external auditor following the year end
- Reviewed external audit strategy for the year ended 31 December 2017
- Training session from KPMG on technical and governance issues
- Summaries of internal audit's reviews of the business

August

- Reviewed KPMG's fees and scope for the external audit for 31 December 2017
- Half year results for 30 June 2017, including reviews of:
 - Accounting issues report
 - Report from the external auditor
 - Results for the half year ended 30 June 2017
 - Fees for non-audit services and professional fees
 - Principal risks and uncertainties
- Recommendations to the Board on:
 - The half year results
 - Management's representation letter to KPMG
- Summaries of internal audit's reviews of the business
- Presentation on geopolitical risks

December

- Considered the outcome of 2017 objectives and agreed 2018 objectives
- Considered progress on a tender for the external auditor
- Reviewed bribery and whistleblowing arrangements
- Presentation on the Group's Treasury strategy
- Presentation on legal and regulatory matters

Christopher Humphrey
 Chairman, Audit Committee

21 February 2018