



Enabling the capture  
and sharing of  
exceptional content

**The Vitec Group plc**  
Annual Report and Accounts 2019





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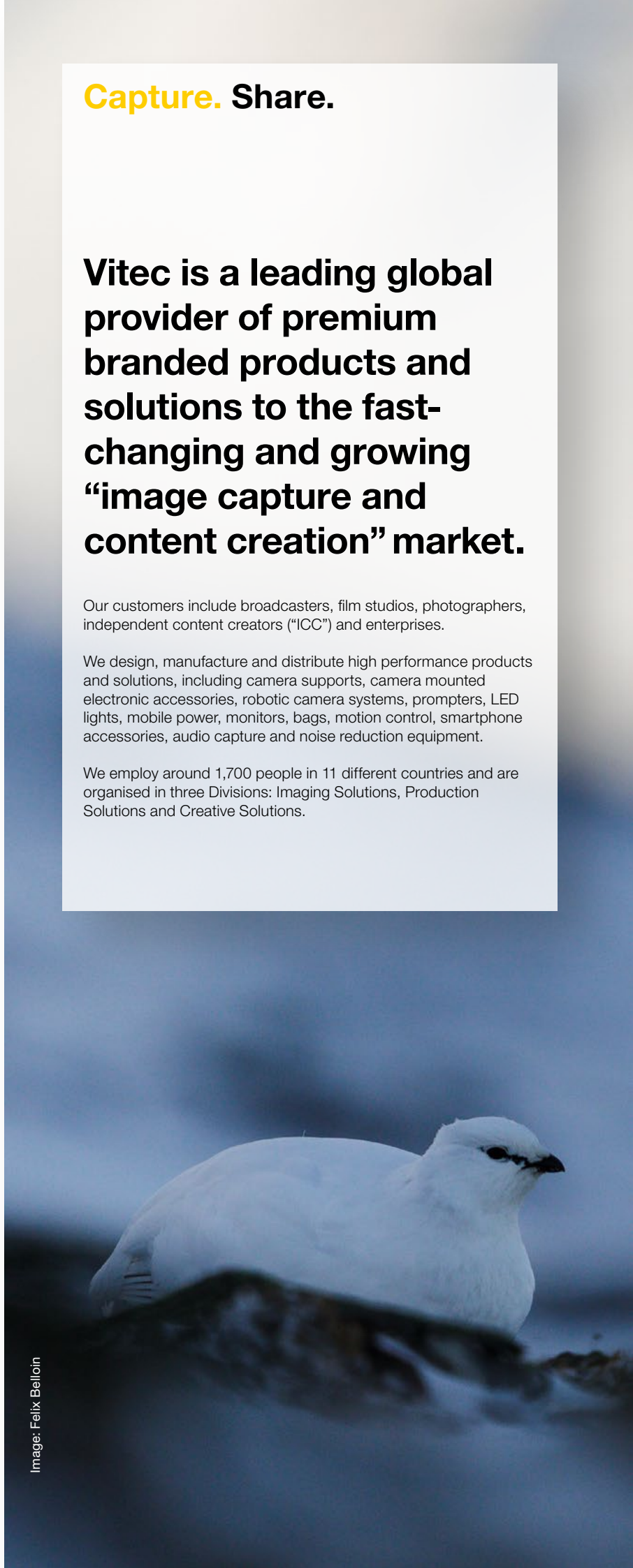
**Capture. Share.**

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

Our customers include broadcasters, film studios, photographers, independent content creators (“ICC”) and enterprises.

We design, manufacture and distribute high performance products and solutions, including camera supports, camera mounted electronic accessories, robotic camera systems, prompters, LED lights, mobile power, monitors, bags, motion control, smartphone accessories, audio capture and noise reduction equipment.

We employ around 1,700 people in 11 different countries and are organised in three Divisions: Imaging Solutions, Production Solutions and Creative Solutions.



# 2019 financial highlights<sup>1</sup>

## Revenue

£376.1m

↓ Down 2.4%

## Adjusted operating profit\*

£52.4m

↓ Down 2.1%



## Statutory operating profit

£32.0m

↓ Down 20.4%

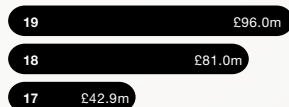
## Recommended final dividend per share

26.7p

↑ Up 4.7%

## Net debt

£96.0m



## Adjusted operating margin\*

13.9%

→ No movement

## Statutory operating margin

8.5%

↓ Down 190 bps

## Interim dividend per share

12.3p

## Adjusted basic earnings per share\*

80.6p



## Basic earnings per share from continuing and discontinued operations

44.9p

↓ Down 41.0%

## Recommended total dividend per share

39.0p

↑ Up 5.4%

(1) 2019 results have been prepared under IFRS 16 "Leases". Prior year comparatives have not been restated.

\* This report provides alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards ("IFRS"). The Group uses these APMs to improve the comparability of information between reporting periods and Divisions, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group's businesses. APMs are used by the Directors and management for performance analysis, planning, reporting and incentive purposes. A summary of APMs used and their closest equivalent statutory measures is given in the Glossary on pages 171 and 172.

## Key points

### Financial highlights

- Robust financial performance despite non-repeat of the Winter Olympics:
  - Stable adjusted operating margin\* including benefit from self-help actions
  - Impact of two, specific, one-off events: severe retailer destocking in Imaging Solutions and slower than expected recovery at SmallHD following the fire in 2018
  - Statutory operating profit of £32.0 million (2018: £40.2 million) after £20.4 million (2018: £13.3 million) of adjusting items, including previously announced restructuring

- Strong financial position: net debt of £96.0 million is £7.4 million lower than 2018 (excl. IFRS 16) and net debt to adjusted EBITDA\* is 1.2x
- Total dividend up 5.4% to 39.0p per share, dividend cover at 2.1 times

### Operational and strategic highlights

- Significant strategic progress investing in targeted growth initiatives in faster growing segments
- Imaging Solutions' restructuring on track to transform digital and e-commerce capabilities
- Further margin improvement at Production Solutions driven by operational efficiencies
- Integration of Amimon in Creative Solutions complete and Teradek 4K wireless video products for the cine market shipping

# At a glance

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

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

These technologies range from traditional mechanical engineered

products, for example manual camera supports, through to electronics and software. Nonetheless, the user is the same – a content creator – who may be a broadcaster or production company, a corporate or religious establishment, operating as an independent business or an amateur photographer or vlogger.

We sell our products globally via multiple distribution channels, our own sales teams, and through e-commerce via our own and third party websites.

## Our core customers

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

Commercial TV, news and sport for broadcasters and TV networks

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

## Our product categories and brands

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

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

### Camera accessories

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

### Supports

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

### Robotic camera systems

- Camera Corps
- Vinten

### Prompters

- Autocue
- Autoscript

### Mobile power

- Anton/Bauer

### Motion control

- Syrp

### Lighting & controls

- Colorama
- JOBY
- Lastolite by Manfrotto
- Litepanels
- Manfrotto

### Bags

- Lowepro
- Manfrotto
- National Geographic#
- Sachtler

### Video transmission systems

- Teradek

### Monitors

- SmallHD

### Audio capture

- JOBY
- Rycote

### Distribution, rental & services

- Camera Corps
- The Camera Store

# Manufactured under licence

Imaging Solutions



Vitec's Imaging Solutions Division designs, manufactures and distributes premium branded equipment for photographic and video cameras and smartphones. Products are designed for professional and amateur image makers, independent content creators and vloggers, and include camera supports and heads, camera bags, smartphone accessories, motion control, lens filters, lighting, audio capture and noise reduction equipment.

➔ Read more about Imaging Solutions in the operational review on page 24

£196.6m

Revenue: -2.5%

Production Solutions



Vitec's Production Solutions Division designs, manufactures and distributes technically advanced products which give broadcasters, film studios, production companies and independent content creators total confidence in the production equipment they depend upon to capture and share world-class footage. Products include video heads and supports, lights, batteries, prompters and robotic camera systems. It also supplies premium services including equipment rental and technical solutions.

➔ Read more about Production Solutions in the operational review on page 28

£111.8m

Revenue: -5.8%

Creative Solutions



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

➔ Read more about Creative Solutions in the operational review on page 32

£67.7m

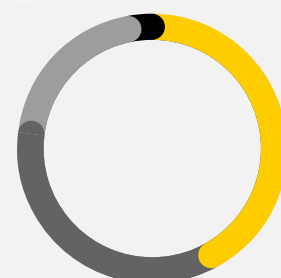
Revenue: +4.0%

Our global footprint



■ Vitec manufacturing, R&D and procurement sites  
 ■ Distribution sites

2019 revenue



■ North America: 42%  
 ■ Europe: 35%  
 ■ APAC: 20%  
 ■ Rest of the world: 3%

# Chairman's welcome



## Dear Shareholder

This is my first statement to shareholders since joining the Board on 25 February 2019 and becoming Chairman on 21 May 2019, and it gives me great pleasure to set out my initial views on joining the Company.

I have undertaken a thorough induction to the Group, meeting with its Divisional senior management teams and a wide number of our employees. I have visited our major operations based in Bury St Edmunds, UK, Bassano/Feltre, Italy and Irvine, US. I had a thorough handover from my predecessor, John McDonough, who stood down from the Board at the conclusion of the 2019 AGM. I would like to give my personal thanks to John for making my introduction to Vitec very easy. John was an excellent Chairman for the Group and on behalf of the Board and shareholders I would like to give our thanks and best wishes to him.

There have been several highlights for me since joining Vitec. First, I have been extremely impressed by the skill, passion and dedication of our employees in delivering products and solutions to enable our customers to capture and share exceptional content. Our employees are our greatest asset and I would like to place on record the Board's appreciation of our employees' efforts. We also have a talented and stable executive management team, with great experience in our markets and who are clearly incentivised to deliver on our growth strategy.

Second, in June 2019 the Board carried out a detailed review of the Group's strategy, including a visit to our Italian operations based in Bassano and Feltre. We are confident about our strategy and that it will deliver long-term sustainable growth for shareholders.

Third, since joining the Board I have met with several of our major shareholders to hear their views on Vitec and I am delighted to have active engagement with them.

Vitec made good strategic progress in 2019, transitioning the Group. However, our financial performance was impacted by two specific one-off events. First, retail destocking in Imaging Solutions was unusually severe. Second, there was a slower than expected trading recovery at SmallHD, following the fire in April 2018 and the ending of receipt of insurance income. Despite these challenges, we have delivered a creditable performance in 2019, and our clear and consistent strategy means that we are positioned to deliver sustainable growth and returns for shareholders over the next few years.

We have a robust balance sheet, strong cash generation and are well funded. This enables us to continue to invest and grow our business for the future. The focus of this investment will include delivering 4K products for the cine market, accessories to support smartphonography and restructuring to transform our digital and e-commerce capabilities in Imaging Solutions.

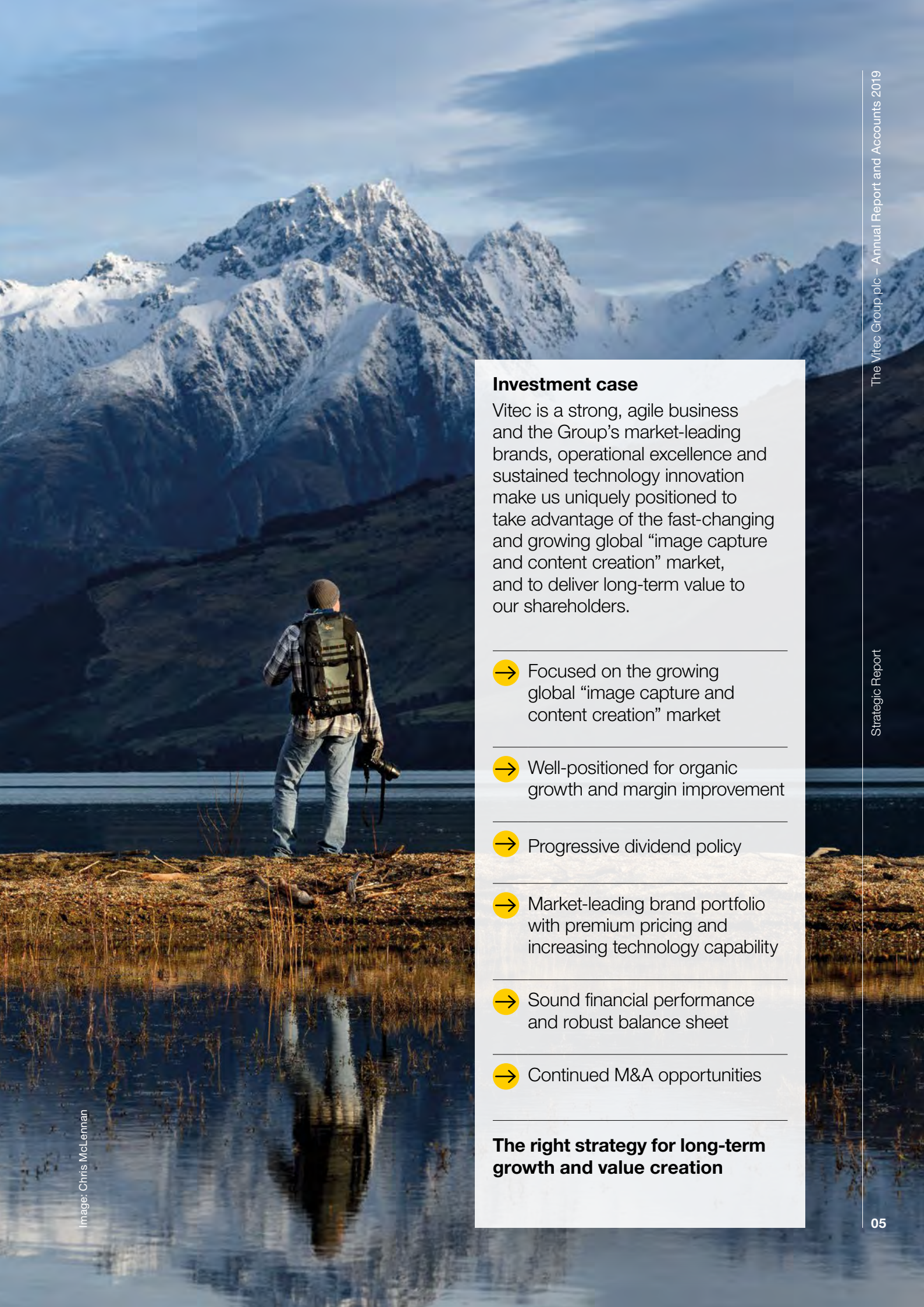
Given this creditable performance and the Board's confidence around the Group, we recommend a final dividend of 26.7 pence per ordinary share (2018: 25.5 pence) which, subject to shareholder approval at the 2020 AGM, will be paid on Friday, 29 May 2020.

During 2019, there was one other change to the Board. Kath Kearney-Croft left the Board as Group Finance Director on 13 September 2019. Martin Green succeeded her as Acting Group Finance Director and following a detailed search process, including assessing Martin in this role and looking at external candidates, we announced on 10 February 2020 that Martin would become the Group Finance Director with immediate effect.

Finally, in late 2019 we conducted an internal Board evaluation. The detail of this is covered in the Governance section of this Annual Report, however in summary, we consider that the Board is performing to a high standard, is effective in delivering on the Group's strategy and has robust governance arrangements in place. While we are faced with mixed end markets and uncertain geopolitical issues, the Board is confident that it has the right strategy and senior management team in place to successfully deliver for our shareholders.

I close my first statement by noting that the Board and I will be at the 2020 AGM to be held at The Academy of Medical Sciences in London on Wednesday, 27 May 2020. I look forward to the opportunity of meeting our shareholders then.

**Ian McHoul**  
Chairman  
27 February 2020



### Investment case

Vitec is a strong, agile business and the Group's market-leading brands, operational excellence and sustained technology innovation make us uniquely positioned to take advantage of the fast-changing and growing global "image capture and content creation" market, and to deliver long-term value to our shareholders.

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

**The right strategy for long-term growth and value creation**



**Stephen Bird**  
Group Chief Executive

## Strategic priorities:

1

### **Organic growth**

We leverage our premium brands by investing selectively in faster growing market segments. We launch innovative new products, expand our geographical reach, and maximise our distribution and digital channels to get closer to our customers and increase market share.

2

### **Margin improvement**

We are focused on improving our operating profit margins by optimising our manufacturing and assembly portfolio, by improving productivity and channel mix, and from capturing synergies from acquisitions.

3

### **M&A activity**

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







**2019 was a year of significant progress against our strategic objectives which will position the Group well for the future. We delivered a robust financial performance despite being impacted by severe retailer disruption in Imaging Solutions and a slower than expected recovery at SmallHD.**

2019 was a year of significant progress against our strategic objectives. We delivered a robust financial performance despite being impacted by two, specific, one-off events. First, retailer destocking in Imaging Solutions was unusually severe and second, there was a slower than expected trading recovery at SmallHD following the fire in 2018 and the ending of receipt of insurance income.

Our strategic investment during the year was wide-ranging, including innovative product development, sourcing and manufacturing excellence, extending our distribution and digital channels, strengthening our talent base, and expanding our addressable markets through M&A activity. Our structure is simple and lean which enables focused decision-making and allows us to react quickly to customer, market and technological changes. We have a strong balance sheet to support future organic and M&A investment, while providing progressive dividends for shareholders.

Our strategic priorities were unchanged in 2019 and continue to remain appropriate so will again be our priorities for the medium-term: to drive organic growth; improve margins; and to invest in new technology and markets.

#### **Organic growth**

We continue to leverage our premium brands to invest selectively in faster growing market segments. We remain confident in the growth potential of the independent content creator (“ICC”) and cine segments and growth drivers for our products include: the continued investment in original content by companies such as Netflix, Amazon, Apple and Disney; technology innovation and social media, smart and connected devices, which stimulate the capture and sharing of millions of images every day; broadcasters creating better content more cost effectively; and customer preference shifting to compact system cameras which is offsetting the decline in low end traditional DSLR cameras.

The Group is increasingly exposed to more growth markets and is investing in targeted growth initiatives. During 2019, we launched a significant number of innovative new products including the world’s first 4K zero delay wireless video transmission products. We grew our JOBY smartphonography accessories brand, and developed new on-camera monitors, audio capture, motion control, LED lighting, robotics and mobile power products across multiple brands.

In May, we announced a significant investment in a new digital platform and team to improve our web marketing and e-commerce capabilities in our Imaging Solutions Division. This was an important strategic move, enabling us to take advantage of retail trends towards e-commerce, where we outperform the competition and enjoy higher margins. The restructuring is well advanced and we expect to get the full benefit of this restructuring by the end of 2021. This investment will give Vitec the industry’s leading e-commerce platform and provides a long-term competitive advantage.

We faced several headwinds during the year, including a slower than expected recovery at SmallHD, severe retailer destocking in Imaging Solutions and the continued delay in the launch of a wide range of new mirrorless cameras. There was also a £2.0 million year-on-year net profit impact from tariffs affecting imports from China into the US in 2019.

#### **Margin improvement**

We continue to optimise our manufacturing and assembly portfolio, improve productivity and channel mix, and capture synergies from acquisitions.

During the year, we continued to drive margin improvements through further operational productivity efficiencies. Our Production Solutions Division minimised air freight which brought financial benefits as well as reducing carbon footprint, while supply chain optimisation through purchasing price initiatives delivered further financial savings. The Group also continues to implement lean manufacturing initiatives across its manufacturing sites. The integration of the 2018 Amimon and Rycote acquisitions is complete, delivering the planned synergies, and the businesses are performing in line with our expectations. We see more opportunity to continue to improve our margins.

#### **M&A activity**

We look to expand our addressable markets by investing in core and adjacent niche markets to further increase our technology capabilities. Our robust balance sheet will support additional value-adding acquisitions.

In January 2019, we supplemented organic growth with the acquisition of Syrp, the New Zealand based slider and motion control company. Syrp designs and develops motorised camera sliders and motion control hardware and software, which enable creatives to control their camera equipment remotely, allowing the capture and smooth tracking of shots for video, time-lapse and hyper-lapse photography. This acquisition is in line with Vitec’s strategy to drive growth by increasing our addressable markets and expanding our higher technology capabilities. Syrp’s market-leading products are highly complementary to Vitec’s existing brands and give our photographer and ICC customers greater flexibility to create and share exceptional content. The integration of Syrp into Imaging Solutions is complete and the business has become an R&D centre of excellence for mechatronic development.

The 2018 Amimon acquisition has transformed Vitec’s wireless video capabilities and given us a great platform to grow our Creative Solutions Division. Amimon’s unique, patented technology enables users to wirelessly monitor multiple video signals, in many locations, all at once, with no delay. This gives content creators much more creative freedom with camera angles and movement and saves tremendous cost on set. As previously mentioned, we have utilised Amimon technology to strengthen our position in the cine market with the launch of the world’s first 4K zero delay wireless video transmission products from Teradek in 2019. The development of a complete 4K wireless video ecosystem as well as new wireless products for the adjacent live production market are on track for launch in 2020.

#### **2019 performance overview**

Revenue in 2019 decreased by 2.4% to £376.1 million (2018: £385.4 million) and adjusted operating profit\* was 2.1% lower at £52.4 million (2018: £53.5 million). The results were impacted by retailer destocking at Imaging Solutions, non-repeat of the Winter Olympics at Production Solutions, and slower than expected recovery at SmallHD in Creative Solutions following the fire in 2018. Underlying

# CEO review (continued)

revenue declined by £12.8 million, but underlying adjusted operating profit\* increased by £2.2 million, driven by the benefit from self-help actions including operational efficiencies at Production Solutions and restructuring savings at Imaging Solutions. Revenue was lower by 6.1% on an organic constant FX basis excluding European Services.

Amimon, in its first full year of ownership, performed in line with our expectations with adjusted operating profit\* of £2.5 million, including the benefit from additional external sales in Teradek and SmallHD. Insurance staged payments totalling \$8.4 million (£6.5 million) were received in 2019 in relation to business interruption and increased costs for the SmallHD business following the fire in April 2018.

Adjusted operating margin\* was 13.9% on a reported basis which includes a benefit from the accounting treatment of the SmallHD insurance claim. We estimate the insurance had a favourable impact on adjusted operating margin\* of c. 40 bps, in both the current and prior years, after adding back the estimated impact of lost revenue.

Adjusted basic earnings per share\* were 80.6 pence per share (2018: 93.2 pence per share). ROCE\* of 18.5% was 330 bps lower than the prior year (2018: 21.8%).

Free cash flow\* of £30.5 million was £3.0 million lower than the prior year (2018: £33.5 million) and net debt at 31 December 2019 was £96.0 million (31 December 2018: £81.0 million). The Group's Balance Sheet remains strong with a net debt to adjusted EBITDA\* ratio of 1.4 times, or 1.2 times on a pre-IFRS 16 basis (31 December 2018: 1.2 times). We have maintained a prudent capital structure and operated comfortably within our loan covenants during 2019. A new RCF facility was signed on 14 February 2020 comprising a new five-year £165 million committed facility at similar interest rates to the prior £150 million facility.

## Update on impact of COVID-19

We are monitoring the situation carefully and in light of recent developments in Northern Italy have issued all of our employees with further guidance including restricting travel and precautionary measures in our sites. Our priority is on taking actions and precautions to ensure the safety and wellbeing of our employees.

### China

Vitec employs 53 people in China and the country accounts for approximately 5% of the Group's turnover. While we do not own any manufacturing sites in China, we have 25 suppliers of finished goods who supply products relating to approximately 25% of the Group's revenue. They are mainly based in the Guangdong province and we use a third-party logistics hub in Yiantian, both of which are over 800 miles from Wuhan. All of these facilities have reopened, however our supply chain suffered some disruption in January and February 2020, and there has been a slowdown in demand from the domestic Chinese market.

### Italy

Vitec employs 550 people in Italy and the country accounts for less than 4% of the Group's turnover. Approximately 25% of Group revenue comes from products made in our manufacturing facility in Feltre, we have an office facility in Cassola and we use a third-party logistics hub near Padua, all of which are in North Italy. Currently, all of these sites are open, however, many Cassola employees are

working from home as a precaution. We are continually evaluating and mitigating, where possible, the impacts of a closure of any of our Italian facilities on our supply chain, or a slowdown in end user demand from the domestic Italian market.

## Current assumptions

Clearly the duration and impact of COVID-19 is unknown at this stage. We currently estimate a total adverse H1 and FY 2020 impact on operating profit in the range of £3.0 to £5.0 million. This is based on the following assumptions. While we see the situation in China improving and we don't expect any further supply chain impact, we still anticipate a continued softness in domestic demand from China and APAC, significantly below our H1 expectations. In Italy, the lower end of the range assumes no shutdown of our Italian operations but a softness in domestic demand in Italy. The higher end of the range assumes a four-week shutdown of all of our Italian operations and a continued softness in domestic demand in Italy.

## Outlook

Although the Group's order visibility is limited, we remain confident in delivering further strategic progress in 2020. However, the duration and impact of COVID-19 is unknown at this stage and, given that half of our revenue comes from products either sourced from China or manufactured in Italy, based on our current assumptions, we estimate that operating profit for H1 and FY 2020 will be impacted by £3.0 to £5.0 million. As a result, we expect 2020 to be more H2 weighted than usual. We will continue to monitor the situation closely.

In Imaging Solutions, the previously announced restructuring to transform the Division's digital and e-commerce capabilities is expected to deliver savings, and it will benefit from the launch of a range of JOBY smartphonography accessories. Retail destocking is expected to continue, albeit at a lower rate.

In Production Solutions, the Summer Olympics and US presidential election should help to increase revenue, and we are targeting further operational efficiencies.

In Creative Solutions, we intend to launch the complete 4K ecosystem in the cine market as well as new wireless products for the adjacent live production market.

We will continue to identify bolt-on acquisitions in core and adjacent segments to further increase our technology capabilities and expand our addressable market.

Vitec is a strong, agile business, and the Group's market-leading brands, operational excellence and technology innovation makes us uniquely positioned to take advantage of the fast-changing and growing global "image capture and content creation" market, and to deliver long-term value to our shareholders.

## Approval of Strategic Report

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





**Stephen Bird**  
Group Chief Executive  
27 February 2020



# Our year in review

In 2019, Vitec made good progress implementing our strategic priorities. We invested in new product development, delivered continued operational excellence and completed one acquisition.

## 2019 timeline key

-  Acquisition
-  Operational development
-  Product launch
-  Event

### January – March

#### Acquisition

Acquired Syrp, the New Zealand based slider and motion control company




#### Product launch

SmallHD Focus Bolt Sidekick with built in Teradek receiver



#### Product launch

- Wooden Camera VX Skateboard Camera Mic
- Sachtler and Vinten Ground Spreader for the flowtech tripod

#### Operational development

- Launched Vitec Imaging Distribution Australia following the 2018 acquisition of Adeal
- Centralised all Amazon European Services into Italy for Imaging Solutions

### April – June

#### Product launch

Teradek Bolt 4K – the world's first 4K zero delay wireless video transmission system for the cine market



#### Product launch

- SmallHD Cine 7 – the first monitor to offer cinema camera control
- JOBY GorillaPod 3K Pro dedicated to vloggers and YouTubers using premium mirrorless cameras
- Anton/Bauer Titon battery series designed for on-location productions
- Litepanels Gemini 1X1 lights for fast-moving filmmakers
- Manfrotto Nitrotech 608 and 612 video heads featuring brand new fluid technology for perfect smoothness
- Vinten FH-155 and FHR-155 robotic/manual pan and tilt head, the industry's first pan-and-tilt head with an option for a fully integrated StarTracker module

#### Operational development

- Announced significant investment in Imaging Solutions to transform our digital and e-commerce capabilities
- Moved Rycote to Imaging Solutions where it is more aligned with our target audio customer base

#### Event

Ian McHoul succeeded John McDonough as Chairman on 21 May 2019



### July – September

#### Product launch

Syrp Genie Mini II – designed for independent content creators



#### Product launch

- Wooden Camera – full range of accessories for Alexa Mini LF
- Teradek Orbit PTZ – 4K wireless video transmission and control for PTZ cameras
- OConnor Ultimate 1040 flowtech100 system – the precision ultra-smooth OConnor camera movement with the speed, agility and stability of the flowtech tripod system
- Autoscript WinPlus-IP software incorporating enhanced device management and configuration management

#### Event

- Martin Green took over as Acting Group Finance Director
- Marco Vidali transferred from Imaging Solutions to Creative Solutions to fill new Chief Operating Officer role



#### Product launch

Gitzo 3-way Fluid Head with a new fluid formula that enables flawless movement control

# 2020 key events

2020 promises some exciting opportunities for Vitec.

## October – December



**Product launch**

JOBY Beamo LED lights in partnership with Apple

**Operational development**

- Completed integration of Amimon into Creative Solutions
- SmallHD insurance claim settled from April 2018
- Fast-track development of JOBY smartphone accessory ecosystem, including microphones and lights
- Transferred Imaging Solutions' US logistic hub to a facility designed to support growing Amazon and e-commerce sales

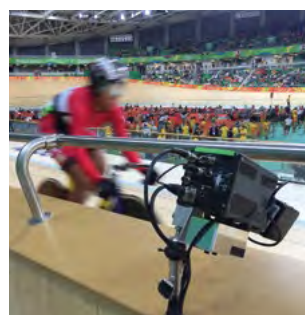
**Product launch**

- Manfrotto Manhattan Collection Runner-50 camera roller bag – two bags in one
- Wooden Camera 26V Gold Mount Plus battery brackets for Anton/Bauer batteries
- Manfrotto lighting accessories – Carbon Nanople Stand, Nano Plus Stand, 244 Micro Arm, Cold Shoe Tilt Head
- JOBY StandPoint smartphone case in partnership with Google
- Lowepro Whistler II series roller – hybrid rigid-hard design



## Tokyo 2020

Vitec will be in action in Japan for Tokyo 2020, supporting our eighth Summer Olympic Games. Tokyo will be our largest ever provision of specialist camera systems and crew that will help the Olympic Broadcasting Services to capture and share over 40 sports. We will be showcasing new products and 4K technologies throughout the Olympics.



## UEFA European Football Championship

Vitec is supporting the Euro 2020 tournament being held in 12 European cities in June and July 2020. We will be supplying a range of specialist equipment and crew for the 51 matches, host cities and fanzones.



## US presidential election

The US presidential election is being held in November 2020 with the presidential primaries scheduled to take place from February to June 2020 across all US states. The growth of social media has driven an exponential increase in video consumption, and thus video creation. The need to deliver constantly changing content to increase TV ratings, likes and shares is expected to continue to stimulate the demand for TV and photography equipment.



# Market trends

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

## 1

### Multiple new image capture devices

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

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

Continued technology enhancements mean that premium mirrorless cameras, drones, action cameras and smartphones have been adopted by customers as complementary equipment to traditional DSLR cameras. However, the built-in viewfinders and audio in drones, action cameras and smartphones are not high quality. Using small viewfinders makes it difficult to monitor the shot and poor audio deteriorates the video.

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

## 2

### Proliferation of new media platforms

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

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

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

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

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

Vitec provides a wide range of mobile equipment such as Manfrotto and JOBY compact tripods and monopods, Litepanels portable lights and Manfrotto and Lowepro carrying solutions, while Teradek’s wireless video transmission systems are used to monitor video on set.

## 3

### Wireless video transmission

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

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

Our acquisition of Amimon secured the underlying technology that is used in our existing Teradek encoders and decoders for the cine market. We are also transferring the Amimon technology to other areas of the “image capture and content creation” market to stimulate the wider adoption of wireless – for example, in live production and broadcast sports.



# 4

## Changes in distribution channels

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

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

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

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

Imaging Solutions has adapted to the change in distribution channels by transforming our digital and e-commerce capabilities. In 2019, over one-third of its revenue came from online platforms.



# 5

## Further technology innovation

4K resolution adoption has increased rapidly, with Netflix, Amazon, Sky and Apple all offering 4K Ultra HD streaming services, and advances in 5G, Artificial Intelligence (“AI”) and Virtual Reality (“VR”) are revolutionising amateur photography.

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

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

Vitec recently launched the world’s first 4K zero delay wireless video transmission system for the cine market and will launch a complete 4K ecosystem including SmallHD monitors later this year. We have launched multiple new smartphonography accessories under the JOBY brand to enhance photo/video capabilities.



# 6

## Exciting and unusual content

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

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

News crews need to be able to capture the moment by deploying their equipment quickly and efficiently. Independent content creators are keen to deploy new tools such as sliders, gimbals and drones to make their content more interesting by using, for example, time-lapses and hyper-lapses.

Vitec has pioneered the use of specialist high motion cameras in sports events like the Olympic Games and we are capitalising on Rycote’s audio expertise to develop innovative audio products.

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

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

# Our business model

We use our clear strategy, premium brands, efficient supply chain and global distribution to focus on delivering long-term value to our shareholders, outstanding product service to our customers and rewarding careers for our people.

## Structured for long-term growth and value creation:



### Clear strategy

Our strategy is focused on delivering long-term growth and margin improvement. We consider how key strategic decisions will impact our stakeholders and you can read more on this in the Governance report on pages 72 and 73.

### Our structure

Our structure is simple and lean with only two layers – Group and Divisions. This enables focused decision-making and allows us to react quickly to customer, market and technological changes. Our three Divisions focus on the different needs of our customer segments. They are decentralised and entrepreneurial but work with a global mindset in specific areas, where it makes sense to share our capabilities to benefit our stakeholders.

### Robust Group governance

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

### People and culture

We work across the Group to ensure that we have consistent policies and processes in place to acquire, engage and retain our best talent.

### Section 172

Under the 2018 UK Corporate Governance Code and The Companies (Miscellaneous Reporting) Regulations 2018 there is a requirement for the Board to understand the views of the Company's key stakeholders and to describe how those interests and the matters set out in Section 172 of the Companies Act 2006 have been considered in Board discussions and decision-making. Section 172 imposes a duty on a director to act in a way that he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. Further information on how the Board engages with its stakeholders is set out in the Governance report on pages 72 and 73.

## How we create value:






### Market knowledge and customer insight



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

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



-  See page 24 for more on our Imaging Solutions Division
-  See page 28 for more on our Production Solutions Division
-  See page 32 for more on our Creative Solutions Division



### Innovative product development



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

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

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

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



### Sourcing and manufacturing excellence



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

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

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



### Distribution and routes to market



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

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

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

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

# Our people and culture

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

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

The Group has three Divisions which allows us to react quickly to customer, market and technological changes. This, together with our decentralised structure and entrepreneurial culture, enables focused decision-making and minimised bureaucracy.

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

## Development, succession and retention

Our employees are critical to our success. Passionate, engaged and skilled employees in safe working environments positively contribute to our strategy, performance and reputation. We work across the Group to monitor and improve areas that are important to our people, ensuring that we have consistent policies and processes in place to acquire, engage and retain our best talent. Initiatives focus on wellbeing, working environment, diversity, employee benefits and training.

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

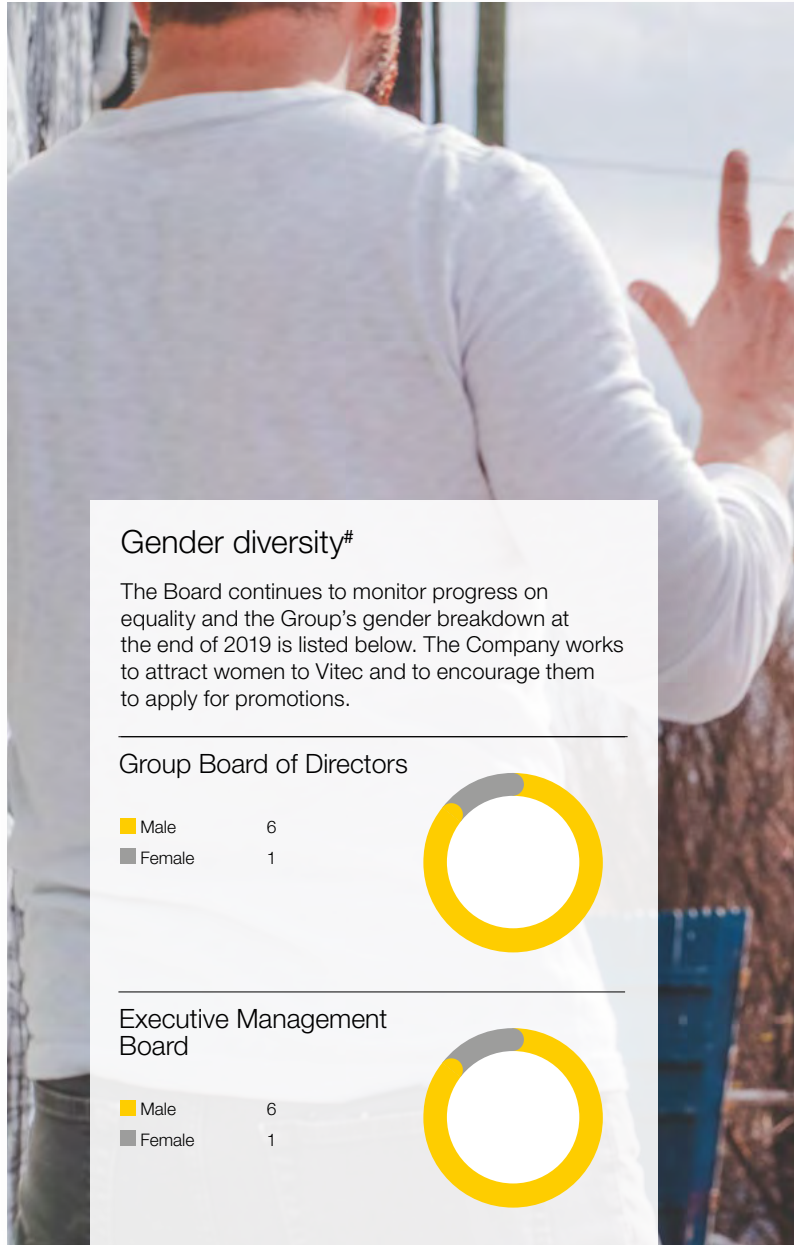
We continue to improve the working environment for our employees, creating modern spaces with upgraded technology and communication systems that enable collaboration and efficiency.

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

## Diversity and inclusion

We strive to employ a diverse workforce and foster an equal opportunities culture with an express prohibition on discrimination of any kind. Our approach to diversity follows a strict policy of sourcing the best person for the role irrespective of race, gender, age, religion, sexual preference or disability. Flexible working policies are in place across our three Divisions and open to all employees. This is usually granted, unless the needs of the business cannot otherwise be met.

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



## Gender diversity<sup>#</sup>

The Board continues to monitor progress on equality and the Group's gender breakdown at the end of 2019 is listed below. The Company works to attract women to Vitec and to encourage them to apply for promotions.

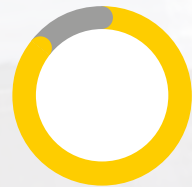
### Group Board of Directors

■ Male	6
■ Female	1



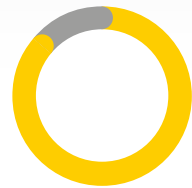
### Executive Management Board

■ Male	6
■ Female	1



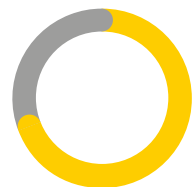
### Senior management

■ Male	31
■ Female	5



### Rest of organisation

■ Male	1,089
■ Female	484



We employ around 1,700 employees in 11 countries who work in accordance with local employment legislation, policies and our organisational values.

<sup>#</sup> Contractors are excluded.



**In 2019, I was lucky enough to move from the UK to Italy to run Imaging Solutions' Amazon global account. Every day has new challenges and learnings but that's what keeps it interesting and enjoyable. Vitec is constantly developing and growing.**

**Claire Taylor**  
Amazon Commercial Director  
Vitec Imaging Solutions, Italy



**Since the establishment of Vitec Imaging Distribution in Shanghai, I've experienced a business growing from nothing.** I'm very honoured to have participated in and built a huge logistics system covering a huge area and bringing it to a great digital era.

**Echo Jiang**  
*Logistics & Customer Service Manager, Vitec Imaging Distribution Shanghai, China*

**In 2019, I moved from a Product Manager in Imaging Solutions Italy to a Category Manager in the Australian distribution office which has given me a great opportunity to grow and a wider view of the business. Vitec is an exciting and stimulating environment which strengthens my passion for this job and the industry.**

**Sofia Braccio**  
*Category Manager, Vitec Imaging Distribution Australia*

**The past seven years at Vitec has taken me from designing the electrical assemblies within our Anton/Bauer products to now managing the development of all power and lighting products. Each year brings a fresh new set of challenges that help me grow, expand my skillset and keep me moving forward.**

**Dave Pasko**  
*Engineering Manager US, Vitec Production Solutions, US*

**At Vitec I have learnt to work in a team, which I now consider family.** It is a company that is characterised by focusing more on the person, than their appearance or colour of their skin. There are opportunities to grow both professionally and as a person. The flexibility motivates us to lead a healthy life.

**Priscilla Coto**  
*Quality Technician, Vitec Production Solutions, Costa Rica*

## Core values

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

**Exceptional product performance**  
We set the highest standards of technical performance

**Customer focus**  
We are nothing without our customers

**Leading a fast-changing market**  
We apply our creativity and harness our diversity to engineer innovative new products and solutions

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

**Transparency, integrity, respect**  
We hold to the highest professional and corporate standards

**After seven years as Amimon's Head of HR, the acquisition of Amimon came at an excellent time** for both the company and for me professionally. To be in charge of HR for an entire Division, despite being based in Israel with most of the team in the US, is a huge opportunity.

**Efrat Birav**  
*SVP Human Resources, Vitec Creative Solutions, Israel*

**I owe a lot to Vitec in terms of professional and personal experience;** every day is different, and I am learning a lot of new stuff! "What's next?" – this is what excites me the most about working at Vitec!

**Andrea Andreatta**  
*Group Development Manager, Group Head Office, UK*

# Employee engagement



**It was extremely informative and enjoyable to visit several of our sites and to meet numerous employees during 2019. I shared detailed feedback with the rest of my Board colleagues and I am looking forward to further visits in 2020. What really stands out is the passion and dedication of our employees, their commitment to delivering our strategic objectives and that Vitec is a great place to work.**

**Caroline Thomson**  
Non-Executive Director

In response to the 2018 UK Corporate Governance Code, the Board considered how best to handle new Code Provision 5 – dealing with the Board's engagement mechanism with the wider workforce at Vitec. It was agreed that this was best achieved by the Board designating one of the existing Non-Executive Directors to cover this role. Given her wide industry experience, notably at the BBC, and also her role as Chair of the Remuneration Committee, the Board considered that Caroline Thomson was best suited to fulfil this important new role.

Working with Martin Green in his previous role as Group Business Development & HR Director, Jon Bolton, the Group Company Secretary, and the Divisional HR Directors, a programme was developed for 2019 enabling Caroline to visit several sites in the Group and to meet with a wide array of Company employees. The visits covered employee engagement issues including working conditions, remuneration and benefits, work/life balance, communications, and development and training.

#### **Production Solutions**

In May 2019, Caroline visited the Production Solutions facility at Bury St Edmunds, UK where just under 200 employees are located. The visit entailed a full site tour and meeting with the Divisional CEO, Alan Hollis and Divisional HR Director, Penny Wisdom, to cover Divisional working practices including making Vitec a great place to work. The presentation covered business progress, remuneration and benefits across the Division, engagement, working conditions, health and safety, longevity of service, CSR initiatives and engagement with all employees. "People" has clearly been identified as the Division's number one strategic priority.

In addition to the site tour and meeting with Divisional management, Caroline also met 20 employees from the Bury St Edmunds site without Divisional management present. This enabled employees to raise questions about working at Vitec and to express any concerns that they had. A similar meeting was held for the Shelton, USA site via video conference, again



## Imaging Solutions

### Key facts on employees

<b>800+</b> employees located at 15 sites	<b>61%</b> male workforce	<b>39%</b> female workforce	<b>70%</b> Sharesave participation across the Division
Feltre and Bassano, Italy are the two principal sites	<b>44</b> average age	<b>11 years</b> average length of service	<b>5.6%</b> voluntary employee turnover

## Production Solutions

### Key facts on employees

<b>500+</b> employees located at 13 sites	<b>78%</b> male workforce	<b>22%</b> female workforce	<b>59%</b> Sharesave participation across the Division
Bury St Edmunds, UK and Cartago, Costa Rica are the two principal sites	<b>42.7</b> average age	<b>9.9</b> years average length of service	<b>3.7%</b> voluntary employee turnover

involving Caroline and 15 employees. Feedback was documented from each session on a “no names” basis to enable employees to feel that they could give open and frank views on working at Production Solutions. Feedback included improvements to the induction process, employee surveys, suggestions to better enable site interaction and collaboration, training, improvements to communications, flexible working practices and culture. This anonymous feedback was shared with Divisional senior management to enable it to be considered and any actions taken.

#### Imaging Solutions

In June 2019 Caroline visited the Imaging Solutions facilities based at Bassano and Feltre, Italy, where up to 500 employees are based. She also held a video conference with 15 employees based at the Imaging Solutions office in Shanghai, China. As part of the visit Caroline met with the Divisional CEO, Marco Pezzana and Divisional HR Director, Danilo Greco, to cover the Division’s working practices and employee engagement initiatives to make Vitec a great place to work. The presentation covered working practices, turnover rates, employee trust and perception levels, health and safety, engagement initiatives, talent development, and rewards and benefits. The visit also included site tours of the Imaging Solutions Bassano Head Office and the Feltre manufacturing site where Caroline met both office and factory-based employees.

Caroline held further separate meetings with 20 employees from the Feltre and Bassano sites without senior Divisional management present. This enabled Imaging Solutions employees to express their views directly on working for the Division. Again, feedback was documented from each session on an anonymous basis and covered business progress and development, expanding employee induction and training, improved communications and information sharing, flexible working practices, the appraisal system and rewards, environmental initiatives to cut waste and impact upon the environment, and health and safety. As with Production Solutions, this anonymous feedback was shared with Divisional senior management to enable it to be considered and any actions taken.

Detailed reports from both the Production Solutions and Imaging Solutions employee sessions have been shared with the Board and follow-up actions reported at the December 2019 Board meeting. From both engagement sessions, and also from wider employee engagement within the Group, the Board is confident that Vitec has a dedicated, engaged and motivated workforce and that Vitec provides rewarding and exciting career opportunities for its people.

In 2020, a similar exercise will be carried out for the Creative Solutions Division, principally involving US employees based at Teradek, California and SmallHD, North Carolina. This will also be extended to the European Services business which is based in the UK. We will report on this in 2020’s Annual Report as well as further progress on employee engagement within Production Solutions and Imaging Solutions.



# Principal risks and uncertainties



**One of my responsibilities as Group Finance Director is to support the risk management process in Vitec and work to ensure that it fully meets best practice in corporate governance. As I transfer into this new role, I can see how well the risk management**

**activity is embedded within the Divisions and that it enables senior management to take a holistic view of all the challenges and opportunities they face.**

**Martin Green**  
Group Finance Director

## Overview

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

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

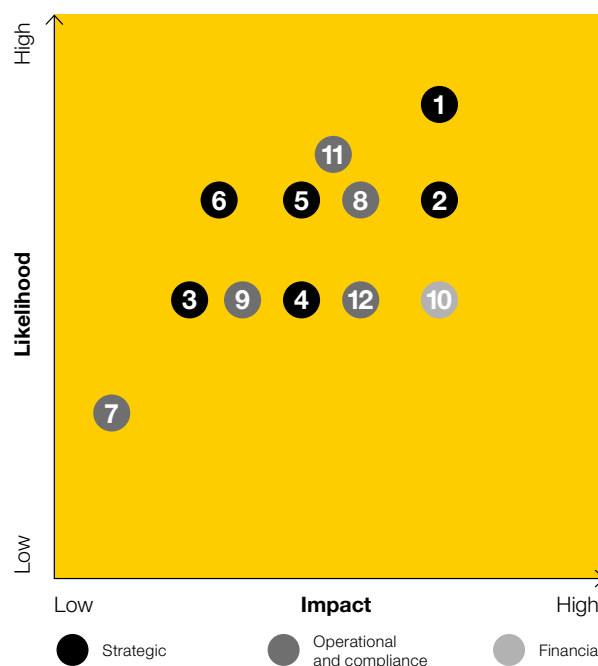
Our approach is underpinned by a commitment to fairness and honesty in our relationship with customers, suppliers, our people and all our stakeholders. The Group is risk averse with respect to risks that could negatively affect the safety of our employees and products, our brands or reputation, or risks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

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

To support our strategic priorities, we have several business objectives which drive the way in which we proactively manage risks. This includes: being a strong innovator and investing in research and development; identification of acquisition opportunities; optimising supply chain efficiency and operational excellence; and robust HR processes for resourcing and talent development.

## Update since 2018

- Our principal risks are reported net (after mitigation).
- The majority of risks are long term in nature and in general do not change significantly in the short term.
- People risk is deemed lower due to low employee turnover at a senior level and the various retention plans in place.
- With the ongoing improvements to our digital and e-commerce capabilities, and other initiatives to improve efficiency, we believe that the risk related to restructuring is now a principal risk.
- The business continuity risk has increased in likelihood due to a general increase in cyber and business continuity threats, combined with the specific disruption caused by coronavirus.






## Principal risks

## Movement





Principal risks	Movement
1. Demand for Vitec's products	→ Stable
2. New markets and channels of distribution	→ Stable
3. Acquisitions	→ Stable
4. Pricing pressure	→ Stable
5. Dependence on key suppliers	→ Stable
6. Dependence on key customers	→ Stable
7. People	↓ Reduced
8. Laws and regulations	→ Stable
9. Reputation	→ Stable
10. Exchange rates	→ Stable
11. Business continuity including cyber security	↑ Increased
12. Effectiveness and impact of restructuring projects	↑ New principal risk

Principal risk	Specific risk	Movement	Strategic priority	Mitigation
1	<p><b>Demand for Vitec's products</b></p> <p>Demand for our products may be adversely affected by many factors, including changes in customer and consumer preferences and our ability to deliver appropriate products or to support changes in technology. Demand may be impacted by changes in distribution channels.</p> <p>The Group increasingly produces and sells products that are more technologically advanced, including encoders, transmitters and on-camera monitors. These products have a shorter life cycle than our historical products, and continuous investment in new product development is needed to keep up with changing demand. Demand may also be impacted by competitor activity, particularly from low-cost countries.</p>		<ul style="list-style-type: none"> <li>1 Organic growth</li> <li>2 Margin improvement</li> <li>3 M&amp;A activity</li> </ul>	<p>We value our relationships with our customers and to mitigate this risk we closely monitor our target markets and user requirements. We maintain good relationships with our key customers and make significant investments in product development and marketing activities to ensure that we remain competitive. We complete appropriate market analyses before developing new products to ensure that they are appropriately designed for our target markets. We closely monitor the demand for new products and phase out old product lines. We are actively pursuing growth in selected emerging markets.</p> <p>We actively pursue a strategy to reduce reliance on traditional market segments through the development of e-commerce platforms, and products for adjacent niche markets.</p>
2	<p><b>New markets and channels of distribution</b></p> <p>As we enter new markets and channels of distribution we may achieve lower than anticipated trading volumes and pricing levels or higher costs and resource requirements. This may impact the levels of profitability and cash flows delivered.</p> <p>We expect that the proportion of our business conducted through online channels will continue to increase, and we will continue our investment in new innovative products which address the needs of independent content creators. We are also increasing our presence and investment in APAC.</p>		<ul style="list-style-type: none"> <li>1 Organic growth</li> <li>2 Margin improvement</li> <li>3 M&amp;A activity</li> </ul>	<p>To mitigate these risks, we have a thorough process for assessing and planning the entry into new markets and related opportunities. This includes marketing and advertising strategies for our products and services. We continuously assess our performance and the related opportunities and risks in these markets. We adapt our approach taking into account our actual and anticipated performance. We review our channels of distribution to make sure that they remain appropriate. Our increased online presence creates IT security and compliance challenges which the Group is continually addressing.</p> <p>In 2019, we continued to expand our reach with the acquisition of Syrp in New Zealand. The Group announced a significant restructuring investment which will transition the Imaging Solutions Division to improve our digital and e-commerce capabilities.</p>
3	<p><b>Acquisitions</b></p> <p>In pursuing our business strategy, we continuously explore opportunities to expand our business through development activities such as strategic acquisitions. This involves a number of calculated risks including: acquiring desired businesses on economically acceptable terms; integrating new businesses, employees, business systems and technology; and realising satisfactory post-acquisition performance. We acquired Syrp in 2019 which will increase our addressable markets and expand our higher technology capabilities.</p>		<ul style="list-style-type: none"> <li>3 M&amp;A activity</li> </ul>	<p>We mitigate these risks by having a clear acquisition strategy with a robust valuation model. Thorough due diligence processes are completed including the use of external advisors where appropriate. The post-acquisition performance of each business is closely monitored and, before completion of any acquisition, a plan is developed to integrate the acquired businesses in an effective way.</p>
4	<p><b>Pricing pressure</b></p> <p>Vitec provides premium branded products and faces a number of competitors. The strength of this competition varies by product and geographical market.</p> <p>We continue to face price pressure from new market entrants, which we are responding to through the launch of new competitive product ranges. We continually review our production and sourcing activities for cost saving opportunities. We have also faced issues relating to parallel trades/price arbitrage particularly in our Imaging Solutions business which led us to enforce "Minimum Advertised Price" where this is permitted.</p>		<ul style="list-style-type: none"> <li>2 Margin improvement</li> </ul>	<p>We ensure that our product and service offering remains competitive by investing in new product development and in appropriate marketing and product support, and by improving the management of supply chain costs. This, and by working closely with our suppliers and managing expenses and cost base appropriately, allows us to support price increases when required. We are rationalising our product range to reduce complexity which will also allow us to achieve some cost saving on production.</p> <p>Most of our products and services have a premium or niche differentiation. Vitec has in the past exited markets where the margins and sales volumes are unattractive. We continue to monitor our pricing across the main currencies to reflect ongoing fluctuations.</p>
5	<p><b>Dependence on key suppliers</b></p> <p>We source materials and components from many suppliers in various locations and in some instances are more dependent on a limited number of suppliers for particular items. If any of these suppliers or subcontractors fail to meet the Group's requirements, we may not have readily available alternatives, thereby impacting our ability to provide an appropriate level of customer service.</p> <p>Our overall dependence on key suppliers has increased over the last few years as a result of the Group's decision to reduce its costs by outsourcing some manufacturing and assembly activities. For several of our products we are heavily dependent on a specific supplier for the provision of core elements of the products.</p>		<ul style="list-style-type: none"> <li>1 Organic growth</li> <li>2 Margin improvement</li> </ul>	<p>To address this risk we aim to secure multiple sources of supply for all materials and components, and develop strong relationships with our major suppliers. We review the performance of strategically important suppliers and outsourced providers globally on an ongoing basis. Where economical we look to source materials closer to the manufacturing facilities to reduce lead times and improve control over the supply chain.</p> <p>The acquisition of Amimon in 2018 and the successful development of alternative raw materials for some products have addressed some areas of exposure; however, this is offset by an increased reliance on vendors within other product groups. The coronavirus outbreak may also result in supply chain disruption (see risk related to Business continuity for more details).</p>

# Principal risks and uncertainties (continued)

Principal risk	Specific risk	Movement	Strategic priority	Mitigation
6	<p><b>Dependence on key customers</b></p> <p>While the Group has a wide customer base, the loss of a key customer, or a significant worsening in their success or financial performance, could result in a material impact on the Group's results.</p> <p>Vitec's largest customer accounted for marginally more than 10% of the Group's total turnover in 2019. The business also works with a variety of customers on large sporting events and the extent of these activities varies year-on-year. It is possible that the coronavirus outbreak may result in large events being cancelled, which would adversely affect our results.</p>		<p>1 Organic growth</p> <p>2 Margin improvement</p>	<p>We mitigate this risk by closely monitoring our performance with all customers through developing strong relationships and dedicated account management teams, and we monitor the financial performance of our key customers and the receivable balances outstanding from them. We continue to expand our customer base including entering into new channels of distribution. The increased investment in digital platforms will enable the Group to better serve end consumers and reduce reliance on third party distributors.</p>
7	<p><b>People</b></p> <p>We employ around 1,700 people and are exposed to a risk of being unable to retain or recruit suitable diverse talent to support the business. We manufacture and supply products from a number of locations and it is important that our people operate in a professional and safe environment.</p> <p>The overall risk is reduced due to a strong talent pool at all levels in the organisation. Turnover of management personnel is low; and retention plans are in place for key employees.</p>		<p>1 Organic growth</p> <p>3 M&amp;A activity</p>	<p>We recognise that it is important to motivate and retain capable people across our businesses to ensure we are not exposed to risk of unplanned employee turnover. We reward our people fairly and have appropriate recruitment, appraisal, talent management and succession planning strategies to ensure we recruit and retain diverse, good quality people and leadership across the business. We take our employees' health and safety very seriously and have appropriate processes in place to allow us to monitor and address any issues appropriately.</p>
8	<p><b>Laws and regulations</b></p> <p>We are subject to a comprehensive range of legal obligations in all countries in which we operate. As a result, we are exposed to many forms of legal risk. These include, without limitation, regulations relating to government contracting rules, taxation, data protection regimes, anti-bribery provisions, competition, and health and safety laws in numerous jurisdictions around the world. Failure to comply with such laws could significantly impact the Group's reputation and could expose the Group to fines and penalties. We may also incur additional cost from any legal action that is required to protect our intellectual property.</p> <p>The recent increases in tariffs on imports from China to the US have had an adverse effect on the purchase cost for some of our raw materials.</p> <p>The UK's exit from the European Union (Brexit) may have an impact on rates of duties and other taxes applied to our UK entities' exports and imports after the transition period has ended. While we expect this to be minimal, there may be other legal, regulatory and commercial ramifications, the likely impact of which are difficult to measure until a final trade agreement is in place between the UK and the EU.</p>		<p>1 Organic growth</p> <p>2 Margin improvement</p>	<p>We address this risk by having resources dedicated to legal and regulatory compliance supported by external advice where necessary. We monitor and respond to developments in the regulatory environment in which our companies operate, including the effect of tax changes.</p> <p>We enhance our controls, processes and employee knowledge to maintain good governance and to comply with laws and regulations. The Group has processes in place, including senior management training, to ensure that its worldwide business units understand and apply the Group's culture and processes to their own operations. We actively protect our intellectual property, and will legally pursue parties that infringe our intellectual property rights.</p> <p>We have a Brexit steering group which monitors developments and implements contingency measures to minimise the risk of disruption to trade flows that may arise at the end of the transition period, following the UK's exit from the EU. We aim to optimise product flows to reduce incremental tariffs and will review our pricing strategy in response to any changes in input costs, maintaining close contact with our distributors and suppliers. Due to the Group's diversified geographical footprint, and the characteristics of the industry sectors in which the Group operates, we believe that we are well positioned to manage any negative impact.</p> <p>With regard to the China/US tariffs affecting imports from China into the US, we continually evaluate our pricing and sourcing strategy to mitigate the impact of additional tariff costs.</p>



Principal risk	Specific risk	Movement	Strategic priority	Mitigation
9	<p><b>Reputation of the Group</b> Damage to our reputation and our brand names can arise from a range of events such as poor product performance, unsatisfactory customer service, and other events either within or outside our control. We are mindful of the increasing levels of regulatory and stakeholder scrutiny of companies' affairs, coupled with the widespread impact of social media.</p>		1 Organic growth	<p>We manage this risk by recognising the importance of our reputation and attempting to identify any potential issues quickly and address them appropriately. We recognise the importance of providing high quality products, good customer service and managing our business in a safe and professional manner. This requires all employees to commit to, and comply with, the Vitec Code of Conduct. Our IT Policy covers social media matters and is communicated to all employees and contractors. A whistleblowing facility is in place to allow employees to confidentially report any compliance issues.</p> <p>We have implemented a compliance programme with key vendors which includes site inspections and compliance database checks, and we require all vendors to sign up to the Vitec Code of Conduct or equivalent standards.</p>
10	<p><b>Exchange rates</b> The global nature of the Group's business means it is exposed to volatility in currency exchange rates in respect of foreign currency denominated transactions, and the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. The Group is exposed to a number of foreign currencies, the most significant being the US Dollar, Euro and Japanese Yen.</p>		1 Organic growth 2 Margin improvement	<p>We regularly review and assess our exposure to changes in exchange rates. We reduce the impact of sudden movements in exchange rates with the use of appropriate hedging activities on forecast foreign exchange net exposures. We do not hedge the translation effect of exchange rate movements on the Income Statement or Balance Sheet of overseas subsidiaries. However, the Group does finance overseas investments partly through the use of foreign currency borrowings in order to provide a net investment hedge over the foreign currency risk that arises on translation of its foreign currency subsidiaries.</p>
11	<p><b>Business continuity including cyber security</b> There are risks relating to business continuity resulting from specific events such as natural disasters including earthquakes, floods or fires, or pandemic flu. These may impact our manufacturing plants or supply chain, particularly where these account for a significant amount of our trading activity. We are also dependent on our IT platforms continuing to work effectively in supporting our business and therefore there is a cyber security risk for the Group.</p> <p>The combination of the coronavirus (COVID-19) outbreak, which may disrupt our business and our activity in China and elsewhere, together with a general continued business continuity and cyber security threats, has increased this risk.</p> <p>As regards COVID-19, Vitec employs 53 people in China and China accounts for 5% of the Group turnover. While we do not own any manufacturing sites in China, we do have approximately 25 suppliers of finished goods who are mainly based in the Guangdong province, and we use a third party logistics hub in Yiantian. Any prolonged closure of the manufacturing sites of our Chinese suppliers, as a result of efforts to contain COVID-19, may also affect the availability of key manufacturing components or spare parts sourced from China. Activities in other countries may be impacted, particularly Italy, where Vitec has a significant presence including a manufacturing facility.</p>		1 Organic growth	<p>We address this risk with Business Continuity Plans and Disaster Recovery Plans at our key sites, and by carrying out periodic IT and cyber security vulnerability assessments. There are standard procedures in place to escalate breaches and remediate IT security incidents.</p> <p>We have global insurances in place which provide cover for certain business interruption events. We review coverage annually to determine whether adjustments are needed.</p> <p>We have issued our employees with guidance on business travel to China, and other areas most affected by COVID-19, and are continually evaluating and mitigating any long-term impact of the coronavirus threat.</p> <p>Our HR teams are closely monitoring the status of Vitec employees based in China and other high risk locations, and communicating regular advice. The operations teams are in continuous communication with suppliers to assess the supply chain impact and take mitigating steps such as an increased use of air freight to reduce lead times. If the disruption persists in specific locations, it may be possible to switch production to alternative suppliers, or adapt routes to market.</p>
12	<p><b>Effectiveness and impact of restructuring</b> In 2019, we invested in our Imaging Solutions business to improve our digital and e-commerce capabilities. This restructuring of the sales and marketing network will deliver cost savings and margin improvements, and will help the Group develop online sales.</p> <p>There is a risk that the restructuring activity could be poorly executed and the objectives might not be fully achieved.</p>		1 Organic growth 2 Margin improvement	<p>To address this risk, projects are monitored closely by senior operational management with regular updates provided to the Board. We anticipate that there will be significant year-on-year savings. The status of the restructuring activities and risks relating to these projects are being carefully monitored.</p>

# VITEC IMAGING SOLUTIONS

## Operational review

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

Revenue

£196.6m

↓ Down 2.5%

Adjusted operating profit\*

£27.1m

↓ Down 12.9%

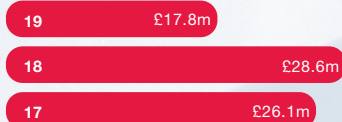
Revenue



Adjusted operating profit\*



Statutory operating profit



\* For Imaging Solutions, before charges associated with acquisition of businesses and other adjusting items of £9.3 million (2018: £2.5 million).





**We are passionate about enabling new creative possibilities to shoot still and video content, whether on an interchangeable lens camera or a smartphone.**

**Marco Pezzana**

Divisional Chief Executive, Vitec Imaging Solutions



**Addressable market**

We estimate that the addressable market for products manufactured by Vitec's Imaging Solutions Division is worth around £1.1 billion annually. The photographic market represents 70% of this and independent content creators make up the remainder. Mirrorless cameras and smartphones have also been adopted by professionals and advanced consumers as the distribution of images via social media continues to grow. Vitec is focusing on the opportunity to develop and commercialise innovative, high end accessories for mirrorless cameras and smartphones, as well as its more traditional DSLR market. We sell our products globally via multiple distribution channels and increasingly online via our own direct e-commerce capability and third party platforms.

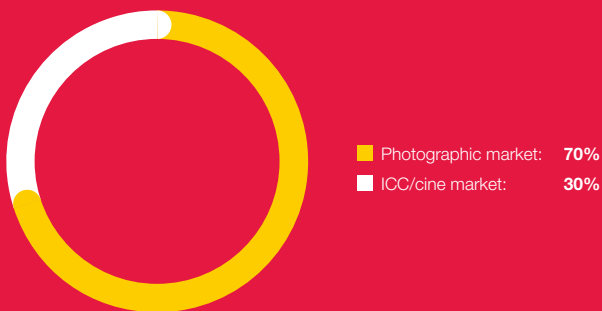
**Market position**

Vitec has leading premier brands in camera supports and heads, camera bags, smartphone accessories, motion control, lens filters, lighting, audio capture and noise reduction equipment for the professional and enthusiast photographer, videographer and vlogger.

**Operational review**

Imaging Solutions' revenue declined by 2.5% to £196.6 million and also by 2.5% at constant exchange rates with lower sales of photo and video supports and bags, partly offset by higher sales of JOBY, lighting supports and lighting controls. This was mainly driven by retailer destocking, which has been unusually severe, and does not reflect end-user demand which remains resilient. Revenue was 5.2% lower on an organic constant currency basis after stripping out the impact from the acquisitions of Adeal, Rycote and Syrp.

**Target audience**



**Our brands**

Product category	Brand	Market position†
Supports	Avenger JOBY Gitzo Manfrotto	1
Bags	Lowepr Manfrotto National Geographic#	1
Lighting & controls	Colorama JOBY Lastolite by Manfrotto	2
Motion control	Syrp	New
Audio	JOBY Rycote	New

# Manufactured under licence.

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

# Vitec Imaging Solutions (continued)

## Operational review (continued)

Retailer destocking started in Q4 2018 and became more severe in H2 2019. The key drivers were the decline in low end DSLR shipments, underperformance in the launch of new mirrorless cameras, and the growing impact of e-commerce with Amazon continuing to gain market share. Retailer destocking is expected to continue in 2020, albeit at a much lower rate.

While the latest data from Camera & Imaging Products Association ("CIPA") showed a year-on-year decline in interchangeable lens camera ("ILC") volume, the core high-end photographic market remained resilient. This is reflected by the increase in sales of lighting supports and controls versus the prior year. In addition, the average selling price of ILCs has risen by c. 3% and despite the overall decline in shipments, the proportion of mirrorless cameras has increased. Our accessories have a higher attachment rate to higher priced ILC cameras.

We further increased our exposure to faster growing markets by continuing to target independent content creators, with an increase in R&D investment, including in smartphone accessories, audio capture and motion control equipment. Sales of JOBY smartphone accessories grew and included the benefit from the new range of GorillaPod supports launched during the year.

As previously announced, we are transitioning our business to take advantage of the growth in the higher margin e-commerce channel. The restructuring is on track and is expected to deliver annual run-rate savings of c.£3.7 million per year by 2021 at a total project cost of c.£9.0 million.

Statutory operating profit decreased by £10.8 million to £17.8 million, which included £9.3 million of charges associated with acquisition of businesses and other adjusting items (2018: £2.5 million).

Adjusted operating profit\* for Imaging Solutions declined by 12.9% to £27.1 million and by 9.4% at constant exchange rates driven by lower volumes and the impact of US/China tariffs, partly offset by cost savings relating to the digital restructuring project. Adjusted operating margin\* decreased by 160 bps to 13.8%. After excluding the impact of acquisitions and foreign exchange, adjusted operating margin\* is 90 bps below 2018.

We expect the Division to continue to outperform the market by diversification into adjacent markets and restructuring of its business model, in line with the three-year strategy to increase revenue and maintain margins.





## Organic growth

### JOBY – THE accessory brand for smartphones with superior camera technology

With the groundwork completed in 2019, JOBY launched a new brand strategy in early 2020 along with multiple new smartphonography products, with the aim of becoming the accessory brand for smartphones with superior camera technology. Compatible with the top-selling JOBY GorillaPod platform, the new products offer a complete range of accessories to enhance video and photo content creation capabilities, all under one brand.

Launched via a digital marketing campaign primarily aimed at “Generation Z” (born 1995 – 2015) who aspire to become online influencers, all JOBY products are being sold direct to consumer (on JOBY.com) and via premium partners.

New products include: **Beamo lights** – a portable vlogging light, ideal to elevate video content; **Wavo microphones** – portable audio to improve smartphone sound, powered by Rycote; **Standpoint and FreeHold cases** – protective cases with a built-in tripod or finger loop.

### Digital transformation and scalable direct e-commerce capabilities

In May, we announced a significant investment in a new digital platform and team to improve our web marketing and e-commerce capabilities, across all of Imaging Solutions’ brands. This was an important strategic move, enabling us to take advantage of retail trends towards e-commerce, where we outperform the competition and enjoy higher margins. We also reorganised sales and marketing by distribution channel, mirroring our major e-commerce customers. The restructuring is well advanced, the new organisation will go live in early 2020 and we expect to get the full benefit by the end of 2021. This investment will give Vitec the industry’s leading e-commerce platform and provides a long-term competitive advantage.

## M&A

### Syrp acquisition expands addressable market

Vitec entered the slider and motion control market with the acquisition of Syrp in January 2019. Syrp, based in New Zealand, designs and develops motorised camera sliders and motion control hardware and software, which enable creatives to control their camera equipment remotely, allowing the capture and smooth tracking of shots for video, time-lapse and hyper-lapse photography.

This acquisition is in line with Vitec’s strategy to drive growth by increasing our addressable markets and expanding our higher technology capabilities. Syrp’s market-leading products are highly complementary to Vitec’s existing brands and give our photographer and ICC customers greater flexibility to create and share exceptional content. The integration of Syrp into Imaging Solutions is complete and the business has become an R&D centre of excellence for mechatronic development.

**I love my JOBY gear! As a solo traveller, JOBY makes it easier to create videos independently.** I’ve been using JOBY gear since I started making videos and it’s amazing to witness the evolution of these products.

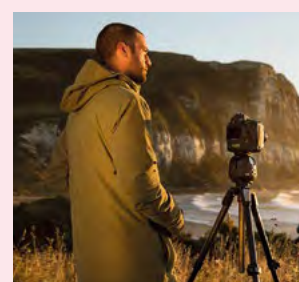
**Steve Yalo**  
*Travel Photographer & vlogger*



**The Beamo light has changed the way I think about vlogging on location.** Instead of wasting time searching for well lit areas, that’s no longer the case as I keep the Beamo in my camera bag at all times!

**Benjamin Brandon**  
*Vertical Filmmaker and Influencer*

**As admirers and users of the Vitec products, joining the Group was a perfect fit for us.** Imaging Solutions’ focus on connecting with and empowering creative users has aligned well with Syrp’s core values. The Group’s product portfolio is offering exciting opportunities for our team to reach a wider audience and expand on the technology we have built.



**Chris Thomson**  
*Design Director & Site Manager, Co-Founder of Syrp*



# VITEC PRODUCTION SOLUTIONS

## Operational review

The Production Solutions Division designs, manufactures and distributes premium branded and technically advanced products and solutions for broadcasters, film and video production companies, independent content creators and enterprises. Products include video heads, tripods, lights, batteries, prompts and speciality camera systems. It also supplies premium services including equipment rental and technical solutions.

Revenue

£111.8m

↓ Down 5.8%

Adjusted operating profit\*

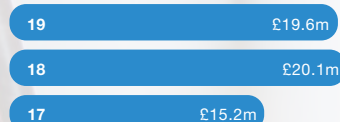
£19.6m

↓ Down 2.5%

Revenue



Adjusted operating profit\*



Statutory operating profit



\* For Production Solutions, before charges associated with acquisition of businesses and other adjusting items of £0.7 million (2018: £1.4 million).



**Our brands are renowned for their industry-leading quality and reliability, both in the studio and on location.**

**Alan Hollis**

Divisional Chief Executive, Vitec Production Solutions



**Addressable market**

We estimate that the broadcast market for products and services supplied by Vitec's Production Solutions Division is worth around £400 million annually. Vitec is well positioned due to its broad geographical reach and premium products. We have a global sales team that offers a full range of products and services to our customers all over the world, either directly or via distributors, both online and in stores.

**Market position**

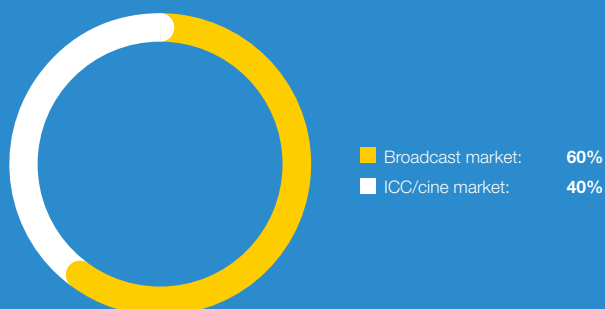
Vitec is the market leader in most of its product categories, providing leading products through our brands to the broadcast, cinema and video production markets, as well as to independent content creators.

**Operational review**

Production Solutions' revenue decreased by 5.8% to £111.8 million and by 8.4% at constant exchange rates, which includes the non-repeat of the 2018 Winter Olympics and the impact of our decision to exit the lower margin medical batteries business. On a constant currency basis excluding European Services, the Division delivered a solid performance with 5.8% adjusted operating profit\* growth on a reduction in revenue of 5.9%.

There was a reduction in sales of manual supports, and volumes of white LED lights declined as anticipated due to the trend towards commoditisation. We continued to focus on the more technically advanced multi-colour lighting segment and launched Litepanels' LED Gemini 1x1 lights in H1 2019.

**Target audience**



**Our brands**

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

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

# Vitec Production Solutions (continued)

## Operational review (continued)

Other new products launched during the year include a Vinten robotic head, which contributed to significant growth in robotic supports, and Anton/Bauer Titon digital batteries, which drove an increase in battery sales. We continue to invest in higher growth areas, including more products targeted at the ICC market.

Statutory operating profit increased by £0.2 million to £18.9 million, which included £0.7 million of adjusting items (2018: £1.4 million).

Adjusted operating margin\* increased by 60 bps to 17.5% but increased by 200 bps on a constant currency basis excluding European Services. We have continued to drive margin improvements through operational efficiencies, including the full year benefit from transferring our manufacturing operations from Shelton, US to our facility in Costa Rica in the prior year.

We expect continued progress from Production Solutions, particularly on margins, with a benefit in 2020 from the Olympic Games and US presidential election. The Division's three-year strategy is to maintain revenue and improve margins.



## Organic growth

### Anton/Bauer mobile power for cameras, lights and monitors

Anton/Bauer is the pioneering force behind many of the battery technologies that have become standard in the world of broadcast, video and cinema. Anton/Bauer products are specifically designed to power DSLR and mirrorless cameras, ENG and digital cine cameras as well as portable lights and monitors. 2019 saw the launch of new DIONIC and Titon batteries, delivering high quality, reliable and versatile mobile power for any location.

### Litepanels' innovative LED lighting for the broadcast and cinema industries

Through a continued commitment to innovation, Litepanels leads the way in LED lighting with its Astra series of Daylight, Tungsten, Bi-Color Soft and Bi-Focus lights. 2019 saw the introduction of the new super-versatile Gemini 1x1 series that introduces RGB (Red Green Blue) colours in addition to white, instant gel replication and special effects.

### RTÉ News launches refurbished studio with support from Vinten robotics

Vitec saw significant growth in its robotics product lines where some customers are looking for more cost efficient and automated products. For example, in 2019, RTÉ News, Ireland's leading public service television network, unveiled a brand-new look for its main news studio, Studio 3, with Vinten's state-of-the-art robotic camera support systems and software. Featuring Vinten's ceiling track, as well as robotic and manual supports, Vitec's robotics equipment is a key component in the newly completed refurbishment and technical upgrade project, designed to enhance the storytelling capabilities of Ireland's busiest television studio.

## Continued margin improvement

Production Solutions continued to drive margin improvements through further operational productivity efficiencies. 2019 saw a 24% year-on-year reduction in air freight which brought financial benefits as well as reducing carbon footprint. Supply chain optimisation through purchasing price initiatives delivered a further c.£0.3 million savings, and we had a c.£1.0 million benefit, as expected, from the move of our manufacturing operations from Shelton, US to Costa Rica that was completed in 2018. The Division continues to implement lean manufacturing initiatives in its Bury St Edmunds and Costa Rica sites, for example, optimising processes in the flowtech carbon fibre manufacturing cell as well as across machining and assembly.



**We're always on the lookout for gear that is lightweight and compact,** but crucially, reliable enough to get us the highest-quality shots first time. With just one Titon we were able to shoot for over six hours. Normally, we would have had to change the internal batteries three or four times in that period. With Titon, we were able to focus on getting the shots we needed.



**Elias Rüetschi**  
Co-Founder, PeakFrames



# Red Green Blue Warm-White

**The Gemini 1x1 Soft will be on every one of our shoots going forward. We can do anything with it** – it is the Swiss Army Knife of lights. Its output really is remarkable for a light of this size, and I love the fact that I can pack two in a Pelican case and carry them anywhere in the world to have all of these RGBWW# options and lighting effects at our fingertips.

**Alexa Mallalieu**  
Brand Strategist,  
Retro 8 Films

**As our first studio refresh in ten years, this project will help us leverage the latest technologies** — such as robotics, AR and VR systems — to create highly engaging content and capture new audiences. Because we were already relying on a variety of Vinten equipment, the new Vinten robotics components integrated seamlessly into our environment, which helped us maximise our budget.



**Myles Donoghue**  
Project Manager, RTÉ News

# VITEC CREATIVE SOLUTIONS



## Operational review

The Creative Solutions Division develops, manufactures and distributes premium branded products and solutions for independent content creators, enterprises, broadcasters, and film and video production companies. It is made up of a number of brands that Vitec has acquired and includes Teradek, SmallHD, Amimon, Wooden Camera and RTMotion. Products include wireless video transmission and lens control systems, monitors, camera accessories and software applications.

Revenue

£67.7m

↑ Up 4.0%

Adjusted operating profit\*

£15.6m

↓ Down 0.6%

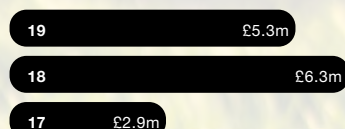
Revenue



Adjusted operating profit\*



Statutory operating profit



\* For Creative Solutions, before charges associated with acquisition of businesses and other adjusting items of £10.3 million (2018: £9.4 million).



# The demand for camera accessories continues to grow as daily screen time increases and original content production expands.

**Nicol Verheem**  
Divisional Chief Executive, Vitec Creative Solutions



### Addressable market

We estimate that the camera accessories market, focusing on content creators for products and services supplied by Vitec's Creative Solutions Division, is worth around £500 million annually. This includes film, scripted television series, independent video and enterprise video production. Vitec has a strong position due to its premium brands, market-leading technology and dedicated team of innovative product specialists with extensive experience in shooting both professional and amateur video content.

### Market position

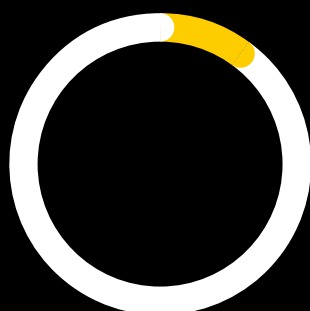
Vitec is the market leader in most of its product categories, providing leading products through our brands to the independent content creator and filmmaker markets.

### Operational review

Creative Solutions' revenue grew by 4.0% to £67.7 million and was broadly flat at constant exchange rates. Reported revenue growth included a benefit from the acquisition of Amimon and was 9.4% lower than the prior year after adjusting for currency and the acquisition. Growth at Teradek and RTMotion was more than offset by lower sales at SmallHD, driven by increased competition in the low end of the market. Adjusted operating profit\* was broadly in line with prior year at £15.6 million and declined by 4.9% at constant exchange rates.

SmallHD trading has been slow to recover following the fire in April 2018 as the business has continued to experience delays in launching new products. The low end of the monitor market, which was a key driver of sales in 2018, has seen a significant increase in competition. We expect to launch a range of higher end 4K field monitors later this year. The SmallHD insurance claim is now settled with proceeds of £6.5 million (2018: £7.8 million) received in 2019.

## Target audience



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

## Our brands

Product category	Brand	Market position†
Wireless video transmission systems	Teradek	1
Monitors	SmallHD	1
Lens control	Teradek RT	3
Camera accessories	Wooden Camera	3

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

# Vitec Creative Solutions (continued)

## Operational review (continued)

During the year we launched a number of market-leading new products, including Teradek Bolt 4K wireless cine products, the SmallHD Cine 7 monitor, and wireless lens control from RTMotion that integrates with other Creative Solutions brands.

The Division has continued to execute its strategy of integrated, 4K zero delay wireless video products, which it is uniquely able to deliver using Amimon's technology. The integration of Amimon in Creative Solutions is complete and the business is performing in line with expectations.

Statutory operating profit decreased by £1.0 million to £5.3 million, which included £10.3 million of charges associated with acquisition of businesses and other adjusting items (2018: £9.4 million).

Adjusted operating margin\* decreased by 100 bps to 23.1% on a reported basis, which included a benefit from the accounting treatment of the SmallHD insurance proceeds in 2019 and the prior year. Excluding SmallHD and the insurance income, adjusted operating margin\* was slightly lower in 2019, including the initial impact of Amimon and investment for future growth, although margins remain higher than the Group average.

We expect further growth for Creative Solutions including the benefit from the Amimon acquisition. We expect to maintain higher margins in line with the three-year strategy.



## M&A

### Integration of the Amimon acquisition

The integration of this 2018 acquisition is now complete and the business is performing in line with our expectations. Strategically, owning Amimon’s unique, patented technology has transformed Vitec’s wireless video capabilities and given us a great platform to grow.

The Amimon technology enables users to wirelessly monitor multiple video signals, in many locations, all at once, with no delay. This gives content creators much more creative freedom with camera angles and movement, and saves tremendous cost on set. We used Amimon technology to strengthen our position in the cine market, with the launch of the world’s first 4K zero delay wireless video transmission products from Teradek in 2019. And the development of a complete 4K ecosystem as well as new wireless products for the adjacent live production market are on track for launch in 2020.

## Organic growth

### Lightweight SmallHD Cine 7 Touchscreen On-Camera Monitor

SmallHD launched a range of new products at NAB in April, a little later than planned, after the disruption in 2018. The Cine 7 on-camera monitor with cinema camera control has been incredibly well received. It is the first monitor which allows users to control different manufacturers’ cameras from the actual monitor. It can also plug in to any wireless set with built-in Teradek Bolt transmitter and receiver models, as well as being able to integrate with Teradek RT wireless lens control.

### Teradek Bolt 4K – the future of wireless video

The desire to deliver only the highest quality video has driven companies like Netflix and Amazon to demand that their production crews only capture high resolution, high dynamic range (“HDR”) video on sets. In order to accomplish this effectively, content creators need 4K tools to help them monitor their shots. Vitec is uniquely positioned to deliver 4K products with our exclusive Amimon technology. Towards the end of the first half of the year, we launched the Teradek Bolt 4K, the world’s first 4K zero delay wireless video transmission system, with unique Amimon technology. This product has been well received in the market. But the transmission is only half of the solution. In 2020, Creative Solutions will be launching a complete 4K ecosystem which includes SmallHD 4K monitors.



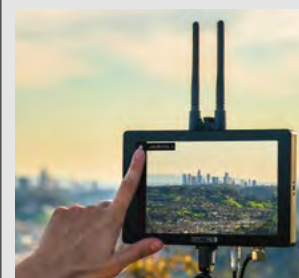
### We spent 2019 becoming part of the Creative Solutions Division at Vitec

– we unified activities, streamlined our processes and discovered how to jointly utilise our strengths and expertise. Working together, many new business opportunities have opened up for us to bring exciting new technologies and products to market.

#### Uri Kanonich

*Amimon GM & SVP, Sales & Marketing, Wireless Products, Vitec Creative Solutions*

**The Cine 7 is simply a game changer!** Being able to consolidate a Teradek transmitter, a RED monitor, and a daylight viewable screen has allowed us to streamline our rigs from three accessories to just one. That means fewer cords, less troubleshooting, and more time nailing the shot.



#### Kevin Kelleher

*Ironclad*



### 4K delivery is now standard, so it is crucial to monitor an image that matches the final look of the film, while on set.

That’s why Teradek’s Bolt 4K is key. It is the only solution to monitor a true 4K image, completely wirelessly. On this feature it has been a game-changer for camera movement, last-minute lighting tweaks and even VFX (Visual Effects).

#### Graham Ehlers Sheldon

*Director of Photography*

# Financial review



**Martin Green**  
Group Finance Director

## Revenue

£376.1m

↓ Down 2.4%

## Adjusted operating profit\*

£52.4m

↓ Down 2.1%

## Statutory operating profit

£32.0m

↓ Down 20.4%

## Adjusted basic earnings per share\* from continuing operations

80.6p

↓ Down 13.5%

## Basic earnings per share from continuing and discontinued operations

44.9p

↓ Down 41.0%

\* This report provides alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards ("IFRS"). The Group uses these APMs to improve the comparability of information between reporting periods and Divisions, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group's businesses. APMs are used by the Directors and management for performance analysis, planning, reporting and incentive purposes. A summary of APMs used and their closest equivalent statutory measures is given in the Glossary on pages 171 and 172.





**Robust financial performance despite impact of two, specific, one-off events. We maintained our operating margin and benefited from specific self-help actions.**

Revenue in 2019 decreased by 2.4% to £376.1 million (2018: £385.4 million) and adjusted operating profit\* was 2.1% lower at £52.4 million (2018: £53.5 million). The results were impacted by retailer destocking at Imaging Solutions, non-repeat of the Winter Olympics at Production Solutions, and slower than expected recovery at SmallHD in Creative Solutions following the fire in 2018. Underlying revenue declined by £12.8 million, but underlying adjusted operating profit\* increased by £2.2 million, driven by the benefit from self-help actions including operational efficiencies at Production Solutions and restructuring savings at Imaging Solutions. Revenue was lower by 6.1% on an organic constant FX basis excluding European Services.

Amimon, in its first full year of ownership, performed in line with our expectations with adjusted operating profit\* of £2.5 million, including the benefit from additional external sales in Teradek and SmallHD. Amimon's adjusted EBITDA\* was £3.4 million, slightly ahead of guidance at the time of acquisition.

Insurance staged payments totalling £6.5 million (\$8.4 million) were received in 2019 in relation to business interruption and increased costs for the SmallHD business following the fire in April 2018.

Despite partially mitigating the impact of US tariffs on imports from China by sourcing products elsewhere in Asia-Pacific and bringing other products in-house to Italy, we estimate the year-on-year adverse net profit impact of the tariffs to be £2.0 million in 2019 and expect this to continue into 2020 at slightly lower levels assuming no further changes.

Group adjusted gross margin\* of 45.2% was in line with the prior year. This reflects continued operational improvements across the Group and favourable product mix, offsetting the impact of lower volumes.

Adjusted operating expenses\* were £2.9 million lower than 2018 at £117.7 million, reflecting cost control across the Group and a reduction in the share-based payments charge, partly offset by the impact of acquisitions and higher investment in R&D.

Adjusted operating margin\* was 13.9% on a reported basis which includes a benefit from the accounting treatment of the SmallHD insurance claim. Insurance proceeds have been recognised as other income within gross profit, with no adjustment for revenue, in line with IAS 1. We estimate the insurance had a favourable impact on adjusted operating margin\* of c. 40 bps, in both the current and prior years, after adding back the estimated impact of lost revenue.

Adjusted profit before tax\* of £48.0 million was £3.2 million lower than the prior year (2018: £51.2 million).

The Group's effective tax rate ("ETR") on adjusted profit before tax\* was 24% in 2019 (2018: 18%). 2018 included a number of one-off benefits, including a favourable decision by the Italian tax authorities relating to our application for a Patent Box.

Adjusted basic earnings per share\* were 80.6 pence per share (2018: 93.2 pence per share). Statutory basic earnings per share were 44.9 pence per share (2018: 76.1 pence per share).

Statutory profit before tax of £27.6 million (2018: £37.9 million) decreased due to the factors referred to above and higher charges associated with acquisition of businesses and other previously highlighted adjusting items of £20.4 million (2018: £13.3 million).

**Net finance expense**

Net finance expense of £4.4 million was £2.1 million higher than 2018 reflecting the impact of IFRS 16 and higher average net debt following the acquisition of Amimon. The average cost of borrowing for the year, which includes interest payable, commitment fees and amortisation of set-up charges, was 3.2% (2018: 3.4%) reflecting an interest cost of £3.7 million (2018: £2.7 million).

The Board has maintained a prudent capital structure and Vitec has operated comfortably within its loan covenants during 2019. A new RCF facility was signed on 14 February 2020 comprising a new five-year £165 million committed facility at similar interest rates to the prior £150 million facility.

**Charges associated with acquisition of businesses and other adjusting items**

Charges associated with acquisition of businesses and other adjusting items in profit before tax were £20.4 million versus £13.3 million in 2018. As shown below, the 2019 charges mainly included amortisation of acquired intangibles, restructuring costs, earnout and retention charges, effect of fair valuation of acquired inventory and loss on disposal of business. £5.8 million of the total £6.2 million restructuring costs relates to the strategic project to transform the digital and e-commerce capabilities in Imaging Solutions.

	2019 £m	2018 £m
Amortisation of acquired intangible assets	(9.4)	(6.4)
Effect of fair valuation of acquired inventory	(1.8)	(0.3)
Transaction costs relating to acquisition of businesses	(0.1)	(2.0)
Earnout charges and retention bonuses	(2.5)	(1.4)
Loss on disposal of business	(0.4)	-
Restructuring costs	(6.2)	-
Integration costs	-	(1.9)
Development costs written off	-	(0.6)
Guaranteed minimum pension charge	-	(0.7)
<b>Total</b>	<b>(20.4)</b>	<b>(13.3)</b>

**Foreign exchange**

2019 adjusted operating profit\* included a £0.3 million net favourable foreign exchange effect after hedging, mainly due to the stronger US Dollar being partly offset by year-on-year hedging losses. The impact on 2020 adjusted operating profit\* from a ten cent stronger/weaker US Dollar or Euro is expected to be an increase/decrease of approximately £2.9 million and £1.2 million respectively.

# Financial review (continued)

## Acquisitions

On 23 January 2019, the Group acquired 100% of the issued share capital of Syrp Ltd ("Syrp"), a company based in New Zealand, for an initial cash consideration of NZ\$4.5 million (£2.4 million). Up to a further NZ\$14.5 million (£7.6 million) cash consideration will be payable dependent on Syrp meeting financial targets in 2020, subject to the vendors remaining employed by the Group at the earnout date.

## Cash flow and net debt

Operating cash conversion\* was 85% for 2019 (2018: 84%) which included a benefit from IFRS 16, offset by the year-on-year net impact of higher R&D capitalisation.

Free cash flow\* of £30.5 million was £3.0 million lower than the prior year (2018: £33.5 million) on a reported basis and was £9.4 million lower than the prior year after excluding the benefit from IFRS 16, which mainly reflected restructuring costs (£3.3 million) and higher investment in R&D (£6.3 million). The overall impact of IFRS 16 on net cash flow was nil, but there was a £6.4 million reallocation in the cash flow statement from operating activities to financing activities in the year.

Net debt at 31 December 2019 was £96.0 million (31 December 2018: £81.0 million). The increase in net debt compared to 31 December 2018 included an opening adjustment of £22.4 million due to additional lease liabilities being recognised under IFRS 16. The underlying decrease of £7.4 million, after excluding the impact on opening net debt from IFRS 16, reflected: free cash flow\* of £30.5 million and favourable foreign exchange of £3.1 million; payment of the 2018 final dividend (£11.5 million); payment of the 2019 interim dividend (£5.6 million); net investment in acquisitions and disposals (£2.2 million); transactions in own shares relating to funding of our employee incentive programme (£4.3 million); and net lease additions (£2.6 million). The Group's Balance Sheet remains strong with a net debt to adjusted EBITDA\* ratio of 1.4 times, or 1.2 times on a pre-IFRS 16 basis (31 December 2018: 1.2 times).

ROCE\* of 18.5% was 330 bps lower than the prior year (2018: 21.8%), which reflects lower adjusted operating profit\* and higher average capital employed, including the anticipated adverse impact from the acquisition of Amimon and IFRS 16.

## Impact of IFRS 16 (applies from 1 January 2019)

The effect of adopting IFRS 16 has impacted results as expected. There has been a small impact on certain lines within the Income Statement, and a c.£16 million increase to reported assets and a c.£18 million increase in net debt. The expected impact on the net debt/adjusted EBITDA\* ratio is an increase of c.0.2 times.

## Viability statement

In accordance with the 2018 UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period, taking account of the Group's current financial and trading position as summarised in this Annual Report, the principal risks and uncertainties set out on pages 20 to 23 and the latest management forecasts. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period from the date of this Annual Report to 31 December 2022.

The Directors believe that a three-year period is an appropriate period over which a reasonable expectation of the Group's longer term viability can be evaluated and is aligned with the Group's

business and strategic planning time horizon. It reflects the nature of the Group's key markets, its businesses and products and its limited order visibility. While the Directors have no reason to believe that the Group will not be viable over a longer period, they believe that the three-year period presents readers of the Annual Report with a reasonable degree of confidence.

The Group's strategic and financial planning process reflects the Directors' best estimate of the future prospects of the Group, but they have also considered the resilience of the Group across a number of severe but plausible scenarios, taking into account the principal risks facing the Group as detailed on pages 20 to 23, and the likely effectiveness of any mitigating actions. The Board reviews these risks in detail throughout the year, and the Audit Committee has a structured programme for the review of risks and mitigating actions. The following scenarios were applied to the 2020 Budget and latest management forecasts:

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

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

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

The Directors have also considered the Group's capacity to remain viable after consideration of future cash flows, expected debt service requirements, undrawn facilities and access to capital markets. The primary element of the Group's committed borrowing facilities at 31 December 2019 was the £150 million five-year RCF. As at 31 December 2019, the Group had utilised £95.5 million (64%) of the facility.

## Dividend

The Board has recommended a final dividend of 26.7 pence per share amounting to £12.2 million (2018: 25.5 pence per share, amounting to £11.5 million). The final dividend, subject to shareholder approval at the 2020 Annual General Meeting, will be paid on Friday, 29 May 2020 to shareholders on the register at the close of business on Friday, 24 April 2020. This will bring the total dividend for the year to 39.0 pence per share (up 5.4%). A dividend reinvestment alternative is available with details available from our registrars, Equiniti Limited.

**Martin Green**  
Group Finance Director  
27 February 2020



## Key performance indicators

KPI	2019	Performance	Progress	Link to strategy
<b>Health and safety: accident record</b> Number of accidents resulting in greater than three days' absence	2		Our target is zero accidents	n/a
<b>Constant currency revenue growth</b> Change in revenue on operations at constant exchange rates excluding the impact of EU Services	-3.0%		Decline of 3.0% driven by retailer destocking in Imaging Solutions and continued disruption following the fire at SmallHD	1, 3
<b>Adjusted operating margin*</b> Adjusted operating profit* divided by revenue	13.9%		Benefit from operational efficiencies, strong cost control and SmallHD insurance, offset by lower volumes	2, 3
<b>Adjusted profit before tax*</b> Adjusted profit before tax*	£48.0m		Decline driven by lower volumes and higher net finance expense following the acquisition of Amimon	1, 2, 3
<b>Adjusted EPS*</b> Adjusted operating profit* divided by average total assets less current liabilities excluding the current portion of interest bearing borrowings	80.6p		2018 benefited from a one-off reduction in the effective tax rate to 18% due to a benefit from the Italian Patent Box versus 24% in 2019	1, 2, 3
<b>Return on Capital Employed*</b> Adjusted operating profit* divided by average total assets less current liabilities excluding the current portion of interest-bearing borrowings	18.5%		As anticipated, capital employed increased in 2019 due to the full impact from the Amimon acquisition and the implementation of IFRS 16 "Leases"	1, 2, 3
<b>Operating cash conversion*</b> Operating cash flow* divided by adjusted operating profit*	85%		2019 operating cash conversion* includes a favourable impact from IFRS 16 "Leases", partly offset by the year-on-year net impact from higher R&D capitalisation	1, 2
<b>Revenue in APAC</b> Revenue from selling to countries in the Asia Pacific region as a percentage of total revenue	20.2%		Revenue in APAC as a percentage of Group revenue was broadly in line with prior year following good growth in previous years	1, 3

\* A summary of APMs is given in the Glossary.

During the year we reassessed our KPIs. The KPIs detailed above represent the key measures used by management to assess performance of the Group.

# Responsible business

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



“

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

**Stephen Bird**  
Group Chief Executive

We are a small company with a global footprint, and we take our corporate responsibility extremely seriously. Our strategic priorities focus on driving organic growth, improving margins and investing in new technologies and markets. This strategy affects how we do business, who we do business with, where we operate and the communities we are embedded in. It is also reflected by our employees who understand the importance of the right values and behaviours when carrying out their roles at Vitec.

Our Code of Conduct is a key part of our business model to ensure Vitec's long-term success. This is communicated to all our employees and major stakeholders to ensure that they are clear on the values and behaviours that they can expect from Vitec. We have a Health and Safety Policy that requires root cause reviews of any accidents resulting in over three days' absence so we can learn from such events. We capture all accidents and near misses to enable our businesses to continually improve and to ensure a safe and rewarding work environment.

I know how much our employees value giving back to the communities where we work and live, and at the same time, social, ethical and environmental issues are more important than ever to the society we live and work in. There are many examples of this within Vitec and this report sets out some of those activities.

Although responsible business activities are prioritised and implemented by each Division, the Group strategy is to focus all responsible activities on investing in projects where the power of images specifically, or the creative arts more generally, can be used to help underprivileged people.

Over a three-year period, my aim is for Vitec to positively impact one disadvantaged person for every Vitec employee in the communities in which we operate. So, 1,700 students or young people by 2021, or 600 each year. In 2019 our employees helped 410 people.

In January 2020 we announced a new partnership with the Richmond Theatre Trust in the UK to run Young Filmmakers courses. Further detail on this is given later in this report.

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

**Stephen Bird**  
Group Chief Executive  
27 February 2020



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## Responsible business

# Business ethics

### Our vision

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

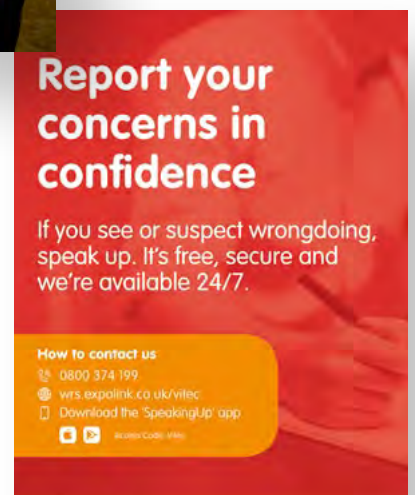
### Our approach

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



Our Code of Conduct

Whistleblowing poster



Board members visiting the operations in Feltre, Italy



**Managing reputational risk is the responsibility of every Vitec employee. Our ethics and values underpin how we do business.**

**Jon Bolton**

Group Company Secretary

**Management of responsible business**

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

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

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

**Anti-bribery**

We educate our employees to ensure that they are clear on acceptable ways of doing business and that there is a zero tolerance of bribery and corruption. Our Code of Conduct is expressly clear that bribery and corruption will not be tolerated.

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

**Whistleblowing service**

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

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

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

disciplinary action. During 2019, there were two whistleblowing reports that were HR related. Both matters were thoroughly investigated and corrective actions taken.

**Slavery and human trafficking statement**

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

**Code of Conduct**

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

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

Our Code has been communicated to all employees, including new employees joining the Group, and is available on the Company website translated into several languages. Employees of all newly acquired businesses receive the Code as part of their induction. We require all senior management to undertake an online training module covering good corporate governance including issues such as share dealing, conflicts of interest, legal duties and other reputational issues.

## Responsible business

# Employees

### Our vision

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

### Our approach

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

### Our people

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

### Employee engagement

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

Business overviews, results and key events are shared with employees via regular all-staff emails and videos from the Group Chief Executive which are uploaded to the Group intranet, displayed on noticeboards and translated into local languages. Employees also receive updates on performance and business issues on a regular basis from Divisional senior management. The Group's senior leaders from all Divisions met in November 2019 in the UK to discuss strategy, budgets and cross divisional projects.

More informal communications also take place. Breakfast with the Divisional CEO is an informal opportunity for employees in our Imaging Solutions Division to exchange ideas and opinions on business strategies and takes place globally. Welcome meetings take place at the Imaging Solutions' sites quarterly to introduce new colleagues to the business in an informal way. "What's Up" is a newsletter published to Imaging Solutions' US employees to inform them about important business news, along with events, activities, training and birthdays. They also participate in monthly "Time Out" events, encouraging employees to get together to hear business updates while socialising and enjoying activities, and employees are encouraged to put colleagues forward for the "Employee of the Month" award, recognising and appreciating hard work and ingenuity. In the Production Solutions Division, "The View" is a quarterly publication sent to all employees updating them on business activities, product launches, employee initiatives and introducing colleagues. "On Air" is a local publication to employees in the Bury St Edmunds, UK office which lets them know about local events and updates on operations at that site. "All Hands" meetings take place at the major Production Solutions' sites, allowing employees to hear regularly from management.

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

### Health and wellbeing

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

New employees' welcome meeting



CEO breakfast in Imaging Solutions



A similar process is being followed involving employees at our Shelton, US site. That facility is currently being refurbished to provide a modern and exciting working environment.

Many Vitec locations are now providing free or subsidised healthy eating facilities on-site, and workplace health and gym memberships. In all sites and offices, healthy snacks and fruit are provided for employees as well as on-site shower facilities for those who wish to exercise on their way to work.

**Health and safety**

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

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

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

Our five-year accident record is shown opposite and details the number of accidents resulting in over three days' absence from work across the Group. There were two such accidents in 2019; the same as in 2018. Both of these accidents were fully investigated and key issues identified to try to ensure they are not repeated. There have been no work-related fatalities since the Group began collating health and safety statistics in 2002.

All major sites have Health and Safety Committees who hold regular meetings to review safety, ensure that operating practices are safe and address potential safety concerns.

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

An ergonomics project was initiated in Feltre, Italy in 2019, which educated employees on safe working practices to prevent long-term issues when completing repetitive tasks and to consider employees' existing physical limitations. Training was provided on safe workplace practices and improving health. The Italian sites continue to promote their "Are you working safely?" campaign.

One minute risk assessments have been introduced at our Bury St Edmunds, UK site comprising a pocket-sized checklist to help employees identify hazards and controls. Additional training on pollution and spillage issues along with health and safety awareness training has been introduced globally in 2019.

2019	2 accidents	Representing 117 accidents per 100,000 employees	Average number of employees – 1,714
2018	2 accidents	Representing 116 accidents per 100,000 employees	Average number of employees – 1,723
2017	7 accidents	Representing 418 accidents per 100,000 employees	Average number of employees – 1,675
2016	4 accidents	Representing 239 accidents per 100,000 employees	Average number of employees – 1,676
2015	5 accidents	Representing 273 accidents per 100,000 employees	Average number of employees – 1,833

## Responsible business

# Employees (continued)

### Sharesave 2019

We continue to offer the Sharesave Scheme to all our employees in the UK, US, Italy, Costa Rica, France, Germany, Singapore, Hong Kong, Japan, Australia and in 2019 extended it to cover employees at Amimon, Israel and Syrp, New Zealand following the acquisition of those businesses. Sharesave allows employees to save a fixed monthly amount between £5 and £500 with the option to purchase a fixed number of shares in the Company at a discount of up to 20% on the prevailing share price at the time of the offer. Sharesave is extremely popular among our employees as a valuable employee benefit and we have specifically improved communication of Sharesave to employees to ensure it is well understood and that as many employees as possible participate in the scheme. This has included face-to-face presentations at sites and eye-catching communications. In 2019 this was based on the Wild West/Spaghetti Western genre of films. In previous years we have used Superheroes and Retro SciFi to promote Sharesave. Communications use plain language to explain Sharesave and the application and maturity process has been improved with online applications to streamline the process. As a consequence, participation rates have continued to improve and by the end of 2019 around 1,100 Group employees participated in Sharesave across the Group.

The value of Sharesave to our employees is demonstrated by the offer made in September 2016 at an option price of £4.85 per share. This matured on 1 November 2019 with around 140 employees exercising their options and many making a gain on exercise of over £7 per share.

In December 2019 we were again recognised for our effective communication and high participation rates for Sharesave, receiving an award from ProShare for “The most effective communication of share plans for companies with up to 5,000 employees”. We plan to offer Sharesave in future years to enable as many of our employees as possible to share in the success of the Company and are seeking shareholder approval to renew the rules of the Sharesave Scheme at the 2020 AGM.



**It's great that the Company gives us the chance to join Sharesave and be rewarded when the Company does well. The online application process is straightforward and the annual booklet gives you all the necessary facts.**

**Andy Murrow**

Vitec Production Solutions, UK



**Sharesave is a fantastic benefit for our employees, enabling every employee to share in the growth of the Company and I am delighted that nearly 70% of eligible employees have joined.**

**Stephen Bird**

Group Chief Executive

### Level of Sharesave participation as at 31 December 2019

Country	Outstanding options	Number of participants
Australia	16,510	17
Costa Rica	16,761	41
France	25,278	14
Germany	37,626	29
Hong Kong	24,166	13
Italy	554,736	315
Japan	63,874	36
Netherlands	2,495	2
New Zealand	35,678	19
Singapore	19,105	6
Israel	92,565	48
United Kingdom	280,628	237
United States of America	323,519	299
<b>Total</b>	<b>1,492,941</b>	<b>1,076</b>

THE VITEC GROUP

★ VITEC PRESENTS ★

**SHARESAVE**

..... ★ .....

LIMITED CHANCE TO JOIN SHARESAVE 2019

2019 OPTION PRICE  
£

The Sharesave guide will give you all the information you need to understand our wild share price discounts.

- ..... ★ SAVE OVER THREE OR FIVE YEARS ..... ★
- ★ ..... STRIKE GOLD WITH A 20% DISCOUNT ON THE SHARE PRICE ..... ★
- ★ ..... SAVE UP TO £500 PER MONTH ..... ★

Be quick on the draw... complete your application before 20 September 2019!





Vitec's award winning Sharesave Scheme



Manfrotto brand ambassador Salvatore Esposito visits Imaging Solutions' HQ in Italy

### Benefits

We employ around 1,700 people in 11 countries who are managed in accordance with local employment legislation, policies and our organisational values. The Group adopts and adapts comprehensive benefits packages as appropriate to ensure we attract and retain the right talent. These benefits assist in supporting our employees and allow us to remain competitive in a global market where talent is in short supply. A supplementary labour agreement was negotiated during the year for Italian employees with the aim of keeping pace with the latest ways of working in the new digital era, especially making employees feel part of the Company and to ensure work/life balance.

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

Our UK defined contribution pension arrangement is with Hargreaves Lansdown and we are committed to improving employee education on pensions and other financial matters and to improve the overall pensions offering. Hargreaves Lansdown ran several workshops at our UK sites in May 2019 with particular focus on the investment decision-making taken by employees and expectations around retirement. As a consequence, we have seen higher levels of engagement and investment decision-making by employees. Over 330 employees in the UK now participate in the Hargreaves Lansdown pension arrangement and investment in the default fund reduced from 85% in 2018 to 55% by October 2019 as employees took control of their investment decisions. Further educational workshops will be held in 2020 to help educate our UK employees on this important employee benefit.

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

Each Division provides further benefits for employees: discounted childcare options and gym memberships in the UK and US; long service awards; or a cash allowance to be spent on a multitude of benefits such as gym membership or private healthcare to suit an individual's needs in Italy.

### Training and development

Vitec aims to offer a comprehensive training and development programme, linked to performance reviews and development plans, taking all Divisional requirements into consideration. In 2019 the Executive Management Board repeated its review of its own leadership and succession plans to ensure there was a structured approach to growing and developing the Company's future leaders.

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

Much of Vitec's strength lies in the expert knowledge of our people. It is vital that our employees understand, and are passionate about, our products and technologies. The Imaging Solutions Division invited some of its key photography ambassadors to meet with employees in Italy so that they could learn more about our customers and to share their knowledge, skills and passion for the imaging world and our products. Feedback from the ambassadors helped the research and development teams with new product development processes. An induction programme in Bassano and Feltre, Italy, was introduced for all new and existing employees to understand the products better and obtain updates on the business and product development.

We continually review and expand training options for staff. Following the implementation of a new digital and e-commerce business model in Imaging Solutions in 2019, many employees received training relevant to the new digital organisation that they would be part of. Training programmes are developed to suit individuals' needs and covered items such as e-commerce, marketing, finance, languages, tax and leadership in 2019.

### Employee volunteering

We encourage a culture of active participation in the communities in which we operate and staff around the world give their time and money to various social programmes in their local communities. Employees from the Production Solutions' Costa Rican facility continued to work with children in a local primary school to encourage them to continue in education and to choose a technical or engineering career. Donations of tools to technical schools and hosting work experience students in Costa Rica helps to upskill local students and foster a long-term relationship between the school and the site.

## Responsible business

# Community

### Our vision

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

### Our approach

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

### The positive power of images

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

### Supporting our communities

The following are a few examples of positive contributions we made in 2019 in the communities in which we operate:

#### Investing in future industry talent

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

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

The Offshoot Foundation's main aim is to teach, inspire and encourage young people into filmmaking via workshops and work experience. The Bury St Edmunds, UK, site gifted six Sachtler Ace M systems and six Litepanels Caliber kits to the charity to support young filmmakers.

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

#### Picture of Life

Imaging Solutions' Picture of Life project is a photography education initiative comprising training programmes for young people who have faced hardship and disenfranchisement. Starting out as a collaboration between Vitec and the Italian Justice Ministry in 2014, Divisional ambassadors teach techniques in different locations and under different circumstances (e.g. city, nature, wildlife), aimed at educating young people to use photography and videography to work through difficult personal issues. Four young adults between the ages of 17 and 19 took part in the project in 2019.

Vitec supports the project by donating photographic equipment to equip participants with all they need for the duration of the programme and by organising all aspects of the course. Since its initial launch in Italy, the initiative has proved so successful that it has been replicated in New York and Chicago, US; Shanghai, China; Johannesburg, South Africa; and in the UK.

The programme was expanded in 2019 to involve professional photographers shooting in remote locations to highlight climate



**The experience of volunteering with The OffShoot Foundation was just brilliant. Getting the chance to spend some time with young filmmakers and understand their approach to using pro-level equipment without any fear was interesting. I'm looking forward to doing this again.**

**James McKellar**

Vitec Productions Solutions, UK

issues. Images will be taken in the Alps, France, in 2020 to observe the impact of global warming on fast receding glaciers, concluding a programme that has already studied the Himalayas, the Andes and Alaska. In addition, Lowepro and JOBY will be technical sponsors of SeaLegacy 2020, a modern conservation photography movement which aims to show the impact of climate change on the oceans.

### → 2019 Highlight

Progress against our aim: 410 young people supported in 2019

#### Charity

The Production Solutions team in Costa Rica joined in the October 2019 Breast Cancer Awareness Month campaign by sponsoring the seventh annual walk arranged by the Clinic Señora de Los Ángeles. Thanks to the funds raised, the Clinic was able to donate 60 mammograms and breast ultrasounds for women in the local community. The Costa Rican employees also raised money to support the charity RHMC which provides support and a home environment for the parents of sick children undergoing treatment in the National Children's Hospital.

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



Production Solutions' employees competing in the My WiSH Soapbox Challenge

A team from the Bury St Edmunds, UK, site supported the My WiSH charity by dressing up as characters from Anchorman and taking part in their annual Soapbox Challenge in 2019. A cross-functional team developed a "cart" that took part in a downhill race, raising the profile of our local business and £1,100 from employees for the charity. A different team took part in the Yorkshire Three Peaks Challenge, raising £1,800 to help Henry's Holiday Help, a charity that supports families who have a child with cancer by providing grants towards family holidays. In Creative Solutions, focus in 2019 was on donating food items and volunteering at local food banks, helping to contribute to the local communities in Irvine and Dallas, US and Ra'anana, Israel.

#### Partnership with Richmond Theatre Trust to jointly run Young Filmmakers courses

In January 2020, we announced a partnership with Richmond Theatre Trust to reach one local teenager in the Richmond, UK area who has faced hardship or marginalisation and not had access to the creative arts, for every employee at the Company's Richmond Head Office. Each young person will take part in a four-day filmmaking course which results in an Arts Award qualification.

The aim of the partnership is to give teenagers new life skills and build their confidence in the creative arts. The partnership with the Richmond Theatre Trust will run for an initial two-year period and coincides with the Theatre's 120th anniversary celebrations. The Young Filmmakers courses will provide a rare opportunity for these young people to discover industry insights and to work with market-leading, industry standard Vitec equipment. Kit such as the JOBY GorillaPod Mobile Rig will set students up to continue to create their own content once they have successfully completed the course.

#### Apprenticeships and work experience initiatives

Vitec continued to offer work placements and internships for students in engineering and film studies. In Bury St Edmunds, UK, the Production Solutions team hosted eight students across various departments for summer intern roles. In Costa Rica, a total of 25 students had placements at the Production Solutions site for two months; several of these students were then offered full-time roles at the end of the period.

In Italy, the UniTNContest is a collaboration with Trento University to design Manfrotto products. Around 70 students were involved in different R&D projects with the winning group awarded Manfrotto products as prizes as well as the chance to see their design progress in the real world to at least prototype stage. One student successfully completed an internship and has subsequently been hired by the R&D team.

A second partnership with Milan Politecnico involved 50 students in concept design projects and students from Milan Cottolica were involved in a communications exercise for next generation products, resulting in a six-month internship for one student.



Young filmmakers participating with The Offshoot Foundation

## Responsible business

# Environment

### Our vision

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

### Our approach

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



**In 2019 we replaced four petrol/diesel based cars in our fleet with plug-in hybrid vehicles and installed charging points in both the office car park and at the employees' homes to fully benefit from the reduced running costs and environmental impact.**

**Neil Martin**

Finance Director, Vitec Imaging Solutions, UK

## → 2019 Highlight

24% reduction in use of air freight in 2019 by Production Solutions Division

### Vitec's products and processes

We continue to implement initiatives aimed at sustaining and protecting the environment in the areas of energy efficiency, reducing carbon emissions, water use and waste; and sustainable use of materials, packaging and waste disposal. We also encourage a culture of environmentally sustainable behaviour at work and ensure that our employees understand how they can contribute. Operational productivity efficiencies in the Production Solutions Division resulted in a 24% reduction in the use of air freight between business units in 2019.

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

The Bury St Edmunds, UK site for Production Solutions' manufacturing and engineering operations was purpose-built for modern manufacturing and specialises in advanced technology in areas such as robotics, automation and broadcast studio equipment. It includes a unique manufacturing process for the development of carbon-fibre for the flowtech tripod – a world first. The facility was required to meet the needs of a diverse group of employees, while fostering improved work flow, efficiency, productivity and making optimal use of the space. The new site is one-third smaller than the previous location and a goal was to reduce the use of electricity by 30% and gas by 60% through a combination of factors including: the introduction of LED lighting; no requirement for heating in the factory due to improved thermal properties; three new compressors that deliver electrical use savings; and a more efficient paint oven. Another key change has been the improved flow of materials from the assembly area to the shop floor, reducing travel time and improving energy efficiency.

### Energy use

We monitor and track our usage of electricity, gas and water across our manufacturing, warehouse and administrative sites and make efforts, where possible, to reduce our usage. We replace old machinery with more-energy efficient models as they reach the end of their use, and in 2019 we upgraded a laser engraver in the Bury St Edmunds, UK, factory with a newer model saving 50% in energy consumption, 90% on spares and 50% on service costs.

Many buildings within the Group have timer and motion sensors for lighting to save on electricity usage. The majority of the Group's sites already have or are working towards having LED lighting throughout, which will significantly cut our overall electricity usage. For example, in the UK, the three main production sites have all installed energy-efficient LED lighting, some including sensors which only turn lights on when activity is taking place. Other buildings have programmable thermostats that are centrally managed to optimise heating and cooling needs.



Team in Costa Rica and their families planted 60 trees to protect the local river basin

The electricity contracts with Green Certificates at our two main sites in Italy were renewed in 2017 until 2021, confirming Vitec's commitment to use energy generated by renewable sources. Sites in Italy and Costa Rica maintained their ISO 14001 compliance which were renewed in 2019. We are pleased to report that the Bury St Edmunds, UK site received its accreditation under the ISO 14001 standard in 2019 after developing and implementing the necessary environmental management systems at the new facility.

### Greenhouse Gas Reporting and Energy Usage

Our 2019 Greenhouse Gas Emissions (Scope 1 and 2) and Energy Usage compared to 2018 are set out on this page. Emissions arising from onsite energy use and owned transport have been recorded at 25 of our sites in the 12 months ended 30 September 2019. We have selected these sites as they are the material operating sites for the Group including operations at Feltre, Italy; Bury St Edmunds, UK; Cartago, Costa Rica; Irvine, USA; Ashby De La Zouch, UK; Stroud, UK; Ra'anana, Israel; Cary, USA; and Shelton, USA. These sites collectively account for over 95% of the Group by revenue. Smaller sites have been excluded as their size and operations are not material for Greenhouse Gas Reporting or Energy Usage reporting.

Our emissions and energy reporting complies with the appropriate regulations and guidance as published in 2018 and 2019 on environmental reporting and we are taking proactive steps to minimise our impact in this area. We have updated reporting since 2018 to reflect requirements for quoted companies introduced by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Reporting) Regulations 2018 effective from 1 April 2019.

In reporting our Greenhouse Gas Emissions we have followed the UK Government's Environmental Reporting Guidelines issued in March 2019. Our operational carbon footprint is stated in tonnes carbon dioxide (CO<sub>2</sub>) equivalent and covers Scope 1 and 2 emissions as described in the GHG Protocol – Corporate Standard (revised edition). The financial control approach has been applied in our corporate GHG reporting.

We have selected a reporting date of 30 September to enable accurate data to be collated in time for inclusion in the Annual Report. The Intensity Ratio applied is tonnes Total Carbon Dioxide equivalent (CO<sub>2</sub>e) per £m of Group revenue.

Scope 1 Emissions (direct emissions from our own operations e.g. fuel combustion) are converted to CO<sub>2</sub> equivalent figures using conversion factors published by BEIS/DEFRA in June 2019. These conversion factors are also used for calculating UK and global transport energy use in kWh. An "average" vehicle is assumed in all transport calculations.

Scope 2 Emissions (indirect emissions generated from purchased electricity) are calculated based on the "location" method outlined in the GHG Protocol. For all UK facilities we use the BEIS/DEFRA 2019 conversion factors. For all non-USA facilities we use national carbon

intensity factors for grid purchased electricity from a variety of sources; including grid suppliers and national Environment Agencies. For USA sources we use the latest regional intensity factors available from the Environmental Protection Agency's Emissions & Generation Resource Integrated Database (eGrid 2018).

As can be seen from the tables the greatest impact is from indirect Scope 2 emissions from the purchased electricity used in our operational activities.

### GHG Scope 1 & 2 Emissions

Scope	2019 tonnes CO <sub>2</sub> e <sup>#</sup>	2018 tonnes CO <sub>2</sub> e <sup>#</sup>
1	1,179	1,317
2	2,677	2,202
<b>Global Total (excluding UK)</b>	<b>3,856</b>	<b>3,518</b>
<b>UK Total</b>	<b>724</b>	<b>1,121</b>
<b>UK Proportion of Total</b>	<b>15.8%</b>	<b>24.2%</b>
<b>Total Scope 1 + 2 Intensity</b>	<b>12.1</b>	<b>12.0</b>

# CO<sub>2</sub>e tonnes per £m of Group Revenue

### Energy Use

	2019 kWh
<b>Global Total (excluding UK)</b>	<b>15,432,223</b>
<b>UK Total</b>	<b>3,109,797</b>
<b>UK Proportion of Total</b>	<b>16.8%</b>

### Sustainable resource management

Various initiatives around the Group took place in 2019 to build on our work to reduce the amount of waste created in our operations. At our factory in Bury St Edmunds, UK, improved waste stream segregation and labelling, combined with employee engagement in the process, has resulted in a project to ensure that zero waste is sent to landfill. All waste is classed as Refuse Derived Fuel ("RDF") which is sorted, shredded, and used to generate energy at recovery facilities, where they produce electricity or heating for agriculture. At our Costa Rican site, electronic waste and lithium ion batteries are recycled as proper disposal prevents hazards and contamination. We sort waste for recycling at our manufacturing sites in Italy, the UK, the US, and Costa Rica using colour coded bins to improve segregation. Water free urinals and sensors for use of water for irrigation at our Costa Rican plant have also reduced water consumption.

Our Italian colleagues took part in a Green & Fit to Work week in September, where they were encouraged to get to work in an environmentally friendly way, either by car sharing, using public transport, cycling or walking.

In our Ra'anana office in Israel, colleagues have embraced a Green Revolution, whereby they aim to stop using disposable tools in order to reduce unnecessary waste.

Employees from the Production Solutions site in Costa Rica worked together with CEANA, an organisation which takes care of a reservoir supplying the local area and which promotes environmental education to the community around water conservation. An event was held with both employees and their families during which 60 native species of trees were planted near to the river to protect the reservoir.

# Board of Directors



**Ian McHoul**  
BSc, ACA



**Stephen Bird**  
MA



**Martin Green**  
MA, MBA, ACCA

<b>Role</b> Chairman	Group Chief Executive	Group Finance Director
<b>Appointed to Board</b> 25 February 2019 (Chairman from 21 May 2019)	14 April 2009	4 January 2017
<b>Nationality</b> British	British	British
<b>Age</b> 60	59	51
<b>Committee membership</b> Nominations (Chairman)	Nominations	–
<b>Skills and membership</b> Ian is currently Non-Executive Director and Chairman of the Audit Committee of Bellway plc, Young & Co's Brewery P.L.C and Britvic plc, where he is also Senior Independent Director. He was formerly a Non-Executive Director of Wood Group PLC (2017 to 2018) and Premier Foods plc (from 2004 to 2013). He held several roles in his executive career including Chief Financial Officer at Amec Foster Wheeler plc between 2008 to 2017, Group Finance Director at Scottish & Newcastle plc from 2001 to 2008 (Ian was with the business from 1998 in the role of Finance Director for Scottish Courage Ltd), and Finance & Strategy Director, The Intreprenuer Pub Company from 1995 to 1998. Prior to this he held several roles with Foster's Brewing Group and qualified as a Member of the Institute of Chartered Accountants in England and Wales when with KPMG.	Stephen is currently a Non-Executive Director and Senior Independent Director of Dialight plc. He was formerly a Non-Executive Director of Umeco plc. He was responsible for setting up Weir's Oil & Gas Division, part of Weir Group plc, and was its Managing Director until he left to join Vitec. Prior to this he worked in senior roles at Danaher Corporation, Black & Decker, Unipart Group, Hepworth PLC and Technicolor Group. Stephen has an MA from St. John's College, Cambridge.	Martin has been with the Group since April 2003 in a variety of roles, and on 10 February 2020 was appointed Group Finance Director. Martin is an ACCA-qualified accountant and began his career in financial reporting. He has an MA in Law from Trinity Hall, Cambridge and an MBA from Cranfield School of Management. He trained and qualified as a solicitor with Linklaters & Alliance in the UK. Previously he held corporate development positions at Bunzl plc, at a broadcast equipment rental business and worked in investment banking at N M Rothschild.



**Christopher Humphrey**  
BA, MBA, FCMA



**Duncan Penny**  
MA



**Caroline Thomson**  
BA, D.Univ



**Richard Tyson**  
BSc (Hons), DipM, FRAes

Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director
1 December 2013	1 September 2018	1 November 2015	2 April 2018
British	British	British	British
62	57	65	49
Audit (Chairman), Nominations, Remuneration	Audit, Nominations, Remuneration	Audit, Nominations, Remuneration (Chairman)	Audit, Nominations, Remuneration
<p>Chris is also a Non-Executive Director of SDL PLC, Senior Independent Director and Chairman of the Audit Committee of AVEVA Group plc and Non-Executive Chairman of Eckoh plc. He was formerly Group Chief Executive Officer of Anite plc, holding that position from 2008 until August 2015 and he was their Group Finance Director between 2003 and 2008. He has held senior positions in finance at Conoco, Eurotherm International plc and Critchley Group plc. He was previously a Non-Executive Director of Alterian plc between 2011 and 2012. He is a Chartered Management Accountant and a Fellow of CIMA.</p>	<p>Duncan is currently Chief Executive at XP Power holding that position since February 2003 and was previously its Finance Director from April 2000 to 2003. Prior to XP Power, Duncan held senior roles with Dell Computer Corporation and LSI Logic Corporation and was an audit manager at Coopers &amp; Lybrand. Duncan has an MA in Chemistry from Oxford University.</p>	<p>Caroline is currently Chair of Digital UK, a Non-Executive Director of UKGI and Chair of its Remuneration Committee, and a trustee of Tullie House Gallery in Cumbria. She was formerly Executive Director of English National Ballet where she is now a trustee. Until September 2012 Caroline was Chief Operating Officer at the BBC, serving 12 years as a member of the Executive Board. Caroline received an honorary doctorate from York University in 2013 and was made an honorary Fellow of the University of Cumbria in 2015. She is a Fellow of the Royal Television Society, a trustee of The Conversation and of the National Gallery Trust.</p>	<p>Richard is currently Chief Executive Officer of TT Electronics plc, holding that position since 2014. He was formerly President of the Aerospace &amp; Security Division of Cobham plc from 2008 to 2014 and a member of their Executive Committee. He was previously responsible for TRW Aeronautical Systems (formerly part of Lucas Industries) European aftermarket business before joining Cobham plc in 2003 to run its Flight Refuelling Division. Richard is a fellow of the Royal Aeronautical Society and a Governor of St Swithun's Independent School for Girls in Hampshire.</p>

# Corporate Governance

## Chairman's statement



**Our strong governance procedures are demonstrated by our compliance with the 2018 UK Corporate Governance Code, the explanations provided in this governance report and our ongoing engagement with our stakeholders.**

I am pleased to introduce my first governance report as your Chairman for the financial year ended 31 December 2019. This report provides detailed information on how the Group is managed and the governance, culture and framework under which Vitec operates.

## Governance and compliance statement

I am impressed with the strong governance I have seen across the Group and the Board remains committed to high standards of governance throughout the Group. We have reported against the UK Corporate Governance Code 2018 ("the Code") issued by the Financial Reporting Council and applying to accounting periods beginning on or after 1 January 2019, and my governance review, along with information in the Strategic and Remuneration Reports, explains how we applied its principles and provisions. Each principle was applied and provision complied with throughout 2019, as required by the Listing Rules.

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, performance, business model and strategy. To achieve this we asked the Executive Directors and the Executive Management Board to provide us with evidence around the content and process for preparing the 2019 Annual Report at our February 2020 Board meeting. The February 2020 Audit Committee meeting confirmed to us that: the 2019 financial statements are true and fair; the work of the external auditor was effective; and the process supporting the Viability Statement was robust. Consequently, the Board is able to confirm that the 2019 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.

## Board leadership and purpose

I joined the Board on 25 February 2019 as an independent Non-Executive Director and Chairman Designate and succeeded John McDonough as Chairman at the conclusion of the AGM on 21 May 2019. On behalf of the Board I would like to thank John for his commitment to Vitec during his term as Chairman and for the detailed handover process. It was invaluable to gain his insight and experience of the Group. The process around my appointment to the Board was reported on in detail in the 2018 Annual Report.

During 2019, there was one other change to the Board. Kath Kearney-Croft left the Board as Group Finance Director on 13 September 2019. Martin Green succeeded her as Acting Group Finance Director. Following a detailed search process using the services of an external search consultant and also assessing Martin Green in this role, we announced on 10 February 2020 that Martin Green would become Group Finance Director.

## → 2019 Highlight

New Chairman appointed with effect from the 2019 AGM



As at the date of the signing of this report, the Board comprised seven Directors with two Executive Directors, four independent Non-Executive Directors and myself as Chairman. I believe we have the right-sized Board with the necessary balance of skills given the scale of our operations. The Board collectively has skills in the areas of strategy, finance, technology, human resources and global commercial experience to assist with the implementation of our strategy. The Board is also diverse in terms of professional and global experience. The Board has a strong independent element, with four independent Non-Executive Directors to ensure that the interests of all stakeholders are reflected in the running of the Company.

All Directors will stand for reappointment by shareholders at the 2020 AGM. Each Director provides a unique perspective on Company matters and brings to the Board specific skills. Biographical details for each member of the Board can be found on pages 52 and 53 of this Annual Report.

### 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 is available on our website and was last recommunicated to all employees in early 2018. It will be refreshed and recommunicated to all employees, customers and suppliers in 2020. Breaches of our Code of Conduct can result in immediate dismissal and senior management are focused on encouraging our employees to behave in line with our values and in promoting our purpose and strategy.

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. At every Board meeting, the health and safety performance of our business is reviewed with any material issues discussed. Our five-year accident record can be found on page 45. Reports are provided to the Board on a monthly basis to track incidents and remedial actions taken as necessary. The detail of our Health and Safety practices is set out on page 45 of this Annual Report.

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. During 2019, two whistleblowing reports were raised through EXPOLINK relating to HR issues. Both reports were independently investigated with Christopher Humphrey, in his role as Chairman of the Audit Committee, kept informed on the reports and investigation. The detail of our whistleblowing service is set out in the Business Ethics section of this Annual Report on page 43.

Members of the Board visited a number of our businesses in 2019 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. I have been very impressed by the skill, passion and dedication of our employees on delivering products and solutions to enable our customers to capture and share exceptional content. The Board will continue to visit our operations and meet with our people in 2020 to further reinforce our values and culture. In 2019, the Board collectively visited our operations in Italy meeting with a large number of our employees based at Feltre and Bassano.

In 2019, the Board appointed Caroline Thomson as the independent Non-Executive Director with responsibility for employee engagement to hear first hand from employees on their views and opinions about working for Vitec. Given her wide industry experience, notably at the BBC, and also her role as Chair of the Remuneration Committee, the Board considered that Caroline was best suited to fill this important new role. Caroline worked with Martin Green in his previous role as Group Business Development Director and Jon Bolton as Group Company Secretary on a programme of activities in 2019 to visit a number of our businesses, and held video conferences with others, to enable her to gain a deeper understanding of our employees and the issues they face. Further information on her visits and feedback provided to senior management can be found on pages 18 and 19 of the Strategic Report.

### Strategy

Vitec made good strategic progress in 2019 transitioning the Group in mixed end markets and further detail can be found in the Strategic Report. In early 2019, we completed the acquisition of Syrp in New Zealand. The Board visited the Group's operations in Italy in June 2019, meeting the Divisional senior management team and many employees by taking a guided tour of its operations. The Board communicated with shareholders on strategy and business priorities at results presentations and through numerous one-to-one meetings with major shareholders. In accordance with our Board programme, we conducted a detailed strategic review in 2019. Firstly, we carried out a Blue Sky review in May 2019 considering key drivers, risks and opportunities in our core markets as well as opportunities to expand into adjacent markets. In June 2019, we held detailed strategic reviews with the Imaging Solutions and Production Solutions Divisions to hear first hand from their senior leadership teams on growth opportunities. We repeated this in October 2019 for the Creative Solutions Division. Out of this strategy review a detailed list of key strategic growth priorities has been identified against which progress is regularly tracked by the Board. We will repeat this process again in 2020. We are confident about our growth strategy and that it will deliver long-term sustainable growth for shareholders.

## → 2019 Highlight

Detailed strategic review focusing on growth initiatives

### Board 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

## Corporate Governance

# Chairman's statement (continued)

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 there were no instances when a Director had to abstain from voting on a matter due to a conflict of interest during 2019. The Board has a clear policy for dealing with any such conflicts or potential conflicts of interest. All Directors are reminded at the start of every Board meeting about their duties including the need to disclose any conflicts of interest and the Group Company Secretary maintains a record of all declared conflicts of interest.

### Maintaining stakeholder dialogue

Maintaining regular contact with our key stakeholders, which for the Board involves primarily our major shareholders and employees, remains an important part of our activities and is fundamental to good corporate governance. During 2019, the Executive Directors 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 am delighted to have met and heard the views of several of our major shareholders since joining the Group and we have started to build close relationships. During these meetings we covered the Group's strategy, governance and remuneration matters. Caroline Thomson, in her capacity as Chair of the Remuneration Committee, also engaged with our major shareholders during 2019 as part of the process of preparing a new Remuneration Policy Report on Directors' remuneration. The detail of this is covered in the Remuneration Report on pages 74 and 75.

The skill, passion and dedication of our employees in delivering products and solutions to enable our customers to capture and share exceptional content is evident to see. Our employees are our greatest asset and we ensure we support them in succeeding in their roles. We have a talented and stable executive management team, with great experience in our markets and who are clearly incentivised to deliver on our growth strategy.

### Annual General Meeting

I look forward to chairing my first AGM and meeting our shareholders at the 2020 AGM. The AGM offers shareholders an opportunity to meet with the Directors and 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 2020 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 the views of all shareholders who submit proxy forms are considered 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 London Stock Exchange announcement and full details will be published on the Company's website shortly after the AGM. At the 2019 AGM, over 75% 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 can ask questions at the meeting. If 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 against in excess of 20% of shareholders voting to be significant.

### → 2019 Highlight

All resolutions at the 2019 AGM received over 98% of votes in favour

### 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. We will continue to send out the Notice of Meeting and related papers to shareholders at least 20 working days before the AGM, to allow shareholders to review the Annual Report in advance of the AGM and create an informed view of the Group. 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 and sign up to our alerts to receive up-to-date information.

### 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. Since joining the Board and becoming Chairman I have spent time in 2019 getting to know Stephen Bird and his direct reports to understand how they work and how I can best support them. Through meeting and speaking regularly outside of scheduled Board meetings to discuss strategy and performance, we have built a good foundation to our relationship which I look forward to building on in the coming years. Our relationship and regular dialogue helps to underpin the culture of the Board, providing a forum in which matters are discussed openly.

Christopher Humphrey is the Senior Independent Director having been appointed to this role with effect from 2 April 2018. In this role, Christopher led the process around my appointment as Chairman with the support of the Group Chief Executive and subsequently the evaluation of my performance as part of the 2019 Board evaluation, information on which is provided later in this report. The Board considers that Christopher Humphrey remains 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: setting of Group strategy; setting of annual operating budgets; review of progress against strategy and budgets; approval of financial results; approval of dividends; changes in Board composition including key roles; consideration of acquisitions and disposals; approval of material litigation; changes in capital structure; setting of 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.

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 2019 are set out later in this report.

→ 2019 Highlight

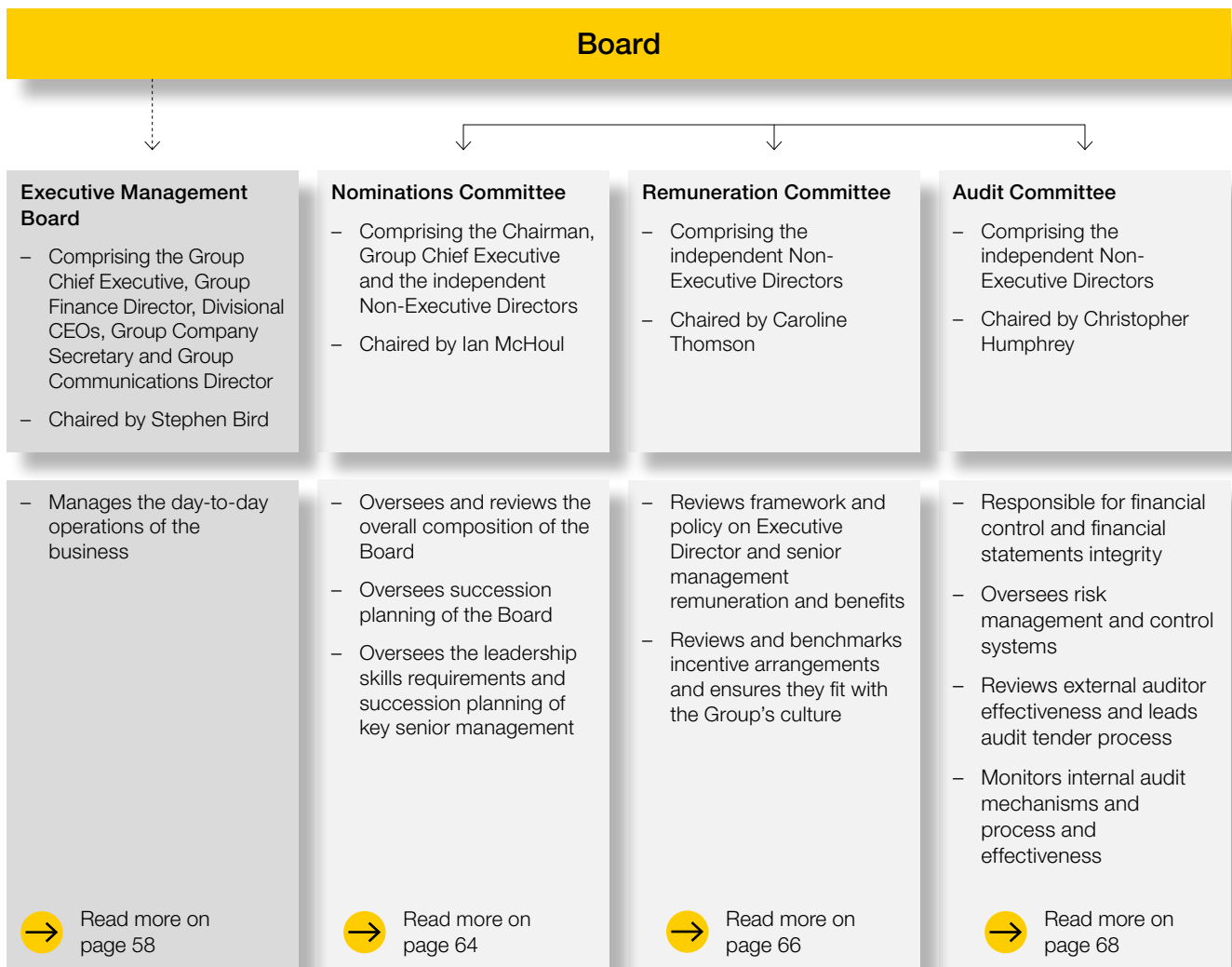
Board visited operations in Bassano and Feltre in June 2019 with a detailed review of Group strategy

**Board governance**

The Board has delegated certain items of business to its principal Committees which is detailed below. 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,

In June 2019 the Board visited the Imaging Solutions sites in Bassano and Feltre, Italy. 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 2020 this will be at our Creative Solutions facility in Irvine, US. Each Director is encouraged to visit our operations at their own convenience to further build on their understanding of the Group.

Vitec’s governance and control structure is as follows:



## Corporate Governance

# Chairman's statement (continued)

### 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 members of 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 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.

### → 2019 Highlight

Six scheduled and five short notice Board meetings in 2019

Several days in advance of meeting, the Board and its principal Committees receive detailed agendas and supporting papers to enable each Board member to be informed with timely, accurate and clear information on proposals coming forward. The Group Company Secretary in conjunction with the Chairman oversees this process to ensure that the Board and its Committees work effectively. 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 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.

### Directors' attendance table for 2019

	Board		Audit	Remuneration		Nominations
	Scheduled	Short notice	Scheduled	Scheduled	Short notice	Scheduled
<b>Number of meetings</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>1</b>	<b>4</b>
<b>Directors:</b>						
Ian McHoul (appointed 25 February 2019)	5/5	3/3	–	–	–	3/3
Christopher Humphrey <sup>(1)</sup>	6	4	4	5	1	4
Duncan Penny <sup>(2)</sup>	6	5	4	5	0	4
Caroline Thomson	6	5	4	5	1	4
Richard Tyson <sup>(3)</sup>	5	4	3	4	0	2
Stephen Bird	6	5	–	–	–	4
Martin Green	6	5	–	–	–	–
John McDonough (resigned 21 May 2019)	2/2	3/3	–	–	–	1/1
Kath Kearney-Croft (resigned 13 September 2019)	4/4	3/3	–	–	–	–

(1) Christopher Humphrey was unable to attend the short notice April 2019 Board meeting due to a prior commitment.

(2) Duncan Penny was unable to attend the short notice Remuneration Committee meeting held in September 2019 due to a prior commitment.

(3) Richard Tyson was unable to join the February 2019 Board and Committee meetings due to illness, the Nominations Committee in August 2019, the short notice Remuneration Committee meeting held in September and the short notice Board meeting held in November 2019 due to prior commitments.

The Group Company Secretary's role is to support the Chairman, the Board, its Committees and individual Directors in discharging their duties effectively including governance matters. The Group Company Secretary's appointment and removal is a matter to be considered by the Board.

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

### Directors' attendance

Details of Directors' attendance at Board and Committee meetings is shown in the table below. All Directors attended each scheduled Board meeting and the five called at short notice, with the exception of Richard Tyson who could not attend the scheduled meetings in February due to illness or one of the short notice meetings held in November due to a prior commitment, and Christopher Humphrey who could not attend the short notice meeting in April due to a prior commitment. 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.

### 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 2019

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 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 five short notice Board meetings in 2019. In addition to the standing items, the following is a summary of the business considered at each meeting in 2019.

The Board has a rolling calendar of activities and has agreed scheduled Board and Committee meeting dates for 2020 and 2021. This enables a structured process to manage the business including financial reporting, strategic reviews, operational performance and governance related matters.

<b>January</b>	<ul style="list-style-type: none"> <li>– Update on potential acquisitions and 2018 year-end outturn</li> </ul>
<b>February</b>	<ul style="list-style-type: none"> <li>– Appointment of Ian McHoul as an independent Non-Executive Director and Chairman Designate</li> <li>– Approved annual results, including review and approval of: principal risks and mitigation, report on going concern and Viability Statement, final dividend recommendation, 2018 full year results announcement, 2018 Annual Report, notice of AGM and management representation letter</li> <li>– Approved the reappointment of Deloitte LLP as auditor</li> <li>– Group strategy review including acquisition updates</li> <li>– Review of discretionary pension increases and pensions update</li> <li>– Imaging Solutions business update</li> </ul>
<b>April</b>	<ul style="list-style-type: none"> <li>– Current trading</li> <li>– Imaging Solutions restructuring proposal</li> <li>– Approved legal expenditure tied to intellectual property matter</li> </ul>
<b>May</b>	<ul style="list-style-type: none"> <li>– AGM briefing</li> <li>– Approved trading update</li> <li>– Group strategy review including potential acquisitions</li> <li>– Blue Sky strategy review</li> </ul>
<b>June</b>	<ul style="list-style-type: none"> <li>– Review of Group and Divisional strategies</li> <li>– Approved capital expenditure proposals</li> <li>– Risk appetite review</li> <li>– Tax update</li> <li>– Pension scheme triennial valuation update</li> <li>– Sharesave offer to all employees</li> </ul>

<b>August</b>	<ul style="list-style-type: none"> <li>– Approved half year results for the six months ended 30 June 2019, including review and approval of: principal risks and mitigation, report on going concern, interim dividend, 2019 half year results announcement and management representation letter</li> <li>– Update on Group strategy</li> <li>– Reviewed the reforecast of 2019 performance</li> <li>– Renegotiation of the Revolving Credit Facility</li> <li>– Global insurance renewal</li> <li>– Employee Trust funding</li> <li>– Presentation from Rothschild</li> <li>– Presentation from Investec</li> <li>– Corporate governance update from Deloitte</li> <li>– 2019 internal Board evaluation process</li> </ul>
<b>October</b>	<ul style="list-style-type: none"> <li>– Update on Group strategy</li> <li>– Update on potential acquisitions</li> <li>– Update on current trading</li> <li>– Capital expenditure proposals for European Services business</li> <li>– Litigation update</li> <li>– Renegotiation of the Revolving Credit Facility</li> <li>– Change to the Company's registrar</li> <li>– Progress on internal Board evaluation</li> <li>– Final settlement of SmallHD insurance claim</li> </ul>
<b>November</b>	<ul style="list-style-type: none"> <li>– Reviewed current trading and approved trading update</li> <li>– Presentation from Rothschild</li> </ul>
<b>December</b>	<ul style="list-style-type: none"> <li>– Update on current trading</li> <li>– Update on Group strategy and strategic plan actions</li> <li>– Renegotiation of the Revolving Credit Facility</li> <li>– Approved 2020 budget</li> <li>– Reviewed property leases</li> <li>– Update on IT strategy</li> <li>– Presentation on European Services business</li> <li>– Outcome of the 2019 internal Board evaluation and reviewed 2020 Board objectives</li> <li>– Reviewed Board governance arrangements and key policies including terms of reference for Board Committees</li> <li>– Update on Group pension schemes including triennial valuation</li> <li>– Reviewed the Chairman's and Non-Executive Directors' fees</li> <li>– Approved renewal of Christopher Humphrey's term of office having served for six years</li> </ul>

## Corporate Governance

# Chairman's statement (continued)

### Composition, succession and evaluation

#### 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. The current Board comprises a Chairman, Group Chief Executive, Group Finance Director and four independent Non-Executive Directors. Details of their appointment are set out below.

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. This process was completed in respect of Christopher Humphrey's appointment in December 2019 and the Board confirmed that he would remain in office for a further three-year term, subject to annual election by shareholders.

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. The overriding objective however is to ensure that the Board appoints the best person for every role rather than filling quotas. 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 16 and 17 details further information on diversity, including the disclosure of gender diversity statistics in accordance with the requirements of the Companies Act 2006.

#### 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 Ian McHoul, Christopher Humphrey, Duncan Penny, Caroline Thomson and Richard Tyson are independent in accordance with the recommendations of the Governance Code. Except for Christopher Humphrey, 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 2019. 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.

#### 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.

Since joining the Board and becoming Chairman, I have undertaken a thorough induction to the Group, meeting regularly with the Group Chief Executive, Group Finance Director, my Board colleagues, the Divisional senior management teams and a wide number of our employees. I have visited our major operations based in Bury St Edmunds, UK, Bassano and Feltre, Italy and Irvine, US. I have also met with the Group's key advisors covering matters such as strategy, remuneration, investor relations and financial reporting. I am delighted to have met with a number of our major shareholders and to have started a process of active and close engagement with them. Finally, I have attended industry trade shows to get wider context about the markets Vitec operates in.

Chairman or Non-Executive Director	Appointment date	First renewal of term	Second renewal of term	Subsequent renewal of term
Ian McHoul (Chairman)	25 February 2019	25 February 2022	25 February 2025	Annually from 25 February 2026 onwards
Christopher Humphrey	1 December 2013	1 December 2016	1 December 2019	Renewed tenure to 1 December 2022
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

Executive Director	Appointment date	Term
Stephen Bird (Group Chief Executive)	14 April 2009	Appointed under a service contract and subject to annual reappointment by shareholders in accordance with the Company's Articles
Martin Green (Group Finance Director)	4 January 2017	Appointed under a service contract and subject to annual reappointment by shareholders in accordance with the Company's Articles

## → 2019 Highlight

Ian McHoul had a detailed induction to Vitec in 2019, 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 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 2019 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 advisor. 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 2019 no Director took such advice.

### 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 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 the 2018 Annual Report. In 2019 we conducted an internal Board evaluation.

### Board evaluation 2019

The process for the 2019 internal Board evaluation was led by myself and the Group Company Secretary. It 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
- Evaluation of the Chairman led by the Senior Independent Director taking into account the views of the Board

### Board performance against 2019 Board objectives

The Board set itself several objectives for 2019. These are summarised below with an assessment of performance against each:

2019 Board objective	Progress during 2019
Refine current strategy including exploring bolt-on acquisitions in the broadcast and photographic markets and consider the digital and e-commerce strategy	<ul style="list-style-type: none"> <li>– Received regular progress updates from each Division against their strategic plans with Divisional and business unit senior management attending several Board meetings</li> <li>– Approved acquisition of Syrp in January 2019 and continued to scope potential further acquisitions</li> <li>– Held successful Blue Sky strategy session</li> <li>– Undertook detailed strategic review, identified key areas concerning strategy and agreed programme for ongoing review from all three Divisions</li> <li>– Regular review of strategic KPIs</li> <li>– Reviewed the Group's digital and e-commerce strategy and approved a restructuring of the Imaging Solutions Division</li> </ul>

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 2019 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 2019 Board meeting.

The outcome of the questionnaires and the follow-up meetings helped to draft the Board and Committee objectives for 2020.

## → 2019 Highlight

2019 internal Board evaluation identified Board priorities for 2020 and confirmed that the Board and its Committees are working to a high standard

The 2019 evaluation asked each Director to identify their top three priorities and the following were commonly repeated:

- Board succession
- Delivery of strategic growth initiatives
- Creative Solutions – drive growth and embed new Divisional structure

The results of the evaluation showed that the Board is performing to a high standard, is effective in delivering on the Group's strategy and has robust governance arrangements in place. While we are faced with mixed end markets and uncertain geopolitical issues, the Board is confident that it has the right strategy and senior management team in place to successfully deliver for our shareholders.

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.

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 and forms part of the Annual Bonus Plan.

We will conduct an externally facilitated Board evaluation in 2020 and will report on that in the 2020 Annual Report.

## Corporate Governance

### Chairman's statement (continued)

2019 Board objective	Progress during 2019
Embed provisions from the 2018 UK Corporate Governance Code and Companies (Miscellaneous Reporting) Regulations 2018. Ensure successful recruitment and induction of new Chairman	<ul style="list-style-type: none"> <li>- Reviewed changes to the UK Corporate Governance Code and Companies (Miscellaneous Reporting) Regulations 2018 and reported on many of these in the 2018 Annual Report</li> <li>- Caroline Thomson commenced her role as the Non-Executive Director responsible for employee engagement and held several employee engagement sessions in 2019</li> <li>- FIT Remuneration Consultants appointed as the Remuneration Committee's advisor assisting with the drafting of the Policy Report to be put to the 2020 AGM</li> <li>- Other disclosures required are included in 2019 Annual Report including a section 172 statement, additional remuneration disclosures and employee engagement disclosure</li> <li>- Appointment of Ian McHoul on 25 February 2019 as an independent Non-Executive Director, and succeeding as Chairman on 21 May 2019 including a successful induction to the Group</li> </ul>
Track financial performance and delivery of growth in line with 2019 budget for each of the Group's three Divisions, including use of KPIs	<ul style="list-style-type: none"> <li>- Received regular monthly updates from the Group Chief Executive and the Group Finance Director</li> <li>- Approved content of full and half year results announcement and trading updates</li> <li>- Reviewed forecasts for all Divisions and received presentations from the businesses</li> <li>- Reviewed presentation of Group KPIs and refreshed version included in 2019 Annual Report</li> </ul>
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"> <li>- Received presentations from product specialists within the business on existing and developing technologies</li> <li>- Attendance at photographic and broadcast trade shows including NAB</li> <li>- Considered capital expenditure requests for new products and acquisitions</li> </ul>
Ensure the Board has a deeper understanding and detailed visibility of research and development within each of the three Divisions	<ul style="list-style-type: none"> <li>- Strategic review covered research and development for each Division</li> <li>- Reviews undertaken of recent acquisitions and their approaches to research and development</li> <li>- Review of budget covered spend on research and development</li> </ul>
Continue to track key principal and emerging risks facing the business and mitigation of those risks	<ul style="list-style-type: none"> <li>- Received regular updates on key risks throughout the year as they occurred</li> <li>- Reviewed and approved the Group's risk appetite</li> <li>- Considered emerging risks as part of the Blue Sky strategy session</li> <li>- Operational risk review meetings held in May and November for each Division</li> </ul>

#### Board objectives for 2020

The 2019 Board evaluation helped to set Board objectives for 2020 and these focus on the areas of: strategic growth initiatives; Board succession; financial performance; completion of the restructure of the Imaging Solutions Division and progress of the Creative Solutions Division. The Board will track progress against each during 2020 and we will report on these objectives in the 2020 Annual Report.

Each of the Board Committees were reviewed with individual outputs and actions created. As with the Board, the output helped set the 2020 objectives that will be reported on in the 2020 Annual Report.

For the Audit Committee, 2020's focus will be on: oversight of risk management; inventory; induction of a new Group Finance Director; treasury strategy with a focus on funding; tax strategy; oversight of research and development projects and continued training on governance matters.

The Remuneration Committee's objectives for 2020 include: approval at the 2020 AGM for the Remuneration Policy Report; ensure that the 2019 Remuneration Report complies with best practice; ensure that suitably stretching performance conditions for the 2020 LTIP and 2020 Annual Bonus Plan are adopted; ensure 2020 personal objectives for Executive Directors are stretching and that performance is measured and reported on; ensure that remuneration package for a new Group Finance Director is appropriate; and assess the performance of FIT Remuneration Consultants following the 2020 AGM.

The Nominations Committee in 2020 will focus on Executive Director succession and the development of talent and succession plans for senior management.

Finally, my review led by Christopher Humphrey highlighted that I am providing effective leadership both during and between meetings, ensuring that the Board functions well with all members providing input. My induction process was thorough and the foundations of my relationships with the Group Chief Executive, Board members and major shareholders have started well. I am pleased to say that my performance was well rated by the Board.



## Audit, risk and internal control

### 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 existing and emerging 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 existing and emerging 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, including emerging risks, 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 20 to 23 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 several internal audits and additional assurance reviews during 2019, 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; human resources; and IT processes. An internal audit plan for 2020 was prepared and agreed with the Audit Committee at its February 2020 meeting.

The sections on the following pages covering governance overviews of the Nominations, Remuneration and Audit Committees and the pages on our engagement with stakeholders form part of this Governance report.

**Ian McHoul**  
Chairman  
27 February 2020

# Nominations Committee report



## Chairman

**Ian McHoul (Chairman from 21 May 2019; member from 25 February 2019)**

## Members during 2019

- Stephen Bird
- Christopher Humphrey
- Caroline Thomson
- Richard Tyson
- Duncan Penny
- John McDonough (resigned 21 May 2019)

## 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 regarding 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 2019 and plans for 2020

During 2019 the Nominations Committee focused attention on Board succession and succession planning for the Executive Directors, the Executive Management Board and senior management.

In the early part of 2019, the Committee finalised the recruitment process for a new independent Chairman, which was led by Christopher Humphrey as the Senior Independent Director. This culminated in my appointment as an independent Non-Executive Director and Chairman Designate on 25 February 2019. I succeeded John McDonough as Chairman following the conclusion of the AGM on 21 May 2019. The process around my appointment was reported on in the 2018 Annual Report.

Following the departure of Kath Kearney-Croft as Group Finance Director on 13 September 2019, the Committee began to focus on the recruitment of her successor. A job specification was drafted and meetings held with executive search consultants. During this period, Martin Green was appointed as Acting Group Finance Director. After a detailed process including an external search conducted by Russell Reynolds Associates against a clear brief for the role, the Nominations Committee and Board concluded that the best candidate for the role of Group Finance Director was Martin Green. This decision was based on his wide industry knowledge and experience with Vitec over 14 years and Martin carrying out the role as Acting Group Finance Director since September 2019. This enabled the Committee and Board to assess Martin's skill and ability in this important role. The Committee announced Martin's appointment as Group Finance Director on 10 February 2020.

The Committee received a detailed update on executive talent and succession plans for the Group. Notably this covered each Division's senior management team, succession plans, emerging talent and associated development plans. This included detail of relocations of employees between Divisions to enable them to develop and understand more about the wider business, with a view to succession in more senior roles. The appointment of several senior key roles within the Creative Solutions Division has been a positive move for its future growth. The Committee considered the impact that the digital and e-commerce project within the Imaging Solutions Division would have on current employees and recruitment to fill new roles.

In 2020 the Committee will focus in further detail on Board succession, succession planning and talent development for the direct reports of the Executive Directors and senior management within each of the Group's Divisions.

## → 2019 Highlight

Appointment of an independent 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, and ensuring that the consultant is mindful of potential candidates' other time commitments. 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 2019 for the recruitment of a new Chairman and followed the process above for the recruitment of Ian McHoul. The Committee further engaged with Russell Reynolds Associates in respect of the recruitment of a Group Finance Director following the departure of Kath-Kearney Croft. Neither the Company nor any individual Director has any relationship with either firm.

### 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 2019 each Board member assessed the current mix of the Board and skills of Directors to identify potential areas for improvement. This will help to support the recruitment of new Directors as we move forward. I will remain mindful of the need to have the right balance on the Board and future Board changes will take into account the diversity of experience, thought, background and ethnicity. 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 2019

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 2019 and covered the following matters:

<b>February</b>	– Recommended Ian McHoul as an independent Non-Executive Director and Chairman Designate to replace John McDonough
<b>August</b>	– Reviewed Board succession – Senior management review, talent development and succession planning across the Divisions
<b>October</b>	– Reviewed Board succession for the Group Finance Director role
<b>December</b>	– Progress update on Board succession for the Group Finance Director role

# Remuneration Committee report



## Chairman

**Caroline Thomson**

## Members during 2019

- Christopher Humphrey
- Richard Tyson
- Duncan Penny

## 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 expanded its role in 2019 to consider wider workforce remuneration and related policies, and the alignment of incentives and rewards with culture through the introduction of a Restricted Share Plan. The Remuneration Committee is chaired by Caroline Thomson and comprises exclusively independent Non-Executive Directors. The Chairman, Group Chief Executive, Group Finance Director, and Group Company Secretary were all invited to attend meetings throughout 2019. The Committee also uses the services of FIT Remuneration Consultants who provide advisory services on executive remuneration and wider market remuneration issues.

The Remuneration Report for the year ended 31 December 2019 on pages 74 to 102 provides an introduction from the Committee Chairman. We have set out the Group's revised Remuneration Policy Report ("the Policy") in full which covers the remuneration policy for Executive and Non-Executive Directors. A separate resolution to approve this Policy will be put to shareholders at the 2020 AGM and will cover Directors' remuneration through to the 2023 AGM. The Report also provides details of Executive and Non-Executive Directors' remuneration during 2019 including any payments made to former Directors.

## Remuneration Committee activities during 2019

### → 2019 Highlight

2019 AGM approved the 2018 Remuneration Report with over 98.8% of votes in favour

During 2019 the Remuneration Committee had five scheduled meetings and one meeting held at short notice. At each scheduled meeting the Committee considered the following matters:

- Directors' duties and conflicts of interest
- Minutes of previous meetings and matters arising
- Progress against 2019 objectives

The following specific business was dealt with at each meeting held in 2019:

<b>February</b>	<ul style="list-style-type: none"> <li>– Approved the 2018 Remuneration Committee Report</li> <li>– Approved the outcome of personal objectives for Executive Directors for 2018 and agreed Executive Directors' 2019 objectives</li> <li>– Approved the outcome of 2018 Annual Bonus Plan and confirmed financial targets for 2019 Annual Bonus Plan</li> <li>– Approved the outcome of performance conditions tied to 2016 Long Term Incentive Plan ("LTIP") awards</li> <li>– Approved 2019 awards to be made under the LTIP and associated performance conditions</li> <li>– Approved a change of remuneration advisor to FIT Remuneration Consultants</li> <li>– Reviewed plans for employee engagement meetings to be held in 2019</li> </ul>
<b>June</b>	<ul style="list-style-type: none"> <li>– Noted an update on executive remuneration from FIT Remuneration Consultants</li> <li>– Commenced discussions on the structure of the Policy</li> <li>– Received feedback on employee engagement meetings</li> </ul>
<b>August</b>	<ul style="list-style-type: none"> <li>– Reviewed a draft consultation letter to be sent to major shareholders on the new Policy</li> <li>– Approved the introduction of a Restricted Share Plan to support retention plans for key employees (excluding Directors and Executive Management Board members)</li> </ul>
<b>September</b>	<ul style="list-style-type: none"> <li>– Approved the terms of Kath Kearney-Croft's exit package on leaving the Group</li> </ul>
<b>October</b>	<ul style="list-style-type: none"> <li>– Considered feedback from major shareholders on the proposed new Policy</li> <li>– Noted an update on executive remuneration from FIT Remuneration Consultants</li> <li>– Received indicative performance outcome for the 2019 Annual Bonus Plan</li> <li>– Approved the rules of the Restricted Share Plan and indicative recipients of the award</li> </ul>

<b>December</b>	<ul style="list-style-type: none"> <li>– Approved the outcome of the Committee's 2019 objectives and set 2020 objectives</li> <li>– Considered feedback from major shareholders on the proposed new Policy</li> <li>– Received an indicative outcome for the 2019 Annual Bonus Plan and 2017 LTIP</li> <li>– Approved proposed salary increases for 2020 for the Executive Directors and Executive Management Board</li> <li>– Approved the structure of the 2020 Annual Bonus Plan</li> <li>– Received feedback on employee engagement meetings from the Remuneration Committee Chairman</li> </ul>
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## → 2019 Highlight

Preparation and consultation with major shareholders on a new Remuneration Policy Report

## Remuneration Committee performance measurement

The Remuneration Committee set itself several objectives for 2019, the detail and progress against which is shown in the table below. It has set itself objectives for 2020 and will report on progress against these in the 2020 Annual Report.

2019 Remuneration Committee objectives	Progress during 2019
Ensure that the 2018 Remuneration Report submitted to shareholders at the 2019 AGM is approved with no material issues of concern	<ul style="list-style-type: none"> <li>– 2018 Remuneration Report compliant with regulations and received over 98% support of shareholders voting on the advisory resolution at the 2019 AGM</li> </ul>
Prepare a Remuneration Policy Report for consultation with major shareholders and for shareholder approval at the 2020 AGM	<ul style="list-style-type: none"> <li>– Considered key aspects of a potential new Policy in line with best practice and market expectations</li> <li>– Consulted with and sought feedback from major shareholders and industry bodies on the proposed changes</li> <li>– Finalised Policy and included in 2019 Annual Report</li> </ul>
Review remuneration advisors	<ul style="list-style-type: none"> <li>– Considered remuneration advisors and appointed FIT Remuneration Consultants</li> </ul>
Implement actions and procedures to address new regulations affecting Directors and Executive remuneration under the 2018 UK Corporate Governance Code, the Companies (Miscellaneous Reporting) Regulations 2018 and investor voting bodies guidance	<ul style="list-style-type: none"> <li>– Included new reporting requirements in the 2018 Annual Report including impact of share price appreciation on long-term incentives</li> <li>– Reviewed dry run on CEO and employees' pay ratio</li> </ul>
Prepare post-employment shareholding requirement policy for Executive Directors	<ul style="list-style-type: none"> <li>– Reviewed a post-employment shareholding policy as part of the wider Policy Report to be put to shareholders at the 2020 AGM</li> </ul>
Ensure that 2019 LTIP awards and 2019 Annual Bonus Plan have appropriately stretching targets that are aligned with shareholder interests and drive management to deliver sustainable growth	<ul style="list-style-type: none"> <li>– 2019 LTIP awards made with 67% of the award subject to EPS performance condition. Annualised EPS growth of 6% per annum over the period is required for threshold vesting (25%) with annualised EPS growth of 14% per annum required for full vesting of this part of the award. 33% of the award to be based on Total Shareholder Return ("TSR") with median performance resulting in 25% vesting and upper quartile performance resulting in full vesting of this part of the award. ROCE underpin applied to the award on vesting</li> <li>– 2019 Annual Bonus Plan approved in line with the 2019 Budget</li> </ul>
Develop and implement plans to comply with the UK Corporate Governance Code around employee engagement	<ul style="list-style-type: none"> <li>– Reviewed a plan of site visits to take place throughout 2019, including in the UK and Italy</li> <li>– Received feedback from Caroline Thomson on the site visits and her meetings with employees</li> </ul>
Complete a detailed induction on remuneration matters for Ian McHoul	<ul style="list-style-type: none"> <li>– Ian McHoul visited various sites to meet colleagues along with FIT Remuneration Consultants as part of their review of the Policy Report</li> </ul>

# Audit Committee report



## Chairman

**Christopher Humphrey**

## Members during 2019

- Caroline Thomson
- Richard Tyson
- Duncan Penny

## Role of the Committee

The Audit Committee has been appointed by the Board to ensure the financial integrity of the Group through the regular review of its financial processes and performance. It confirms to the Board that the financial statements within the Annual Report are fair, balanced and understandable and comply with all applicable UK legislation and regulation as appropriate. It is also responsible for ensuring that the Group has appropriate risk management and internal controls, through the oversight of the internal audit function. The Committee manages the relationship with the external auditor, reviews the scope and terms of its engagement, and monitors its performance through regular effectiveness reviews. It also ensures that an appropriate whistleblowing service is in place for employees and third parties.

## 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 are all independent, 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 2019

In 2019 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 was 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. During the four scheduled meetings in 2019, 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

The 2019 audit is the second under the remit of Deloitte LLP with David Halstead as the audit partner. Deloitte was appointed at the Company's AGM in May 2018 following a tender process and reappointed at the 2019 AGM. Separate resolutions will be put to the 2020 AGM to cover Deloitte's reappointment and remuneration and David Halstead will attend the 2020 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.

In early 2020 the Group Risk Assurance Manager issued a survey to key finance and governance colleagues in the business along with all Directors asking them to provide feedback on the quality and effectiveness of the audit of the results for the year ended 31 December 2019. This was the first formal effectiveness review of Deloitte as it was felt that conducting such a survey after their first audit, completed in February 2019, was too early to allow for a fair assessment of their performance. Questions were open-ended and allowed employees and Directors to include any information that they believed was relevant in the assessment of the external auditor. Topics in the questionnaire covered the capability and professionalism of the team, approach to the planning process, project management and communication throughout the process, quality and timeliness of reporting, and identifying areas where value was added. The results of the review confirmed that the audit process was thorough and robust, and that Deloitte challenged management in appropriate areas. Areas for improvement were identified and discussed with Deloitte.

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 has confirmed its independence as external auditor of the Company in a letter addressed to the Directors.

## FRC reviews

The Company was not subject to any Financial Reporting Council reviews during 2019. Should this occur in the future, we will advise shareholders in the subsequent Annual Report.

The following specific business was dealt with at each meeting held in 2019:

<b>February</b>	<ul style="list-style-type: none"> <li>– Annual results for year ended 31 December 2018, including:               <ul style="list-style-type: none"> <li>– Accounting issues report</li> <li>– Report from the external auditor including Auditor’s Report to be included in the 2018 Annual Report</li> <li>– Consolidated financial statements</li> <li>– Principal risks and uncertainties</li> <li>– Report on internal controls</li> <li>– Separate report on the work of the Audit Committee</li> <li>– Performance, effectiveness and independence of the external auditor</li> <li>– Fees for non-audit services and professional fees – Deloitte LLP</li> <li>– Process behind the drafting of the Viability Statement</li> </ul> </li> <li>– Recommendations to the Board on:               <ul style="list-style-type: none"> <li>– Consolidated financial statements</li> <li>– Reappointment of Deloitte LLP as the external auditor</li> <li>– Independence and objectivity of Deloitte</li> <li>– Management’s representation letter to Deloitte</li> <li>– Viability Statement</li> </ul> </li> <li>– Reviewed results of enhanced controls self-assessment process</li> <li>– Reviewed 2019 internal audit plan</li> <li>– Brexit update</li> <li>– Private meeting between the Committee and external auditor excluding executive management</li> </ul>
<b>June</b>	<ul style="list-style-type: none"> <li>– Reviewed external audit strategy for the year ended 31 December 2019</li> <li>– Reviewed detail of a whistleblowing report</li> <li>– Update on cyber security risk</li> </ul>
<b>August</b>	<ul style="list-style-type: none"> <li>– Reviewed scope for the 2019 external audit</li> <li>– Half year results for 30 June 2019, including reviews of:               <ul style="list-style-type: none"> <li>– Accounting issues report</li> <li>– Report from the external auditor</li> <li>– Financial results</li> <li>– Fees for non-audit services and professional fees</li> <li>– Principal risks and uncertainties</li> </ul> </li> <li>– Recommendations to the Board on:               <ul style="list-style-type: none"> <li>– The half year results</li> <li>– Management’s representation letter to Deloitte LLP</li> </ul> </li> </ul>

<b>December</b>	<ul style="list-style-type: none"> <li>– Considered the outcome of 2019 objectives and agreed 2020 objectives</li> <li>– Report on insurance survey completed at new SmallHD site</li> <li>– Update on whistleblowing and third party reputational risk</li> <li>– Presentation on the Group’s tax strategy</li> <li>– Presentation on the Group’s treasury strategy</li> <li>– Reviewed updated KPIs to be included in the 2019 Annual Report</li> <li>– Reviewed updated report from the external auditor on the scope of the 2019 audit</li> <li>– Process and timing of the effectiveness review of the external auditor</li> <li>– Update on Brexit</li> <li>– Update on IT strategy</li> <li>– Update on legal and regulatory matters</li> </ul>
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## Assessing the content of the Annual Report

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 position, 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 in February 2020. The Audit Committee recommended to the Board the adoption of the financial statements as at 31 December 2019, and that they provide a true and fair view of the financial position and performance of the Group.

## 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 2019 David Halstead, as the audit partner of Deloitte LLP, attended all 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.

## Corporate Governance

# Audit Committee report (continued)

### 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 2019 are set out in the following table:

Significant issue	How was it addressed
Working capital valuation	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 2019, 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 pensions 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.
Restructuring costs	The Committee considered the validity of restructuring costs that were included in adjusting items in 2019. In total, restructuring costs of £6.2 million were incurred in 2019, which mainly related to a strategic project in Imaging Solutions to rebalance the allocation of resources from offline to online to enable growth, reduce operating costs and improve margins. The main costs incurred include severance costs, asset impairments, move costs in relation to changing our logistics provider and professional fees. The external auditor presented their findings with regard to key audit testing over restructuring costs. The Committee agreed with management's accounting and disclosures.
Capitalisation of development costs	The Committee considered whether the development costs capitalised during the year complied with accounting standards. Management presented a list of the key projects that had been completed, along with an assessment of future profitability to support the value on the Balance Sheet. The external auditor also presented their findings. The Committee agreed with management's accounting treatment and related disclosures.
Acquired intangibles	The Committee critically reviewed management's assessment of acquired intangible assets for impairment. The external auditor also presented their assessment. The Committee concurred with management's assessment.

### 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 services	Appropriate services
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 advisor or investment banking services.	Subject to pre-approval from the Group Finance Director and Chairman of the Audit Committee, includes: accounting advice in relation to acquisitions and divestments, corporate governance 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 2019 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 2019, £0.1 million was paid to Deloitte in respect of non-audit work compared to an audit fee of £0.6 million. This non-audit work mainly comprised the review of the half-year financial statements.



## 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 Governance report. The Audit Committee is working effectively and is supported by the internal finance and internal audit teams. A number of suggestions for areas to focus on have been incorporated in our 2020 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 2019 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 2020 objectives will be reported in next year's Annual Report.

## 2019 Audit Committee objectives

The following table sets out the agreed Audit Committee objectives for 2019 and an assessment of progress achieved against each:

2019 Audit Committee objective	Progress during 2019
Ensure management continues to coordinate risk assessments to support the Group's strategic objectives	<ul style="list-style-type: none"> <li>– Reviewed the approach taken to internal audit and risk assurance and provided support to the processes</li> <li>– Critically reviewed and approved the principal risks disclosed in the 2018 Annual Report and made suggestions for improvement</li> <li>– Reviewed regular risk assurance reports from the Group Risk Assurance Manager</li> <li>– Regularly reviewed progress against the agreed Internal Audit programme</li> <li>– Approved the 2019 Internal Audit Plan</li> </ul>
Oversee resources of internal audit team and ensure appropriate	
Ensure successful implementation of new accounting standards	<ul style="list-style-type: none"> <li>– Received an update on the implementation of IFRS 16 including its impact at Group and Divisional levels and actions taken to ensure its adoption across the Group</li> <li>– Reviewed updated KPIs to be disclosed in the 2019 Annual Report</li> </ul>
Ensure that the induction processes for the new Non-Executive Director and Chairman are thorough	<ul style="list-style-type: none"> <li>– Duncan Penny met with the Group Finance Director, received induction materials from the Group Company Secretary relating to the Audit Committee and has attended all meetings of the Audit Committee since appointment</li> <li>– Ian McHoul met with the Group Finance Director, Audit Committee Chairman, Deloitte audit partner, Group Company Secretary, Group Financial Controller and Group Risk Assurance Manager along with other members of the Head Office team. He has attended all meetings of the Audit Committee since appointment</li> </ul>
Oversee the Group's treasury strategy	<ul style="list-style-type: none"> <li>– Received an update on the Group's treasury strategy in December 2019</li> </ul>
Oversee the Group's tax strategy with a focus on the finance structure	<ul style="list-style-type: none"> <li>– Received an update on the Group's tax strategy in December 2019</li> </ul>
Receive updated governance and training materials as they relate to financial reporting, risk, internal control, bribery and whistleblowing matters	<ul style="list-style-type: none"> <li>– Received an update on the Group's cyber security project</li> <li>– Oversaw the Group's whistleblowing and anti-bribery arrangements</li> <li>– Regular updates were given by internal finance employees and the external auditor at each Committee meeting</li> </ul>

**Christopher Humphrey**  
Chairman, Audit Committee  
27 February 2020

# Stakeholder engagement

Vitec's Board strongly believes in doing business in the right way. All our decisions are underpinned by the impact that they have on our five main stakeholder groups. The detailed content in this Annual Report sets out how the Directors strive to comply with their duty under Section 172 of the Companies Act 2006 in considering stakeholders in the Group's decision-making process in order to promote the Company's success. The following summary demonstrates how this was achieved in 2019.

## Long-term decision-making

The Board has a structured governance model in place with scheduled Board meetings, clear documentation and authority levels to control its decision-making process. Our governance model supports the Group in ensuring that decisions are considered, documented and reported on to evidence clear processes and alignment with strategic plans. Detailed budgets and reforecasts are prepared to enable the Board to track and ensure that performance is as expected, or that mitigation steps are actioned to deliver performance in line or close to expectations. The Board and individual Directors operate within this structure with the objective of promoting the success of the Company and to deliver long-term shareholder value. All business proposals are documented in accordance with authority levels and performance tracked against each.

## High standards of business conduct

The Company has put in place a Code of Conduct that is communicated to all employees and major third parties setting out the behaviours and values expected of Vitec and its people. Directors regularly receive updates on the operation of the Code of Conduct and there is also an independent whistleblowing service to enable employees and third parties to anonymously raise issues of concern. The Board considers that its people and operations work to the highest standards of business conduct and ensures this through regular training in, and clear communication of, the Code of Conduct. Any reports of inappropriate behaviour are independently investigated and action taken where necessary.

## 1 → Employees

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

We consider our employees to be the best in the sector, our greatest single asset and critical to our success. Passionate, motivated and skilled employees in safe working environments directly contribute to successfully delivering our strategy, performance and reputation. They are concerned with opportunities for personal development and career progression, a safe and inclusive working culture, and the ability to deliver great products for our customers.

The interests of the Company's 1,700 employees are considered by the Board with regular updates on talent and succession plans. The Board and its Remuneration Committee are kept informed on employees' remuneration, benefits (including pension arrangements and the all-employee Sharesave Scheme) and employee engagement. In 2019, the Board appointed Caroline Thomson as the independent Non-Executive Director with responsibility for employee engagement. This has entailed several site visits and meetings with a wide number of employees to hear first hand the views of employees on working at Vitec. Feedback from this has been shared with the Board and Divisional

management to enable employee engagement to be further improved and retention plans put in place which are aligned with our strategy. An explanation of Caroline's employee engagement role can be found on pages 18 and 19.

The health and safety of all employees is a top priority for the Board with robust reporting of accidents and near misses and corrective measures. Management is clear on the importance of a safe working environment and the need to constantly improve in this area. The Board is confident that the Company's employees are its greatest asset in delivering the long-term success of the Company.

## 2 → Customers

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

Our customers include broadcasters, film studios, photographers, independent content creators ("ICCs") and enterprises, and we design, manufacture and distribute high performance products and solutions for them. They want to be able to buy the best quality products from us to support their image-making experiences, and to enable them to capture and share exceptional content.

The Board is kept informed about the wide variety of the Company's customers, their changing needs and trends in their buying patterns. Directors have an opportunity to meet with our customers at major trade shows such as IBC, NAB, BSC and Photokina, which are held in various cities around the world, along with scheduled visits to our major customers, such as B&H Photo & Video. All major customers are actively screened for reputational and financial risks to ensure that there are no apparent issues of concern that could reputationally or financially damage the Company. Clear terms and conditions are documented including service levels, payment terms and working practices.

## 3 → Suppliers

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

We have a large number of suppliers globally, as the majority of our operations are relatively low-volume, small-batch processes. We source raw materials from suppliers close to our manufacturing operations where possible. The payment of invoices is of prime importance to our suppliers.

The Board is kept informed about major third parties the Company deals with including suppliers and other third parties such as banks and regulators. The integrity of the supply chain is a key consideration with robustness of supply an issue that is actively managed. All major third parties that the Company does business with are actively screened for reputational and financial risks to ensure that there are no apparent issues of concern that could reputationally or financially damage the Company. Clear terms and conditions are documented including service levels, payment terms and working practices. Banks and regulators are kept informed on the Company's business with regular updates. The Board of Directors is expressly clear that the Company strives to comply with all its legal obligations in the territories in which it operates.

## 4 → Community and Environment

### Doing the right thing for our community and our environment is a core part of our values

We have a number of manufacturing and office facilities around the world and aim to limit any negative impact on the environment and protect the natural resources we rely on, creating long-term sustainability for the business. We encourage our employees to involve themselves within the local community to foster a relationship between our business and local people. We aim to positively impact one disadvantaged person for every Vitec employee in the communities in which we operate.

Directors are increasingly aware of the need to ensure that the Company's operations, products and services do not adversely impact the environment and positively contribute to the communities within which the Company operates. The Company provides engaging and well remunerated employment within the communities in which it operates, and its operations are focused on minimising the Company's impact upon the environment including use of raw materials, natural resources and energy, and cutting down on waste and any harmful emissions, components or by-products. A corporate responsibility programme is in place across each of the Company's operations with clear objectives in place. Further information can be found in the Responsible Business section on page 40.

## 5 → Investors

### Our clear strategy is focused on delivering long-term growth and value creation

Our investors are our source of capital without whom we could not grow and invest for future success. They are concerned with a wide range of issues including our financial and operational performance, execution of our strategy, governance and remuneration matters, acquisitions, and capital allocation.

The Board has put in place a proactive investor relations programme to provide all shareholders with regular updates on financial and operational performance. This includes regular market announcements, presentations, face-to-face meetings with investors and a detailed investor relations section on the Group website. Directors are clear on their duty to treat all members fairly and decisions of the Board are taken with all members' long-term interests in mind. The Chairman explains his approach to shareholder engagement in the Governance report on page 56.

## Principal decision

The following is an example of a principal decision taken by the Board in 2019 and how the Board reached its conclusion.

### Restructuring to transform our digital and e-commerce capabilities

In early 2019, the Board was advised of further and more fundamental changes to the Imaging Division's end markets, with observations around declining traditional photographic retailers, consolidation of those that remained and the growth in the higher margin e-commerce channel. A major change to one of our main e-commerce distributors, Amazon, would result in our local distribution platform becoming no longer sustainable. The Board considered how changing the business model of the Imaging Solutions Division would impact the Group's stakeholders, including:

- The impact on existing employees and office locations, notwithstanding that additional resources would be needed with different skillsets. The planned change would involve a large redundancy process and the closure of offices in four countries, with roles being offered to existing employees where skills could be transferred. The Board reviewed the structure of the redundancy programme and communications to be made to employees.
- The use of the Division's products by Generation Z users necessitated a different sales approach that was aligned with their use of the internet, and to build on the social media presence that our brands already had.
- The Division had already worked with a number of suppliers to build a state-of-the-art web and e-commerce infrastructure that would need further development to ensure it remained competitive and scalable over the longer term.
- Fewer members of a physical sales force travelling to customers and the environmental impact of less travel.
- Costs to fund the project and the duration of the expected payback of its successful completion, along with the impact of these costs and returns on the Group's results.

The decline of the traditional retail market and the significant change in customer demographics was well known, and it was decided that the Division should change its go-to-market approach. The Board concluded that transitioning the Imaging Division's digital and e-commerce capabilities, including reskilling the organisation, offered the Division the best opportunity to enable growth, reduce operating costs and improve margins. As the restructuring progresses, performance is tracked against financial targets and key performance indicators to ensure that the business case financials are realised over the long term.

# Remuneration report

Annual statement by Caroline Thomson,  
Chairman of the Remuneration Committee



**The Remuneration Committee is clear on the importance of ensuring that executive remuneration is structured to drive Company performance and to reward executives for growing shareholder value.**

## Dear Shareholder

I am pleased to present Vitec's Remuneration Report for 2019 in three separate sections:

- Section 1 – my annual statement setting out the work of the Remuneration Committee in 2019 and priorities for 2020.
- Section 2 – the Remuneration Policy Report (“the Policy”) that sets out the Company's Policy on Directors' remuneration. The last Policy was put to shareholders at the 2017 AGM and expires in May 2020. In accordance with the regulations we will be submitting the new Policy to shareholders for approval at the 2020 AGM. The detail of the new Policy is set out on pages 76 to 84 and if approved by shareholders at the 2020 AGM will cover Directors' remuneration through until 2023.
- Section 3 – the 2019 Annual Report on Remuneration sets out the remuneration paid to Directors in 2019 as well as details of how the Committee intends to implement our Policy for 2020. Shareholders will have the opportunity for an advisory vote on this report at the 2020 AGM.

## 2019 performance

Vitec made good strategic progress in 2019 transitioning the Group in mixed end markets. However our financial performance was impacted by two specific one-off events. First retail destocking in Imaging Solutions has been unusually severe. Second, there was a slower than expected trading recovery at SmallHD, following the fire in April 2018 and the ending of receipt of insurance income. Despite these challenges, the Group achieved a robust financial performance with revenue of £376.1 million and adjusted profit before tax of £48.0 million. The Group's Balance Sheet remains strong and Return on Capital Employed was sustained at a level of 18.5% even after the strategically important acquisition of Amimon in late 2018. The Group is well positioned to achieve sustainable growth and returns in the long-term for its shareholders.

## Committee activities in 2019

The Remuneration Committee in 2019 dealt with the following matters:

- A major focus for the Committee was preparing a new Remuneration Policy Report to be put to shareholders for approval at the forthcoming 2020 AGM. This involved a detailed review of the existing Policy with the Committee's independent advisor, FIT Remuneration Consultants. The Committee concluded that the current pay structure and incentive limits remain appropriate in that the level of remuneration varies with Company performance: it is simple and aligns to our strategy and culture. The main proposed changes were to reflect new guidance under the UK Corporate Governance Code on shareholding requirements, both during and post-employment, and pension allowances. The detail of the new Policy Report is set out on pages 76 to 84. When preparing the Remuneration Policy the Committee clearly had in mind the need for clarity, simplicity, risk predictability, proportionality and culture and throughout the report we have sought to show how all of these have been taken into account.
- The Committee dealt with the severance package for Kath Kearney-Croft following her departure as Group Finance Director on 13 September 2019. The Committee's objective was to ensure that shareholders' best interests were achieved while also respecting the contractual terms. Details of the severance package are given in the Remuneration Report on page 91.

- The Committee determined the remuneration arrangements for Martin Green who became Acting Group Finance Director on 13 September 2019 and details are set out on page 99.
- Fees paid to the Non-Executive Directors have been increased with effect from 1 January 2020 by 2.5%. The increase reflects the same level of increase applied to the Group Chief Executive and the wider employee population. It also reflects the time commitment required and keeps their fees in line with market conditions.
- Bonus payments for 2019 were 22% of the maximum potential award for Stephen Bird and Martin Green. No bonus was payable to Kath Kearney-Croft in respect of her tenure during 2019. The 2019 Annual Bonus Plan only paid out against the personal objectives for each Executive Director. While the operating cash performance measure achieved just over threshold performance, the profit performance measure did not and the Committee did not exercise any discretion to give any bonus for the operating cash performance measure. The assessment of personal objectives for each Executive Director is set out on page 87 as are the 2019 financial targets. Executive Directors are required to defer half of their earned bonus into the Deferred Bonus Plan (“DBP”) held in the form of the Company’s shares for three years ensuring focus on long-term growth for the Group.
- Long Term Incentive Plan (“LTIP”) awards made in 2017 to Executive Directors will vest at 72.06% based upon TSR and adjusted basic Earnings Per Share\* growth measures. The awards were also subject to a Return on Capital Employed (“ROCE”) underpin that the Committee was satisfied was achieved over the performance period. When the 2017 LTIP award was made the Company’s ROCE was 17.5% and at the end of 2019 it was 18.5%. The 2017 LTIP will vest to Executive Directors on the third anniversary of the award in May 2020. Awards vesting to Stephen Bird and Martin Green will be subject to a further two-year holding period.
- The Committee made LTIP awards to Executive Directors and senior managers on 8 March 2019 with performance conditions based on TSR and EPS growth (with a discretionary ROCE underpin). Details of the award are set out on pages 90 and 91. Share awards made to Executive Directors under the LTIP are subject to a further two-year holding period following a three-year performance period.
- The 2019 AGM approved the Company’s 2018 Annual Report on Remuneration with over 98% of shareholders voting in favour of the report, which was in accordance with the Policy approved by shareholders in 2017.
- The Committee approved a new Restricted Share Plan (“RSP”) in 2019 for key talent in the Group, excluding the Executive Directors and Executive Management Board. The RSP delivers shares over a three-year period to retain and incentivise key talent to deliver on strategic growth initiatives.
- The Remuneration Committee approved the structure of the 2020 Annual Bonus Plan to ensure that it motivates Executive Directors to deliver against challenging targets for 2020. Its structure is the same combination of financial targets (Group adjusted profit before tax\* and operating cash flow\* generation) and personal objectives as was used in 2019. Financial targets for the 2020 Annual Bonus Plan, against which actual performance will be measured, will be disclosed in the 2020 Remuneration Report.
- The Committee reviewed its advisors in 2019 and appointed FIT Remuneration Consultants ahead of the Remuneration Policy review.

## Committee priorities for 2020

The Committee in 2020 will focus on the following matters:

- Securing shareholder approval at the 2020 AGM for the new Remuneration Policy to cover remuneration to be paid to Directors from the 2020 AGM through to the 2023 AGM and also approval of the 2019 Annual Report on Remuneration.
- Granting LTIP awards in 2020 with appropriately stretching performance conditions based on the Company’s EPS and TSR performance and with a ROCE underpin.
- Ensuring that the 2020 Annual Bonus Plan drives performance and rewards sustainable growth in the Company.
- Finalising an appropriate remuneration package for Martin Green in his new role as Group Finance Director. As part of this, it has been agreed that his pension contribution has been adjusted to 8% of salary, in line with the wider UK workforce.
- We will be seeking shareholder approval at the 2020 AGM for the renewal of the Sharesave and International Sharesave plans. These all-employee share plans are an important retention tool with around 1,100 of our employees already participating in them.

## Annual General Meeting

We will be putting several resolutions on remuneration to shareholders at the forthcoming 2020 AGM. Firstly, we will seek shareholder approval to a new Remuneration Policy that will set out the remit of remuneration to be paid to Directors for the period from the 2020 AGM through to the 2023 AGM. Secondly, the Annual Remuneration Report covering Directors’ remuneration paid in 2019 will be put to the Company’s shareholders for an advisory vote at the 2020 AGM. We will also be seeking shareholder approval for the renewal of our all-employee Sharesave Scheme for the UK and internationally. Sharesave is an extremely valuable benefit for our employees and enables them to share in the growth of the Company. I encourage all shareholders to vote in favour of these resolutions and I look forward to the opportunity to meet with shareholders at the 2020 AGM.

**Caroline Thomson**  
 Chairman, Remuneration Committee  
 27 February 2020

\* This report provides alternative performance measures (“APMs”) which are not defined or specified under the requirements of International Financial Reporting Standards (“IFRS”). The Group uses these APMs to improve the comparability of information between reporting periods and Divisions, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group’s businesses. APMs are used by the Directors and management for performance analysis, planning, reporting and incentive purposes. A summary of APMs used and their closest equivalent statutory measures is given in the Glossary on pages 171 and 172.

## Remuneration report

# Remuneration Policy Report

## 2020 Remuneration Policy Report

The 2020 Policy Report will cover Directors' remuneration for the period of three years commencing from the Company's AGM to be held on Wednesday, 27 May 2020. The key terms for the 2020 Remuneration Policy are set out below and shareholders will be asked to approve the 2020 Remuneration Policy at the 2020 AGM. The current Policy approved by shareholders at the 2017 AGM and covering Directors' remuneration up until the May 2020 AGM is available on our website or in the 2016 Annual Report. The key changes under the 2020 Policy compared to the 2017 Policy include:

- increasing the shareholding requirement for Executive Directors from 100% to 200% of base salary;
- introducing a policy on post-employment shareholding for Executive Directors; and
- for newly appointed Executive Directors (including Martin Green in his new role as Group Finance Director) adjusting the employer pension contribution rate to 8% of base salary, which is in line with the wider UK workforce.

The Committee embarked on a thorough review of the Policy and, while the views of the Group Chief Executive were taken into account, the Committee has been mindful of a potential conflict of interest. No individual covered by the Policy has been involved in the decision-making.

Should there be a need to change the Company's 2020 Remuneration Policy ahead of the 2023 AGM, shareholders will be asked to approve a revised Policy.

This Report contains further information required under the Listing Rules and the 2018 UK Corporate Governance Code.

## 2020 Remuneration Policy table for Executive Directors

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

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	<p>To provide a material incentive to drive Executive Directors to deliver stretching strategic and financial performance and to grow long-term sustainable shareholder value.</p> <p>Half of any earned annual bonus (after tax) is deferred into the Deferred Bonus Plan held in the form of shares and focuses the Executive Director on long-term value delivery and growth.</p>	<p>Paid annually based on performance in the relevant financial year. The amount is determined based on published full year results after the financial year end.</p> <p>Award levels and performance measures are reviewed annually. The Committee ensures that performance measures remain aligned to the Company's business objectives and strategic priorities for the year.</p> <p>Up to half of the annual bonus paid (after tax) is deferred into awards under the Deferred Bonus Plan for a period of three years on a mandatory basis unless the Committee determines an alternative deferral period is appropriate. Awards may be granted in the form of conditional awards, nil-cost options, forfeitable shares or similar rights. After a period of three years, the awards vest in the form of shares in the Company.</p> <p>The Committee retains full discretion to amend the bonus payout (upwards or downwards), if in its opinion any calculation of payout does not produce a fair result for either the individual or the Company, taking into account the overall business performance of the Company. Any such use of discretion will be clearly reported in the next published Remuneration Report.</p> <p>Participants may also receive the value of any dividends which would have been paid on shares in respect of which the award vests, which may be calculated assuming reinvestment of the dividends in the Company's shares on a cumulative basis. Such dividends are paid out in the form of additional shares in the Company.</p> <p>In the event of any material misstatement of the Company's financial results, serious reputational damage to the Company caused by a breach of the Company's Code of Conduct or otherwise, a miscalculation or an assessment of any performance conditions that was based on incorrect information, the occurrence of an insolvency or administration event, malus and clawback provisions may apply for three years from the date of payment of any bonus or the grant of any deferred bonus share award permitting the Committee to reduce, cancel or impose further conditions on awards.</p>	An absolute maximum of 125% of base salary to be paid in each year.	<p>Measures and targets for the annual bonus are set annually by the Committee.</p> <p>Currently, half of the annual bonus is based on the achievement of annual targets set against the Group's adjusted profit before tax*, with the remainder based on the achievement of annual personal objectives and achievement of annual targets set against the Group's operating cash flow* generated as a percentage of adjusted operating profit* (25%).</p> <p>The Committee reserves the right to vary these proportions and also the measures annually to ensure the annual bonus remains appropriate and challenging.</p> <p>Targets are measured over a one-year period. Payments range between 0% and 125% of base salary for threshold and maximum performance.</p> <p>Awards granted under the Deferred Bonus Plan are not subject to any performance conditions.</p>

## Remuneration report

# Remuneration Policy Report (continued)

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Long Term Incentive Plan ("LTIP")	<p>To provide a long-term performance and retention incentive for the Executive Directors involving the Company's shares.</p> <p>To link long-term rewards to the creation of long-term sustainable shareholder value by way of delivering on the Group's agreed strategic objectives.</p>	<p>Under the LTIP, awards are made over a fixed number of shares, which will vest based on the achievement of performance conditions over a performance period of, unless the Committee determines otherwise, at least three years. The performance conditions are set by the Committee at the start of the performance period. Awards can take the form of a conditional award of shares, a nil-cost option or similar rights.</p> <p>Awards may be settled in cash (for participants in territories that prohibit settlement in shares).</p> <p>Participants may also receive the value of any dividends which would have been paid on shares in respect of which the award vests, which may be calculated assuming reinvestment of the dividends in the Company's shares on a cumulative basis.</p> <p>The Committee retains full discretion to amend the vesting outcome upwards or downwards if, in its opinion, any calculation or payout does not produce a fair result for either the individual or the Company, taking into account the overall business performance of the Company. Any such use of discretion will be clearly reported in the next published Remuneration Report.</p> <p>For Executive Directors, awards are normally subject to a mandatory two-year holding period for any shares that vest.</p> <p>In the event of any material misstatement of the Company's financial results or serious reputational damage to the Company caused by a breach of the Company's Code of Conduct or otherwise, a miscalculation of an assessment of any performance conditions that was based on incorrect information, the occurrence of an insolvency or administration event, malus and clawback provisions may apply for up to three years from the vesting of an award permitting the Committee to reduce or impose further conditions on awards.</p>	<p>The maximum value of shares over which awards may be granted in respect of each year is 150% of base salary (although 200% is permitted in exceptional circumstances determined by the Committee).</p>	<p>LTIP awards may be based on financial and/or share price-based performance conditions as determined from time to time by the Committee. The Committee will determine the choice of measures and their weighting prior to each grant and reserves the right to change the balance of the measures as it deems appropriate, such that no measure accounts for less than 25% of the total award.</p> <p>Currently, 33% of the award is subject to the Company's Total Shareholder Return compared to a comparator group measured over a three-year performance period. 67% of the award is subject to targets set against growth (adjusted by the Committee as it considers appropriate) in the Company's adjusted basic earnings per share over the same three-year performance period. The Remuneration Committee additionally adopts a discretionary underpin on vesting of the LTIP, whereby the Committee will assess the Group's underlying performance in finalising vesting outcomes. In particular, the Committee will assess the Group's ROCE performance when approving outcomes under the EPS element of awards.</p> <p>At threshold, 25% of the award will vest, increasing on a straight-line basis up to 100% for performance in line with maximum. Below threshold none of the award will vest.</p> <p>There is no retesting of any performance measure.</p>



Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Pension contribution	To provide a benefit comparable with market rates, helping with the recruitment and retention of talented Executive Directors able to deliver a long-term growth strategy.	Usually paid monthly in arrears.  Executive Directors may receive a contribution into the Company's Defined Contribution Plan, a personal pension arrangement and/or a payment as a cash allowance.	Stephen Bird receives a pension contribution of 20% of base salary. Martin Green and any subsequently appointed Executive Director receives a pension contribution of 8% of base salary which is in line with pension contributions provided to the wider UK employee workforce.  Salary is the only pensionable element of Executive Director remuneration.	Not applicable.

#### Notes to the Remuneration Policy table for Executive Directors

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

#### Legacy plans

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

#### Shareholding requirements (including post-employment)

Executive Directors during their tenure are expected to build a shareholding in the Company representing 200% or more of their base salary. All net of tax vested LTIP awards, DBP awards and exercised Sharesave options should be retained by the Executive Director until this guideline has been met. This level of shareholding aligns Executive Directors with the interests of shareholders and ensures that Executive Directors are focused on long-term shareholder value.

Post-employment, Executive Directors are expected to maintain a material level of shareholding in the Company at least for two years from the date of departure made up of the following elements:

- Awards held under the DBP will only vest on their normal vesting dates and will not be accelerated to the date of departure. Upon vesting, such shares are to be retained until at least the second anniversary of the departure date.
- For an Executive Director who is a good leaver, LTIP awards will vest on their normal vesting date and be subject to performance testing, pro rata treatment to the date of leaving and be subject to a two-year holding period (subject to that two-year holding period not being beyond two years from when the individual ceased to be an Executive Director).
- Awards that have already vested under the LTIP are normally subject to a two-year holding period following vesting (but not longer than two years from the date of departure).
- For the avoidance of doubt, any shares purchased by an Executive Director using their own personal funds will not be subject to this post-employment shareholding policy.

The Chairman and Non-Executive Directors are not subject to any such shareholding requirement. However, they are encouraged to hold shares in the Company. Details of shares held by the Chairman and Non-Executive Directors are set out on page 93.

#### Performance measures

The Annual Bonus Plan is based on both personal and financial measures. Typically, the majority of the bonus will be based on financial measures such as Group adjusted profit before tax\*. The measures have been chosen to provide a balance between incentivising the delivery of the Group's key financial priorities in any particular year and important individual strategic objectives. The Committee may vary the specific measures and targets year-on-year to ensure that they reflect the key financial and strategic priorities for the Company in any given year. The selection of measures and the setting of targets takes into account the Company's business priorities and risk appetite.

## Remuneration report

# Remuneration Policy Report (continued)

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

Provisions for the withholding and recovery of sums from the Directors (malus and clawback) are as set out on page 101.

## Remuneration Policy table for the Chairman and Non-Executive Directors

The table below sets out a description of the Chairman and Non-Executive Directors' remuneration.

Neither the Chairman nor the Non-Executive Directors participate in any Annual Bonus Plan or the Company's share plans:

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

## Illustrative remuneration performance scenarios

The following charts set out scenarios for the remuneration of Stephen Bird and Martin Green for 2020 in line with the Policy. This includes scenarios for full vesting of LTIP awards with one chart showing no share price appreciation and one chart showing a 50% appreciation in share price:

### Stephen Bird

#### Basic remuneration

Minimum base salary	£474,629 (79%)
Benefits	£29,078 (5%)
Pension (20% of salary)	£94,926 (16%)
<b>Total fixed pay (minimum)</b>	<b>£598,633</b>

#### On-target performance (no share price appreciation):

Fixed pay	£598,633 (58%)
Annual bonus	£296,643 (28%)
LTIP	£148,322 (14%)
<b>Total on target pay</b>	<b>£1,043,598</b>

#### Maximum pay (no share price appreciation):

Fixed pay	£598,633 (34%)
Annual bonus	£593,286 (33%)
LTIP	£593,286 (33%)
<b>Total maximum pay</b>	<b>£1,785,205</b>

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

Fixed pay	£598,633 (29%)
Annual bonus	£593,286 (29%)
LTIP	£889,929 (42%)
<b>Total maximum pay</b>	<b>£2,081,848</b>

### Martin Green

#### Basic remuneration

Minimum base salary	£355,000 (87%)
Benefits	£25,961 (6%)
Pension (8% of salary)	£28,400 (7%)
<b>Total fixed pay (minimum)</b>	<b>£409,361</b>

#### On-target performance (no share price appreciation):

Fixed pay	£409,361 (55%)
Annual bonus	£221,875 (30%)
LTIP	£110,938 (15%)
<b>Total on target pay</b>	<b>£742,174</b>

#### Maximum pay (no share price appreciation):

Fixed pay	£409,361 (32%)
Annual bonus	£443,750 (34%)
LTIP	£443,750 (34%)
<b>Total maximum pay</b>	<b>£1,296,861</b>

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

Fixed pay	£409,361 (27%)
Annual bonus	£443,750 (29%)
LTIP	£665,625 (44%)
<b>Total maximum pay</b>	<b>£1,518,736</b>

### The illustrations are based on the following assumptions:

- Fixed pay – base salary as at 1 January 2020 (or 10 February 2020 following Martin Green's appointment as Group Finance Director).
- The total value of benefits received in the year ended 31 December 2019 which include car allowance, private healthcare, income protection and any Sharesave options granted during 2019.
- Pension contribution of 20% for Stephen Bird and 8% for Martin Green.
- Annual bonus
  - At minimum – nil.
  - On target – 50% of maximum payout (i.e. 62.5% of base salary).
  - At maximum – 100% of the maximum payout (i.e. 125% of base salary).

- LTIP
  - At minimum – nil.
  - On target – 25% vesting under the LTIP (i.e. 31.25% of base salary) and set out at face value, with no share price growth or dividend assumptions.
  - At maximum – 100% of the maximum payout (i.e. 125% of base salary) and set out at face value, with no share price growth or dividend assumptions.
  - At maximum – 100% of the maximum payout (i.e. 125% of base salary) and showing a 50% appreciation in the share price over the vesting period.

## Remuneration report

# Remuneration Policy Report (continued)

### Consideration of employment conditions elsewhere in the Company

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

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

When setting the remuneration of the Executive Directors, the Committee has regard to general employment terms and conditions within the Company as set out above. However, it is recognised that the roles and responsibilities of Executive Directors are such that different levels of remuneration apply, with a greater proportion of remuneration tied to the financial performance of the Company. The Committee did not consult with the Company's employees when drawing up the Directors' remuneration policy set out in this report. Caroline Thomson is the Non-Executive Director with responsibility for employee engagement and as part of that role is informed on remuneration issues for the wider Group workforce and keeps the Board fully updated. The detail of this role is given on pages 18 and 19 of this Annual Report.

### Policy on outside appointments

The Committee believes it is beneficial both for the individual and the Company for an Executive Director to take up one external non-executive appointment. Remuneration received by an Executive Director in respect of such an external appointment would be retained by the Director. Stephen Bird is an independent non-executive director of Dialight plc. In this role he receives a basic fee of £42,000 per annum and an additional £5,100 per annum in the role of senior independent director. Under the terms of his service contract, Martin Green, with the agreement of the Chairman and Group Chief Executive, may take up one external non-executive appointment of a listed company. As of the date of this report Martin Green had not taken up any such external non-executive appointment.

### Remuneration Policy for senior managers and other employees of the Company

The remuneration policy for senior managers in the Company is similar to that of the Executive Directors other than the quantum are lower. They will participate in the Annual Bonus Plan with the same structure as the Executive Directors, as well as the LTIP, and therefore a significant element of their remuneration is dependent upon the financial performance of the Company and the Company's share price in addition to individual performance.

Remuneration for all other employees is set taking into account local market conditions to ensure that pay and benefits attract and retain employees in those local markets and help deliver the Group's agreed strategy. A large proportion of employees are able to participate in bonus plans that are tied to Company, Divisional and business unit financial performance as well as individual performance against personal objectives. The structure of bonus plans varies across the employee workforce to achieve different objectives.

Full-time employees of the Company in all of the territories of the UK, US, Italy, France, Germany, Israel, Australia, New Zealand, Japan, Hong Kong, Singapore and Costa Rica are able to participate in an all-employee Sharesave plan granting employees an option to save and purchase a limited number of shares in the Company at a discount to the market price at the time an offer of the plan is made. Further information on this plan is given on pages 46 and 94 of this Annual Report. Over 60 senior managers also participate in the LTIP that awards shares subject to satisfaction of performance conditions over a three-year performance period. In 2019 the Committee also introduced a new Restricted Share Plan ("RSP") for key talent (excluding Executive Directors and members of the Executive Management Board). The RSP awards shares to approximately 70 key employees over a three-year vesting period and helps retain and motivate key talent to deliver on the Group's strategic growth objectives.

All full-time employees are also offered membership of a pension scheme upon joining the Company which is compliant with local legal requirements. In the UK, employees are able to join a defined contribution pension plan with the employer making an 8% fixed contribution and the employee required to make a minimum contribution of 4%. The pension contribution is based on base salary only.

The Remuneration Committee is kept informed on remuneration policy and arrangements for the wider employee population with regular updates to enable it to stay informed and to assist in setting Executive Directors' remuneration.

### Approach to recruitment remuneration

The Committee's Policy is to seek to recruit Directors with the requisite skill and experience to lead the business and grow the value of the Company over the long term. Generally, pay on recruitment will be consistent with the Policy for Executive Directors as set out in the Policy table and set at a level to reflect overall responsibilities.

The Committee has the flexibility to set the salary of a new Executive Director at a lower level initially, with a series of planned increases implemented over the following years to bring the salary to the desired level. Consistent with the regulations, any cap on base salary does not apply. Benefits will be consistent with the Remuneration Policy. Certain additional benefits may be provided such as relocation expenses or allowances. The pension contribution for a new Executive Director will be in line with the UK workforce contribution rate (currently 8% of base salary).

However, the Committee may, in its absolute discretion, include remuneration components or awards which are not specified in the Policy table, subject to the maximum level of variable pay set out in the following paragraph, where this facilitates the hiring of candidates of an appropriate calibre and skillset to deliver on the Group's strategy. The Committee will ensure this is only done where there is a genuine commercial need, and where this is in the best interests of the Company and its shareholders. The Committee does not intend to use this discretion to make a non-performance related payment (for example a "golden hello" payment).

The absolute maximum level of variable pay will be 325% of base salary (excluding any buy-out awards) which is in line with the Remuneration Policy set out above. This comprises up to 125% of base salary under the Annual Bonus Plan and up to 200% of base salary under the Company's LTIP.

In certain circumstances, the Committee may need to make payments or awards to an executive in respect of buying-out remuneration arrangements relinquished on leaving a previous employer. When doing so, the Committee will aim to do so broadly on a like-for-like basis with a fair value no higher than the awards foregone. It will take a number of relevant factors into account which may include any performance conditions attached to these awards and the time at which they would have normally vested. These payments or awards are excluded from the maximum level of variable remuneration referred to above.

In the event of any such treatment, the Committee will explain in the next Annual Remuneration Report the rationale for the relevant arrangements.

## Executive Directors' service contracts

The Executive Directors' service contracts are as follows:

	Date of contract	Notice period from the Company to the Executive	Notice period from the Executive to the Company
Stephen Bird, Group Chief Executive – appointed on 14 April 2009	28 January 2009	12 months	6 months
Martin Green, Group Finance Director – appointed on 4 January 2017	10 February 2020	12 months	6 months

The terms of the service contracts for Executive Directors do not provide for pre-determined amounts of compensation in the event of early termination by the Company. The Remuneration Committee's Policy in the event of early termination of employment is set out below.

## Policy on payment for loss of office

Executive Directors' notice periods under service contracts are summarised in the table above. The Committee believes that the Company's Policy on payment for loss of office and the structure of notice periods is sufficient to ensure that the Executive Director has security of tenure and also that the Company has sufficient retention and notice periods to enable an orderly process for succession planning. In the Committee's opinion, any shorter notice period would not be in the Company's best interests and would risk the stable running of its operations. The Committee, however, will not give any Executive Director a service contract of greater than 12 months' notice.

In the event of termination of office, the Committee will consider the circumstances including notice period contained within the service contract, the circumstances surrounding the termination notably including the individual's performance and what is considered to be in the Company's best interests. The terms of service contracts do not provide for pre-determined amounts of compensation in the event of early termination of employment. The Committee maintains full discretion at how to treat each such termination upon its merits when trying to mitigate the cost of termination but ultimately honouring contracted terms. Dealing with each specific element of remuneration for an Executive Director this would mean the following:

- **Base salary, pension and other benefits (including legal fees and outplacement costs)** – These will be paid for the notice period, subject to being mitigated if the Executive Director finds other suitable employment. This means that each element will continue to be paid on a monthly basis in arrears during the notice period either to the end of the notice period or if earlier to the point at which the Executive Director finds other suitable employment or a mutually agreed date within the notice period. Although not covered by the service contract, the Company will pay reasonable legal expenses and any recruitment outplacement costs to assist the Executive Director in their exit. The Committee will determine the reasonableness of such costs keeping in mind shareholders' best interests.
- **Annual Bonus Plan** – As a general rule, Executive Directors have no entitlement to a bonus payment in the event that they cease to be employed. However, they may be considered for a bonus payment in certain good leaver circumstances. In such cases the Committee will generally pro rate an annual bonus to the date of termination and the payment of the annual bonus will usually be dependent upon the satisfaction of financial performance conditions and an assessment of the achievement of personal objectives up to the point of leaving the Company. The Committee reserves an absolute discretion in circumstances which it considers appropriate to enable a full year's annual bonus to be paid in full to an Executive Director in accordance with the limits and rules of the Annual Bonus Plan applying to the Executive Director.

## Remuneration report

# Remuneration Policy Report (continued)

- **Long Term Incentive Plan** – Awards granted under the Company's LTIP are generally treated as follows: if a participant ceases office or employment with the Group his/her award will lapse unless he/she is deemed to be a good leaver or dies in service. An individual is a good leaver if he/she ceases employment because of ill-health, injury, disability, the sale of the employing company or business out of the Group or for any other reason at the Committee's discretion, for example early retirement, but expressly not for where a participant is summarily dismissed. Except in the case of death (where awards vest following death, unless the Committee determines otherwise), awards will normally vest on the normal vesting date, unless the Committee determines that awards should vest at the time the individual ceases employment. The Committee, when determining the level of an award to vest, will take into account satisfaction of relevant performance conditions tied to the award and the period of time that has elapsed since the award was granted until the date of cessation of employment.
- **Deferred Bonus Plan** – Awards under the DBP will vest on their normal vesting date (unless the Committee determines that awards should vest on the individual's cessation of employment) except in the case of: (1) death – when awards will vest following an individual's death; and (2) gross misconduct – when awards will lapse.

When negotiating the exit package of an Executive Director, the Committee will ultimately aim to mitigate the cost of any termination payment while also fairly treating the Executive Director, honouring the terms of a service contract and acting in the Company's best long-term interests. The Committee will, upon reaching an agreement with an Executive Director on the terms of termination, publish details both with an announcement and with details published in the subsequent Remuneration Report and this will include an explanation of any use of discretion. The exit settlement terms for Kath Kearney-Croft, who left the Company on 13 September 2019, are set out on page 91 of this Annual Report.

## Change of control

In the event of a change of control of the Company, LTIP and DBP awards will vest with the Committee taking into account, in the case of LTIP awards, the extent to which the relevant performance conditions have been satisfied and, unless the Committee determines otherwise, the period of time that has elapsed since grant. In the event of a winding-up of the Company, demerger, delisting, special dividend or other event that may affect the share price, the Committee may also allow awards to vest on the same basis.

## Chairman and Non-Executive Directors

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

The initial period of their appointments is three years but their appointments may, by mutual consent and with the approval of the Nominations Committee and the Board, be extended for a further three years. Appointments may be extended beyond six years by mutual consent and with the approval of the Nominations Committee and the Board, if it is in the interest of the Company to

do so. Under the letters of appointment notice can be given by either party upon one month's written notice. Apart from the disclosure under the Policy table for the Chairman and Non-Executive Directors there are no further obligations which could give rise to a remuneration or loss of office payment under the letters of appointment. All the Non-Executive Directors and Chairman (as well as the Executive Directors) are subject to annual reappointment by the shareholders at the AGM.

Copies of the Executive Directors' service contracts, Chairman's and each Non-Executive Director's letters of appointment are available on our website at [www.vitecgroup.com](http://www.vitecgroup.com).

## Consideration of shareholder views

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

The Company received over 99% support for the Remuneration Policy Report at the 2017 AGM and over 98% support for the 2018 Annual Report on Remuneration at the May 2019 AGM, indicating a strong level of support for the structure of Directors' remuneration.

During 2019, the Committee consulted with its major shareholders on the proposed structure of the new Policy Report with a view to this Policy being submitted to the 2020 AGM for approval by shareholders and to cover Directors' remuneration through to the 2023 AGM. This consultation involved a letter to each major shareholder setting out key changes from the 2017 Policy and the structure of the Policy. Several follow-up meetings were held with major shareholders and feedback was given by all shareholders consulted. While a range of views were expressed, the overriding message was support from major shareholders to the existing 2017 Policy report and the proposed new Policy to be submitted to the 2020 AGM. The key changes under the 2020 Policy compared to the 2017 Policy include:

- Increasing the shareholding requirement for Executive Directors from 100% to 200% of base salary;
- Introducing a post-employment shareholding policy for Executive Directors; and
- For newly appointed Executive Directors' adjusting the employer pension contribution rate to 8% of base salary (from 15%), which is in line with the wider UK workforce.

The Committee would engage with shareholders ahead of any material change to the Policy for the Company relating to its Directors and would also engage with shareholders should there be a material level of dissatisfaction from shareholders with Directors' remuneration. A material level of dissatisfaction from shareholders would be more than 20% of shareholders voting against, or abstaining on, a vote related to Directors' remuneration.

# Remuneration report

## Annual report on remuneration

This Annual Report on Remuneration will be put to an advisory vote at the AGM to be held on Wednesday, 27 May 2020.

### Directors' single figure of total remuneration (audited)

The following table sets out the single figure of total remuneration for Directors for the financial years ended 31 December 2019 and 2018:

	Base salary/fee		Benefits		Pensions		Annual bonus		Long-term incentives		Total	
	2019 £	2018 £	2019 <sup>(1)</sup> £	2018 <sup>(1)</sup> £	2019 <sup>(2)</sup> £	2018 <sup>(2)</sup> £	2019 <sup>(3)</sup> £	2018 £	2019 <sup>(4)</sup> £	2018 <sup>(4)</sup> £	2019 £	2018 £
Stephen Bird	463,053	451,758	29,078	33,212	92,611	90,352	124,445	377,925	718,666	1,327,476	1,427,853	2,280,723
Kath Kearney-Croft	325,694	317,750	23,286	24,419	48,854	47,663	-	252,909	-	-	397,834	642,741
Martin Green	298,669	266,500	25,961	23,908	44,800	39,975	81,201	222,944	423,949	555,696	874,580	1,109,023
Ian McHoul (appointed 25 February 2019)	116,413	-	-	-	-	-	-	-	-	-	116,413	-
Christopher Humphrey	68,000	59,755	-	-	-	-	-	-	-	-	68,000	59,755
Caroline Thomson	65,000	54,255	-	-	-	-	-	-	-	-	65,000	54,255
Richard Tyson (appointed 2 April 2018)	50,000	33,941	-	-	-	-	-	-	-	-	50,000	33,941
Duncan Penny (appointed 1 September 2018)	50,000	15,085	-	-	-	-	-	-	-	-	50,000	15,085
John McDonough (left 21 May 2019)	59,606	153,750	-	-	-	-	-	-	-	-	59,606	153,750
Mark Rollins (left 2 April 2018)	-	12,993	-	-	-	-	-	-	-	-	-	12,993
Lorraine Rienecker (left 1 September 2018)	-	30,170	-	-	-	-	-	-	-	-	-	30,170
<b>TOTAL</b>	<b>1,496,435</b>	<b>1,395,957</b>	<b>78,325</b>	<b>81,539</b>	<b>186,265</b>	<b>177,990</b>	<b>205,646</b>	<b>853,778</b>	<b>1,142,615</b>	<b>1,883,172</b>	<b>3,109,286</b>	<b>4,392,436</b>

#### Notes:

- (1) Taxable benefits include car allowance, healthcare cover and income protection. This also includes the grant of Sharesave options to Martin Green in 2019 and shows the value of the 20% discount on the option granted. Martin Green was granted 1,420 Sharesave options on 26 September 2019 at an option price of £8.87 compared to a market price of £11.08 per share.
- (2) Stephen Bird receives a pension contribution of 20% of base salary. Both Kath Kearney-Croft and Martin Green received a pension contribution of 15% of base salary. Each Executive Director currently takes this contribution in the form of a cash payment. Martin Green's pension contribution has been reduced to 8% of base salary following his appointment as Group Finance Director on 10 February 2020.
- (3) For the Annual Bonus Plan 2019, Stephen Bird's, Kath Kearney-Croft's and Martin Green's bonus potential was 125% of base salary. Further details are set out in the "Further notes" section on the following page.
- (4) Long-term incentives comprise LTIP awards. Awards made in 2017 have achieved performance conditions based on TSR and growth in adjusted basic Earnings Per Share at a blended rate of 72.06% and will vest on 15 May 2020 for the Executive Directors. Further details on the vesting of the 2017 LTIP awards are set out in the "Further notes" section on the following pages. A value for the 2017 LTIP has been calculated using the Q4 2019 average share price of £11.71 and associated dividend shares paid on shares vesting (97.1 pence per share). The 2020 Remuneration Report will reflect updated final values. Awards made in 2016 fully achieved their performance conditions also based on the same performance conditions with 100% of awards vesting on 1 March 2019. The value in the table above has been updated to reflect the actual value received by the Executive Directors on 1 March 2019 (£12.00 per share) in contrast to the estimated value given in the 2018 Remuneration Report.

Each Director has confirmed in writing to the Company that the information in the single figure remuneration table is correct and that they have not received from the Company any other items of remuneration other than disclosed.

## Remuneration report

# Annual report on remuneration (continued)

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

### (1) Base salary

The table below shows base salaries for each Executive Director in 2019:

Executive Director	2019 Salary
Stephen Bird	£463,053
Kath Kearney-Croft (left on 13 September 2019) <sup>(1)</sup>	£325,694
Martin Green <sup>(2)</sup>	£290,485/£317,985

(1) Kath Kearney-Croft's salary figure is for the full year.

(2) Martin Green's salary from 1 January 2019 was £290,485 per annum. With effect from 13 September 2019 Martin Green was appointed as Acting Group Finance Director and his salary was increased to £317,985 per annum.

### (2) Benefits

The single figure of total remuneration table sets out the total value of benefits received by each Executive Director in 2019. Details are as follows:

Executive Director	Car allowance	Healthcare cover	Income protection	Other (Sharesave)	Total
Stephen Bird	£23,147	£1,131	£4,800	–	£29,078
Kath Kearney-Croft (left on 13 September 2019) <sup>(1)</sup>	£17,355	£1,131	£4,800	–	£23,286
Martin Green	£17,355	£668	£4,800	£3,138	£25,961

(1) Kath Kearney-Croft's benefits are shown for the full year.

### (3) Pension allowance

The table below sets out the value of the cash payment in lieu of pension for each Executive Director in 2019:

Executive Director	Pension allowance
Stephen Bird	£92,611
Kath Kearney-Croft (left on 13 September 2019) <sup>(1)</sup>	£48,854
Martin Green	£44,800

(1) Kath Kearney-Croft's benefits are shown for the full year.

### (4) Annual bonus

In 2019, each Executive Director was entitled to receive, subject to performance, a maximum bonus of up to 125% of base salary, half of which is deferred into the DBP.

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

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

The Remuneration Committee considered that these two financial performance conditions are key financial measures for the Group driving the right behaviour in terms of achieving profit\* and operating cash flow\* generation and had the most direct impact upon shareholder value for the year ended 31 December 2019.

The personal objective element of the 2019 Annual Bonus Plan for each Executive Director, representing 25% of the maximum bonus that could be earned, is based upon individual performance measured against stretching personal objectives set by the Board and Remuneration Committee, as set out on the following page.



**Stephen Bird – 2019 personal objectives – 86% achieved**

- Continue to build a world-class organisation including: expansion of the Operations Executive to cover wider operations; ensure that the 2017 LTIP delivers value above threshold; develop the Creative Solutions organisation and senior leadership team; and the development and roll-out of a tailored leadership development programme.

Representing 25% of personal objectives – 80% achieved

- Execution and delivery of acquisitions of Rycote, Amimon and Syrp: following their acquisitions in 2018 and 2019, help deliver and execute on integration plans for each business including financial performance, growth plans, R&D process and routes to market.

Representing 20% of personal objectives – 90% achieved

- Review the Imaging Solutions strategic model in light of challenging and evolving photographic market and see the business transition to a digital organisation and sales platform, with increased margins and potentially a change in the manufacturing strategy.

Representing 20% of personal objectives – 90% achieved

- Drive Group marketing towards the independent content creator user including increased sales, Group marketing lead, sharing of sales data, sales bundling opportunities and leverage responsible business activities to support this.

Representing 15% of personal objectives – 67% achieved

- Recruitment of a new Chairman and evolution of the Group over the next five years: working with the Senior Independent Director and Chair of Remuneration Committee; recruit a new Group Chairman; carry out Blue Sky strategy review and detailed strategy review of the Group's businesses.

Representing 20% of personal objectives – 100% achieved

**Martin Green – 2019 personal objectives – 87% achieved**

- Following several strategic acquisitions, support the Group Chief Executive in the development of the Group and its long-term vision and support the Board in terms of knowledge around technology, markets, competition and products.

Representing 25% of personal objectives – 100% achieved

- Integration of Amimon following acquisition in 2018 – ensuring fully engaged and part of the Group and that key processes in place to ensure good reporting and governance processes.

Representing 20% of personal objectives – 90% achieved

- Assist the Imaging Solutions business to migrate to a digital sales platform and deliver margin improvement.

Representing 15% of personal objectives – 85% achieved

- Develop succession plans within the Divisions, particularly immediately below Divisional senior leadership teams.

Representing 15% of personal objectives – 90% achieved

- Continue to develop and implement growth plans in APAC across each of the Group's Divisions and ensuring greater collaboration between them for this important market.

Representing 15% of personal objectives – 50% achieved

- Continue personal development including wider context outside of Vitec.

Representing 10% of personal objectives – 100% achieved

**Kath Kearney-Croft** – As part of a Settlement Agreement concerning her departure from the Group on 13 September 2019, it was agreed that no personal objectives would be given in connection with the 2019 Annual Bonus Plan.

## Remuneration report

# Annual report on remuneration (continued)

### 2019 annual bonus outcome

The table below sets out the annual bonus awards made to Executive Directors in respect of the year ended 31 December 2019 including the financial trigger points used in determining whether a bonus was payable. While Kath Kearney-Croft remained eligible for a proportion of her bonus potential relating to the financial elements and not personal objectives in respect of her service up to 13 September 2019, no bonus was payable to her for 2019 as neither financial element threshold was achieved.

Name	Bonus potential	Elements of bonus potential	Threshold	Target	Maximum	Actual Group performance/ assessment of personal objective performance	Payout and % of maximum	
Stephen Bird Group Chief Executive	125% of annual salary	50% Group PBT*	£50.3m	£55.9m	£61.5m	£48.1m**	–	0%
		25% Group conversion of operating profit* into operating cash flow*	H1: 78% FY: 84%	87% 93%	96% 102%	H1: 76% FY: 85%	–	0%
		25% Personal objectives				86%	£124,445	
		<b>TOTAL</b>					<b>£124,445</b>	<b>21.5%</b>
Martin Green Group Finance Director	125% of annual salary	50% Group PBT*	£50.3m	£55.9m	£61.5m	£48.1m**	–	0%
		25% Group conversion of operating profit* into operating cash flow*	H1: 78% FY: 84%	87% 93%	96% 102%	H1: 76% FY: 85%	–	0%
		25% Personal objectives				87%	£81,201	
		<b>TOTAL</b>					<b>£81,201</b>	<b>21.75%</b>

\*\* The £48.1 million Group adjusted profit before tax\* represents an average of:  
 – £48.0 million being the reported Group adjusted profit before tax\*; and  
 – £48.1 million being the Group adjusted profit before tax\* adjusted for constant foreign exchange rates

A straight-line sliding scale operates between each of the above trigger points for both financial targets. The Remuneration Committee considered that these trigger points were appropriate and sufficiently stretching for 2019 given the uncertain macroeconomic environment, challenging markets that the Group faced and performance in the prior year.

Under the rules of the Annual Bonus Plan the Remuneration Committee retains full and absolute discretion as to whether a bonus is payable or not, and that discretion may only be used in exceptional circumstances, taking into account the overall financial performance of the Company. Any use of this discretion in connection with an Executive Director will be clearly explained in the Remuneration Report. For the 2019 Annual Bonus Plan, the Remuneration Committee exercised no discretion in respect of the Executive Directors' bonus.

While the full year Group conversion of operating profit\* into operating cash flow\* achieved above threshold performance, the Group PBT\* element of the bonus did not achieve threshold and so no bonus was payable for the financial conditions. The Remuneration Committee did not consider it appropriate to exercise any discretion on this matter.

Half of the 2019 annual bonus (after tax) will be deferred into the DBP. The 2019 deferred bonus will be used to purchase award shares to be held in trust for a three-year period. No matching award shares can be earned under the DBP. After three years, the award shares are released from the trust to the Executive Directors.

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

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

### Awards made in 2017 and vesting in respect of performance to 31 December 2019

These relate to awards made in 2017 under the LTIP. Awards are measured based 33% upon the Company’s TSR measured against a comparator group and 67% subject to growth in the Company’s adjusted basic Earnings Per Share\*. Each performance condition is entirely independent from the other performance condition and there is no retesting of either performance condition. Vesting is underpinned by Remuneration Committee discretion that will take into account, in particular, ROCE performance over the performance period for the EPS element of the award.

The detail of each performance condition for each award is set out below.

For that part of an award made in 2017 under the LTIP measured against TSR, if the Company’s TSR performance is at the median of the comparator group at the end of the three-year performance period, 25% of that element of an award may vest. The full element of an award may vest if the Company’s TSR performance is in the top 25% of the comparator group. There is a pro rata straight-line vesting between these two points. The comparator group comprises the constituents of the FTSE 250 Index (excluding financial services companies and investment trusts) over a three-year performance period. The Remuneration Committee considered that this index has a greater level of complexity and internationality and was most comparable to Vitec’s business operations where approximately 90% of revenues are generated outside of the UK.

For that part of an award made in 2017 under the LTIP measured against EPS growth, if the percentage growth in the EPS of the Company exceeds 6% per annum (Compound Average Annual Growth Rate), 25% of that element of an award may vest. Full vesting of an award occurs if the growth in EPS over the performance period exceeds growth by 14% (Compound Average Annual Growth Rate) or greater. There is a pro rata straight-line vesting between these two points.

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

The Remuneration Committee also considered the underlying financial performance of the Company before it confirmed vesting, notably the Company’s ROCE performance.

### Performance out-turn

The table below summarises the value of awards vesting for the 2017 award.

2017 awards	Actual performance	Vesting as a % of award
TSR	Vitec ranked in the 88th percentile of the comparator group with TSR performance of 104% over the three-year performance period.	33%
EPS	Adjusted “normalised” EPS of 80.6 pence compared to a base EPS point of 61.3 pence	58.3%
ROCE underpin	The Company’s ROCE performance over the performance period was as follows: 2016: 17.5%; 2017: 19.6%; 2018: 21.8%; 2019: 18.5%	
Total vesting		72.06%

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

EPS is determined in accordance with note 2.5 of the Financial Statements on page 132. The base point for the EPS performance condition was 61.3 pence per share, being the EPS figure for the year ended 31 December 2016.

The Remuneration Committee considered the Company’s ROCE performance over the performance period, noting that it had improved and that the decline between 2018 and 2019 was due to the strategically important acquisition of Amimon.

The Remuneration Committee at its meeting on 27 February 2020 confirmed that 2017 awards will therefore vest at a level of 72.06% on the third anniversary of the awards. Stephen Bird and Martin Green will be required to hold their vesting 2017 award net of tax for a further two-year holding period from the date of vesting (15 May 2020).

## Remuneration report

# Annual report on remuneration (continued)

Indicative values for vesting awards for the Executive Directors are shown in the remuneration table on page 85, calculated on the following basis:

Director	Number of awards held	Vesting %	Number of awards vesting <sup>(1)</sup>	Date of vesting	Assumed market price <sup>(2)</sup>	Estimated value <sup>(1,2)</sup>	(of which, due to share price growth)
Stephen Bird	78,647	72.06%	61,372	15 May 2020	£11.71	£718,666	£289,062 (40% of total)
Martin Green	46,395	72.06%	36,204			£423,949	£170,520 (40% of total)

(1) Includes estimated associated dividend shares payable in respect of shares vesting (97.1 pence per share).

(2) Based on average share price during the final quarter of 2019.

A significant proportion of the value delivered to Directors is as a result of the Group's share price growth over the vesting period. The estimated values above include the impact of a 40% increase in the assumed market price compared to the share price at grant (£7.00). This is equivalent to £289,062 and £170,520 (in both cases 40% of the total estimated value) for Stephen Bird and Martin Green, respectively.

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

These relate to awards made in 2016 under the LTIP. The performance conditions for these awards are the same as those made in 2017 except that the split between TSR and EPS was 50%/50%. The adjusted EPS growth targets were 5% growth per annum (Compound Average Annual Growth Rate) for 25% of that element of an award to vest and 12% or more growth per annum for full vesting respectively. The Remuneration Committee also considered the underlying financial performance of the Company before it confirmed vesting.

As disclosed in the 2018 Annual Report on Remuneration, both performance conditions were measured to 31 December 2018 and the final outcome resulted in 100% of the total LTIP award vesting (50% for TSR and 50% for EPS). The 2016 LTIP vested on 1 March 2019. The actual value of this vested award for each of the Executive Directors is shown in the Directors' single figure of total remuneration table on page 85.

### Other outstanding awards made in 2018 and vesting in respect of performance to 31 December 2020

For awards made in 2018, 33% of an award is subject to TSR with the Company's TSR performance ranked against the constituents of the FTSE 250 Index (excluding financial services companies and investment trusts) over a three-year performance period. Threshold performance for the TSR performance condition will be at the median point of the comparator group and will result in 25% of an award vesting. Full vesting for the TSR element will be at the upper quartile point of the comparator group. A straight-line sliding scale will operate between each of the above points. Below threshold performance none of the award will vest.

67% of the award will be subject to adjusted EPS growth over a three-year performance period. For awards made in 2018 the adjusted EPS\* growth figures are set at 6% per annum for 25% vesting and 14% plus per annum for full vesting. A straight-line sliding scale will operate between each of the above points and below 6% adjusted EPS\* growth none of the award will vest. Subject to satisfaction of performance conditions to 31 December 2020, these awards will vest in March 2021.

Vesting will be underpinned by Remuneration Committee discretion that will take into account, in particular, ROCE performance over the performance period for the EPS element of the award.

### Awards made in 2019 and vesting in respect of performance to 31 December 2021

The following table provides details of the awards made under the LTIP on 8 March 2019 to Stephen Bird, Kath Kearney-Croft and Martin Green. Kath Kearney-Croft's award was lapsed on 13 September 2019 following her departure.

Performance for these awards is measured over the three financial years from 1 January 2019 to 31 December 2021. Awards are split in performance conditions so that 33% is based on TSR performance and 67% is based on EPS performance. Vesting of the 2019 LTIP award will be consistent with that described above regarding the 2018 LTIP award. Vesting will be underpinned by Remuneration Committee discretion that will take into account, in particular, ROCE performance over the performance period for the EPS element of the award.

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

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

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

Director	Type of award	Number of shares awarded	Face value <sup>(1)</sup> (£)	Face value (% of salary)	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of performance period
Stephen Bird	Performance shares	48,355	£578,809	125%			
Kath Kearney-Croft <sup>(2)</sup>		34,011	£407,111	125%	25%	100%	31 December 2021
Martin Green		30,344	£363,217	125%			

(1) Face value has been calculated using the Company's share price at the date of the award of £11.97.

(2) Kath Kearney-Croft's 2019 award was subsequently lapsed on 13 September 2019 following her departure.

### Deferred Bonus Plan 2019 awards

The following table provides details of the awards made under the DBP on 3 April 2019 in respect of the 2018 Annual Bonus. There are no performance conditions or matching shares associated with these awards. The shares are held in an Employee Benefit Trust on behalf of the Directors for three years and will be released to the individuals on 3 April 2022.

Director	Type of award	Number of shares awarded	Face value <sup>(1)</sup> (£)	End of holding period
Stephen Bird	Shares awarded using deferred annual cash bonus	8,715	£100,135	3 April 2022
Kath Kearney-Croft (left on 13 September 2019) <sup>(2)</sup>		5,832	£67,009	3 April 2022
Martin Green		5,141	£59,070	3 April 2022

(1) Face value has been calculated using the Company's share price at the date of the award of £11.49.

(2) Kath Kearney-Croft left the Company on 13 September 2019. Her 2019 DBP award will remain in the Employee Benefit Trust and only vest at the end of the deferral period on 3 April 2022.

### Payments to past Directors for loss of office (audited)

On 13 September 2019, Kath Kearney-Croft ceased to be Group Finance Director of the Company. As part of her negotiated settlement agreement the following payments were agreed:

- **Salary and benefits** – Kath Kearney-Croft will receive her salary and benefits during her six-month notice period expiring on 13 March 2020. If she obtains an alternative remunerated position during the notice period then the monthly instalments will be reduced in mitigation. The Company additionally maintained her car allowance, healthcare insurance and income protection in place for her during the six-month notice period.
- **Pension** – Kath Kearney-Croft will receive an amount in lieu of employer's pension contribution at the rate of 15% of salary for the duration of the six-month notice period. If she obtains an alternative remunerated position during the notice period then the monthly pension contribution will cease.
- **Long Term Incentive Plan** – Kath Kearney-Croft's outstanding LTIP awards as at 13 September 2019 lapsed with immediate effect.
- **Deferred Bonus Plan** – Kath Kearney-Croft's outstanding DBP awards will vest on the normal vesting dates as set out below and remain subject to malus and clawback provisions.

Type of award – date made	Outstanding awards	Vesting date
DBP – 9 April 2018	5,168	9 April 2021
DBP – 3 April 2019	5,832	3 April 2022

- **Annual Bonus** – Kath Kearney-Croft received no bonus in respect of the 2019 financial year.
- **Other** – Kath Kearney-Croft's Sharesave award lapsed with effect from 13 September 2019. In addition, the Company made a contribution of £1,000 (excluding VAT) towards legal fees incurred in connection with her departure.

Following the end of the financial year under review, Kath Kearney-Croft secured alternative employment and salary, benefits and pension payments in accordance with the settlement agreement ceased on 20 January 2020.

Apart from the above payments, there were no other payments to past Directors of the Company for loss of office in 2019.

## Remuneration report

# Annual report on remuneration (continued)

### Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors were paid the following fees in 2019:

Role	2019 annual fee	Comment
Chairman	£153,750/£170,000	Increased from £153,750 to £170,000 upon Ian McHoul becoming Chairman
Non-Executive Director	£50,000	Base fee increased to £50,000 from £45,255 with effect from 1 January 2019
Chairman of Audit Committee	£10,000	Fee was last increased on 1 January 2014
Chairman of Remuneration Committee	£10,000	Fee was increased on 1 January 2019
Senior Independent Director	£8,000	Fee was increased on 1 January 2019
Employee Engagement Non-Executive Director	£5,000	Fee introduced with effect from 1 January 2019 to reflect new role under 2018 UK Corporate Governance Code

The above fees are reviewed annually by the Board with the support of FIT Remuneration Consultants providing market data to ensure that fees remain appropriate given the size of the Company, time commitment and the need to attract the right experience for the role. The Chairman and Non-Executive Directors do not receive any other benefits from the Company.

### Directors' shareholding requirements and share interests (audited)

The Board has determined that Executive Directors of the Company are required to build up, over a reasonable period of time, a substantial shareholding in the Company of at least one times base salary. From the adoption of the 2020 Policy Report at the Company's AGM to be held on 27 May 2020 this shareholding requirement is to be increased to two times base salary. Stephen Bird and Martin Green satisfied this requirement throughout the whole of 2019 and up to the date of this report. Other members of the Executive Management Board are encouraged to do the same up to a level of 50% of base salary.

The Chairman and Non-Executive Directors of the Company have no such requirement and have discretion as to whether to hold shares in the Company or not. The tables on the following page set out the interests in the ordinary shares of the Company held by each Director (or connected persons) of the Company during the year ended 31 December 2019.

Under the 2018 UK Corporate Governance Code there is a requirement for the Company to develop a post-employment shareholding policy, encompassing vested and unvested shares. The detail of this post-employment shareholding policy is as follows and will apply from the 2020 AGM:

Upon the departure of an Executive Director, the post-employment shareholding policy will operate as follows:

- Shares held in the Employee Benefit Trust under the DBP will continue to be held in trust and will be released to the former Executive Director in accordance with their normal vesting dates. The former Executive Director will be expected to hold any vested DBP shares at least until the second anniversary of their departure date.
- Shares that have vested to an Executive Director under the LTIP and are subject to the two-year post vesting holding period will continue to be required to be held by the former Executive Director until the expiry of the two-year post vesting holding period.
- In the event that an Executive Director is treated as a "good leaver" under the LTIP, then any outstanding LTIP awards that have not vested will be pro-rated to the date of leaving and remain subject to satisfaction of performance conditions. Subject to those conditions being achieved at the normal vesting date, shares will typically be released at the earlier of the expiry of the normal two-year post vesting holding period and the second anniversary of their departure date.
- Shares purchased by an Executive Director using their own personal funds shall not be subject to this post-employment shareholding policy.

## Executive Directors' shareholdings as at 31 December 2019 (audited)

Executive Director	Share ownership requirement (% of salary)	Number of shares owned outright (including connected persons)	Number of shares beneficially owned (DBP award shares)	Number of shares unvested and subject to performance (LTIP shares)	Number of shares under option (Sharesave)	Ownership requirements met (based on shares owned outright and DBP award shares)
Stephen Bird	100%	212,531	32,763	177,108	1,739	583%
Martin Green	100%	67,016	15,658	106,287	1,941	286%
Kath Kearney-Croft*** (left 13 September 2019)	100%	2,700	11,000	111,129	1,819	N/A

## Chairman and Non-Executive Directors' shareholdings as at 31 December 2019 (audited)

Director	1 January 2019*	31 December 2019**
Ian McHoul, Chairman (appointed 25 February 2019)	–	10,000
Christopher Humphrey	10,000	10,000
Duncan Penny	3,000	3,000
Caroline Thomson	8,407	8,407
Richard Tyson	–	2,654
John McDonough*** Chairman (left 21 May 2019)	50,000	50,000

\* Or on date of appointment if later

\*\* Or on date of leaving

\*\*\* Kath Kearney-Croft and John McDonough's shareholdings are shown at their respective dates of departure. Kath Kearney-Croft's unvested LTIP shares and Sharesave options lapsed on departure.

- The closing mid-market share price on 31 December 2019 was £11.00 and the calculation of the percentage shareholding requirement achieved for the Executive Directors is based on this closing mid-market share price.
- The shares shown in the beneficial holdings table above were acquired by the Directors using their own funds and not through any share incentive scheme (or similar) with the exception of the following disclosures in notes 3 and 4 below.
- Stephen Bird's share interests include 32,763 shares (at 31 December 2019) purchased in the market using deferred annual cash bonus and held by the Employee Benefit Trust; the trust used to hold shares in respect of awards made under the DBP. These shares will vest out of the DBP in 2020, 2021 and 2022 respectively. Neither these shares nor any of the other shares held by Stephen Bird have any performance conditions attached to them. During the year ended 31 December 2019 Stephen Bird had the following share dealings:
  - Acquired 58,630 ordinary shares on 1 March 2019 through the exercise of the 2016 LTIP award
  - Sold 30,000 ordinary shares on 1 March 2019
  - Acquired 8,715 ordinary shares on 3 April 2019 through the DBP that are held in the Employee Benefit Trust
  - On 11 April 2019, exercised and retained award shares under the DBP for 2016 over 4,716 ordinary shares and 352 dividend shares
  - 2,000 shares of Stephen Bird's holding are held by his spouse
- Martin Green's share interests include 15,658 shares (at 31 December 2019) purchased in the market using deferred annual cash bonus and held by the Employee Benefit Trust, the trust used to hold shares in respect of awards made under the DBP. These shares will vest out of the DBP in 2020, 2021 and 2022, respectively. Neither these shares nor any of the other shares held by Martin Green have any performance conditions attached to them. During the year ended 31 December 2019, Martin Green had the following share dealings:
  - Acquired 24,543 ordinary shares on 1 March 2019 through the exercise of the 2019 LTIP award
  - Acquired 5,141 ordinary shares on 3 April 2019 through the DBP that are held in the Employee Benefit Trust
  - On 11 April 2019, exercised and retained award shares under the DBP for 2016 over 1,486 ordinary shares and 111 dividend shares
  - On 28 November 2019 acquired 2,597 shares through the exercise of a Sharesave option
- There has been no change to the Directors' shareholdings described in the table above in the period from 31 December 2019 to 27 February 2020, the date of signing of this report.

## Remuneration report

# Annual report on remuneration (continued)

### Sharesave

The Group operates an all-employee savings-related share option scheme in the UK ("Sharesave") and a similar international plan in respect of overseas employees in certain countries (US, Italy, Costa Rica, Japan, France, Singapore, Hong Kong, Israel, Australia, New Zealand and Germany). The scheme and plan are open to all the Group's employees in those countries, including the Executive Directors, and approximately 1,100 of the Group's employees participate in this valuable benefit. As at 31 December 2019 Stephen Bird and Martin Green participate in the UK scheme and the details are shown below. Also shown are the interests of Kath Kearney-Croft who left as an Executive Director on 13 September 2019. These awards lapsed on leaving.

Director	Date of grant	At 1 January 2019 (shares)	Options exercised during the year	Options lapsed during the year	Options granted during the year	At 31 December 2019 (shares)	Exercise price (pence)	Market price at date of grant (pence)	Date from which exercisable <sup>(6)</sup>	Expiry date
Stephen Bird	26 September 2018	1,739	–	–	–	1,739	1035	1293 <sup>(4)</sup>	1 November 2021	30 April 2022
Martin Green	27 September 2016	2,597	2,597	–	–	–	485	606 <sup>(2)</sup>	1 November 2019	30 April 2020
	26 September 2018	521	–	–	–	521	1035	1293 <sup>(4)</sup>	1 November 2021	30 April 2022
	26 September 2019	–	–	–	1,420	1,420	887	1108 <sup>(5)</sup>	1 November 2022	30 April 2023
Kath Kearney-Croft <sup>(1)</sup>	9 October 2017	1,607	–	1,607	–	–	784	980 <sup>(3)</sup>	1 November 2020	30 April 2021
	26 September 2018	521	–	521	–	–	1035	1293 <sup>(4)</sup>	1 November 2021	30 April 2022

(1) Kath Kearney-Croft's Sharesave awards were lapsed upon her departure from the Group on 13 September 2019.

(2) The market price for the grant of shares under option was calculated on the basis of a three-day average of the closing mid-market share price from 31 August 2016 to 2 September 2016 inclusive. A 20% discount was applied to this price under this HMRC approved Sharesave plan. Martin Green exercised this option on 28 November 2019 retaining all of the shares. The closing mid-market share price on 28 November 2019 was £10.00 and therefore the notional gain was £13,375.

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

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

(5) The market price for the grant of shares under option was calculated on the basis of the three-day average of the closing mid-market share price from 28 August 2019 to 30 August 2019 inclusive. A 20% discount was applied to this price under this HMRC approved Sharesave plan.

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



## Long Term Incentive Plan

Each year the Executive Directors are made a conditional award of shares in the Company. Awards to Executive Directors are currently at a level representing 125% of annual base salary. The award is subject to satisfaction of performance conditions over a three-year performance period. The following table sets out the outstanding awards under the LTIP as at 31 December 2019 for the Executive Directors:

Director	Date of award	Awards at 1 January 2019	Awards exercised during the year	Associated dividend shares with the exercised award	Awards lapsed during the year	Awards made during the year	At 31 December 2019	Market price on which award made (pence)	Market price at exercise date (pence)	Face value of award	Percentage of interest that vests if threshold performance achieved	End of performance period
Stephen Bird	1 March 2016 <sup>(1)</sup>	103,362	103,362	7,261	–	–	–	520	1200	125% of annual salary	25%	31 December 2018
	15 May 2017 <sup>(2)</sup>	78,647	–	–	–	–	78,647	700	–	125% of annual salary	25%	31 December 2019
	2 March 2018	50,106	–	–	–	–	50,106	1127	–	125% of annual salary	25%	31 December 2020
	8 March 2019	–	–	–	–	48,355	48,355	1197	–	125% of annual salary	25%	31 December 2021
<b>Total</b>		<b>232,115</b>	<b>103,362</b>	<b>7,261</b>	<b>–</b>	<b>48,355</b>	<b>177,108</b>					
Martin Green <sup>(3)</sup>	1 March 2016 <sup>(1)</sup>	43,269	43,269	3,039	–	–	–	520	1200	125% of annual salary	25%	31 December 2018
	15 May 2017 <sup>(2)</sup>	46,395	–	–	–	–	46,395	700	–	125% of annual salary	25%	31 December 2019
	2 March 2018	29,558	–	–	–	–	29,558	1127	–	125% of annual salary	25%	31 December 2020
	8 March 2019	–	–	–	–	30,334	30,334	1197	–	125% of annual salary	25%	31 December 2021
<b>Total</b>		<b>119,222</b>	<b>43,269</b>	<b>3,039</b>	<b>–</b>	<b>30,334</b>	<b>106,287</b>					

- (1) The LTIP award made on 1 March 2016 achieved 100% of the TSR and EPS performance condition. As a consequence 100% of this award, plus associated dividend shares, vested on its third anniversary of 1 March 2019. Details of the actual associated value are shown in the remuneration table for the year ended 31 December 2019 on page 85.
- (2) The LTIP award made on 15 May 2017 achieved 100% of the TSR performance condition and 58.3% of the adjusted EPS growth performance condition, resulting in 72.06% of the award vesting. As a consequence 72.06% of this award, plus associated dividend shares, will vest on 15 May 2020. Details of the estimated associated value are shown in the remuneration table for the year ended 31 December 2019 on page 85.
- (3) Martin Green's LTIP award in 2016 pre-dates his appointment as an Executive Director of the Company. This award is therefore not subject to a two-year holding period. Awards from 2017 onwards however are subject to a two-year holding period post vesting.
- (4) Kath Kearney-Croft's LTIP awards were all lapsed with effect from 13 September 2019 when she left the Company.

## Remuneration report

# Annual report on remuneration (continued)

### Deferred Bonus Plan

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

Director	Date of award	Awards at 1 January 2019 (shares)	Awards exercised during the year	Associated dividend shares with the exercised awards	Awards lapsed during the year	Awards made during the year	At 31 December 2019	Market price on which award made (pence)	Market price at exercise date (pence)	Face value of award	Percentage of interest that vests if performance achieved	End of performance period
Stephen Bird	11 April 2016 <sup>(1)</sup>	4,716	4,716	352	–	–	–	589	1135	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	5 April 2017 <sup>(2)</sup>	13,344	–	–	–	–	13,344	831	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	9 April 2018	10,704	–	–	–	–	10,704	1205	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	3 April 2019	–	–	–	–	8,715	8,715	1149	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
<b>Total</b>		<b>28,764</b>	<b>4,716</b>	<b>352</b>	<b>–</b>	<b>8,715</b>	<b>32,763</b>					
Martin Green <sup>(3)</sup>	11 April 2016 <sup>(1)(3)</sup>	1,486	1,486	111	–	–	–	589	1135	30% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award
	5 April 2017 <sup>(2)(3)</sup>	4,203	–	–	–	–	4,203	831	–	30% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award
	9 April 2018	6,314	–	–	–	–	6,314	1205	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award
	3 April 2019	–	–	–	–	5,141	5,141	1149	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award
<b>Total</b>		<b>12,003</b>	<b>1,486</b>	<b>111</b>	<b>–</b>	<b>5,141</b>	<b>15,658</b>					
Kath Kearney-Croft <sup>(4)</sup>	9 April 2018	5,168	–	–	–	–	5,168	1205	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award date
	3 April 2019	–	–	–	–	5,832	5,832	1149	–	50% of annual bonus	Not applicable	Shares held in Employee Trust to 3rd anniversary of award
<b>Total</b>		<b>5,168</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5,832</b>	<b>11,000</b>					

(1) The DBP award made on 11 April 2016 vested on 11 April 2019. The award plus associated dividend shares were paid out to the participants on 11 April 2019.

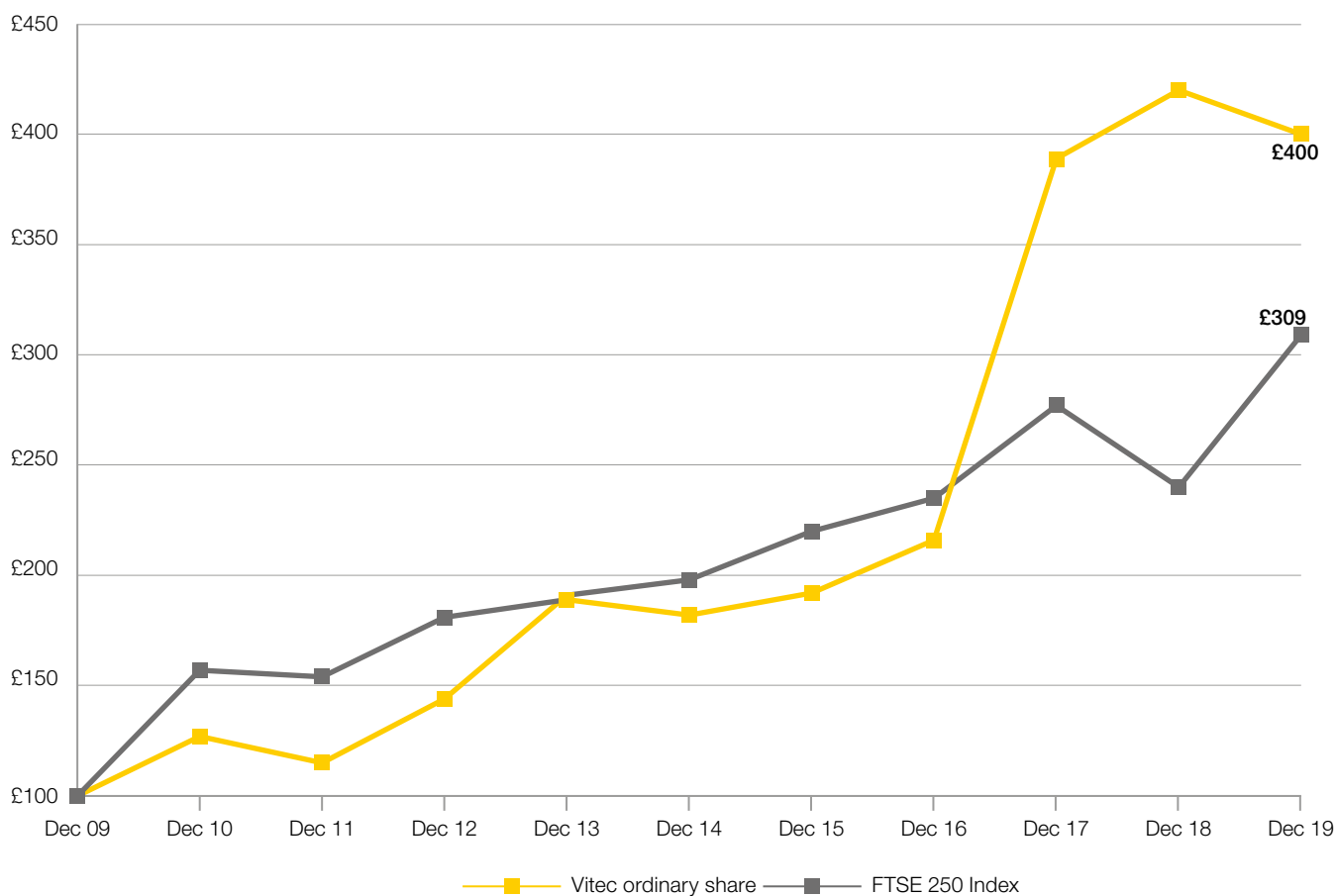
(2) The DBP award made on 5 April 2017 will vest on its third anniversary of 5 April 2020. The award plus associated dividend shares will be paid out to the participants on this anniversary.

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

(4) Kath Kearney-Croft's DBP awards for 2018 and 2019 in accordance with the DBP terms of her Settlement Agreement will only vest on their third anniversary of 9 April 2021 and 3 April 2022.

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

The Company is required to include a line graph showing the Company’s ordinary share performance compared to an appropriate index over a ten-year performance period ending 31 December 2019. The graph below illustrates the Company’s annual Total Shareholder Return (“TSR”) (share price growth plus dividends that have been declared, paid and reinvested in the Company’s shares) relative to the FTSE 250 for the preceding ten-year period ending 31 December 2019, assuming an initial investment of £100. This index has been chosen since it is the comparator group (excluding financial services companies and investment trusts) for one of the performance conditions tied to awards under the LTIP. The Committee notes that the FTSE 250 Index is a recognised broad market equity index, relatively complex and international in nature and is comparable to the Company’s business operations where approximately 90% of revenues are generated outside the UK. TSR data is taken from Datastream.



## Remuneration report

# Annual report on remuneration (continued)

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

The following table sets out the single figure of total remuneration paid and the amount vesting under short-term and long-term incentives (as a percentage of the maximum that could have been achieved) to the Group Chief Executive for each of the ten years ended 31 December 2019.

Year (ended 31 December)	Group Chief Executive	CEO single figure of total remuneration	Annual bonus payout against maximum opportunity % (including actual amount paid)	Long-term incentive vesting rates against maximum opportunity %
2019	Stephen Bird	£1,427,853	21.5% (£124,445)	72.06%
2018	Stephen Bird	£2,280,723	66.9% (£377,925)	100%
2017	Stephen Bird	£1,596,214	88.4% (£486,771)	67.5%
2016	Stephen Bird	£962,299	77.9% (£418,450)	0%
2015	Stephen Bird	£636,374	20% (£104,876)	0%
2014	Stephen Bird	£745,388	44.25% (£226,378)	0%
2013	Stephen Bird	£1,057,407	71% (£355,616)	28.55%
2012	Stephen Bird	£1,697,841	79.4% (£386,434)	92.4%
2011	Stephen Bird	£2,053,828	87.3% (£323,816)	100%
2010	Stephen Bird	£812,946	98.75% (£355,994)	0%

### Percentage change in remuneration of the Group Chief Executive

The table below sets out a comparison of the following elements of remuneration paid to the Group Chief Executive, Stephen Bird, in the year ended 31 December 2019 compared to the year ended 31 December 2018 and compared to that of UK based employees: annual salary; taxable benefits; and annual bonus. The Remuneration Committee has selected this comparator group on the basis that the Group Chief Executive is UK based and this provides a local market reference, is a sizeable population and a fair representation of the Group's employee base.

	Annual salary (% change in 2019 compared to 2018)	Taxable benefits (% change in 2019 compared to 2018)	Annual bonus (% change in 2019 compared to 2018)
Stephen Bird, Group Chief Executive	2.5%	2.5%	-67%
UK based employees	2.5%	2.5%	-35.9

## Group Chief Executive's pay ratio disclosure

In accordance with Option C as set out in the Companies (Miscellaneous Reporting) Regulations 2018, the following table sets out Stephen Bird's (Group Chief Executive) total remuneration for the year ended 31 December 2019 compared with all UK employees of the Group at the 25th percentile, 50th percentile and 75th percentile. The data has been compiled from available data as at 31 December 2019 for all UK based employees and no element of remuneration has been excluded from the calculation. This table will build up over a ten-year period. We have chosen Option C as it reflects all our UK workforce and is more complete in showing the Group Chief Executive's remuneration compared to the entire UK workforce. It uses bonus information for 2018 and paid in March 2019 as bonus information for 2019 is not calculated until March 2020 for many UK employees. It is therefore not possible to use 2019 bonus data since the 2019 Annual Report is approved on 27 February 2020. The Company believes the median ratio is consistent with the Company's wider policies on employee pay, reward and progression.

Year	Method	25th percentile	50th percentile	75th percentile
2019	Option C	82:1	57:1	35:1
		£27,833	£40,002	£64,086

## Relative importance of spend on pay

The following table sets out for the year ended 31 December 2019 compared to the year ended 31 December 2018 the actual expenditure of the Company in terms of remuneration paid to or receivable by all employees of the Group and distributions to shareholders by way of dividends. On 25 February 2019, the Company acquired 58,000 ordinary shares that are held in treasury to cover Employer's National Insurance Contribution costs in relation to the Company's LTIP. There are currently 133,600 ordinary shares held in treasury. There have been no other significant distributions and payments required to be disclosed that would assist in understanding the relative importance of spend on pay.

	Year ended 31 December 2019	Year ended 31 December 2018	% change
Total remuneration paid to all Vitec Group employees	£104.2m	£99.9m	4.3%
Total dividends paid to shareholders	£17.1m	£14.1m	21.3%

## Statement of Implementation of Remuneration Policy in the year ending 31 December 2020

This section provides an overview of how the Committee is proposing to implement the Remuneration Policy in 2020.

### (1) Base salary

The table sets out the 2020 base salary for each Executive Director, together with the percentage increase from 2019:

Executive Director	2020 Salary	Increase from 2019
Stephen Bird	£474,629	2.5%
Martin Green	£355,000	11.6%

In determining the increases for 2020, the Committee took into account a number of factors, including Company and individual performance, the executive's responsibilities and experience, pay increases for the Company's employees, market rates for Executive Director remuneration, the need for retention of a talented executive team and prevailing economic conditions. With effect from his appointment as Group Finance Director on 10 February 2020, Martin Green's salary was set at a level to reflect his responsibility for that role as well as his continuing responsibility for Group business development.

### (2) Benefits

The car allowance taxable benefit has been increased in line with 2.5% base salary increases for 2020. The other taxable benefits of private healthcare and income protection are respectively premium and contractually based.

## Remuneration report

# Annual report on remuneration (continued)

### (3) Pension allowance

Pension allowances paid to Executive Directors are set out in the table below. Stephen Bird's allowance represents 20% of his base salary. The Remuneration Committee does not propose seeking to change this at this point in time given that it was contractually entered into in 2009. Newly appointed Executive Directors will receive a pension contribution of 8% of base salary which is in line with pension contributions provided to the wider UK employee workforce. Upon his appointment as Group Finance Director on 10 February 2020, Martin Green's pension contribution was amended from 15% to 8% of base salary.

Executive Director	Pension allowance
Stephen Bird (20% of salary)	£94,926
Martin Green (8% of salary)	£28,400

### (4) Annual bonus

The maximum opportunity remains unchanged at 125% of base salary. Half of any net after tax annual bonus earned for the year ended 31 December 2020 will be deferred into the DBP for a period of three years and held in the form of shares in the Company. There will be no matching award that can be earned on this deferred bonus. The table below provides information on the performance measures against which performance for the 2020 Annual Bonus Plan will be measured:

Core measures for 2020 Annual Bonus Plan	Weighting (% of overall opportunity)
Group profit before tax*	50%
Group percentage of operating profit* converted to operating cash flow*	25%
Role-specific personal objectives set by the Board and Remuneration Committee for the Executive Director	25%

The performance measures selected reflect the strategic and operational objectives of the Group. The Group percentage of operating profit converted to operating cash metric for 2020 will be measured against targets set for H1 2020 performance and full year 2020 performance, with one-third for H1 and two-thirds for the full year. The Committee considers that the specific targets and personal objectives for 2020 are commercially sensitive and therefore has not disclosed them. The Committee will disclose these targets and objectives once a bonus has been paid and subject to the Committee considering that they are no longer commercially sensitive.

### (5) Long Term Incentive Plan

Stephen Bird and Martin Green will each receive an award of shares under the LTIP equivalent to 125% of base salary in 2020. These awards will be made in the 42-day period following the announcement of the full year results for the year ended 31 December 2019 that will be announced on 28 February 2020. The performance conditions for the LTIP awards to be granted in 2020 will be as follows: 67% of the award will be subject to adjusted basic EPS\* growth over a three-year performance period. The Remuneration Committee has determined that the adjusted EPS targets will be 6% and 14% per annum growth over the three-year performance period. EPS growth will be measured from the adjusted "normalised" 2019 EPS of 80.6 pence used to determine vesting of the 2017 LTIP awards, as disclosed on page 89. The remaining 33% of the award will be subject to TSR with the Company's TSR performance ranked against the constituents of the FTSE 250 Index (excluding financial services companies and investment trusts) over a three-year performance period. Vesting of the 2020 LTIP award will be consistent with that described on page 89 regarding the 2017 LTIP award. Vesting will be underpinned by Committee discretion that will take into account, in particular, ROCE performance over the performance period for the EPS element of the award. Any awards vesting under the LTIP 2020, after deduction of taxes, will be subject to a further two-year holding period, thereby more closely aligning their interests with the long-term interests of shareholders.

## (6) Chairman and Non-Executive Directors' remuneration

The fee structure for the Chairman and Non-Executive Directors for 2020 is set out in the following table:

Role	2020 fee	2019 fee
Chairman	£170,000 <sup>(1)</sup>	£170,000
Non-Executive Directors' base fee	£51,250 <sup>(2)</sup>	£50,000
Chairman of Audit Committee	£10,000 <sup>(3)</sup>	£10,000
Chairman of Remuneration Committee	£10,000 <sup>(3)</sup>	£10,000
Senior Independent Director	£8,000 <sup>(3)</sup>	£8,000
Employee Engagement Non-Executive Director	£5,000 <sup>(4)</sup>	£5,000

- (1) Ian McHoul became Chairman on 21 May 2019 when the Chairman's fee was increased to £170,000 per annum. The fee paid to John McDonough, the previous Chairman was £153,750 per annum. Given that the Chairman's fee was increased with Ian McHoul's appointment as Chairman in May 2019, it was agreed that no increase would be applied for 2020.
- (2) Following a review of Non-Executive Directors' fees with the support of FIT Remuneration Consultants, it was concluded that an increase of 2.5% for 2020 was merited. This increase was justified on the basis of: the market capitalisation of the Company; the Company's robust financial performance; a review of market data provided by FIT Remuneration Consultants showed that the Non-Executive Directors' base fee was at the lower end of the market range for companies with similar FTSE rankings; and that the time commitment for Non-Executive Directors merited an increase.
- (3) The Chairman of the Remuneration Committee and Senior Independent Director were reviewed and increased to their current level in 2019 to take account of the nature of each role, the time commitment, performance of the respective individuals, market rates for the complexity of the roles and the calibre of individuals. The Audit Committee Chairman's fee upon review was considered to be in line with market rates and appropriate for the demands of the role and complexity of the Company.
- (4) In 2019, the Company appointed Caroline Thomson as the Non-Executive Director with responsibility for employee engagement in accordance with the 2019 UK Corporate Governance Code. Given the responsibility of this role and additional work associated with it, the Board approved that a fee of £5,000 per annum be payable to Caroline Thomson for that role. This fee will be paid to any other successor Non-Executive Director in future years. A full description of the activity involved with this role is given on pages 18 and 19 of the Annual Report.

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

### Malus and clawback

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

### Voting at Annual General Meeting

At the Company's last AGM held on 21 May 2019, shareholders were asked for an advisory vote on the Directors' Annual Remuneration Report for the year ended 31 December 2018. The Remuneration Policy Report was not voted on at the 2019 AGM as it had been approved by shareholders at the 2017 AGM and sets out the Policy towards Directors' remuneration for a three-year period from the date of the 2017 AGM until 2020. The Policy Report was approved by 99% of votes cast at the 2017 AGM (36,268,829 votes for and 9,424 votes against). The Annual Remuneration Report resolution was approved by shareholders on a poll at the 2019 AGM. The table below sets out the proxy votes voted for, against and withheld for the advisory vote on the 2018 Remuneration Report resolution at the 2019 AGM.

Resolution	For proxy votes and % of votes cast	Against proxy votes and % of votes cast	Withheld proxy votes
Advisory vote on the Remuneration Report for the year ended 31 December 2018	34,299,833 (98.81%)	412,413 (1.19%)	3,000

As at the date of the Company's AGM on 21 May 2019 the Company had 45,285,939 ordinary shares in issue. The Remuneration Committee considers that an against or withheld vote of 20% or more of the votes cast is deemed to be significant in connection with a resolution on Directors' remuneration. Based on the level of support at the 2019 AGM, the Committee did not consider that there were any significant issues of concern. In the event that a significant level of concern is raised at future AGMs, both the Chairman of the Board and the Chairman of the Remuneration Committee will contact the Company's major shareholders following an AGM to understand the precise detail of the concern being raised. Subject to that, the Committee and the Board as a whole will consider how best to address the concern being raised. This may involve a revision to the Company's Policy on Directors' remuneration at a subsequent AGM or some other change which can be implemented without further shareholder consultation. The Committee and the Board are committed to an open and transparent dialogue with shareholders on material matters of concern.

## Remuneration report

# Annual report on remuneration (continued)

### The Remuneration Committee

The Remuneration Committee comprised the following members during 2019: Caroline Thomson – Chairman, Christopher Humphrey, Richard Tyson and Duncan Penny.

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

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

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

The Committee invites individuals to attend meetings, as it deems necessary, to assist with consideration of remuneration matters. During 2019 the following individuals attended meetings of the Committee: Ian McHoul (Board Chairman), John McDonough (former Board Chairman), Stephen Bird (Group Chief Executive), Martin Green (Acting Group Finance Director and Group Business Development Director), Kath Kearney-Croft (former Group Finance Director) and Jon Bolton (Group Company Secretary). Representatives of the Committee's remuneration advisor, FIT Remuneration Consultants, also attended meetings in 2019.

The Executive Directors or members of the Executive Management Board are not present when their own remuneration is being considered.

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

For further information regarding governance for the Remuneration Committee see pages 66 and 67 of this Annual Report.

### External advisors

In early 2019, the Committee changed its independent advisor from Mercer to FIT Remuneration Consultants. This decision was taken ahead of the preparation and consultation with major shareholders relating to the new Policy Report to be put to the 2020 AGM for approval. During 2019 the level of fees paid to remuneration advisors totalled £57,643 (comprising £7,350 for Mercer and £50,293 for FIT Remuneration Consultants) (2018: £14,938) and this fee covered advice relating to disclosures in the 2018 Directors' Remuneration Report, measurement of performance conditions associated with long-term incentive arrangements, preparation of a new Remuneration Policy Report and general remuneration advice. FIT Remuneration Consultants are a member of the Remuneration Consultants Group and operates under that group's voluntary code of practice for remuneration consultants in the UK. The Committee is satisfied that the advice it received from FIT Remuneration Consultants during 2019 was objective and independent. The Committee also received advice and administrative support during 2019 from the Group Company Secretary, Jon Bolton, and the Group Business Development Director/Acting Group Finance Director, Martin Green.

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

**Caroline Thomson**  
Chairman, Remuneration Committee  
27 February 2020



# Directors' report

## Directors

The Directors who held office at 31 December 2019 and up to the date of this report are set out on pages 52 and 53 along with their biographies and photographs.

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

Name	Effective date	Position
Ian McHoul	Appointed on 25 February 2019	Chairman (from 21 May 2019)
John McDonough	Resigned on 21 May 2019	Chairman
Kath Kearney-Croft	Resigned on 13 September 2019	Group Finance Director

With effect from the resignation of Kath Kearney-Croft on 13 September 2019, Martin Green was appointed Acting Group Finance Director (already being a member of the Board). On 10 February 2020, Martin Green was appointed Group Finance Director.

All current Directors will be standing for reappointment at the forthcoming AGM to be held on Wednesday, 27 May 2020. The remuneration of the Directors including their respective shareholdings in the Company is set out in the Remuneration Report on pages 74 to 102.

## Directors' and Officers' liability insurance and indemnification of Directors

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

## Share capital

The Company has only ordinary shares of 20 pence nominal value in issue along with 133,600 shares held in treasury. Note 4.3 to the consolidated financial statements on page 151 summarises the rights of the ordinary shares as well as the number issued during 2019. An analysis of shareholdings is shown on page 174. The closing mid-market price of a share of the Company on 31 December 2019, together with the range during the year, is also shown on page 174. For details of own shares held by the Company see note 4.3 to the consolidated financial statements.

## Dividends

The Board has recommended a final dividend of 26.7 pence per share amounting to £12.2 million (2018: 25.5 pence per share, amounting to £11.5 million). The final dividend, subject to shareholder approval at the 2020 Annual General Meeting, will be paid on Friday, 29 May 2020 to shareholders on the register at the close of business on Friday, 24 April 2020. This will bring the total dividend for the year to 39.0 pence per share (up 5.4%). A dividend reinvestment alternative is available with details available from our registrars, Equiniti Limited.

## Substantial shareholdings

As at 27 February 2020, the Company had been advised under the Disclosure Guidance and Transparency Rules, or had ascertained from its own analysis, that the following held notifiable interests in the voting rights in the Company's issued share capital:

Shareholder	Number of voting rights	% of voting rights
Alantra Asset Management	8,114,371	17.80%
Aberforth Partners	3,775,738	8.28%
Franklin Templeton Investments	2,387,800	5.24%
Canaccord Genuity Wealth Management	2,269,923	4.97%
Schroder Investment Management	2,158,303	4.73%
Gidema SPA	1,970,000	4.32%
M&G Investments	1,959,036	4.30%
Tellworth Investments	1,914,853	4.20%
Royal London Asset Management	1,719,547	3.77%
Janus Henderson Investors	1,550,858	3.40%
Chelverton Asset Management	1,530,148	3.36%
Heronbridge Investment Management	1,450,481	3.18%

# Directors' report (continued)

## Committees of the Board

The Board has established Audit, Nominations and Remuneration Committees. Details of these Committees, including membership and their activities during 2019, are contained in the Governance section of this Annual Report and in the Remuneration Report.

## Companies Act 2006 disclosures

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

- The Company's capital structure and voting rights are summarised in note 4.3, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights
- The Company holds 133,600 ordinary shares in treasury which do not carry any voting rights (of which 58,000 shares were purchased on 25 February 2019 at a price of £12.10 per share)
- There exist no securities carrying special rights with regard to the control of the Company
- Details of the substantial shareholders and their shareholdings in the Company are listed on the previous page
- Shares awarded under the Company's Deferred Bonus Plan are held in a nominee capacity by the Employee Benefit Trust ("EBT"). The Trustees of the EBT do not seek to exercise voting rights on shares held in the EBT. No voting rights are exercised in relation to shares unallocated to individual beneficiaries
- The rules concerning the appointment and replacement of Directors, amendment to the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006
- There exist no agreements to which the Company is party that may affect its control following a takeover bid
- There exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid

## Articles of Association

The Company's Articles of Association set out the rights of shareholders including voting rights, distribution rights, attendance at general meetings, powers of Directors, proceedings of Directors as well as borrowing limits and other governance controls. A copy of the Articles of Association can be requested from the Group Company Secretary.

## Conflicts of interest

During the year no Director held any beneficial interest in any contract significant to the Company's business, other than a contract of employment. The Company has procedures set out in the Articles of Association for managing conflicts of interest. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the Group, they are required to notify the Board as soon as reasonably practicable.

## Political donations

Further to shareholder approval at the 2017 AGM empowering the Directors to make political donations, it is confirmed that no such donations were made in the year ended 31 December 2019. The Company's policy is not to make political donations.

## Reporting requirements

The following sets out the location of additional information which forms part of the Directors' Report:

Reporting requirement	Comprising	Location
Strategic Report	<ul style="list-style-type: none"> <li>– An indication of the Group's likely future business developments</li> <li>– An indication of the Group's research and development activities</li> <li>– Information on the Group's policies for the employment of disabled persons and employee involvement</li> <li>– The Group's disclosures regarding greenhouse gas emissions</li> </ul>	Pages 1 to 51
Non-financial information statement	<ul style="list-style-type: none"> <li>– Environmental matters, employees, social matters, respect for human rights, anti-corruption and anti-bribery matters</li> <li>– Business model</li> <li>– Policies</li> <li>– Principal risks</li> <li>– Non-financial KPIs</li> </ul>	Pages 1 to 51
Statement on corporate governance	<ul style="list-style-type: none"> <li>– Review of the Board's governance arrangements during the year</li> <li>– Review of the Board's Committee's arrangements during the year</li> </ul>	Pages 52 to 73
Financial instruments	<ul style="list-style-type: none"> <li>– Financial risk management objectives and policies of the Group</li> <li>– The exposure of the Group to foreign currency risk, interest rate risk, and liquidity risk</li> </ul>	Note 4.2 to the consolidated financial statements on pages 145 to 150
Responsible business	<ul style="list-style-type: none"> <li>– Explanation of our approach to business ethics, employees, community and the environment</li> </ul>	Pages 40 to 51
Employee engagement statement	<ul style="list-style-type: none"> <li>– Explanation of how the Directors have engaged with employees and taken them into account when making principal decisions</li> </ul>	Employee engagement section on pages 18 and 19. Stakeholder engagement statement on pages 72 and 73
Statement regarding fostering relationships with suppliers, customers and others	<ul style="list-style-type: none"> <li>– Explanation of how the Directors have fostered the Company's business relationships with suppliers, customers and others, and taken each group into account when making principal decisions</li> </ul>	Stakeholder engagement statement on pages 72 and 73

## Going concern

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future, which comprises the period of at least 12 months from the date of approval of the financial statements, being 27 February 2020. There are no material uncertainties that would prevent the Directors from being unable to make this statement. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

## Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgements and estimates that are reasonable and prudent
- For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU

## Directors' report (continued)

- For the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and that it provides all the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

### Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information (as defined in Section 418(2) of the Companies Act 2006) of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Annual General Meeting (AGM)

The 2020 AGM will be held at 11.00am on Wednesday, 27 May 2020 at The Academy of Medical Sciences, 41 Portland Place, London W1B 1QH.

The Company will be making use of the electronic voting facility provided by its registrars, Equiniti Limited. The facility includes CREST voting for members holding their shares in uncertificated form. For further information, please refer to the section on online services and electronic voting set out in the notes to the Notice of Meeting.

The notice of the AGM and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting accompanying this Annual Report. The Board fully supports all the resolutions set out in the Notice and encourages shareholders to vote in favour of each of them as they intend to in respect of their own shareholdings.

### Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and separate resolutions will be proposed at the forthcoming AGM concerning their reappointment and to authorise the Board to agree their remuneration.

By order of the Board

**Jon Bolton**  
Group Company Secretary  
27 February 2020

# Independent auditor's report to the members of The Vitec Group plc

## Report on the audit of the financial statements

### 1. Opinion

In our opinion:

- the financial statements of The Vitec Group plc (“the Parent Company”) and its subsidiaries (“the Group”) give a true and fair view of the state of the Group’s and of the Parent Company’s affairs as at 31 December 2019 and of the Group’s profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 “Reduced Disclosure Framework”; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related Group notes 1 to 5 and Company notes a to p.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 “Reduced Disclosure Framework”.


### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (“the FRC’s”) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matter that we identified in the current year was:</p> <ul style="list-style-type: none"> <li>– Valuation of inventory obsolescence provision.</li> </ul> <p>Within this report, key audit matters are identified as follows:</p> <p> Similar level of risk</p>
<b>Materiality</b>	The materiality that we used for the Group financial statements was £2.4 million which was determined on the basis of 5% of adjusted profit before tax.
<b>Scoping</b>	<p>We focused our scope on the three trading divisions, Vitec Imaging Solutions, Vitec Production Solutions and Vitec Creative Solutions. These were subject to either full scope audits or specified audit procedures which account for 88% of Group revenue and 88% of net assets.</p> <p>The Company-only financial statements of The Vitec Group plc were subject to a full scope audit.</p>
<b>Significant changes in our approach</b>	<p>Our audit approach is consistent with the prior year with the exception of:</p> <ul style="list-style-type: none"> <li>– The valuation of acquired intangible assets relating to Amimon Inc. has been removed as a key audit matter. This was considered a key audit matter in the year ended 31 December 2018 which was the year of acquisition.</li> </ul>

# Independent auditor's report to the members of The Vitec Group plc (continued)

## 4. Conclusions relating to going concern, principal risks and viability statement

### 4.1. Going concern

We have reviewed the Directors' statement in Section 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

### 4.2. Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 20 to 23 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 38 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 38 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

**Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements**

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

**Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.**

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1. Valuation of inventory obsolescence provision

Key audit matter description	<p>At 31 December 2019, the gross inventory balance was £90.9 million (2018: £95.2 million), against which there was £14.9 million (2018: £15.1 million) allowance.</p> <p>Significant management judgement is involved in determining the adequacy of the inventory obsolescence provision across both a wide range of products, within differing geographical regions, set against a backdrop of ever changing technology in the image capture and sharing market. Given the high level of management judgement involved, particularly in respect of forecast future usage, we deemed this a potential fraud risk for our audit.</p> <p>Management has highlighted inventory provisioning as a key accounting estimate in Section 1. The Audit Committee report on page 70 also refers to inventory provisioning as one of the significant issues and judgements. Further information is included in note 3.3.</p>
How the scope of our audit responded to the key audit matter	<p>Our audit procedures included assessing the design and implementation of key controls relating to inventory provisioning.</p> <p>In order to address this key audit matter we have completed audit procedures including:</p> <ul style="list-style-type: none"> <li>– considering the appropriateness of the methodology used to calculate the inventory provision;</li> <li>– challenging the reasonableness of management’s judgements and the assumptions used, specifically by assessing the provision percentages in relation to sales demand with comparison to prior periods;</li> <li>– assessing the integrity of the underlying calculation by checking the accuracy of the ageing of discontinued and slow moving inventory items;</li> <li>– reviewing the level of inventory write offs in the year compared to the overall inventory provision at 31 December 2018; and</li> <li>– reviewing the exposure of inventory relating to slow moving ranges but for which no provision is included, together with testing the appropriateness of a sample of manual adjustments.</li> </ul>
<b>Key observations</b>	On the basis of our testing, we are satisfied the overall provision is appropriate.

## 6. Our application of materiality

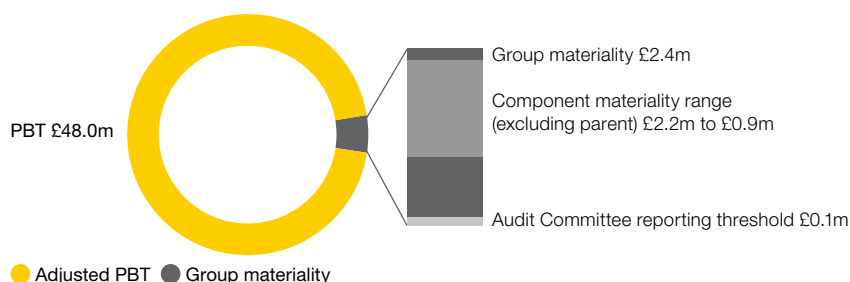
### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£2.4 million (2018: £1.9 million)	£2.2 million (2018: £1.8 million)
Basis for determining materiality	5% of adjusted profit before tax	Parent Company materiality equates to 1% of net assets, which is capped at 95% of Group performance materiality
Rationale for the benchmark applied	Adjusted profit before tax has been used as it is the primary measure of performance used by the Group. We have used adjusted profit measures that exclude certain items from our determination to aid the consistency and comparability of our materiality base each year.	Net assets has been used as this is a non-trading holding company and we consider this to be the most appropriate basis.

# Independent auditor's report to the members of The Vitec Group plc (continued)



## 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- the overall quality of the control environment where no significant deficiencies were identified;
- the low turnover of management and key accounting personnel; and
- the low number of corrected and uncorrected misstatements identified in previous audits.

## 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £100,000 (2018: £96,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Identification and scoping of components

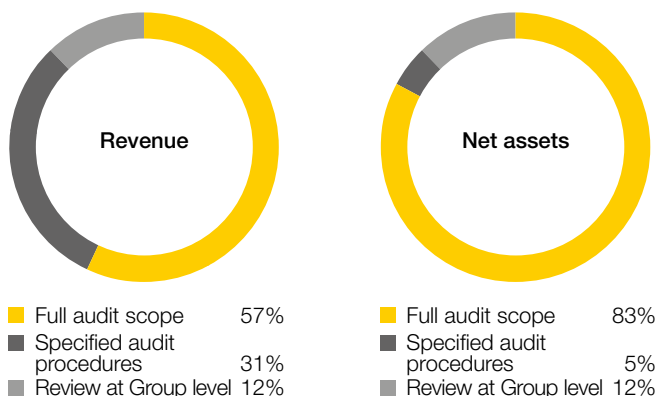
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment we focused our scope on the three trading Divisions: Vitec Imaging Solutions, Vitec Production Solutions and Vitec Creative Solutions. These were subject to either full scope audits or specified procedures which account for 88% (2018: 88%) of Group revenue and 88% (2018: 93%) of net assets.

### 7.2. Working with other auditors

The Group audit team instructed component auditors as to the significant risk areas to be addressed, including the key audit matter in respect of the valuation of the inventory obsolescence provision, and other relevant risks through the issuance of detailed referral instructions. The Group audit team visited the Divisional head office of each of the three trading Divisions in Italy, the UK and US. In addition to our programme of planned visits, we also engaged regularly with the component auditors through telephone meetings, considered and discussed the appropriateness of their local risk assessment, attended closing meetings with them and component management teams, reviewed their work and reviewed their component reporting.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.





## 8. Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters

## 9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

# Independent auditor's report to the members of The Vitec Group plc (continued)

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, the Group's in-house legal counsel and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of the inventory obsolescence provision. This was raised as a key audit matter in the current year. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's regulatory solvency requirements and covenant requirements.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of inventory as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' report.

### 13. Matters on which we are required to report by exception

#### 13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters

#### 13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters

### 14. Other matters

#### 14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the members at the Company's Annual General Meeting on 15 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the years ending 31 December 2018 to 31 December 2019.

#### 14.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

### 15. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### David Halstead FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP  
 Statutory Auditor  
 St Albans, United Kingdom  
 27 February 2020

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Each section sets out the accounting policies applied in producing these financial statements together with any key judgements and estimates used. Text boxes provide an introduction to each section.

# Consolidated Income Statement

For the year ended 31 December 2019

	Notes	2019 £m	2018 £m
<b>Revenue</b>	2.1	<b>376.1</b>	385.4
Cost of sales		<b>(214.3)</b>	(219.4)
Other income	2.1	<b>6.5</b>	7.8
<b>Gross profit</b>		<b>168.3</b>	173.8
Operating expenses	2.1/2.2	<b>(136.3)</b>	(133.6)
<b>Operating profit</b>	2.1	<b>32.0</b>	40.2
Comprising			
– Adjusted operating profit		<b>52.4</b>	53.5
– Charges associated with acquisition of businesses and other adjusting items	2.2	<b>(20.4)</b>	(13.3)
		<b>32.0</b>	40.2
Net finance expense	2.3	<b>(4.4)</b>	(2.3)
<b>Profit before tax</b>		<b>27.6</b>	37.9
Comprising			
– Adjusted profit before tax		<b>48.0</b>	51.2
– Charges associated with acquisition of businesses and other adjusting items	2.2	<b>(20.4)</b>	(13.3)
		<b>27.6</b>	37.9
Taxation	2.4	<b>(7.4)</b>	(3.6)
Comprising taxation on			
– Adjusted profit		<b>(11.7)</b>	(9.2)
– Charges associated with acquisition of businesses and other adjusting items		<b>4.3</b>	5.6
		<b>(7.4)</b>	(3.6)
<b>Profit for the year attributable to owners of the parent</b>		<b>20.2</b>	34.3
<b>Earnings per share</b>			
Basic earnings per share	2.5	<b>44.9p</b>	76.1p
Diluted earnings per share	2.5	<b>44.5p</b>	75.6p
<b>Average exchange rates</b>			
Euro		<b>1.14</b>	1.13
US\$		<b>1.28</b>	1.33

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 £m	2018 £m
<b>Profit for the year</b>	<b>20.2</b>	34.3
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Remeasurements of defined benefit obligation	0.7	4.0
Related tax	(0.2)	(0.7)
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		
Currency translation differences on foreign currency subsidiaries	(10.0)	7.6
Net investment hedges – net gain/(loss)	2.8	(3.7)
Cash flow hedges – reclassified to the Income Statement, net of tax	1.4	(0.2)
Cash flow hedges – effective portion of changes in fair value, net of tax	(0.4)	(1.8)
Other comprehensive (expense)/income, net of tax	(5.7)	5.2
<b>Total comprehensive income for the year attributable to owners of the parent</b>	<b>14.5</b>	39.5

# Consolidated Balance Sheet

As at 31 December 2019

	Notes	2019 £m	2018 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	3.1	127.7	132.1
Property, plant and equipment	3.2	46.7	33.7
Trade and other receivables	3.3	1.7	2.0
Deferred tax assets	2.4	21.0	28.4
		<b>197.1</b>	196.2
<b>Current assets</b>			
Inventories	3.3	76.0	80.1
Trade and other receivables	3.3	59.4	68.7
Derivative financial instruments	4.2	0.6	0.1
Current tax assets	2.4	8.6	1.6
Cash and cash equivalents	4.1	18.9	17.5
		<b>163.5</b>	168.0
<b>Total assets</b>		<b>360.6</b>	364.2
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank overdrafts	4.1	–	2.4
Interest-bearing loans and borrowings	4.1	0.2	0.5
Lease liabilities	4.1	5.8	–
Trade and other payables	3.3	55.9	70.3
Derivative financial instruments	4.2	0.3	1.1
Current tax liabilities	2.4	10.6	5.2
Provisions	3.5	5.0	3.2
		<b>77.8</b>	82.7
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	4.1	96.5	95.6
Lease liabilities	4.1	12.4	–
Other payables	3.3	0.1	0.8
Post-employment obligations	5.2	8.3	9.4
Provisions	3.5	1.2	1.7
Deferred tax liabilities	2.4	7.6	11.7
		<b>126.1</b>	119.2
<b>Total liabilities</b>		<b>203.9</b>	201.9
<b>Net assets</b>		<b>156.7</b>	162.3
<b>Equity</b>			
Share capital		9.1	9.1
Share premium		20.7	18.6
Translation reserve		(11.9)	(4.7)
Capital redemption reserve		1.6	1.6
Cash flow hedging reserve		0.3	(0.7)
Retained earnings		136.9	138.4
<b>Total equity</b>	4.3	<b>156.7</b>	162.3
<b>Balance Sheet exchange rates</b>			
Euro		1.18	1.11
US\$		1.32	1.27

Approved and authorised for issue by the Board on 27 February 2020 and signed on its behalf by:

**Martin Green**  
Group Finance Director

# Consolidated Statement of Changes in Equity

Note	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019	9.1	18.6	(4.7)	1.6	(0.7)	138.4	162.3
Adoption of IFRS 16	1	–	–	–	–	(1.3)	(1.3)
Balance at 1 January 2019 (adjusted)	9.1	18.6	(4.7)	1.6	(0.7)	137.1	161.0
<b>Total comprehensive income for the year</b>							
Profit for the year	–	–	–	–	–	20.2	20.2
Other comprehensive income/(expense) for the year	–	–	(7.2)	–	1.0	0.5	(5.7)
<b>Contributions by and distributions to owners</b>							
Dividends paid	–	–	–	–	–	(17.1)	(17.1)
Own shares purchased	–	–	–	–	–	(6.4)	(6.4)
Share-based payment charge, net of tax	–	–	–	–	–	2.6	2.6
New shares issued	–	2.1	–	–	–	–	2.1
<b>Balance at 31 December 2019</b>	<b>9.1</b>	<b>20.7</b>	<b>(11.9)</b>	<b>1.6</b>	<b>0.3</b>	<b>136.9</b>	<b>156.7</b>
Balance at 1 January 2018	9.0	16.8	(8.6)	1.6	1.3	115.5	135.6
Adoption of IFRS 9	–	–	–	–	–	(0.1)	(0.1)
Balance at 1 January 2018 (adjusted)	9.0	16.8	(8.6)	1.6	1.3	115.4	135.5
<b>Total comprehensive income for the year</b>							
Profit for the year	–	–	–	–	–	34.3	34.3
Other comprehensive income/(expense) for the year	–	–	3.9	–	(2.0)	3.3	5.2
<b>Contributions by and distributions to owners</b>							
Dividends paid	–	–	–	–	–	(14.1)	(14.1)
Own shares purchased	–	–	–	–	–	(3.7)	(3.7)
Share-based payment charge, net of tax	–	–	–	–	–	3.2	3.2
New shares issued	0.1	1.8	–	–	–	–	1.9
<b>Balance at 31 December 2018</b>	<b>9.1</b>	<b>18.6</b>	<b>(4.7)</b>	<b>1.6</b>	<b>(0.7)</b>	<b>138.4</b>	<b>162.3</b>



# Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 £m	2018 £m
<b>Cash flows from operating activities</b>			
Profit for the year		20.2	34.3
Adjustments for:			
Taxation		7.4	3.6
Depreciation		14.1	7.2
Impairment losses on property, plant and equipment		0.6	–
Amortisation of intangible assets		13.9	10.6
Write-off of intangible assets		–	0.6
Net loss/(gain) on disposal of property, plant and equipment and software		0.2	(0.2)
Fair value (gains)/losses on derivative financial instruments		(0.1)	0.2
Foreign exchange (gains)/losses		(0.4)	0.3
Share-based payment charge		2.3	3.1
Earnout charges and retention bonuses		2.5	1.4
Loss on disposal of business, before tax		0.4	–
Net finance expense		4.4	2.3
Operating profit before changes in working capital and provisions		65.5	63.4
Decrease/(increase) in inventories		1.0	(0.8)
Decrease/(increase) in receivables		6.3	(0.5)
Decrease in payables		(12.6)	(4.3)
Decrease in provisions		(1.0)	(3.8)
Cash generated from operating activities		59.2	54.0
Interest paid		(4.3)	(2.5)
Tax paid		(6.3)	(4.1)
<b>Net cash from operating activities</b>		<b>48.6</b>	<b>47.4</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment and software		0.5	0.5
Purchase of property, plant and equipment		(6.2)	(8.4)
Capitalisation of software and development costs		(12.4)	(6.0)
Acquisition of businesses, net of cash acquired	3.4	(3.1)	(51.8)
Net cash inflow on disposal of business		0.9	0.5
<b>Net cash used in investing activities</b>		<b>(20.3)</b>	<b>(65.2)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares		2.1	1.9
Own shares purchased		(6.4)	(3.7)
Principal lease repayments		(6.4)	–
Repayment of interest-bearing loans and borrowings		(57.8)	(101.7)
Borrowings from interest-bearing loans and borrowings		61.4	138.1
Dividends paid		(17.1)	(14.1)
<b>Net cash (used in)/from financing activities</b>		<b>(24.2)</b>	<b>20.5</b>
<b>Increase in cash and cash equivalents</b>	4.1	<b>4.1</b>	<b>2.7</b>
Cash and cash equivalents at 1 January		15.1	12.6
Effect of exchange rate fluctuations on cash held		(0.3)	(0.2)
<b>Cash and cash equivalents at 31 December</b>		<b>18.9</b>	<b>15.1</b>

# Section 1 – Basis of Preparation

**This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.**

The Vitec Group plc ("the Company") is a company domiciled and incorporated under the Companies Act in the United Kingdom. The consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as ("the Group")).

As required by EU law (IAS Regulation EC 1606/2002) the Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"), and have been approved by the Directors.

The financial statements are principally prepared on the basis of historical cost. Areas where other bases are applied are identified in the accounting policy outlined in the relevant note.

In reporting financial information, the Group presents alternative performance measures ("APMs") which are not defined or specified under the requirements of IFRS. The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information to better reflect the underlying business and enable more meaningful comparison over time. A glossary on page 171 provides a comprehensive list of APMs that the Group uses, including an explanation of how they are calculated, why they are used and how they can be reconciled to a statutory measure where relevant.

The Company has elected to prepare its Parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review. In addition, note 4.2 "Financial instruments" includes the Group's financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to foreign currency risk, interest rate risk and liquidity risk.

The Group has considerable financial resources, including undrawn borrowing facilities at the end of the year of £65.4 million (see note 4.2 "Financial instruments"). The Directors believe that the Group is well placed to manage its business risks.

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have considered the potential near-term risks of Brexit and they currently consider these risks to be minimal. Details of these risks are disclosed in the principal risks and uncertainties section. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

## Basis of consolidation

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists when the Group has the rights to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries sold or acquired during the year are included in the accounts up to, or from, the date that control exists.

## Foreign currencies

The consolidated financial statements are presented in Sterling with the reporting currency of the Group's subsidiaries generally being that of the local country.

Transactions in foreign currencies are translated at the exchange rate on that day.

Foreign currency monetary assets and liabilities are translated at the year end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year end, a currency translation gain or loss may arise. Any such differences are recognised in the Income Statement.

Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate on the day of the transaction, unless they are stated at fair value in which case they are translated at the exchange rate on the day the fair value was determined.

The assets and liabilities of overseas companies, including goodwill and fair value adjustments arising on consolidation, are translated at the year end exchange rate. The revenues and expenses of these companies are translated at the weighted average exchange rate for the year. Where differences arise between these rates, they are recognised in the translation reserve within equity and other comprehensive income.

The cash flows of these companies are typically translated at the weighted average exchange rate for the year.

In the consolidated financial statements, currency translation gains and losses on external loans and borrowings and on long-term inter-company loans that form part of the net investment in the subsidiaries are recognised directly in the translation reserve within equity and other comprehensive income.

In respect of all overseas companies, only those translation differences arising since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. On disposal of such a company, the related translation reserve is released to the Income Statement as part of the gain or loss on disposal.

## Significant judgements, key assumptions and estimates

The following provides information on those policies that the Directors consider critical because of the level of judgement and estimation required which often involves assumptions regarding future events which can vary from what is anticipated. The Directors review the judgements and estimates on an ongoing basis with revisions to accounting estimates recognised in the period in which the estimates are revised and in any future periods affected. The Directors believe that the consolidated financial statements reflect appropriate judgements and estimates and provide a true and fair view of the Group's performance and financial position.

### Critical judgements involving estimates

The following are the critical judgements which involve estimations that the Directors have made in the process of applying the Group's accounting policies and that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities within the next financial year.

#### **Inventory**

Judgement is applied to assess the level of provisions required to write down slow-moving, excess and obsolete inventory to its net realisable value. The estimation of inventory impairment is based on anticipated future sales of products over particular time periods. The anticipated level of future sales is determined primarily based on actual sales over a specified historic reference period which is determined by management and is deemed appropriate to the type of inventory. See note 3.3 "Working capital".

#### **Pension benefits**

The actuarial valuations associated with the pension schemes involve making assumptions about discount rates, future salary increases, future pension increases and mortality rates. In 2018, following the High Court's judgment in relation to Lloyds Bank's defined benefit pension schemes, which concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, the Group increased the liability recognised for its UK defined benefit pension scheme. All assumptions are reviewed at each reporting date. Further details about the assumptions used are set out in note 5.2 "Pensions".

#### **Acquisitions**

Acquisitions are accounted for under the acquisition method, based on the fair value of the consideration paid. Assets and liabilities, with limited exceptions are measured at their fair value at the acquisition date. Judgement is applied in relation to the estimation of the provisional fair values and useful lives of acquired assets and liabilities at the date of acquisition. Judgement is required to determine appropriate discount rates and the future cash flows, which impact the valuation of acquired intangibles. Determination of the useful economic lives of technology related intangible assets requires judgement about future market trends and future risk of replacement or obsolescence of those assets. Details concerning the acquisitions made in the year are set out in note 3.4 "Acquisitions". The useful economic lives of intangible assets are disclosed in note 3.1 "Intangible assets".

#### **Tax**

The Group is subject to income taxes in a number of jurisdictions. Management is required to make estimates in determining the provisions for income taxes and deferred tax assets and liabilities recognised in the consolidated financial statements. Tax benefits are recognised to the extent that it is probable that sufficient taxable income will be available in the future against which temporary differences and unused tax losses can be utilised. See note 2.4 "Tax".

# Section 1 – Basis of Preparation (continued)

## Critical judgements in applying the Group's accounting policies

The following are critical judgements that the Group makes, apart from those involving estimations (which are dealt with above), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The Group capitalises development costs which meet the criteria under IAS 38 "Intangible Assets" and discloses the amount capitalised in note 3.1 "Intangible Assets". The Group makes significant judgements in the application of IAS 38, particularly in relation to its requirements regarding the technical feasibility of completing the asset and the Group's ability to sell and generate future economic benefits from the intangible asset.

In relation to tax, these include the interpretation and application of existing legislation. Details on the tax charge and assets and liabilities recorded are set out in note 2.4 "Tax".

## Impact of adoption of new accounting standards

The Group has applied IFRS 16 "Leases" from 1 January 2019, which has impacted the Group's financial statements as described below.

### **IFRS 16 "Leases"**

On initial application, the cumulative impact of adopting the standard has been recognised as an adjustment to opening equity, and the comparative amounts presented in the Consolidated Income Statement and Consolidated Balance Sheet have not been restated.

On adoption, the Group recognised lease liabilities of £22.4 million for leases previously classified as operating leases, measured at the present value of the remaining lease payments. In accordance with the transition provisions of IFRS 16, the Group discounted the future lease payments at the incremental borrowing rate of the lessee at the date of adoption. The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 January 2019 was 4.6%. At the same time, the Group recognised right-of-use assets of £20.7 million, measured as if the standard had been applied since commencement date of the lease, and discounted using the lessee's incremental borrowing rate at the date of adoption. As a result of the adoption of IFRS 16 the Group also recognised deferred tax assets of £0.3 million at 1 January 2019 and made adjustments for prepayments and accruals of £0.1 million.

A difference arises between the present value of operating lease commitments disclosed at 31 December 2018 and the lease liabilities recognised by the Group at 1 January 2019. This is due to the Group taking advantage of the exemptions in IFRS 16 that permit lease payments for short-term leases, and leases of low value assets, to continue to be accounted for as an expense on a straight-line basis over the lease term.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate applied to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments of whether leases are onerous;
- The exclusion of initial direct costs in the measurement of the right-of-use asset at the date of initial application;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relies on its assessment made applying IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement contains a Lease".

For the accounting policies in relation to leases see note 3.6 "Leases".

### **Other standards**

Interpretation 23, "Uncertainty over Income Tax Treatments" – The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. The interpretation was adopted on 1 January 2019. There has been no material impact on the financial statements of adopting the interpretation.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement – The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. The amendment was adopted on 1 January 2019. There has been no material impact on the financial statements of adopting the amendment to IAS 19.

There has been no material impact on the financial statements of adopting other new standards or amendments.

## New standards and interpretations not yet adopted

Amended standards and interpretations not yet effective are not expected to have a significant impact on the Group's consolidated financial statements.

# Section 2 – Results for the Year

This section focuses on the profitability of the Group. On the following pages you will find disclosures relating to the following:

- 2.1 Profit before tax (including segmental information)
- 2.2 Charges associated with acquisition of businesses and other adjusting items
- 2.3 Net finance expense
- 2.4 Tax
- 2.5 Earnings per share

## 2.1 Profit before tax (including segmental information)

This shows the analysis of the Group's profit before tax by reference to its three Divisions. Further segmental information and an analysis of key operating expenses are also shown here.

### Accounting policies

#### **Revenue recognition**

##### ***Sale of goods***

Revenue from the sale of goods is recognised when the Group sells a product to a customer and control has passed. This is either once the product has been shipped or delivered to the customer, depending on the terms and conditions of the sale. Payment terms vary by Division and customer but where credit terms are given, payments are due generally 30 days after control of the goods has passed to the customer. Revenue is recognised at the transaction price exclusive of sales tax, adjusted for the expected level of returns, trade discounts and volume rebates. For the products expected to be returned, both a refund liability and a right to the returned goods are recognised using an expected value method based on past history.

Some contracts include multiple deliverables, such as the sale of the product and its installation. If material, distinct goods and services are accounted for as separate performance obligations. The transaction price is allocated to each performance obligation based on their standalone selling prices.

##### ***Service contracts***

Revenue from rental service contracts which are fulfilled using the Group's equipment and operators is recognised in the accounting period in which the services are rendered. Payment terms vary and there can be small advance payments but generally payments are due as services are rendered.

Generally contracts with customers are for periods of one year or less. As a result, the transaction price allocated to any unsatisfied contracts is not disclosed as permitted by IFRS 15.

##### ***Licenses***

Software licenses are sold by the Group on a standalone basis and together with a tangible product. If the license is considered distinct, the revenue recognition pattern is based on whether the license is a right to use intellectual property (revenue recognised at a point in time) or a right to access intellectual property (revenue recognised over time). The majority of the licenses granted by the Group represent a right to use intellectual property for which payments are generally in advance. From a right to access intellectual property, payments are normally on a monthly basis with a credit period of 30 days.

##### ***Financing components***

The Group generally does not have contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

# Section 2 – Results for the Year (continued)

## 2.1 Profit before tax (including segmental information) (continued)

### Segment reporting

The Group has three reportable segments which are reported in a manner that is consistent with the internal reporting provided to the Chief Operating Decision Maker on a regular basis to assist in making decisions on capital allocated to each segment and to assess performance. Further details on the nature of these segments and the products and services they provide are contained in the Strategic Report.

	Imaging Solutions		Production Solutions		Creative Solutions		Corporate and unallocated		Consolidated	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
<b>Total revenue from external customers</b>	<b>196.6</b>	201.6	<b>111.8</b>	118.7	<b>67.7</b>	65.1	–	–	<b>376.1</b>	385.4
Inter-segment revenue <sup>(1)</sup>	<b>0.4</b>	0.6	<b>0.4</b>	0.4	–	0.2	<b>(0.8)</b>	(1.2)	–	–
Total revenue	<b>197.0</b>	202.2	<b>112.2</b>	119.1	<b>67.7</b>	65.3	<b>(0.8)</b>	(1.2)	<b>376.1</b>	385.4
<b>Adjusted operating profit/(loss)</b>	<b>27.1</b>	31.1	<b>19.6</b>	20.1	<b>15.6</b>	15.7	<b>(9.9)</b>	(13.4)	<b>52.4</b>	53.5
Amortisation of acquired intangible assets	<b>(2.1)</b>	(1.0)	–	(0.7)	<b>(7.3)</b>	(4.7)	–	–	<b>(9.4)</b>	(6.4)
Effect of fair valuation of acquired inventory	<b>(0.1)</b>	–	–	–	<b>(1.7)</b>	(0.3)	–	–	<b>(1.8)</b>	(0.3)
Transaction costs relating to acquisition of businesses	<b>(0.1)</b>	(0.1)	–	–	–	(1.9)	–	–	<b>(0.1)</b>	(2.0)
Earnout charges and retention bonuses	<b>(1.2)</b>	–	–	–	<b>(1.3)</b>	(1.4)	–	–	<b>(2.5)</b>	(1.4)
Loss on disposal of business	–	–	<b>(0.4)</b>	–	–	–	–	–	<b>(0.4)</b>	–
Restructuring costs	<b>(5.8)</b>	–	<b>(0.3)</b>	–	–	–	<b>(0.1)</b>	–	<b>(6.2)</b>	–
Integration costs	–	(1.4)	–	–	–	(0.5)	–	–	–	(1.9)
Development costs written off	–	–	–	–	–	(0.6)	–	–	–	(0.6)
Guaranteed minimum pension charge	–	–	–	(0.7)	–	–	–	–	–	(0.7)
<b>Operating profit/(loss)</b>	<b>17.8</b>	28.6	<b>18.9</b>	18.7	<b>5.3</b>	6.3	<b>(10.0)</b>	(13.4)	<b>32.0</b>	40.2
Net finance expense									<b>(4.4)</b>	(2.3)
Taxation									<b>(7.4)</b>	(3.6)
<b>Profit for the year</b>									<b>20.2</b>	34.3
Segment assets <sup>(2)</sup>	<b>139.4</b>	134.5	<b>93.7</b>	87.2	<b>77.8</b>	93.4	<b>1.2</b>	1.6	<b>312.1</b>	316.7
Unallocated assets										
Cash and cash equivalents							<b>18.9</b>	17.5	<b>18.9</b>	17.5
Current tax assets							<b>8.6</b>	1.6	<b>8.6</b>	1.6
Deferred tax assets <sup>(2)</sup>							<b>21.0</b>	28.4	<b>21.0</b>	28.4
<b>Total assets</b>									<b>360.6</b>	364.2
Segment liabilities	<b>42.2</b>	43.4	<b>29.9</b>	22.2	<b>11.5</b>	13.2	<b>5.4</b>	7.7	<b>89.0</b>	86.5
Unallocated liabilities										
Bank overdrafts							–	2.4	–	2.4
Interest-bearing loans and borrowings							<b>96.7</b>	96.1	<b>96.7</b>	96.1
Current tax liabilities							<b>10.6</b>	5.2	<b>10.6</b>	5.2
Deferred tax liabilities							<b>7.6</b>	11.7	<b>7.6</b>	11.7
<b>Total liabilities</b>									<b>203.9</b>	201.9
Cash flows from operating activities	<b>22.0</b>	26.0	<b>22.9</b>	21.1	<b>18.9</b>	13.0	<b>(15.2)</b>	(12.7)	<b>48.6</b>	47.4
Cash flows from investing activities <sup>(3)</sup>	<b>(9.8)</b>	(8.2)	<b>(3.6)</b>	(5.8)	<b>(6.8)</b>	(51.7)	<b>(0.1)</b>	–	<b>(20.3)</b>	(65.7)
Cash flows from financing activities	<b>(3.0)</b>	–	<b>(1.8)</b>	–	<b>(1.4)</b>	–	<b>(18.0)</b>	20.5	<b>(24.2)</b>	20.5
Capital expenditure										
Property, plant and equipment	<b>3.7</b>	3.5	<b>2.0</b>	4.1	<b>0.5</b>	0.8	–	–	<b>6.2</b>	8.4
Software and development costs	<b>3.8</b>	2.2	<b>2.6</b>	1.9	<b>5.9</b>	1.9	<b>0.1</b>	–	<b>12.4</b>	6.0

(1) Inter-segment pricing is determined on an arm's length basis. These are eliminated in the corporate and unallocated column.

(2) The 2018 segment assets of the Creative Solutions Division has been adjusted to reflect an increase in goodwill of £1.3 million relating to the acquisition of Amimon. This was recognised in the period as a result of adjustments to deferred tax assets, which were reduced by £1.3 million in the Corporate segment.

(3) In 2018, cash flows from investing activities excluded cash inflow of £0.5 million relating to a previous disposal.

One customer (2018: one) accounted for more than 10% of external revenue. In 2019, the total revenue from this customer, which was recognised in all three segments, was £44.8 million (2018: £50.7 million).

## Geographical information

	2019 £m	2018 £m
<b>Analysis of revenue from external customers, by location of customer</b>		
United Kingdom	41.4	42.5
The rest of Europe	91.8	94.3
North America	156.9	158.9
Asia Pacific	76.1	78.6
The rest of the World	9.9	11.1
Total revenue from external customers	<b>376.1</b>	385.4

The Group's operations are located in several geographical locations, and sell products and services on to external customers in all parts of the world.

## Other income

On 26 April 2018, the offices and warehouse of SmallHD LLC ("SmallHD") in North Carolina, US (part of the Creative Solutions Division) were damaged as a result of a fire in an adjacent office. An evacuation was conducted successfully with no injuries to our team. The insurance policy held by the Group covers both damage to assets and business interruption.

During the year £6.5 million (2018: £7.8 million) was received from the insurer and recognised in other income. The insurance claim has now been finalised.

## Operating expenses

	2019 £m	2018 £m
<b>Analysis of operating expenses</b>		
– Charges associated with acquisition of businesses and other adjusting items <sup>(1)</sup>	18.6	13.0
– Other administrative expenses	49.1	51.6
Administrative expenses	67.7	64.6
Marketing, selling and distribution costs	53.3	53.3
Research, development and engineering costs	15.3	15.7
<b>Operating expenses</b>	<b>136.3</b>	133.6

(1) Total charges associated with acquisition of businesses and other adjusting items are £20.4 million (2018: £13.3 million) of which £18.6 million (2018: £13.0 million) are recognised in operating expenses and £1.8 million (2018: £0.3 million) in cost of sales. See note 2.2 "Charges associated with acquisition of businesses and other adjusting items".

## Operating profit

	2019 £m	2018 £m
<b>The following items are included in operating profit</b>		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	0.1	0.1
Fees payable to the Company's auditor and its associates for other services		
– The audit of the Company's subsidiaries pursuant to legislation	0.5	0.4
– Audit related assurance services	0.1	0.1
– Services related to corporate finance transactions	–	0.2

# Section 2 – Results for the Year (continued)

## 2.2 Charges associated with acquisition of businesses and other adjusting items

The Group presents Alternative Performance Measures (“APMs”) in addition to its statutory results. These are presented in accordance with the Guidelines on APMs issued by the European Securities and Markets Authority (“ESMA”).

APMs used by the Group and, where relevant, a reconciliation to statutory measures are set out in the glossary to these Financial Statements on pages 171 to 172. Adjusting items are described below along with more detail of the specific adjustment and the Group’s rationale for the adjustment.

The Group’s key performance measures, such as adjusted operating profit, exclude charges associated with acquisition of businesses and items that the Group deems, by their nature, require adjustment in order to show more accurately the underlying business performance of the Group from period to period in a consistent manner.

### Accounting policies

Adjusting items are split between charges associated with acquisition of businesses and other adjusting items. On this basis, the following are the Group’s principal adjusting items when determining adjusted operating profit:

#### **Charges associated with the acquisition of businesses**

##### ***Amortisation of intangible assets that are acquired in a business combination***

Acquired intangibles are measured at fair value, which takes into account the future cash flows expected to be generated by the asset rather than past costs of development. Additionally, acquired intangibles include assets such as brands, know-how and relationships which the Group would not normally recognise as assets outside of a business combination. The amortisation of the fair value of acquired intangibles is not considered to be representative of the underlying performance of the businesses within the Group. On an ongoing basis, the Group capitalises development costs of intangible assets and the costs of purchasing software. These intangible assets are recognised at cost and the amortisation of these costs are included in adjusted operating profit.

##### ***Effect of fair valuation of acquired inventory***

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

##### ***Transaction costs***

Transaction costs related to the acquisition of a business do not reflect its trading performance and so are adjusted to ensure consistency between periods.

##### ***Earnout charges and retention bonuses agreed as part of the acquisition***

Generally earnouts are agreed based on the value of the acquired business and hence are economically treated as the consideration for the acquisition. Under IFRS 3, most of the Group’s earnouts are treated as post combination remuneration, although the levels of remuneration generally do not reflect market rates and do not get renewed as a salary (or other remuneration) might. The Group considers this to be inconsistent with the economics reflected in the deals because other consideration for the acquisition is effectively included in goodwill rather than an income statement item. Retention agreements are generally entered into with key management at the point of acquisition to help ensure an efficient integration. Where performance warrants, any costs associated with renewal of these agreements are not adjusted for.

##### ***Integration costs***

For an acquired business, the costs of integration, such as termination of third party distributor agreements, severance and other costs included in the business’s defined integrations plan do not reflect the business’s trading performance and so are adjusted to ensure consistency between periods.



### Other adjusting items

- Restructuring costs and other associated costs arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- Loss on disposal of businesses;
- Impairment charges that are considered to be significant in nature and/or value to the underlying performance of the business;
- Past service charges associated with defined benefit pensions, such as gender equalisation of guaranteed minimum pension (“GMP”) for occupational schemes; and
- Other significant initiatives not related to underlying trading.

In addition to the above, alternative performance measures impacting adjusted profit before tax, adjusted profit after tax and adjusted basic earnings per share are adjusted for:

- The tax effect of adjustments to profit/(loss) before tax;
- Significant adjustments to current or deferred tax which have arisen in previous periods but are accounted for in the current period; and
- The net effect of significant new tax legislation changes.

The adjusted measures reflect how the business is measured and managed on a day-to-day basis including when setting and determining the variable element of remuneration of senior management throughout the Group (notably cash bonus and the Long Term Incentive Plan described in more detail on pages 157 to 159).

Adjusted operating profit, adjusted profit before tax and adjusted profit after tax are not defined terms under IFRS and may not be comparable with similarly titled profit measures reported by other companies. They are not intended to be a substitute for GAAP measures. All APMs relate to the current year results and comparative periods where provided.

	2019 £m	2018 £m
Amortisation of acquired intangible assets	(9.4)	(6.4)
Effect of fair valuation of acquired inventory <sup>(1)</sup>	(1.8)	(0.3)
Transaction costs relating to acquisition of businesses <sup>(2)</sup>	(0.1)	(2.0)
Earnout charges and retention bonuses <sup>(3)</sup>	(2.5)	(1.4)
Loss on disposal of business <sup>(4)</sup>	(0.4)	–
Restructuring costs <sup>(5)</sup>	(6.2)	–
Integration costs <sup>(6)</sup>	–	(1.9)
Development costs written off <sup>(7)</sup>	–	(0.6)
Guaranteed minimum pension charge <sup>(8)</sup>	–	(0.7)
<b>Charges associated with acquisition of businesses and other adjusting items</b>	<b>(20.4)</b>	<b>(13.3)</b>

(1) The fair value uplift of £1.8 million (2018: £0.3 million) relating to acquired inventory which has been sold by the Group since the business combination is adjusted from cost of sales.

(2) Transaction costs of £0.1 million were incurred in relation to acquisition of Syrp (2018: £1.8 million in relation to Amimon, £0.1 million in relation to Rycote and £0.1 million in relation to Adeal).

(3) A charge of £1.6 million (split between Rycote: £1.1 million and RTMotion: £0.5 million) relates to continued employment and certain non-financial targets being met during 2019 and those that are expected to be met in 2020. This also includes an amount of £0.9 million in relation to retention payments agreed as part of the acquisition of Amimon in 2018 (2018: £0.6 million in relation to Wooden Camera earnouts, £0.5 million in relation to RTMotion earnouts and £0.3 million in relation to Rycote earnouts).

(4) During the year, the Group disposed of its medical batteries business. The loss on disposal of the business of £0.4 million is not considered representative of the underlying performance of the Group and so has been excluded from adjusted operating profit.

(5) During the year, Imaging Solutions began a strategic project (“Project Digital”) to rebalance the allocation of resources from offline to online to enable growth, reduce operating costs and improve margins. The costs related to the project are expected to impact the Division until 2021. The main costs incurred in 2019 include severance costs (£3.0 million), recruitment costs (£0.4 million), asset impairments (£0.9 million), move costs in relation to changing our logistics provider (£0.4 million) and professional fees (£0.6 million) including legal, tax and strategic consulting. The Division incurred other consulting and marketing costs which did not meet the Group’s criteria for adjustment and hence have not been adjusted for.

(6) In 2018, integration costs of £1.9 million mainly comprise costs to terminate agreements with third party distributors in relation to the integration of JOBY and Lowepro, and employment termination costs in relation to the integration of Amimon into the Group.

(7) Following the acquisition of Amimon, an existing development project relating to radio frequency technology was abandoned. As such, the capitalised development costs of £0.6 million associated with the project were written off in 2018.

(8) In October 2018, the High Court reached a judgment in relation to Lloyds Bank’s defined benefit pension schemes, which concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues arising from the judgment would apply to most other UK defined benefit pension schemes. To reflect the estimated impact of this judgment, in 2018 the Group recognised a past service cost of £0.7 million in the Income Statement and increased the liabilities of the defined benefit pension scheme by the same amount.

# Section 2 – Results for the Year (continued)

## 2.3 Net finance expense

This note details the finance income and expense generated from the Group's financial assets and liabilities.

### Accounting policies

Net finance expense comprises:

- foreign exchange gains and losses on cash and inter-company loans that are not net investment hedges;
- unwind of discount on liabilities;
- interest expense on lease liabilities;
- interest expense on borrowings and interest receivable on funds invested; and
- net interest expense on net defined benefit pension scheme.

### Net finance expense

	2019 £m	2018 £m
<b>Finance income</b>		
Net currency translation gains	0.5	0.8
<b>Finance expense</b>		
Unwind of discount on liabilities	(0.1)	(0.2)
Interest expense on lease liabilities <sup>(1)</sup>	(0.9)	–
Interest expense on interest-bearing loans and borrowings	(3.7)	(2.7)
Interest expense on net defined benefit pension scheme <sup>(2)</sup>	(0.2)	(0.2)
	(4.9)	(3.1)
Net finance expense	(4.4)	(2.3)

(1) See note 3.6 "Leases".

(2) See note 5.2 "Pensions".

## 2.4 Tax

This note sets out the tax accounting policies, the total tax charge or credit in the Income Statement, and tax assets and tax liabilities in the Balance Sheet. This includes amounts relating to deferred tax.

### Accounting policies

#### Income Tax

The tax expense in the Income Statement represents the sum of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised for all deductible temporary differences and carried forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and increased or reduced to the extent of the probable level of taxable profit that would be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax liabilities are not recognised for the following temporary differences:

- Goodwill not deductible for tax purposes or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- Differences relating to investments in subsidiaries to the extent that the timing of the reversal is controlled by the Company and they will probably not reverse in the foreseeable future.

## Tax – Income Statement

	2019 £m	2018 £m
<b>The total taxation charge/(credit) in the Income Statement is analysed as follows:</b>		
<b>Summarised in the Income Statement as follows</b>		
Current tax	4.5	4.3
Deferred tax	2.9	(0.7)
	<b>7.4</b>	<b>3.6</b>
<b>Charges associated with acquisition of businesses and other adjusting items</b>		
Current tax <sup>(1)</sup>	(1.5)	(3.2)
Deferred tax <sup>(2)</sup>	(2.8)	(2.4)
	<b>(4.3)</b>	<b>(5.6)</b>
<b>Before charges associated with acquisition of businesses and other adjusting items</b>		
Current tax	6.0	7.5
Deferred tax	5.7	1.7
	<b>11.7</b>	<b>9.2</b>

(1) Current tax credit of £1.5 million (2018: £3.2 million credit) was recognised in the year of which £1.1 million credit (2018: £0.4 million credit) related to restructuring and integration costs, £0.4 million credit (2018: £0.1 million credit) to tax on the acquisition and disposal of businesses and £nil (2018: £2.7 million credit) for the Italian Patent Box benefit in respect of prior years.

(2) Deferred tax credit of £2.8 million (2018: £2.4 million credit) was recognised in the year of which £0.2 million credit (2018: £0.4 million credit) relates to restructuring and integration costs, £0.9 million credit (2018: £0.3 million credit) to acquisitions, £1.7 million credit (2018: £1.1 million credit) to amortisation of intangible assets, and £nil (2018: £0.6 million credit) to the impact of US tax reform.

	2019 £m	2018 £m
<b>Current tax expense/(credit)</b>		
Charge for the year	4.9	7.8
Adjustments in respect of prior years	(0.4)	(3.5)
Total current tax expense	<b>4.5</b>	<b>4.3</b>

The UK current tax charge represents a charge of £nil (2018: £0.4 million) of the total Group current tax charge of £4.5 million (2018: £4.3 million), with the remaining £4.5 million (2018: £3.9 million) charge relating to overseas tax.

	2019 £m	2018 £m
<b>Deferred tax expense/(credit)</b>		
Origination and reversal of temporary differences	2.6	0.3
Adjustments in respect of prior years	0.3	(1.0)
Total deferred tax expense	<b>2.9</b>	<b>(0.7)</b>

## Section 2 – Results for the Year (continued)

### 2.4 Tax (continued)

The UK deferred tax credit represents £1.4 million (2018: £1.0 million) and the US deferred tax charge represents £2.1 million (2018: £0.9 million) of the total Group deferred tax charge of £2.9 million (2018: £0.7 million credit), with £0.6 million credit (2018: £0.6 million credit) relating to overseas tax. A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The UK deferred tax asset at 31 December 2019 has been calculated based on these rates.

	2019 £m	2018 £m
<b>Tax charge recognised in Statement of Changes in Equity (“SOCIE”)</b>		
Current tax recognised in SOCIE <sup>(3)</sup>	–	–
Deferred tax recognised in SOCIE <sup>(4)</sup>	0.3	0.1
	<b>0.3</b>	<b>0.1</b>

(3) No current tax deductions have been reflected in the SOCIE in both the current and prior year.

(4) A deferred tax charge of £0.3 million (2018: £0.1 million) relating to the impact of share-based payments on outstanding options, has been reflected in the SOCIE.

#### Reconciliation of Group tax charge

	2019 £m	2018 £m
Profit before tax	27.6	37.9
Income tax using the domestic corporation tax rate at 19% (2018: 19%)	5.2	7.2
Effect of tax rates in foreign jurisdictions	2.0	2.7
Non-deductible expenses	1.6	1.9
Non taxable income	(0.4)	(1.5)
Beneficial tax rates and incentives <sup>(5)</sup>	(1.3)	(1.7)
Impact of intercompany financing arrangements	(1.1)	(2.4)
Movement on unrecognised deferred tax	1.1	1.1
Other	0.4	0.8
Adjustments in respect of prior years	(0.1)	(4.5)
Total income tax expense in Income Statement	<b>7.4</b>	<b>3.6</b>

(5) The beneficial tax rates and incentives of £1.3 million credit (2018: £1.7 million credit) relate to the current year benefit from the Italian Patent Box (£0.8 million) and beneficial tax rates in Costa Rica (£0.5 million).

### Tax – Balance Sheet

#### Current tax

The current tax liability of £10.6 million (2018: £5.2 million) represents the amount of income taxes payable in respect of current and prior periods, including a provision in relation to uncertain tax positions. The current tax asset of £8.6 million (2018: £1.6 million) relates to income tax receivable in the UK, the US, Australia, Germany, Italy, Netherlands and France.

In October 2017, the European Commission (“EC”) opened a State Aid investigation into the Group Financing Exemption in the UK controlled foreign company (“CFC”) rules (an exemption introduced into the UK tax legislation in 2013). While the Group has complied with all the requirements of UK tax law, in April 2019 the EC confirmed its view that some (but not all) of the UK exemptions constituted State Aid and that they would therefore require the UK to assess and recover the amount of State Aid that each affected taxpayer had received. In common with other UK-based international companies whose intra-group finance arrangements are in line with current controlled foreign company rules, Vitec is affected by this decision. Vitec calculates its maximum potential liability to be £8.5 million (including interest).

In June 2019, the UK government submitted an appeal to the EU Commission against its decision. In common with a number of other affected taxpayers, Vitec has also filed its own annulment application. HMRC communication with taxpayers indicates that there is significant uncertainty as to how any amounts will be assessed under this decision, and therefore the liability arising in the event the decision is upheld. No provision for any amounts in connection with this decision has been made on the basis that, given the strength of the technical position set out in the annulment applications, it is expected to be more likely than not that any payment that the Group makes under the decision will ultimately be repaid.

The international tax environment has received increased attention and seen rapid change over recent years, both at a US and European level, and by international bodies such as the Organisation for Economic Cooperation and Development (“OECD”). In light of this, Vitec has been monitoring developments and continues to engage transparently with the tax authorities in countries where Vitec operates, to ensure that the Group manages its tax arrangements on a sustainable basis.

As for most multinationals, the current tax environment is creating increased levels of uncertainty and the Group is potentially subject to tax audits in many jurisdictions. By their nature these are often complex and could take a significant period of time to be agreed with the tax authorities. The Group estimates and accrues taxes that will ultimately be payable when reviews or audits by tax authorities of tax returns are completed. These estimates include management judgements about the position expected to be taken by each tax authority, primarily in respect of transfer pricing as well as in respect of financing arrangements and tax credits and incentives.

Management estimates of the level of risk arising from tax audit may change in the next year as a result of changes in legislation or tax authority practice or correspondence with tax authorities during a specific tax audit. It is not possible to quantify the impact that such future developments may have on the Group’s tax positions. Actual outcomes and settlements may differ significantly from the estimates recorded in these consolidated financial statements.

### Deferred tax assets and liabilities

	2019 £m	Recognised in income £m	Recognised in goodwill and reserves <sup>(6)</sup> £m	Exchange movements £m	Transfer between categories £m	2018 <sup>(6)</sup> £m
<b>Assets</b>						
Inventories	2.8	(0.2)	–	(0.1)	(0.3)	3.4
Intangible assets	0.9	(0.1)	(0.2)	–	–	1.2
Tax losses	11.9	(1.5)	–	(0.5)	(1.9)	15.8
Property, plant, equipment & other	5.4	(1.1)	0.3	(0.1)	(1.7)	8.0
	21.0	(2.9)	0.1	(0.7)	(3.9)	28.4
<b>Liabilities</b>						
Property, plant, equipment & other	(0.1)	–	(0.1)	–	–	–
Intangible assets	(7.5)	–	–	0.3	3.9	(11.7)
	(7.6)	–	(0.1)	0.3	3.9	(11.7)
<b>Net</b>	13.4	(2.9)	–	(0.4)	–	16.7
	2018 <sup>(6)</sup> £m	Recognised in income £m	Recognised in goodwill and reserves <sup>(6)</sup> £m	Exchange movements £m	Transfer between categories £m	2017 £m
<b>Assets</b>						
Inventories	3.4	1.1	–	–	(1.4)	3.7
Intangible assets	1.2	0.1	0.1	0.1	0.5	0.4
Tax losses	15.8	2.9	4.7	0.4	–	7.8
Property, plant, equipment & other	8.0	1.5	(0.3)	0.5	0.5	5.8
	28.4	5.6	4.5	1.0	(0.4)	17.7
<b>Liabilities</b>						
Property, plant, equipment & other	–	–	0.4	–	–	(0.4)
Intangible assets	(11.7)	(4.9)	(4.4)	(0.5)	0.4	(2.3)
	(11.7)	(4.9)	(4.0)	(0.5)	0.4	(2.7)
<b>Net</b>	16.7	0.7	0.5	0.5	–	15.0

(6) The Tax losses 2018 balances have been restated as £15.8 million (previously £17.1 million) to reflect the completion of the acquisition accounting for Amimon.

Deferred tax assets have been offset against liabilities where assets and liabilities arise in the same jurisdiction and there is a legal right of offset.

## Section 2 – Results for the Year (continued)

### 2.4 Tax (continued)

The deferred tax asset movement of £nil (2018: £0.5 million increase) recognised in goodwill and reserves relates to the following: £0.2 million decrease recognised in other comprehensive income (“OCI”) in relation to cash flow hedges, £0.2 million decrease recognised in OCI in relation to defined benefit obligations, £0.2 million decrease recognised in relation to intangibles recognised on acquisition, £0.3 million increase reflected in the Consolidated Statement of Changes in Equity in relation to share options and £0.3 million increase to reflect the IFRS 16 opening adjustment.

Deferred tax assets have not been recognised of £22.4 million (2018: £17.7 million) comprising £6.1 million in relation to losses, £4.1 million in relation to intangibles and £12.2 million in relation to other timing differences because it is not sufficiently probable that these assets will reverse in the foreseeable future.

No taxes have been provided for liabilities which may arise on the distribution of unremitted earnings of subsidiaries on the basis of control, except where distributions of such profits are planned. Cumulative unremitted earnings of overseas subsidiaries totalled approximately £148.5 million at 31 December 2019 (2018: £132.2 million). As dividends remitted from overseas subsidiaries to the UK should be exempt from additional UK tax, no significant tax charges would be expected.

### 2.5 Earnings per share

**Earnings per share (“EPS”) is the amount of post-tax profit attributable to each share.**

**Basic EPS is calculated on the profit for the year divided by the weighted average number of ordinary shares in issue during the year.**

**Diluted EPS is calculated on the profit for the year divided by the weighted average number of ordinary shares in issue during the year, but adjusted for the effects of dilutive share options. The key features of share option contracts are described in note 5.3 “Share-based payments”.**

**The adjusted EPS measure is used by management to assess the underlying performance of the ongoing businesses, and therefore excludes charges associated with acquisition of businesses and other adjusting items, all net of tax.**

The calculation of basic, diluted and adjusted EPS is set out below:

	2019 £m		2018 £m	
Profit for the financial year	<b>20.2</b>		34.3	
Add back charges associated with acquisition of businesses and other adjusting items, all net of tax	<b>16.1</b>		7.7	
Adjusted profit after tax	<b>36.3</b>		42.0	

	Weighted average number of shares '000		Adjusted earnings per share		Earnings per share	
	2019 Number	2018 Number	2019 pence	2018 pence	2019 pence	2018 pence
Basic	<b>45,030</b>	45,084	<b>80.6</b>	93.2	<b>44.9</b>	76.1
Dilutive potential ordinary shares	<b>409</b>	324	<b>(0.7)</b>	(0.7)	<b>(0.4)</b>	(0.5)
Diluted	<b>45,439</b>	45,408	<b>79.9</b>	92.5	<b>44.5</b>	75.6

# Section 3 – Operating Assets and Liabilities

This section shows the assets and liabilities used to generate the Group's trading performance. Liabilities relating to the Group's financing activities are addressed in Section 4. Current tax and deferred tax assets and liabilities are shown in note 2.4 "Tax".

On the following pages, there are disclosures covering the following:

- 3.1 Intangible assets
- 3.2 Property, plant and equipment
- 3.3 Working capital
- 3.4 Acquisitions
- 3.5 Provisions
- 3.6 Leases

## 3.1 Intangible assets

This shows the non-physical assets used by the Group to generate revenues and profits. These assets include the following :

- Goodwill
- Acquired intangible assets
- Software
- Capitalised development costs

## Accounting policies

### Goodwill

The goodwill recognised by the Group has all arisen as a result of acquisitions and is stated at cost less any accumulated impairment losses. Goodwill is allocated on acquisition to a cash-generating unit ("CGU") that is anticipated to benefit from the combination, and is not subject to amortisation but is tested annually for impairment. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. This estimate of recoverable amount is determined at each Balance Sheet date.

The estimate of recoverable amount requires significant assumptions to be made and is based on a number of factors such as the near-term business outlook for the CGU, including both its operating profit and operating cash flow performance. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised. Impairment losses on goodwill are not reversed.

All acquisitions that have occurred since 1 January 2010 are accounted for by applying the acquisition method. Goodwill on these acquisitions represents the excess of the fair value of the acquisition consideration over the fair value of the identifiable net assets acquired, all measured at the acquisition date. Subsequent adjustments to the fair values of net assets acquired can be made within 12 months of the acquisition date where original fair values were determined provisionally. These adjustments are accounted for from the date of acquisition.

### Other intangible assets

The other intangible assets are either acquired or internally generated (such as capitalised development costs).

### Acquired intangible assets

Other intangible assets acquired as part of a business combination are shown at fair value at the date of acquisition less accumulated amortisation at the rates indicated below:

Order backlog	up to 2 years
Brand	3 to 15 years
Customer relationships	3 to 10 years
Technology	3 to 10 years

### Software

The cost of acquiring software (including associated implementation and development costs where applicable) is classified as an intangible asset. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are assessed as likely to generate economic benefits exceeding costs beyond one year, are also capitalised and recognised as intangible assets. Costs associated with maintaining computer software programs are recognised as an expense as incurred. Software expenditure is amortised over its estimated useful life of between three to five years, and is stated at cost less accumulated amortisation and impairment losses.

### Capitalised development costs

Research and development costs are charged to the Income Statement in the year in which they are incurred unless development expenditure meets the criteria for capitalisation. Once detailed and strict criteria have been met that confirm that the product or process is both technically and commercially feasible and the Group has sufficient resources to complete the product, any further expenditure incurred on the project is capitalised, typically up to two to three years. The capitalised expenditure includes the cost of materials, direct labour and an appropriate portion of overheads. Capitalised expenditure is amortised over the life of the product, and is stated at cost less accumulated amortisation and impairment losses.

# Section 3 – Operating Assets and Liabilities (continued)

## 3.1 Intangible assets (continued)

### **Impairment tests for cash-generating units (CGUs) containing goodwill**

In accordance with the requirements of IAS 36, "Impairment of Assets", goodwill is allocated to the Group's CGUs which are expected to benefit and are identified by the way goodwill is monitored for impairment. The Group's total consolidated goodwill of £76.4 million at 31 December 2019 (£78.0 million at 31 December 2018) is allocated to: Production Solutions: £29.2 million (2018: £29.7 million); Imaging Solutions: £22.6 million (2018: £20.7 million); and Creative Solutions: £24.6 million (2018: £27.6 million). Each CGU is assessed for impairment annually and whenever there is a specific indicator of impairment.

As part of the annual impairment test review, the carrying value of goodwill has been assessed with reference to value in use over a projected period of five years together with a terminal value. This reflects the projected cash flows of each CGU based on the actual operating results, the most recent Board approved Budget and management projections.

The key assumptions on which the value in use calculations are based relate to business performance over the next five years, long-term growth rates beyond 2024 and the discount rates applied. The key judgements are the level of revenue and operating margins anticipated and the proportion of operating profit converted into cash flow in each year. Forecasts are based on past experience and take into account current and future market conditions and opportunities.

Growth rates for the period beyond 2024 are assumed to be 0.0% to 2.0% (2018: 1.0% to 2.0%), which is considered to be at or below long-term market trends for significant CGUs.

The cash flow projections have been discounted to present value using the Group's weighted average cost of capital adjusted for economic and CGU-specific risk factors including markets and size of business. Pre-tax rates of 12% to 13% (2018: 12% to 13%) reflecting different geographies have been used for impairment testing and applied to: Production Solutions CGU: 12% (2018: 12%); Imaging Solutions CGU: 12% (2018: 12%); and Creative Solutions CGU: 13% (2018: 13%).

The following specific individual sensitivities of reasonably possible changes have been considered for each CGU in relation to the weighted average cost of capital and discounted cash flow used for the value in use calculations, resulting in the carrying amount not exceeding the recoverable amount for each CGU:

- a 32% decrease in terminal value for Imaging Solutions;
- a 48% decrease in terminal value for Production Solutions; and
- a 10% decrease in terminal value for Creative Solutions.



**Intangible assets**

	Total £m	Goodwill £m	Acquired intangible assets £m	Software £m	Capitalised development costs £m
<b>Cost</b>					
At 1 January 2018	149.1	58.4	57.8	17.5	15.4
Currency translation adjustments	6.6	2.4	3.5	0.3	0.4
Additions	6.0	–	–	1.7	4.3
Disposals	(2.0)	–	–	(2.0)	–
Acquisitions	43.5	16.4	27.1	–	–
At 31 December 2018	203.2	77.2	88.4	17.5	20.1
Adjustment on finalisation of fair values of acquired assets <sup>(1)</sup>	1.3	1.3	–	–	–
At 1 January 2019 (adjusted)	<b>204.5</b>	<b>78.5</b>	<b>88.4</b>	<b>17.5</b>	<b>20.1</b>
Currency translation adjustments	(6.8)	(2.3)	(2.8)	(0.8)	(0.9)
Additions	12.4	–	–	1.2	11.2
Disposals	(0.2)	–	–	(0.2)	–
Reclassified as tangible fixed assets	(0.1)	–	–	(0.1)	–
Acquisitions <sup>(1)</sup>	1.4	0.6	0.8	–	–
<b>At 31 December 2019</b>	<b>211.2</b>	<b>76.8</b>	<b>86.4</b>	<b>17.6</b>	<b>30.4</b>
<b>Amortisation and impairment losses</b>					
At 1 January 2018	60.7	0.4	38.2	14.6	7.5
Currency translation adjustment	2.5	0.1	1.9	0.2	0.3
Amortisation in the year	10.6	–	6.4	1.1	3.1
Write off in the year	0.6	–	–	–	0.6
Disposals	(2.0)	–	–	(2.0)	–
At 31 December 2018	72.4	0.5	46.5	13.9	11.5
At 1 January 2019	<b>72.4</b>	<b>0.5</b>	<b>46.5</b>	<b>13.9</b>	<b>11.5</b>
Currency translation adjustment	(2.7)	(0.1)	(1.5)	(0.6)	(0.5)
Amortisation in the year	13.9	–	9.4	1.1	3.4
Disposals	(0.2)	–	–	(0.2)	–
Reclassified as tangible fixed assets	0.1	–	–	0.1	–
<b>At 31 December 2019</b>	<b>83.5</b>	<b>0.4</b>	<b>54.4</b>	<b>14.3</b>	<b>14.4</b>
<b>Carrying amounts</b>					
At 1 January 2018	<b>88.4</b>	<b>58.0</b>	<b>19.6</b>	<b>2.9</b>	<b>7.9</b>
At 31 December 2018 and 1 January 2019 (adjusted) <sup>(1)</sup>	<b>132.1</b>	<b>78.0</b>	<b>41.9</b>	<b>3.6</b>	<b>8.6</b>
<b>At 31 December 2019</b>	<b>127.7</b>	<b>76.4</b>	<b>32.0</b>	<b>3.3</b>	<b>16.0</b>

(1) See note 3.4 "Acquisitions".

The carrying value of individually material acquired intangible assets is £11.0 million for software and algorithms, £4.8 million for trademarks, £4.4 million for patents, £3.4 million for customer relationships and £3.0 million for technology. The remaining amortisation period of these intangible assets is four years for software and algorithms, 13 years for trademarks, nine years for patents and customer relationships and two years for technology.

# Section 3 – Operating Assets and Liabilities (continued)

## 3.2 Property, plant and equipment

This shows the physical assets used by the Group to generate revenues and profits. These assets include the following:

- Land and buildings
- Plant, machinery and vehicles
- Equipment, fixtures and fittings

### Accounting policies

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Rental assets are recorded as plant and machinery. Right-of-use assets under lease contracts are included within property, plant and equipment. See note 3.6 “Leases”.

#### Depreciation

Depreciation is provided to write off the cost of property, plant and equipment, less estimated residual value, on a straight-line basis over their estimated useful lives. The annual depreciation charge is sensitive to the estimated useful life of each asset and expected residual value at the end of its life. The major categories of property, plant and equipment are depreciated as follows:

Freehold land	not depreciated
Freehold buildings	up to 50 years
Leasehold improvements	shorter of estimated useful life or remaining period of the lease
Plant and machinery	4 to 10 years
Motor vehicles	3 to 4 years
Equipment, fixtures & fittings	3 to 10 years
Rental assets	3 to 6 years

#### Impairment of assets

Property, plant and equipment that is subject to depreciation is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment may include changes in technology and market conditions.

**Property, plant and equipment**

	Total £m	Land and buildings £m	Plant, machinery and vehicles £m	Equipment, fixtures and fittings £m
<b>Cost</b>				
At 1 January 2018	103.8	24.3	68.8	10.7
Currency translation adjustments	2.4	0.7	1.4	0.3
Additions	8.4	2.0	4.9	1.5
Disposals	(3.8)	(0.1)	(2.1)	(1.6)
Acquisitions	1.0	0.1	0.8	0.1
At 31 December 2018	111.8	27.0	73.8	11.0
Adoption of IFRS 16	35.1	32.3	2.7	0.1
Adjusted amount at 1 January 2019	<b>146.9</b>	<b>59.3</b>	<b>76.5</b>	<b>11.1</b>
Currency translation adjustments	(5.9)	(2.1)	(3.5)	(0.3)
Transfers between asset categories	0.1	(0.2)	(0.5)	0.8
Additions	8.4	1.7	5.9	0.8
Disposals	(8.8)	(2.1)	(3.2)	(3.5)
Acquisitions	1.3	0.9	0.4	–
<b>At 31 December 2019</b>	<b>142.0</b>	<b>57.5</b>	<b>75.6</b>	<b>8.9</b>
<b>Depreciation</b>				
At 1 January 2018	72.8	13.2	51.5	8.1
Currency translation adjustment	1.6	0.3	1.1	0.2
Depreciation charge in the year	7.2	1.0	5.1	1.1
Disposals	(3.5)	(0.1)	(1.9)	(1.5)
At 31 December 2018	78.1	14.4	55.8	7.9
Adoption of IFRS 16	14.4	13.2	1.2	–
Adjusted amount at 1 January 2019	<b>92.5</b>	<b>27.6</b>	<b>57.0</b>	<b>7.9</b>
Currency translation adjustment	(4.2)	(1.2)	(2.8)	(0.2)
Transfers between asset categories	(0.1)	(0.5)	(0.1)	0.5
Depreciation charge in the year	14.1	6.5	6.4	1.2
Impairment losses in the year	0.6	0.6	–	–
Disposals	(7.6)	(1.5)	(2.6)	(3.5)
<b>At 31 December 2019</b>	<b>95.3</b>	<b>31.5</b>	<b>57.9</b>	<b>5.9</b>
<b>Carrying amounts</b>				
At 1 January 2018	31.0	11.1	17.3	2.6
At 31 December 2018	33.7	12.6	18.0	3.1
Adjusted amount at 1 January 2019	54.4	31.7	19.5	3.2
<b>At 31 December 2019</b>	<b>46.7</b>	<b>26.0</b>	<b>17.7</b>	<b>3.0</b>

Plant, machinery and vehicles include equipment rental assets with an original cost of £9.6 million (2018: £8.5 million) and accumulated depreciation of £6.6 million (2018: £5.8 million).

Capital commitments at 31 December 2019 for which no provision has been made in the accounts amount to £0.8 million (2018: £0.1 million).

# Section 3 – Operating Assets and Liabilities (continued)

## 3.3 Working capital

**Working capital represents the assets and liabilities the Group generates through its trading activities. These include inventories, trade and other receivables, and trade and other payables.**

**Careful management of working capital is vital as it ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle.**

## Accounting policies

### Inventories

Inventories and work in progress are carried at the lower of cost and net realisable value. Inventory acquired as part of business combinations is initially measured at fair value. Cost represents direct costs incurred and, where appropriate, production or conversion costs and other costs to bring the inventory to its existing location and condition. In the case of manufacturing inventory and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Inventory is accounted for on an average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Provisions for inventories are recognised when the book value exceeds its net realisable value.

In the ordinary course of business, judgement is applied to assess the level of provisions required to write down slow-moving, excess and obsolete inventory to its net realisable value.

### Trade and other receivables

Trade receivables and contract assets are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the number of days past due. The expected loss rates are based on payment profiles of sales over a preceding 36-month period and the corresponding historical credit losses experienced within this period. When appropriate the historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables where a trend exists.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for an extended period.

Amounts recoverable on contracts are included in contract assets and represent revenue recognised in excess of payments on account.

### Trade and other payables

Trade payables are generally recognised at the value of the invoice received from a supplier.

### Inventories

	2019 £m	2018 £m
Raw materials and components	18.7	22.4
Work in progress	7.2	7.9
Finished goods	50.1	49.8
Inventories, net of impairment provisions	76.0	80.1

Inventory of £76.0 million (2018: £80.1 million) is stated net of impairment provisions of £14.9 million (2018: £14.6 million). During the year £3.0 million (2018: £5.1 million) was recognised as an expense resulting from the write-down of inventory. A reversal of £2.1 million (2018: £0.6 million) was recognised as a reduction of the amount of inventory recognised as an expense.

**Trade and other receivables**

	2019 £m	2018 £m
<b>Current receivables</b>		
Trade receivables, net of impairment provisions	47.9	58.0
Other receivables	4.8	4.7
Right to returned goods	0.4	0.5
Contract assets	1.3	0.9
Prepayments	5.0	4.6
	59.4	68.7
<b>Non-current receivables</b>		
Other receivables	1.7	2.0
<b>Total receivables</b>	<b>61.1</b>	<b>70.7</b>

	2019 £m	2018 £m
<b>Gross trade receivables – ageing <sup>(1)</sup></b>		
Current	42.0	47.8
1-30 days	5.7	8.5
31-60 days	1.4	1.2
61-90 days	0.4	0.8
over 90 days	2.6	2.4
Gross trade receivables	52.1	60.7

(1) Days overdue are measured from the date an invoice was due to be paid.

	Total £m	Overdue debts £m	Discounts and rebates £m
<b>Impairment provisions against trade receivables</b>			
Balance at 1 January 2019	2.7	1.7	1.0
Net increase during the year	2.9	0.4	2.5
Utilised during the year	(1.3)	(0.3)	(1.0)
Currency translation adjustments	(0.1)	–	(0.1)
Balance at 31 December 2019	4.2	1.8	2.4

**Trade and other payables**

	2019 £m	2018 £m
<b>Current trade and other payables</b>		
Trade payables	31.1	34.3
Other tax and social security costs	4.1	4.7
Contract liabilities	0.6	0.7
Expected refunds to customers	0.5	0.9
Accruals	6.3	13.4
Other payables	13.3	16.3
	55.9	70.3
<b>Non-current payables</b>		
Other non-trade payables	0.1	0.8
Total payables	56.0	71.1

# Section 3 – Operating Assets and Liabilities (continued)

## 3.4 Acquisitions

This note outlines how the Group has accounted for businesses that it has acquired.

Acquisitions are accounted for under the acquisition method of accounting. With limited exceptions, identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. A detailed exercise is undertaken to assess the fair value of assets acquired and liabilities assumed, with the use of third-party experts where appropriate.

The valuation of intangible assets requires the use of assumptions and estimates, including future growth rates, expected inflation rates, discount rates used and useful economic lives. This process continues as information is finalised, and accordingly the fair values presented in the tables below are provisional amounts. In accordance with IFRS 3 until the assessment is complete the measurement period will remain open up to a maximum of 12 months from the acquisition date so long as information remains outstanding.

The excess of the consideration transferred, any non-controlling interest recognised and the fair value of any previous equity interest in the acquired entity over the fair value of net identifiable assets acquired is recorded as goodwill. Acquisition-related costs are recognised in the Income Statement as incurred in accordance with IFRS 3.

Acquisitions provide opportunities for further development of the Group's activities and create enhanced returns. Such opportunities and the workforces inherent in each of the acquired businesses represent much of the assessed value of goodwill.

### Acquisition of Syrp

On 23 January 2019 the Group acquired 100% of the issued share capital of Syrp Ltd ("Syrp"), a New Zealand incorporated company, for net cash consideration of NZ\$4.5 million (£2.4 million). The fair value of the net assets acquired in the business at acquisition date was £1.8 million resulting in goodwill of £0.6 million. The goodwill is attributable to the workforce and the potential for future technology development. The trade receivables acquired had a fair value and a gross contractual value of £0.2 million. Syrp operates within the Imaging Solutions Division.

The Group's consolidated results include £2.4 million of revenue and £0.2 million operating loss from the acquired business. This would have been the same had the acquisition been made at the beginning of the year (i.e. 1 January 2019). The level of profitability is stated after charges associated with acquisition of business.

A summary of the effect of the acquisition of Syrp is detailed below:

	Fair value of net assets acquired £m
<b>Net assets acquired</b>	
Intangible assets	0.8
Property, plant and equipment	1.3
Inventories	0.9
Trade and other receivables	0.2
Trade and other payables	(0.3)
Lease liability	(0.9)
Deferred tax	(0.2)
	1.8
<b>Goodwill</b>	0.6
Consideration satisfied from existing cash resources	2.4

### Acquisition of Amimon (acquired in 2018)

In the period, the process to measure the fair values of the assets and liabilities acquired was completed in respect of the Amimon acquisition. The 2018 Balance Sheet has been adjusted to reflect an increase in goodwill of £1.3 million which was recognised in the period as a result of adjustments to deferred tax assets. An amount of £0.3 million was paid in the period in relation to the final working capital adjustment for Amimon.

**An analysis of cash flows relating to acquisitions is provided below:**

	2019 £m
<b>Net outflow of cash in respect of acquisitions</b>	
Cash consideration in respect of 2019 acquisition	2.4
Earnout payment for RTMotion (acquired in 2017)	0.2
Liability for pre combination amount related to Amimon's unvested options (acquired in 2018)	0.2
Final working capital adjustment paid for Amimon (acquired in 2018)	0.3
<b>Net cash outflow in respect of acquisitions</b>	<b>3.1</b>

**3.5 Provisions**

**A provision is recognised by the Group where an obligation exists, relating to events in the past, and it is probable that an outflow of economic benefits will be required to settle it.**

**Accounting policies****Provisions**

Provisions are recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle it. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

Provisions for warranties, based on historical warranty data, are recognised when the underlying products or services are sold.

Provisions for onerous contracts are recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

	Total £m	Warranty £m	Dilapidations £m	Restructuring £m	Other £m	Earnout and deferred payments £m
At 1 January 2019	4.9	1.5	0.6	0.6	2.2	–
Charged/(credited) to the Income Statement	8.1	0.8	–	6.1	(0.4)	1.6
Reclassification from other creditors	1.0	–	–	–	–	1.0
Provisions utilised during the year	(6.3)	(0.8)	–	(5.1)	–	(0.4)
Provisions reversed during the year	(1.4)	(0.2)	–	(0.1)	(1.1)	–
Currency translation adjustments	(0.1)	0.1	–	(0.1)	–	(0.1)
<b>At 31 December 2019</b>	<b>6.2</b>	<b>1.4</b>	<b>0.6</b>	<b>1.4</b>	<b>0.7</b>	<b>2.1</b>
Current	5.0	1.1	–	1.4	0.7	1.8
Non-current	1.2	0.3	0.6	–	–	0.3
	6.2	1.4	0.6	1.4	0.7	2.1

**Warranty provisions**

Warranties over the Group's products typically cover periods of between one and five years. The provision represents management's best estimate of the Group's liability based on past experience.

**Dilapidations**

Provisions of £0.6 million relate to potential dilapidation costs on the termination of leases on occupied property that the Group has entered into.

# Section 3 – Operating Assets and Liabilities (continued)

## 3.5 Provisions (continued)

### **Restructuring**

Restructuring provision of £1.4 million mainly relates to Imaging Solutions Division and is expected to be utilised during 2020. See note 2.2 “Charges associated with acquisition of businesses and other adjusting items”.

### **Other**

Other provisions are mainly in relation to costs associated with off-market contracts on the disposal of the US broadcast services business.

### **Earnout and deferred payment**

The charge of £1.6 million (split between Rycote: £1.1 million and RTMotion: £0.5 million) relates to employment and certain non-financial targets being met during 2019 and those that are expected to be met in 2020. Payment of £0.4 million was paid during the year (RTMotion: £0.2 million; liability for pre combination amount related to Amimon’s unvested options: £0.2 million). See note 2.2 “Charges associated with acquisition of businesses and other adjusting items” and note 3.4 “Acquisitions”.

## 3.6 Leases

**This note provides information in relation to leases when the Group is a lessee. The Group does not have any material leases where it acts as a lessor.**

## Accounting policies

### **Leases**

#### ***Up to and including the 2018 financial year:***

Leases in which a significant portion of risks and rewards were not transferred to the Group were classified as operating leases. The payments made for operating leases were recognised in profit or loss on a straight-line basis over the period of the lease.

#### ***New accounting policy from 1 January 2019:***

Each lease is recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Interest expense is charged to the Consolidated Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

#### ***For the Group, lease payments generally comprise the following:***

- Fixed payments, less any lease incentives receivable;
- Variable payments that are based on an index or rate; and
- Payments to be made under extension options which are reasonably certain to be exercised.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liability, and lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs.

When an adjustment to lease payments based on an index takes effect, the liability is remeasured with a corresponding adjustment to the right-of-use asset.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the Consolidated Income Statement.

### **The Group’s leasing activities**

The Group enters into leases of land and buildings in relation to offices, warehouses and factory premises around the world. In addition the Group leases plant, machinery and vehicles, as well as other equipment.

Contracts entered into by the Group have a wide range of terms and conditions but generally do not impose any additional covenants. Several of the Group’s contracts include indexation adjustments to lease payments in future periods which are not reflected in the measurement of the lease liabilities at 31 December 2019.



Many of the contracts entered into by the Group include extension or termination options which provide the Group with additional operational flexibility. If the Group considers it reasonably certain that an extension option will be exercised or a termination option not exercised, the additional period is included in the lease term. Generally, extension options are not included in the lease term for plant, machinery and vehicles, and equipment, fixtures and fittings. Most options in respect of land and buildings are not included in the calculation of the lease term.

A maturity analysis of lease liabilities is included in note 4.2 “Financial instruments”.

### 2018 Leases

Operating leases are those which do not transfer substantially all the risks and rewards of ownership to the lessee, the rentals of which are charged to the Income Statement on a straight-line basis over the lease term.

	Land and buildings £m	Other £m	Total 2018 £m
<b>Total future minimum lease payments under non-cancellable operating leases</b>			
Expiring within one year	4.8	0.6	5.4
Expiring within two to five years	11.7	0.9	12.6
Expiring after five years	5.7	–	5.7
	22.2	1.5	23.7

In 2018, £6.1 million was recognised during the year in the Income Statement in respect of operating lease payments.

### Right-of-use assets

	Total £m	Leasehold land and buildings £m	Plant, machinery and vehicles £m	Equipment, fixtures and fittings £m
<b>Cost</b>				
At 31 December 2018	–	–	–	–
Adoption of IFRS 16	35.1	32.3	2.7	0.1
Adjusted amount at 1 January 2019	35.1	32.3	2.7	0.1
Currency translation adjustments	(1.0)	(0.9)	(0.1)	–
Additions	2.2	1.3	0.9	–
Termination of leases	(2.3)	(1.6)	(0.7)	–
Acquisitions	0.9	0.9	–	–
<b>At 31 December 2019</b>	<b>34.9</b>	<b>32.0</b>	<b>2.8</b>	<b>0.1</b>
<b>Depreciation</b>				
At 31 December 2018	–	–	–	–
Adoption of IFRS 16	14.4	13.2	1.2	–
Adjusted amount at 1 January 2019	14.4	13.2	1.2	–
Currency translation adjustment	(0.6)	(0.6)	–	–
Depreciation charge in the year	6.4	5.4	1.0	–
Impairment losses in the year	0.6	0.6	–	–
Depreciation on termination of lease	(1.8)	(1.1)	(0.7)	–
<b>At 31 December 2019</b>	<b>19.0</b>	<b>17.5</b>	<b>1.5</b>	<b>–</b>
<b>Carrying amounts</b>				
Adjusted amount at 1 January 2019	20.7	19.1	1.5	0.1
<b>At 31 December 2019</b>	<b>15.9</b>	<b>14.5</b>	<b>1.3</b>	<b>0.1</b>

Total cash outflow for leases is £7.3 million of which £0.9 million relates to interest and £6.4 million to principal lease repayments.

## Section 4 – Capital Structure

This section outlines the Group's capital structure. The Group defines its capital structure as its equity and non-current interest-bearing loans and borrowings, and aims to manage this to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, it may return capital to shareholders, through dividends and share buy backs, issue new shares or sell assets to reduce debt. The Group considers its dividend policy at least twice a year ahead of announcing results in the context of its ability to continue as a going concern and deliver its business plan. The Group focuses on leverage, credit ratings and interest cost, particularly when considering investment.

On the following pages there are disclosures concerning the following:

- 4.1 Net debt
- 4.2 Financial instruments
- 4.3 Share capital and reserves

### 4.1 Net debt

The Group's net debt comprises the following:

- Cash and cash equivalents (cash on hand and demand deposits at banks)
- Bank overdrafts that are payable on demand
- Interest-bearing loans and borrowings
- Lease liabilities

### Accounting policies

#### **Cash and cash equivalents**

Cash and cash equivalents in the Balance Sheet represent cash on hand and at banks.

Cash and cash equivalents in the statement of cash flows includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

#### **Interest-bearing loans and borrowings**

Interest-bearing borrowings are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these transaction costs are recognised in the Income Statement over the term of the related borrowings.

#### **Lease liabilities**

See note 3.6 "Leases".

### Analysis of net debt

The table below analyses the Group's components of net debt and their movements in the year:

	2019 £m	2018 £m
Increase in cash and cash equivalents	4.1	2.7
Acquisitions – leases/government grant	(0.9)	(0.5)
Principal lease repayments	6.4	–
Repayment of interest-bearing loans and borrowings	57.8	101.7
Borrowings from interest-bearing loans and borrowings	(61.4)	(138.1)
Decrease/(increase) in net debt resulting from cash flows	6.0	(34.2)
Effect of exchange rate fluctuations on cash held	(0.3)	(0.2)
Effect of exchange rate fluctuations on lease liabilities	0.4	–
Effect of exchange rate fluctuations on debt held	3.0	(3.7)
Effect of exchange rate fluctuations on net debt	3.1	(3.9)
Lease liabilities on adoption of IFRS 16	(22.4)	–
Lease liabilities entered into by the Group during the year	(2.2)	–
Lease liabilities on early terminations	0.5	–
Lease liabilities – non cash transactions	(24.1)	–
<b>Movements in net debt in the year</b>	<b>(15.0)</b>	<b>(38.1)</b>
Net debt at 1 January	(81.0)	(42.9)
<b>Net debt at 31 December<sup>(1)</sup></b>	<b>(96.0)</b>	<b>(81.0)</b>
Cash and cash equivalents in the Balance Sheet	18.9	17.5
Bank overdrafts	–	(2.4)
Cash and cash equivalents in the Statement of Cash Flows	18.9	15.1
Interest-bearing loans and borrowings	(96.7)	(96.1)
Lease liabilities	(18.2)	–
<b>Net debt at 31 December<sup>(1)</sup></b>	<b>(96.0)</b>	<b>(81.0)</b>

(1) Net debt at 31 December is not comparable due to the adoption of IFRS 16 on 1 January 2019.

## 4.2 Financial instruments

### This provides details on:

- Financial risk management
- Derivative financial instruments
- Fair value hierarchy
- Interest rate profile
- Maturity profile of financial liabilities

### Financial risk management

The Group's multinational operations and debt financing expose it to a variety of financial risks. In the course of its business, the Group is exposed to foreign currency risk, interest rate risk, liquidity risk and credit risk.

Financial risk management is an integral part of the way the Group is managed. Financial risk management policies are set by the Board of Directors. These policies are implemented by a central treasury department that has formal procedures to manage foreign currency risk, interest rate risk and liquidity risk, including, where appropriate, the use of derivative financial instruments. The Group has clearly defined authority and approval limits built into these procedures.

### Foreign currency risk

Foreign currency risk arises both where sale or purchase transactions are undertaken in currencies other than the respective functional currencies of Group companies (transactional exposures) and where the results of overseas companies are consolidated into the Group's reporting currency of Sterling (translational exposures).

# Section 4 – Capital Structure (continued)

## 4.2 Financial instruments (continued)

The Group has businesses that operate around the world and accordingly record their results in a number of different functional currencies. Some of these operations also have some customers or suppliers that transact in a foreign currency. The Group's results which are reported in Sterling are therefore exposed to changes in foreign currency exchange rates across a number of different currencies with the most significant exposures relating to the US Dollar (USD), Euro (EUR) and Japanese Yen (JPY). The Group proactively manages a proportion of its short-term transactional foreign currency exposures using derivative financial instruments, but remains exposed to the underlying translational movements which remain outside the control of the Group.

The Group manages its transactional exposures to foreign currency risks through the use of forward exchange contracts including the US Dollar, Euro and Japanese Yen. Forward exchange contracts are typically used to hedge approximately 65% of the Group's forecasted foreign currency exposure in respect of forecast cash transactions for the following 12 months. Forward exchange contracts may also be used to hedge a proportion of the forecast cash transactions for the following 13 to 24 months. The forward exchange contracts currently have maturities of less than one year at the Balance Sheet date.

The Group's translational exposures to foreign currency risks relate to both the Income Statement and net assets of overseas subsidiaries which are converted into Sterling on consolidation. The Group does not seek to hedge the translational exposure that arises primarily from changes in the exchange rates of the US Dollar, Euro and Japanese Yen against Sterling. However the Group does finance overseas investments partly through the use of foreign currency borrowings in order to provide a net investment hedge over the foreign currency risk that arises on translation of its foreign currency subsidiaries.

The Group ensures that its net exposure to foreign denominated cash balances is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. In addition the Group manages the denomination of surplus cash balances across the overseas subsidiaries to allow natural hedging where effective in any particular country.

It is estimated that the Group's adjusted operating profit for the year ended 31 December 2019 would have increased/decreased by approximately £1.7 million from a ten cent stronger/weaker US Dollar against Sterling, by approximately £2.4 million from a ten cent stronger/weaker Euro against Sterling and by approximately £0.4 million from a ten yen stronger/weaker Japanese Yen against Sterling. This reflects the impact of the sensitivities to the translational exposures and to the proportion of the transactional exposures that are not hedged. The Group, in accordance with its policy, does not use derivatives to manage translational risks. During 2019 the Group's operating profit included a net loss of £1.6 million (2018: £0.6 million profit) in relation to the crystallisation of forward exchange contracts as described later in this note.

It is estimated that the statutory operating profit for the year ended 31 December 2019 would have increased/decreased by £0.8 million from a ten cent stronger/weaker US Dollar against Sterling, by approximately £2.1 million from a ten cent stronger/weaker Euro against Sterling and by approximately £0.4 million from a ten Yen stronger/weaker Japanese Yen against Sterling.

### **Interest rate risk**

Interest rate risk comprises the interest cash flow risk that results from borrowing at variable rates.

For the year ended 31 December 2019, it is estimated that a general increase/decrease of one percentage point in interest rates, would decrease/increase the Group's profit before tax by approximately £1.2 million.

### **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group was utilising 64% of the £150 million Multicurrency Revolving Credit Facility as at 31 December 2019. On 14 February 2020, the Group signed a new £165 million five year (with two optional one year extensions) Multicurrency Revolving Credit Facility with a syndicate of five banks. This facility will expire on 14 February 2025 without the utilisation of the extensions.

### **Credit risk**

Credit risk arises because a counterparty may fail to meet its obligations. The Group is exposed to credit risk on financial assets such as trade receivables, cash balances and derivative financial instruments. The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Group Balance Sheet.

#### **a) Trade receivables**

The Group's credit risk is primarily attributable to its trade receivables. Trade receivables are subject to credit limits, and control and approval procedures in the operating companies. At the Balance Sheet date, the Group's largest customer, which has a high credit rating, accounts for 14% of the gross outstanding trade receivables (2018: 14%) which represents a concentration of credit risk.

**b) Cash balances and derivative financial instruments**

Credit risk associated with cash balances is managed by transacting with a number of major financial institutions worldwide and periodically reviewing their creditworthiness. Transactions involving derivative financial instruments are managed centrally. These are only with banks that are part of the Group's Multicurrency Revolving Credit Facility Agreement and which have strong credit ratings. Accordingly, the Group's associated credit risk is limited. The Group has no significant concentration of credit risk.

**Derivative financial instruments**

**This is a summary of the derivative financial instruments that the Group holds and uses to manage transactional exposure. The value of these derivatives changes over time in response to underlying variables such as exchange rates. They are carried in the Balance Sheet at fair value.**

**The fair value of forward exchange contracts is determined by estimating the market value of that contract at the reporting date. Derivatives with a positive fair value are recorded as assets and negative fair values as liabilities, and presented as current or non-current based on their contracted maturity dates.**

**Contracts with derivative counterparties are based on ISDA Master Agreements. The Group entered into ISDA agreements during the year and has not previously been party to such contracts. Under the terms of these arrangements, only in certain situations will the net amounts owing/receivable to a single counterparty be considered outstanding. The Group does not have the present legal ability to set-off these amounts and so they are not offset in the Balance Sheet. Of the derivative assets and derivative liabilities recognised in the Balance Sheet, an amount of £0.3 million would be set-off under enforceable master netting agreements.**

**Accounting policies****Financial assets classification and measurement**

The Group classifies its financial instruments depending on the business model for managing the financial assets and their contractual cash flows. Trade receivables and contract assets are measured at amortised cost while derivatives are measured at fair value through profit or loss unless designated in a qualifying hedging relationship.

**Derivative financial instruments**

In accordance with Board approved policies, the Group uses derivative financial instruments such as forward foreign exchange contracts to hedge its exposure to fluctuations in foreign exchange rates arising from operational activities. These are designated as cash flow hedges. It does not hold or use derivative financial instruments for trading or speculative purposes.

**Cash flow hedge accounting**

Cash flow hedges are used to hedge the variability in cash flows of highly probable forecast transactions caused by changes in exchange rates.

Where a derivative financial instrument is designated in a cash flow hedge relationship with a highly probable forecast transaction, the effective part of any change in fair value arising is deferred in the cash flow hedging reserve within equity, via the Statement of Comprehensive Income. The gain or loss relating to the ineffective part is recognised in the Income Statement within net finance expense. Amounts deferred in the cash flow hedging reserve are reflected in the Income Statement in the periods when the hedged item is recognised in the Income Statement.

If a hedging instrument expires or is sold but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

For hedges of foreign currency sales, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item and the Group designates the forward exchange rate as the hedged risk. The Group therefore performs a qualitative assessment of effectiveness. In hedges of foreign currency sales, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

If a derivative financial instrument is not formally designated in a cash flow hedge relationship, any change in fair value is recognised in the Income Statement.

# Section 4 – Capital Structure (continued)

## 4.2 Financial instruments (continued)

### Forward exchange contracts

The following table shows the forward exchange contracts in place at the Balance Sheet date. These contracts mature in the next 12 months, therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 12 months.

	Currency	As at 31 December 2019 millions	Average exchange rate of contracts	As at 31 December 2018 millions	Average exchange rate of contracts
<b>Cash flow hedging contracts</b>					
USD/GBP forward exchange contracts	USD	11.3	1.31	9.1	1.31
USD/EUR forward exchange contracts	USD	11.3	1.16	30.2	1.20
EUR/GBP forward exchange contracts	EUR	14.2	1.13	15.9	1.09
JPY/GBP forward exchange contracts	JPY	550.0	140.2	542.2	143.5
JPY/EUR forward exchange contracts	JPY	730.0	123.5	891.7	128.9

A net loss of £1.6 million (2018: £0.6 million profit) relating to forward exchange contracts was reclassified to the Income Statement, to match the crystallisation of the hedged forecast cash flows which affect the Income Statement.

The table below provides further information on the Group's cash flow hedging relationships:

	2019 £m	2018 £m
Net forward exchange contracts asset/(liability)	0.3	(1.0)
Maturity dates	January 2020 to December 2020	January 2019 to January 2020
Hedge ratio	1:1	1:1
Change in value of hedging instruments since 1 January	(0.4)	(2.1)
Change in value of the hedged item used to determine hedge effectiveness	0.4	2.1

The balances and movements into and out of the cash flow hedging reserve are shown in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity, respectively. Amounts reclassified from the cash flow hedging reserve to the Consolidated Statement of Comprehensive Income are included in cost of sales.

### Fair value hierarchy

The following summarises financial instruments carried at fair values and the major methods and assumptions used in estimating these fair values.

The different levels of fair value hierarchy have been defined as follows:

#### Level 1

Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

#### Level 2

Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

#### Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of the Group's financial instruments approximate their fair value. The fair value of floating rate borrowings approximates to the carrying value because interest rates are at floating rates where payments are reset to market rates at intervals of less than one year. The Group's derivative financial instruments are Level 2. The fair value of derivative financial instruments is determined based on the present value of future cash flows using forward exchange rates at the Balance Sheet date.

## Accounting policies

### Net investment hedge accounting

The Group uses its US Dollar, Euro and Japanese Yen denominated borrowings as a hedge against the translation exposure on the Group's net investment in overseas companies. The Group designates the spot rate of the loans as the hedging instrument. There was no ineffectiveness to be recognised on hedges of net investments in foreign operations.

Where the hedge is fully effective at hedging the variability in the net assets of such companies caused by changes in exchange rates, the changes in value of the borrowings are recognised in the translation reserve within equity, via the Statement of Comprehensive Income. The ineffective part of any change in value caused by changes in exchange rates is recognised in the Income Statement.

The effective portion will be recycled into the Income Statement on the sale of the foreign operation.

The table below provides further information on the Group's net investment hedging relationships:

	2019 £m	2018 £m
Hedge ratio	1:1	1:1
Change in value of hedging instruments due to foreign currency movements since 1 January	2.8	3.7
Change in value of the hedged item used to determine hedge effectiveness	(2.8)	(3.7)

The balances and movements into and out of the foreign currency translation reserve are shown in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity, respectively.

### Interest-bearing loans and borrowings

The table below analyses the Group's interest-bearing loans and borrowings including bank overdrafts, by currency:

Currency	Total £m	Fixed rate borrowings £m	Floating rate borrowings £m
US Dollar	51.7	–	51.7
GB Pound	28.0	–	28.0
Euro	13.5	0.8	12.7
Japanese Yen	3.5	–	3.5
At 31 December 2019	96.7	0.8	95.9
US Dollar	62.5	–	62.5
GB Pound	7.4	–	7.4
Euro	25.0	1.7	23.3
Japanese Yen	3.6	–	3.6
At 31 December 2018	98.5	1.7	96.8

The floating rate borrowings comprise borrowings bearing interest at rates based on LIBOR.

# Section 4 – Capital Structure (continued)

## 4.2 Financial instruments (continued)

### Maturity profile of financial liabilities

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the carrying amounts disclosed on the Balance Sheet.

The following are the contractual maturities of financial liabilities, including undiscounted future interest payments:

	Carrying amount £m	Total contractual cash flows £m	Within one year £m	From two to five years £m	Greater than five years £m
<b>2019</b>					
Unsecured interest-bearing loans and borrowings including bank overdrafts <sup>(1)</sup>	(96.3)	(99.5)	(2.3)	(97.2)	–
Lease liabilities	(18.2)	(20.8)	(6.4)	(9.8)	(4.6)
Trade payables	(31.1)	(31.1)	(31.1)	–	–
Forward exchange contracts outflow	(0.3)	(15.9)	(15.9)	–	–
Total outflows	(145.9)	(167.3)	(55.7)	(107.0)	(4.6)
Forward exchange contracts inflow	–	15.5	15.5	–	–
Net outflows	(145.9)	(151.8)	(40.2)	(107.0)	(4.6)
<b>2018</b>					
Unsecured interest-bearing loans and borrowings including bank overdrafts <sup>(1)</sup>	(98.0)	(103.9)	(5.3)	(98.6)	–
Trade payables	(34.3)	(34.3)	(34.3)	–	–
Forward exchange contracts outflow	(1.1)	(41.3)	(41.3)	–	–
Total outflows	(133.4)	(179.5)	(80.9)	(98.6)	–
Forward exchange contracts inflow	–	39.7	39.7	–	–
Net outflows	(133.4)	(139.8)	(41.2)	(98.6)	–

(1) This excludes an amount of £0.4 million (2018: £0.5 million) of an interest-bearing liability in relation to a government grant which does not meet the definition of a financial liability.

The Group had the following undrawn borrowing facilities at the end of the year:

Expiring in:	2019 £m	2018 £m
<b>Less than one year</b>		
– Uncommitted facilities	10.9	8.7
<b>More than one year but not more than five years</b>		
– Committed facilities	54.5	56.0
<b>Total</b>	<b>65.4</b>	<b>64.7</b>



## 4.3 Share capital and reserves

This note explains the movements in share capital, and the nature and purpose of other reserves forming part of equity. The movements in reserves are set out in the Consolidated Statement of Changes in Equity.

The Group utilises share award schemes as part of its employee remuneration packages. Options that have been granted and remain outstanding at 31 December 2019 are set out below. The various share-based payment schemes are explained in note 5.3 “Share-based payments”.

### Share capital

	Number of shares (thousands)	Nominal value £m
<b>Issued and fully paid</b>		
At 1 January 2019	45,382	9.1
Exercise of share options	342	–
At 31 December 2019	45,724	9.1

Each ordinary share carries one vote, participates equally with the other ordinary shares in distribution of dividends and capital (including on a winding up) and is not redeemable.

At 31 December 2019 the following options had been granted and remained outstanding under the Company’s share option schemes:

	Number of shares (thousands)	Exercise prices	Dates normally exercisable
UK Sharesave Schemes	281	484p–1035p	2020–2024
International Sharesave Schemes	1,212	485p–1100p	2019–2022
	<b>1,493</b>		

### Other reserves

The nature and purpose of other reserves forming part of equity are as follows:

#### Translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries, including gains or losses arising on net investment hedges.

#### Cash flow hedging reserve

This reserve records the cumulative net change in the fair value of forward exchange contracts where they are designated as effective cash flow hedge relationships.

## Section 4 – Capital Structure (continued)

### 4.3 Share capital and reserves (continued)

#### Other reserves

Reserves of £55.3 million represent a merger reserve of £9.7 million; the reduction of the share premium account; £22.7 million in 1989 and £37.3 million in 1995 less £16.0 million of share repurchases in 1995; and a capital redemption reserve of £1.6 million created on the repurchase and subsequent cancellation of 885,000 ordinary shares by the Company in 1999.

#### Own shares held

Own shares held by the Company's Employee Benefit Trust are recognised as a deduction from retained earnings. As at 31 December 2019 the Employee Benefit Trust held 283,900 (2018: 289,790) ordinary shares. The Company holds 133,600 (2018: 75,600) shares, of 20p nominal value, in treasury.

#### Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

Amounts arising in respect of the year	2019 £m	2018 £m
Interim dividend for the year ended 31 December 2019 of 12.3p (2018: 11.5p) per ordinary share	5.6	5.1
Proposed final dividend for the year ended 31 December 2019 of 26.7p (2018: 25.5p) per ordinary share	12.2	11.5
	<b>17.8</b>	16.6
<b>The aggregate amount of dividends paid in the year</b>		
Final dividend for the year ended 31 December 2018 of 25.5p (2017: 20.1p) per ordinary share	11.5	9.0
Interim dividend for the year ended 31 December 2019 of 12.3p (2018: 11.5p) per ordinary share	5.6	5.1
	<b>17.1</b>	14.1

The proposed final dividend for the year ended 31 December 2019 was recommended by the Directors. This is subject to approval by shareholders at the AGM on Wednesday, 27 May 2020 and, if approved, will be paid on Friday, 29 May 2020.

# Section 5 – Other Supporting Notes

**This section explains items that are not explained elsewhere in the financial statements.**

## 5.1 Employees

	2019 £m	2018 £m
<b>Employee costs, including Directors' remuneration, comprise:</b>		
Wages and salaries	82.5	79.6
Employers' social security costs	11.7	11.6
Employers' pension costs – defined benefit schemes	1.0	1.7
Employers' pension costs – defined contribution schemes	2.6	1.7
Other employment benefits	3.1	2.2
Share-based payment charge	2.3	3.1
	<b>103.2</b>	<b>99.9</b>

Details of Directors' remuneration and share incentives are disclosed in the Remuneration Report.

	2019 Total	2018 Total
<b>Average number of employees during the year</b>		
Imaging Solutions	819	845
Production Solutions	574	600
Creative Solutions	294	252
Head Office	28	26
	<b>1,715</b>	<b>1,723</b>

## 5.2 Pensions

This note explains the accounting policies governing the Group's treatment of the pension schemes, followed by an analysis of these schemes.

### Accounting policies

#### Defined contribution schemes

The assets are held separately from those of the Group in independently administered funds. The costs of providing pensions for employees under defined contribution schemes are expensed as incurred.

#### Defined benefit schemes

The Group operates pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Group. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to market yields at the Balance Sheet date on high quality corporate bonds.

The calculation is performed by a qualified actuary using the projected unit credit method. Actuarial gains and losses are recognised in full in the period in which they arise in the Statement of Comprehensive Income.

The Group recognises the ongoing service cost, past service costs and any cost or income relating to the curtailment or settlement of a pension scheme in operating expenses in the Income Statement. The unwinding of the discount (above) is recognised as part of net financial expense.

# Section 5 – Other Supporting Notes (continued)

## 5.2 Pensions (continued)

### Pension schemes

The Group has defined benefit pension schemes in the UK, Italy, Germany, Japan and France. The UK defined benefit scheme was closed to future benefit accrual with effect from 31 July 2010. All UK employees of the Group are now offered membership of the defined contribution pension scheme. Other overseas subsidiaries have their own defined contribution schemes.

### Defined contribution schemes

The total Income Statement charge of the defined contribution schemes for the year ended 31 December 2019 was £2.6 million (2018: £1.7 million). There were no outstanding or prepaid contributions to these plans as at 31 December 2019 (or at 31 December 2018).

### Defined benefit schemes

The Group's defined benefit schemes are disclosed below:

	2019 £m	2018 £m
<b>Amounts recognised on the Group Balance Sheet</b>		
Plan assets		
– Equities	22.6	19.3
– Bonds	33.2	30.0
– Other	8.6	11.6
Total fair value of plan assets	64.4	60.9
Present value of defined benefit obligation	(72.7)	(70.3)
<b>Net deficit recognised in the Group Balance Sheet</b>	<b>(8.3)</b>	<b>(9.4)</b>
	2019 £m	2018 £m
<b>Analysis of net recognised deficit</b>		
Total funded plan (UK Pension scheme)	(4.1)	(5.1)
Total unfunded plans (non-UK Pension schemes)	(4.2)	(4.3)
Liability recognised on the Group Balance Sheet	(8.3)	(9.4)
	2019 £m	2018 £m
<b>Amounts recognised in the Income Statement</b>		
– Administration costs incurred during the period	1.2	1.2
– Past service gains	(0.2)	(0.2)
– Past service cost (guaranteed minimum pension charge)	–	0.7
Included in operating expenses	1.0	1.7
Net interest expense on net defined benefit pension scheme liabilities	0.2	0.2
<b>Total amounts charged to the Income Statement</b>	<b>1.2</b>	<b>1.9</b>

### UK pension scheme

The UK defined benefit pension scheme, being significant, is disclosed below.

The nature of the UK scheme is a funded final salary scheme closed to future benefit accrual with effect from 31 July 2010. As a result, since that date, no contributions are payable in respect of future accrual of benefits. As the 5 April 2016 funding valuation of the scheme disclosed a funding surplus, no recovery plan is required under the Pensions Act 2004. As such, member and employer contributions to the scheme over the year to 31 December 2020 are expected to be £nil. The scheme is subject to all legislation and regulations that apply to UK occupational pension schemes.

The main risk to which the Group is exposed by the scheme is that the cost of the benefits provided by the scheme is greater than expected, for example due to lower than expected investment returns or members of the scheme living longer than expected, which may result in additional contributions being required from the Group.

In accordance with UK trust and pensions law, the pension scheme has a corporate trustee. Although the Group bears the financial cost of the scheme, the responsibility for the management and governance of the scheme lies with the trustee, which has a duty to act in the best interest of members at all times. The assets of the scheme are held in trust by the trustee who consults with the Group on investment strategy decisions.

**Impact on defined benefit obligation (“DBO”) of changes in the three key individual assumptions**

	2019	2018
Discount rate increased by 0.1% points	-2%	-2%
Inflation increased by 0.1% points	+1%	+1%
Life expectancy increased by one year	+4%	+4%

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

	2019 % pa	2018 % pa
<b>Assumptions used by the actuary to value the liability of the defined benefit plan, on 31 December were:</b>		
Price inflation (RPI)	2.9	3.1
Price inflation (CPI)	1.9	2.1
Life expectancy of male/female aged 65 in 2019	22.1/24.4	22.4/24.4
Life expectancy of male/female aged 65 in 2034	22.7/25.2	23.1/25.3
Pension increase rate (% pa)		
– Discretionary (pre-6 April 1997 accrual in excess of GMP)	3.0	3.0
– Guaranteed LPI 5% (6 April 1997–30 June 2008)	2.8	3.0
– Guaranteed LPI 5%, with 3% floor	3.2	3.2
– Guaranteed LPI 2.5% (accrual from 1 July 2008)	2.0	2.1
Discount rate	2.1	2.9

	2019 £m	2018 £m
<b>Change in DBO for the year to 31 December</b>		
Present value of DBO at start of year	66.0	72.5
Interest cost	1.9	1.7
Actuarial loss on experience	(1.4)	–
Actuarial gain on demographic assumptions	(0.9)	(0.5)
Actuarial (gain)/loss on financial assumptions	7.0	(5.6)
Actual benefit payments	(3.9)	(2.6)
Past service costs/(gains)	(0.2)	0.5
<b>Present value of DBO at end of year</b>	<b>68.5</b>	<b>66.0</b>

At 31 December 2019, the weighted-average duration of the scheme’s DBO was 16 years (2018: 16 years). The proportion of DBO in respect of pensions in payment is about 40% and that in respect of deferred pensioners is about 60%.

	Fair value 2019 £m	Quoted split %	Unquoted split %	Fair value 2018 £m
<b>Scheme assets and proportion which have quoted market price, at 31 December</b>				
Bonds	33.2	100	–	30.0
Equities	22.6	77	23	19.3
Infrastructure	8.2	–	100	8.8
Cash/non-cash assets	0.3	–	100	2.6
Insurance policies	0.1	–	100	0.2
<b>Total value of assets</b>	<b>64.4</b>			<b>60.9</b>

Note: The asset values shown are, where relevant, estimated bid values of market securities.

# Section 5 – Other Supporting Notes (continued)

## 5.2 Pensions (continued)

	2019 £m	2018 £m
<b>Change in fair value of assets for the year to 31 December</b>		
Fair value of assets at start of year	60.9	64.1
Interest income on scheme assets	1.7	1.5
Return on scheme assets greater/(less) than discount rate	5.7	(2.1)
Actual benefit payments	(3.9)	(2.6)
<b>Fair value of assets at end of year</b>	<b>64.4</b>	<b>60.9</b>
	2019 £m	2018 £m
<b>Development of net balance sheet position at 31 December</b>		
Present value of defined benefit obligation	(68.5)	(66.0)
Assets at fair value	64.4	60.9
<b>Net defined benefit scheme liability</b>	<b>(4.1)</b>	<b>(5.1)</b>
	2019 £m	2018 £m
<b>Reconciliation of net balance sheet position</b>		
Net defined benefit scheme liability at start of year	(5.1)	(8.4)
Total amounts charged to the Income Statement	–	(0.7)
Remeasurement effects recognised in Other Comprehensive Income (“OCI”)	1.0	4.0
<b>Defined benefit scheme liability at end of year</b>	<b>(4.1)</b>	<b>(5.1)</b>
	2019 £m	2018 £m
<b>Amounts recognised in the Group Income Statement</b>		
– Past service gains	(0.2)	(0.2)
– Past service cost (guaranteed minimum pension charge)	–	0.7
Included in operating expenses	(0.2)	0.5
Net interest expense on net defined benefit pension scheme liability	0.2	0.2
<b>Total amounts charged to the Income Statement</b>	<b>–</b>	<b>0.7</b>
	2019 £m	2018 £m
<b>Amounts recognised in OCI</b>		
Actuarial gain due to liability experience	(1.4)	–
Actuarial loss/(gain) due to liability assumption changes	6.1	(6.1)
Actuarial loss/(gain) arising during the period	4.7	(6.1)
Return on scheme assets (greater)/less than discount rate	(5.7)	2.1
<b>Remeasurement effects recognised in OCI</b>	<b>(1.0)</b>	<b>(4.0)</b>
	2019 £m	2018 £m
<b>Defined benefit pension scheme cost</b>		
Past service (gains)/costs	(0.2)	0.5
Net interest expense on net defined benefit pension scheme liability	0.2	0.2
Remeasurement effects recognised in OCI	(1.0)	(4.0)
<b>Total defined benefit pension scheme credit</b>	<b>(1.0)</b>	<b>(3.3)</b>

## 5.3 Share-based payments

**Group employees participate in a number of employee incentive schemes including a Sharesave Scheme, a Long Term Incentive Plan, a Deferred Bonus Plan and a Restricted Share Plan.**

**This note explains the accounting policy governing share-based payments and the impact of various share schemes operated by the Group.**

### Accounting policies

#### Share-based payments

The Group operates a number of share-based incentive schemes. The fair value of the equity-settled employee share option grants is calculated at grant date and charged to the Income Statement over the vesting period of the schemes, with a corresponding adjustment to equity. The value of the charge is adjusted to reflect expected and actual levels of options that will vest, except where forfeiture arises from share prices not achieving the threshold for vesting.

The fair values of options are calculated using Black-Scholes or Monte Carlo simulation models. Vesting conditions are non-market based conditions such as service conditions, performance conditions (adjusted earnings per share targets) as well as market-based conditions (Total Shareholder Return “TSR”).

Any potential employer’s Social Security liability on options granted is calculated based on the intrinsic value of the options and charged to the Income Statement over the vesting period of the schemes.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. Shares purchased in the market are held in the Company’s Employee Benefit Trust.

A description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (for example whether in cash or equity) is set out in the Remuneration Report.

#### Share-based payment expense

The amount recognised in the Income Statement for share-based payment transactions with employees for the year ended 31 December 2019 was £2.6 million (2018: £3.1 million), of which £0.3 million (2018: £nil) related to employers’ tax liability.

The outstanding employers’ tax liability recognised in the Balance Sheet for UK awards was £0.1 million (2018: £0.8 million).

#### Share options outstanding at the end of the period

Options outstanding under the 2011 UK Sharesave Scheme and 2011 International Sharesave Plan as at 31 December 2019, together with their exercise prices and vesting periods, are as follows:

Range of Exercise Prices	Number outstanding (thousands)	Weighted average exercise price (£)	Weighted average remaining contractual life (years)
£4.51–£5.00	30	4.87	1
£7.50–£8.50	239	7.84	1
£8.51–£10.50	1,081	9.35	3
£10.51–£11.00	143	11.00	1
<b>Total</b>	<b>1,493</b>	<b>9.18</b>	<b>2</b>

## Section 5 – Other Supporting Notes (continued)

### 5.3 Share-based payments (continued)

Movements in these share option plans were as follows:

	Sharesave (thousands)	Weighted Average Exercise Price (£)
Awards at 31 December 2017	1,093	6.18
Exercised during 2018	(354)	5.01
Forfeited during 2018	(75)	6.02
Granted during 2018	637	10.35
Awards at 31 December 2018	<b>1,301</b>	<b>8.55</b>
Exercised during 2019	(342)	6.29
Forfeited during 2019	(115)	9.32
Cancelled during 2019	(186)	10.30
Granted during 2019	835	9.05
<b>Awards at 31 December 2019</b>	<b>1,493</b>	<b>9.18</b>
<b>Awards exercisable at 31 December 2019</b>	<b>12</b>	<b>4.85</b>

The weighted average share price at the date of exercise for share options exercised during the year was £12.63 (2018: £12.49).

Arrangement	Restricted Share Plan	2011 UK and International Sharesave Scheme 3 Year	2011 International Sharesave Plan 2 Year	2011 UK and International Sharesave Scheme 3 Year	2011 UK and International Sharesave Scheme 5 Year	2014 Long Term Incentive Plan	2014 Deferred Bonus Plan
Nature of arrangement	Share award plan	“Save as you earn scheme”	“Save as you earn scheme”	“Save as you earn scheme”	“Save as you earn scheme”	Share award plan	Share award plan
Date of grant	1 Dec 2019	31 May 2019	26 Sep 2019	26 Sep 2019	26 Sep 2019	8 Mar 2019	3 Apr 2019
Number of instruments granted (thousands)	91	86	186	560	5	410	31
Exercise price	n/a	£9.35	£9.43	£8.87	£8.87	n/a	n/a
Share price at date of grant	£10.15	£11.35	£12.20	£12.20	£12.20	£11.90	£11.49
Contractual life (years)	n/a	3.6	2.3	3.6	5.6	n/a	n/a
Expected option life (years)	n/a	3.3	2.1	3.3	5.3	n/a	n/a



Vesting Conditions	3 year service period	3 year service period and savings requirement	2 year service period and savings requirement	3 year service period and savings requirement	5 year service period and savings requirement	Relative TSR performance against comparator group and adjusted EPS growth	3 year holding period
Settlement	Shares	Shares	Shares	Shares	Shares	Shares	Shares
Expected volatility <sup>(1)</sup>	n/a	23.7%	23.7%	23.7%	23.7%	22.6%	–
Risk free interest rate	n/a	0.57%	0.31%	0.26%	0.27%	n/a	n/a
Expected dividend yield	n/a	3.26%	3.0%	3.0%	3.0%	n/a	n/a
Expected departures (per annum from grant date)	5%	5%	5%	5%	5%	8%	n/a
Expected outcome of non-market based related performance condition	n/a	n/a	n/a	n/a	n/a	0%	n/a
Expected outcome of non-vesting condition <sup>(2)</sup>	n/a	89%	89%	89%	89%	n/a	n/a
Fair value per granted instrument determined at the grant date	£10.15	£1.97	£2.40	£2.71	£2.65	£11.9/£5.4 <sup>(3)</sup>	£11.49 <sup>(5)</sup>
Valuation model	n/a	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Monte Carlo <sup>(4)</sup>	n/a

(1) The expected volatility of the 2011 Sharesave Scheme is based on historical volatility determined by the analysis of daily share prices over a period commensurate with the expected lifetime of the award and ending on the date of grant of the award. Due to significant fluctuations in Vitec's share price during the year a uniform rate has been used for all the Sharesave options as a reasonable estimate of volatility going forward.

(2) Non-vesting condition relates to the monthly contributions that employees need to make under the Sharesave Scheme to receive the options at vesting. Based on historical cancellation rates a 11% rate has been used.

(3) The first figure (£11.9) represents fair value of awards subject to adjusted EPS growth criteria and the second figure (£5.4) represents fair value of awards subject to TSR criteria.

(4) For the 2014 LTIP, a Monte Carlo simulation has been used. Under this valuation method, the share price for Vitec is projected at the end of the performance period as the TSR for Vitec and the companies in the comparator group. Based on these projections, the number of awards that will vest is determined. Thousands of simulations are run and the fair value of the award is calculated as the product of the vesting probability and the share price at the date of grant.

(5) Awards are funded by participant bonuses to better align remuneration with the Group's long-term performance. As a result no charge is recognised in the Consolidated Income Statement in relation to these awards.

## 5.4 Contingent liabilities

The Group has obtained cash receipts from government entities which have been accounted for as forgivable loans. The total contractual amount outstanding at 31 December 2019 is £2.6 million (2018: £2.6 million). The Group has recognised liabilities of £0.4 million (2018: £0.5 million) in relation to amounts it does not have reasonable assurance will be forgiven.

# Section 5 – Other Supporting Notes (continued)

## 5.5 Related party transactions

**A related party relationship is based on the ability of one party to control or significantly influence the other.**

**The Group has identified the Directors, the Vitec Group Pension Scheme and members of the Executive Management Board as related parties to the Group under IAS 24, “Related Party Disclosures”.**

### Transactions with key management personnel

Details of Directors’ remuneration along with their pension, share incentive, bonus arrangements and holdings of the Company’s shares are shown in detail in the Remuneration Report. This also shows the highest paid Director.

The compensation of the eight (2018 Operations Executive: ten) members of the Executive Management Board during the year, including the Executive Directors, is shown in the table below:

	2019 £m	2018 £m
Salaries	2.1	2.6
Performance-related bonuses	0.5	1.9
Share-based payment charge <sup>(1)</sup>	0.3	1.2
Other short-term employee benefits	0.2	0.2
Post employment benefits	0.4	0.3

(1) IFRS 2 charge recognised in the Income Statement for share-based payment transactions with members of the Executive Management Board.

## 5.6 Group investments

The Group’s subsidiaries at 31 December 2019 are listed below. All subsidiaries are 100% owned within the Group.

Company	County of incorporation	Issued securities
Amimon Inc	United States <sup>(36)</sup>	Ordinary shares of NPV
Amimon Ltd	Israel <sup>(38)</sup>	Ordinary shares of ILS 0.01 each
Amimon Japan Co. Ltd	Japan <sup>(37)</sup>	Ordinary shares of JPY¥10,000 each
Autocue Limited	England & Wales <sup>(1)</sup>	Ordinary share of £1 each
Autocue LLC	United States <sup>(3)</sup>	Membership units of NPV
Autoscript Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Bogen Imaging UK Limited	England & Wales <sup>(1)</sup>	Ordinary share of £1 each
BRCT Holdings Limited	New Zealand <sup>(2)</sup>	Ordinary shares of NZD1.00
Camera Corps, Inc.	United States <sup>(35)</sup>	Ordinary shares of US\$0.01 each
Camera Corps Ltd	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Camera Dynamics sarl	France <sup>(4)</sup>	Ordinary shares of NPV
Chalfont Investments Inc.	United States <sup>(5)</sup>	Ordinary shares of US\$0.01 each
Colorama Photodisplay Holdings Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Gitzo Limited	England & Wales <sup>(1)</sup>	Ordinary share of £1 each
Gitzo S.A.	France <sup>(6)</sup>	Ordinary shares of NPV
JOBY Technology (Shenzhen) Co. Limited	China <sup>(34)</sup>	Ordinary share of RMB1,814,855 each
Kata UK Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Lastolite Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
LCB Beteiligungs GmbH	Germany <sup>(9)</sup>	Ordinary shares of €25,000
Lowepro Huizhou Trading Co Ltd (formerly Lowepro Dongguan Trading Co., Ltd)	China <sup>(33)</sup>	Ordinary share of HK\$3,000,000 each
Litepanels Ltd	England & Wales <sup>(1)</sup>	Ordinary shares of US\$1 each
Manfrotto Bags Ltd	Israel <sup>(8)</sup>	Ordinary shares of ILS1 each

Company	County of incorporation	Issued securities
Manfrotto Distribution Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Mount Olive 2016, LLC	United States <sup>(17)</sup>	Membership units of NPV
Offhollywood, LLC	United States <sup>(18)</sup>	Membership units of NPV
Palmer Dollar Finance	England & Wales <sup>(1)</sup>	Ordinary shares of US\$1 each
Palmer Dollar Finance Ireland Investment DAC	Ireland <sup>(19)</sup>	Ordinary shares of US\$1 each
Palmer Dollar Finance Luxembourg Investment Sarl	Luxembourg <sup>(20)</sup>	Ordinary shares of US\$1,000 each
Palmer Euro Finance Ireland Investment DAC	Ireland <sup>(19)</sup>	Ordinary shares of €1 each
Palmer Euro Finance Luxembourg Investment Sarl	Luxembourg <sup>(20)</sup>	Ordinary shares of €1,000 each
Palmer Euro Finance Netherlands B.V.	Netherlands <sup>(21)</sup>	Ordinary shares of €1 each
Palmer Finance	England & Wales <sup>(1)</sup>	Ordinary shares of €1 each
Palmer Yen Finance	England & Wales <sup>(1)</sup>	Ordinary shares of JP¥100 each
Petrol Bags Limited	Israel <sup>(22)</sup>	Ordinary shares of ILS1 each
Petrol Bags Limited	England & Wales <sup>(1)</sup>	Ordinary share of £1 each
Radamec Broadcast Systems Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
RECO Srl	Italy <sup>(10)</sup>	Shares of NPV
Rycote Microphone Windshields Ltd	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each and Deferred shares of £1 each
Sachtler Limited	England & Wales <sup>(1)</sup>	Ordinary share of £1 each
SmallHD LLC	United States <sup>(23)</sup>	Membership units of NPV
Syrp, Inc	United States <sup>(7)</sup>	Common stock of US\$0.10 each
Syrp Limited	New Zealand <sup>(2)</sup>	Ordinary shares of NZD1.00
Teradek Ukraine LLC	Ukraine <sup>(24)</sup>	Membership interests of NPV
Teradek, LLC	United States <sup>(25)</sup>	Membership units of NPV
The Camera Store Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Vinten Broadcast Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Vitec Creative Solutions UK Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Vitec Group Holdings Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Vitecgroup Italia spa	Italy <sup>(30)</sup>	Ordinary shares of €1,000 each
Vitec Group Pensions Trust Company (UK) Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Vitec Group US Holdings, Inc.	United States <sup>(5)</sup>	Ordinary shares of US\$0.01 each
Vitec Holdings Italia Srl	Italy <sup>(10)</sup>	Ordinary share of €10,000 each
Vitec Holdings Limited	Guernsey <sup>(27)</sup>	Ordinary shares of £0.10 each
Vitec Imaging Distribution Australia Pty Ltd	Australia <sup>(26)</sup>	Ordinary shares of AUD1 each
Vitec Imaging Distribution Benelux B.V.	Netherlands <sup>(11)</sup>	Ordinary shares of €454 each
Vitec Imaging Distribution GmbH	Germany <sup>(12)</sup>	Shares of €25,000 each
Vitec Imaging Distribution HK Limited	Hong Kong <sup>(13)</sup>	Shares of HK\$1 each
Vitec Imaging Distribution Inc.	United States <sup>(14)</sup>	Ordinary shares of NPV
Vitec Imaging Distribution KK	Japan <sup>(15)</sup>	Shares of JP¥1 each
Vitec Imaging Distribution SAS	France <sup>(6)</sup>	Ordinary shares of €16 each
Vitec Imaging Distribution Shanghai Limited	China <sup>(16)</sup>	Ordinary shares of US\$1 each
Vitec Imaging Solutions HK Limited	Hong Kong <sup>(32)</sup>	Shares of HK\$1 each
Vitec Imaging Solutions Spa	Italy <sup>(10)</sup>	Ordinary shares of €5.556 each

# Section 5 – Other Supporting Notes (continued)

## 5.6 Group investments (continued)

Company	County of incorporation	Issued securities
Vitec Imaging Solutions UK Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Vitec Investments Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Vitec Production Solutions GmbH	Germany <sup>(9)</sup>	Ordinary share of DEM50,000 each
Vitec Production Solutions Inc	United States <sup>(5)</sup>	Ordinary shares of US\$0.01 each
Vitec Production Solutions KK	Japan <sup>(15)</sup>	Ordinary shares of JP¥1,000 each
Vitec Productions Solutions Limitada	Costa Rica <sup>(28)</sup>	Shares of CRC50 each
Vitec Production Solutions Limited	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
Vitec Production Solutions Pte. Limited	Singapore <sup>(29)</sup>	Ordinary shares of SGD1 each
VTC Group Limited (formerly ALC Broadcast Limited)	England & Wales <sup>(1)</sup>	Ordinary shares of £1 each
VTC International Limited (formerly Bexel Global Broadcast Solutions Limited)	England & Wales <sup>(1)</sup>	Ordinary share of £1 each
WHDI LLC	United States <sup>(36)</sup>	Membership unit of NPV
Wooden Camera, Inc	United States <sup>(31)</sup>	Ordinary shares of NPV

### The registered address is as follows:

- (1) Bridge House, Heron Square, Richmond, TW9 1EN, United Kingdom
- (2) 32 Crummer Road, Grey Lynn, Auckland, 1021, New Zealand
- (3) 124 West 30th Street, Suite 312, New York, NY 10001, United States
- (4) 171 avenue des Grésillons, 92635 Gennevilliers cedex, France
- (5) Corporation Service Company, 2711 Centerville Road – Suite 400, Wilmington, DE 19808, United States
- (6) Parc Tertiaire Silic, 44 Rue De La Couture, 94150 Rungis, France
- (7) Princeton South Corporate Center, Suite 160, 100 Charles Ewing Boulevard, Ewing, NJ 08628, United States
- (8) Abraham & Bachar cp., Keren Hayesod 36, Jerusalem, Israel
- (9) Parkring 29, 85748 Garching, Germany
- (10) Via Valsugana 100, 36022 Cassola VI, Italy
- (11) J.P. Poelstraat 5, 1483 GC De Rijp, Netherlands
- (12) Ferdinand-Porsche-Strasse 19, 41149 Cologne, Germany
- (13) Unit No.03, 3/F, Tower 3, Phase 1, Enterprise Square, No.9 Sheung Yuet Road, Kowloon Bay, Hong Kong
- (14) Corporation Service Company, 830 Bear Tavern Road, West Trenton, NJ 08628, United States
- (15) Shibakoen 3-chome Bldg, 1F, 3-1-38 Shibakoen, Mikato-ku, Tokyo 105-0011, Japan
- (16) Room 2704-05, Shanghai Mart Tower, No.2299, Yan'an Road (West), Shanghai, 200336, China
- (17) Corporation Service Company, 2595 Interstate Drive – Suite 103, Harrisburg, PA 17110, United States
- (18) Corporation Service Center, 2711 Centerville Road – Suite 440, Wilmington, New Castle County DE 19808, United States
- (19) Regus Dublin Airport, Tasc Building, Corballis Road North, Dublin Airport, Sword, Dublin, Ireland
- (20) 9B Boulevard du Prince Henri, L-1724, Grand Duchy of Luxembourg, Luxembourg
- (21) Kerkrade, Netherlands
- (22) 3 Hasolelim Street, 67897, Tel Aviv, Israel
- (23) Corporation Service Company, 327 Hillsborough Street, Raleigh, NC 27603, United States
- (24) Uspenskaya 2, Odessa, 65014, Ukraine
- (25) CSC-Lawyers Incorporating Service, 2710 Gateway Oaks Drive – Suite 150N, Sacramento, CA 95833-3505, United States
- (26) 2 Baldwin Road, Altona North VIC 2025, Australia
- (27) Mont Crevelt House, Bulwer Avenue, St. Sampson, GY2 4LH, Guernsey
- (28) Parque Industrial de Cartago, Edificio Numero 68, Cartago, Costa Rica
- (29) 6 New Industrial Road, #02-02 Hoe Huat Industrial Building, 536199, Singapore
- (30) Via Monte Rosa, 91, 20149 Milano, Italy
- (31) 1826 West Commerce Street, Dallas TX 75208, United States
- (32) Unit 901-2, 9/F, Metroplaza Tower 2, No. 223 Hing Fong Road, Kwai Fong, N.T. Hong Kong
- (33) No. 1101, Office Building, Block B, Zhixing Commercial Building, Banshi Village, Changping Town, Dongguan City, Guangdong Province, China
- (34) Suite 916, Office Tower, Shun Hing Square, Di Wang Commercial Centre, 5002 Shen Nan Dong Road, Shenzhen, 518008, China
- (35) Corporate Service Company, 251 Little Falls Drive, Wilmington, County of New Castle, DE, 19808, United States
- (36) 2025 Gateway Place, Suite 450, San Jose, CA 95110, United States
- (37) 701 A105 Gotanda Building, 1-10-7 Higashi Gotanda, Shinagawa-Ku, Tokyo, Japan
- (38) Zarhin26, POB 2308, Ra'anana 4366250, Israel

## 5.7 Subsequent events

On 14 February 2020, the Group signed a new £165 million five-year (with two optional one-year extensions) Multicurrency Revolving Credit Facility with a syndicate of five banks. This facility will expire on 14 February 2025 without the utilisation of the extensions.

# Company Balance Sheet

As at 31 December 2019

	Notes	2019 £m	Restated <sup>(1)</sup> 2018 £m
<b>Fixed assets</b>			
Intangible assets	f)	0.2	0.1
Property, plant and equipment	g)	0.3	–
Investments in subsidiary undertakings	h)	445.9	466.1
Other receivables	i)	–	0.2
		<b>446.4</b>	466.4
<b>Current assets</b>			
Debtors	i)	31.0	12.2
Cash at bank and in hand		2.5	–
		<b>33.5</b>	12.2
<b>Liabilities falling due within one year</b>			
Creditors	j)	(29.1)	(32.9)
Provisions	l)	–	(0.4)
		<b>(29.1)</b>	(33.3)
<b>Net current assets/(liabilities)</b>		<b>4.4</b>	(21.1)
Total assets less current liabilities		<b>450.8</b>	445.3
<b>Liabilities falling due after one year – creditors</b>	j)	<b>(96.6)</b>	(94.9)
<b>Net assets</b>		<b>354.2</b>	350.4
<b>Capital and reserves</b>			
Called up share capital	m)	9.1	9.1
Share premium account		20.7	18.6
Revaluation reserve	n)	0.9	0.9
Other reserves	n)	55.3	55.3
Profit and loss account		268.2	266.5
<b>Shareholders' funds</b>		<b>354.2</b>	350.4

The Company's profit after tax for the year ended 31 December 2019 was £22.7 million (2018: £16.7 million).

(1) Following a review of intra-group loan documentation, the 2018 Balance Sheet has been restated. Previously reported loans to Group undertakings of £2.3 million have been reclassified from investments in subsidiary undertakings to amounts owed by subsidiary undertakings within debtors, and amounts owed to subsidiary undertakings of £24.2 million within creditors has been reclassified from amounts falling due after more than one year to amounts falling due within one year. There was no impact on the net assets of the Company.

Approved and authorised for issue by the Board of Directors on 27 February 2020 and signed on its behalf:

**Martin Green**  
Group Finance Director

**The Vitec Group plc**  
Registered in England and Wales no. 227691

# Company Statement of Changes in Equity

	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2019	9.1	18.6	0.9	55.3	266.5	350.4
Adoption of IFRS 16	–	–	–	–	(0.1)	(0.1)
Balance at 1 January 2019 (adjusted)	9.1	18.6	0.9	55.3	266.4	350.3
<b>Total comprehensive income for the year</b>						
Profit for the year	–	–	–	–	22.7	22.7
<b>Contributions by and distributions to owners</b>						
Dividends paid	–	–	–	–	(17.1)	(17.1)
Own shares purchased	–	–	–	–	(6.4)	(6.4)
Share-based payment charge, net of tax	–	–	–	–	2.6	2.6
New shares issued	–	2.1	–	–	–	2.1
<b>Balance at 31 December 2019</b>	<b>9.1</b>	<b>20.7</b>	<b>0.9</b>	<b>55.3</b>	<b>268.2</b>	<b>354.2</b>
Balance at 1 January 2018	9.0	16.8	0.9	55.3	264.4	346.4
<b>Total comprehensive income for the year</b>						
Profit for the year	–	–	–	–	16.7	16.7
<b>Contributions by and distributions to owners</b>						
Dividends paid	–	–	–	–	(14.1)	(14.1)
Own shares purchased	–	–	–	–	(3.7)	(3.7)
Share-based payment charge, net of tax	–	–	–	–	3.2	3.2
New shares issued	0.1	1.8	–	–	–	1.9
<b>Balance at 31 December 2018</b>	<b>9.1</b>	<b>18.6</b>	<b>0.9</b>	<b>55.3</b>	<b>266.5</b>	<b>350.4</b>

# Notes to the company financial statements

## a) Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101") and on a historical cost basis, except for derivative financial instruments which are measured at fair value.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs), but makes amendments where necessary in order to comply with the Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

Under Section 408(3) of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

## Significant judgements, key assumptions and estimates

The following provides information on those policies that the Directors consider critical because of the level of judgement and estimation required which often involves assumptions regarding future events which can vary from what is anticipated. The Directors review the judgements and estimates on an ongoing basis with revisions to accounting estimates recognised in the period in which the estimates are revised and in any future periods affected. The Directors believe that the financial statements reflect appropriate judgements and estimates and provide a true and fair view of the Company's performance and financial position.

## Critical judgements involving estimates

The following are the critical judgements which involve estimations that the Directors have made in the process of applying the Company's accounting policies and that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities within the next financial year.

### **Impairment of investments in subsidiary undertakings**

The carrying value of the Company's investments in subsidiary undertakings are reviewed for indicators of impairment on an annual basis. In such cases the recoverable amount is determined based on a value in use calculation which requires the determination of appropriate assumptions in relation to cash flows over a forecast period, the long-term growth rate to be applied beyond this period and the risk-adjusted discount rate used to discount the estimated cash flows to present value.

Estimation uncertainty arises due to changing economic and market factors, industry trends, increasing technological advancement and the Group's ongoing strategic and digital transformation programmes.

### **Tax**

In relation to tax, these include the interpretation and application of existing legislation. Details on the tax charge and assets and liabilities recorded are set out in note 2.4 "Tax" of the Company's consolidated financial statements.

### **Impact of adoption of new accounting standards**

The Company has applied IFRS 16 "Leases" from 1 January 2019, which has impacted the Company's financial statements as described below.

#### **IFRS 16 "Leases"**

On initial application, the cumulative impact of adopting the standard has been recognised as an adjustment to opening equity, and the comparative amounts presented in the Balance Sheet have not been restated.

On adoption, the Company recognised lease liabilities of £0.5 million for leases previously classified as operating leases, measured at the present value of the remaining lease payments. In accordance with the transition provisions of IFRS 16, the Company discounted the future lease payments at its incremental borrowing rate at the date of adoption. The weighted average incremental borrowing rate applied to lease liabilities at 1 January 2019 was 3.0%. At the same time, the Company recognised a right-of-use asset of £0.4 million, measured as if the standard had been applied since commencement date of the lease, and discounted using the Company's incremental borrowing rate at the date of adoption.

There is no difference between the present value of operating lease commitments disclosed at 31 December 2018 and the lease liabilities recognised by the Company at 1 January 2019.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- Reliance on previous assessments of whether leases are onerous;
- The exclusion of initial direct costs in the measurement of the right-of-use asset at the date of initial application;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relies on its assessment made applying IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement contains a Lease".

# Notes to the company financial statements (continued)

## b) Exemptions taken by the Company under FRS 101

The Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- Disclosures in respect of leases;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of The Vitec Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 "Share-Based Payments" in respect of group settled share-based payments; and
- Certain disclosures required by IFRS 13 "Fair Value Measurement" and the disclosures required by IFRS 7 "Financial Instruments: Disclosures".

## c) Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to these financial statements.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment, less estimated residual value, on a straight-line basis over their estimated useful lives.

Fixed assets are depreciated as follows:

Leasehold improvements	over the remaining period of the lease
Equipment, fixtures and fittings	3 to 10 years

### **Intangible assets**

The cost of acquiring software (including associated implementation and development costs where applicable) is classified as an intangible asset. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Software expenditure is amortised over its estimated useful life of between three and five years, and is stated at cost less accumulated amortisation and impairment losses.

### **Investments in subsidiary undertakings**

Investments in subsidiaries are stated at historical cost, less provision for any impairment in value.

### **Pensions**

The Company participates in the Group's defined benefit scheme operated in the UK, which was closed to future benefit accrual with effect from 31 July 2010. All UK employees of the Company are now offered membership of the defined contribution scheme. The assets of the schemes are held separately from those of the Company. The Company has a very small proportion of the scheme's total members. As such, the Group has adopted a policy to recognise the full net pension cost, and hence pension deficit, in its subsidiary Vitec Production Solutions Limited's financial statements prepared in accordance with FRS 101.

Details in respect of the UK defined benefit pension scheme are disclosed in note 5.2 "Pensions" of the Group's consolidated financial statements.

### **Dividends receivable**

Dividends received and receivable are credited to the Company's Income Statement.



Other significant accounting policies are consistent with the Group's consolidated financial statements and below are references where they are disclosed:

Foreign currencies	Section 1 – Basis of Preparation
Debtors and Creditors	3.3 "Working capital"
Cash and cash equivalents	4.1 "Net debt"
Provisions	3.5 "Provisions"
Leases	3.6 "Leases"
Derivative financial instruments and hedging activities	4.2 "Financial instruments"
Bank loans	4.1 "Net debt"
Share-based payments	5.3 "Share-based payments"
Share capital and reserves	4.3 "Share capital and reserves"

#### d) Employees

	2019 £m	2018 £m
<b>Employee costs comprise:</b>		
Wages and salaries	4.0	4.8
Employers' social security costs	0.4	0.6
Other post employment benefits	0.1	–
Employers' pension costs – defined contribution schemes	0.2	0.1
Share-based payment charge	0.1	1.0
	<b>4.8</b>	<b>6.5</b>
	2019	2018
<b>Average number of employees during the year</b>	<b>28</b>	<b>26</b>

Further details of Directors' remuneration and share incentives are disclosed in the Remuneration Report.

#### e) Audit fees

The details regarding the remuneration of the Company's auditor are included in note 2.1 "Profit before tax" of the Group's consolidated financial statements under "Fees payable to the Company's auditor for the audit of the Company's annual financial statements".

#### f) Intangible assets

	Capitalised software £m
<b>Cost and Net book value</b>	
At 31 December 2018	0.1
Additions	0.1
<b>At 31 December 2019</b>	<b>0.2</b>

# Notes to the company financial statements (continued)

## g) Property, plant and equipment

	Total £m	Right-of-use assets – Leasehold land and buildings £m	Leasehold improvements £m
<b>Cost</b>			
At 31 December 2018	0.5	–	0.5
Adoption of IFRS 16	1.3	1.3	–
<b>Adjusted amount at 1 January 2019 and 31 December 2019</b>	<b>1.8</b>	<b>1.3</b>	<b>0.5</b>
<b>Accumulated depreciation</b>			
At 31 December 2018	0.5	–	0.5
Adoption of IFRS 16	0.9	0.9	–
Adjusted amount at 1 January 2019	1.4	0.9	0.5
Depreciation charge in the year	0.1	0.1	–
<b>At 31 December 2019</b>	<b>1.5</b>	<b>1.0</b>	<b>0.5</b>
<b>Carrying amounts</b>			
At 31 December 2018	–	–	–
At 1 January 2019	0.4	0.4	–
<b>At 31 December 2019</b>	<b>0.3</b>	<b>0.3</b>	<b>–</b>

2018  
£m

### Land and buildings

#### Total commitments under non-cancellable operating leases expiring:

Within one year	0.2
In two to five years	0.3
	0.5

In 2018, £0.2 million was recognised as an expense in the profit and loss account in respect of operating lease payments.

## h) Investments in subsidiary undertakings

	Total £m	Shares in Group undertakings £m	Loans to Group undertakings £m
<b>Cost</b>			
At 1 January 2019	693.1	599.5	93.6
Additions	192.0	192.0	–
Disposals	(148.9)	(122.7)	(26.2)
<b>At 31 December 2019</b>	<b>736.2</b>	<b>668.8</b>	<b>67.4</b>
<b>Provisions</b>			
At 1 January 2019	227.0	227.0	–
Impairment losses	186.0	186.0	–
Disposals	(122.7)	(122.7)	–
<b>At 31 December 2019</b>	<b>290.3</b>	<b>290.3</b>	<b>–</b>
<b>Net book value</b>			
At 1 January 2019	466.1	372.5	93.6
<b>At 31 December 2019</b>	<b>445.9</b>	<b>378.5</b>	<b>67.4</b>

The additions and impairment losses in investments during the year reflect the Company's restructuring of certain subsidiary holding and financing companies.

The Company's investments in subsidiaries as at 31 December 2019 are included in note 5.6 "Group investments" of the Group's consolidated financial statements.

Loans to Group undertakings are unsecured, bear floating rates of interest and are repayable after more than one year.

### i) Debtors

	2019 £m	2018 £m
<b>Amounts falling due within one year</b>		
Amounts owed by subsidiary undertakings	28.1	8.5
Corporation tax	0.5	–
Other debtors	0.1	0.1
Prepayments	0.5	0.8
Derivative financial instruments – forward exchange contracts	0.9	1.2
Deferred tax assets	0.9	1.6
	<b>31.0</b>	12.2
<b>Long-term receivables</b>		
Other receivables	–	0.2
<b>Total receivables</b>	<b>31.0</b>	12.4

Amounts owed by subsidiary undertakings are unsecured and payable on demand. Derivative financial instruments of £0.3 million relate to contracts with subsidiary undertakings which mirror the terms of contracts held by the Company with external third parties.

### j) Creditors

	2019 £m	2018 £m
<b>Amounts falling due within one year</b>		
Bank overdraft (unsecured)	–	2.4
Lease liabilities	0.2	–
Amounts owed to subsidiary undertakings	26.1	25.3
Derivative financial instruments – forward exchange contracts	0.9	1.2
Corporation tax	–	0.4
Trade payables	0.4	0.3
Other creditors	0.3	0.4
Accruals	1.2	2.9
	<b>29.1</b>	32.9
<b>Amounts falling due after more than one year</b>		
Bank loans (unsecured)	95.5	93.9
Lease liabilities	0.1	–
Other creditors	0.1	0.4
Amounts owed to subsidiary undertaking	0.9	0.6
	<b>96.6</b>	94.9

Amounts owed to subsidiary undertakings due within one year are unsecured and payable on demand. Amounts owed to subsidiary undertakings due after more than one year are unsecured, bear floating rates of interest and are repayable after more than one year. Derivative financial instruments of £0.6 million relate to contracts with subsidiary undertakings which mirror the terms of contracts held by the Company with external third parties.

Lease payments of £0.2 million were made in the year.

### k) Contingent liabilities

There are no contingent liabilities at 31 December 2019 (2018: £nil).

# Notes to the company financial statements (continued)

## l) Provisions

	Legal provision £m
<b>At 1 January 2019</b>	<b>0.4</b>
Provisions reversed during the year	<b>(0.4)</b>
<b>At 31 December 2019</b>	<b>–</b>

## m) Called up share capital

Disclosure in respect of the Company's share capital and dividend payments is provided in note 4.3 "Share capital" of the Group's consolidated financial statements.

The registered address of the Company is Bridge House, Heron Square, Richmond, TW9 1EN, United Kingdom.

Options over shares of the Company have been granted to employees of the Company under various plans. Details of the terms and conditions of each share-based payment plan are given in the Remuneration Report on pages 74 to 102 and note 5.3 "Share-based payments" of the Group's consolidated financial statements.

## n) Other reserves

Other reserves of £55.3 million represent a merger reserve of £9.7 million; the reduction of the share premium account; £22.7 million in 1989 and £37.3 million in 1995 less £16.0 million of share repurchases in 1995; and a capital redemption reserve of £1.6 million created on the repurchase and subsequent cancellation of 885,000 ordinary shares by the Company in 1999. The revaluation reserve relates to previously revalued property, plant and equipment.

## o) Related party transactions

The Company has identified a related party relationship with its Board, the Vitec Group Pension Scheme and members of the Executive Management Board as disclosed in the Remuneration Report and note 5.5 "Related party transactions" of the Group's consolidated financial statements. There are no other related party transactions to disclose.

## p) Post Balance Sheet events

On 14 February 2020, the Group signed a new £165 million five-year (with two optional one-year extensions) Multicurrency Revolving Credit Facility with a syndicate of five banks. This facility will expire on 14 February 2025 without the utilisation of the extensions.

# Glossary of Alternative Performance Measures (“APMs”)

APM	Closest equivalent statutory measure	Definition & purpose												
<b>Income Statement Measures</b>														
Adjusted gross profit	Gross profit	<p>Calculated as gross profit before charges associated with acquisition of businesses and other adjusting items that the Group deems, by their nature, require adjustment in order to show more accurately the underlying business performance of the Group from period to period in a consistent manner.</p> <p>The table below shows a reconciliation:</p> <p>See note 2.2 “Charges associated with acquisition of businesses and other adjusting items”.</p> <table border="1"> <thead> <tr> <th></th> <th>2019 £m</th> <th>2018 £m</th> </tr> </thead> <tbody> <tr> <td>Gross profit</td> <td><b>168.3</b></td> <td>173.8</td> </tr> <tr> <td>Charges associated with acquisition of businesses and other adjusting items</td> <td><b>(1.8)</b></td> <td>0.3</td> </tr> <tr> <td><b>Adjusted gross profit</b></td> <td><b>170.1</b></td> <td>174.1</td> </tr> </tbody> </table>		2019 £m	2018 £m	Gross profit	<b>168.3</b>	173.8	Charges associated with acquisition of businesses and other adjusting items	<b>(1.8)</b>	0.3	<b>Adjusted gross profit</b>	<b>170.1</b>	174.1
	2019 £m	2018 £m												
Gross profit	<b>168.3</b>	173.8												
Charges associated with acquisition of businesses and other adjusting items	<b>(1.8)</b>	0.3												
<b>Adjusted gross profit</b>	<b>170.1</b>	174.1												
Adjusted gross profit margin	None	Calculated as adjusted gross profit divided by revenue.												
Adjusted operating profit	Operating profit	<p>Calculated as operating profit before charges associated with acquisition of businesses and other adjusting items that the Group deems, by their nature, require adjustment in order to show more accurately the underlying business performance of the Group from period to period in a consistent manner. This is a key management incentive metric.</p> <p>Charges associated with acquisition of businesses include non-cash charges such as amortisation of acquired intangible assets and effect of fair valuation of acquired inventory. Cash charges include items such as transaction costs, earnout and deferred payments and significant costs relating to the integration of acquired businesses.</p> <p>See Consolidated Income Statement for reconciliation.</p>												
Adjusted operating profit margin	None	Calculated as adjusted operating profit divided by revenue. Progression in adjusted operating margin is an indicator of the Group’s operating efficiency.												
Adjusted operating expenses	Operating expenses	<p>Calculated as operating expenses before charges associated with acquisition of businesses and other adjusting items that the Group deems, by their nature, require adjustment in order to show more accurately the underlying business performance of the Group from period to period in a consistent manner.</p> <p>The table below shows a reconciliation:</p> <p>See note 2.1 “Profit before tax (including segmental information)”.</p> <table border="1"> <thead> <tr> <th></th> <th>2019 £m</th> <th>2018 £m</th> </tr> </thead> <tbody> <tr> <td>Operating expenses</td> <td><b>136.3</b></td> <td>133.6</td> </tr> <tr> <td>Charges associated with acquisition of businesses and other adjusting items</td> <td><b>(18.6)</b></td> <td>(13.0)</td> </tr> <tr> <td><b>Adjusted operating expenses</b></td> <td><b>117.7</b></td> <td>120.6</td> </tr> </tbody> </table>		2019 £m	2018 £m	Operating expenses	<b>136.3</b>	133.6	Charges associated with acquisition of businesses and other adjusting items	<b>(18.6)</b>	(13.0)	<b>Adjusted operating expenses</b>	<b>117.7</b>	120.6
	2019 £m	2018 £m												
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<b>Adjusted operating expenses</b>	<b>117.7</b>	120.6												
Adjusted profit before tax	Profit before tax	<p>Calculated as profit before tax, before charges associated with acquisition of businesses and other adjusting items that the Group deems, by their nature, require adjustment in order to show more accurately the underlying business performance of the Group from period to period in a consistent manner. This is a key management incentive metric and is a measure used within the Group’s incentive plans as set out in the Remuneration Report.</p> <p>See Consolidated Income Statement for reconciliation.</p>												

# Glossary of Alternative Performance Measures (“APMs”) (continued)

APM	Closest equivalent statutory measure	Definition & purpose																																	
Adjusted profit after tax	Profit after tax	Calculated as profit after tax before charges associated with acquisition of businesses and other adjusting items.  See Consolidated Income Statement for reconciliation.																																	
Adjusted basic earnings per share	Basic earnings per share	Calculated as adjusted profit after tax divided by the weighted average number of ordinary shares in issue during the period. This is a key management incentive metric and is a measure used within the Group’s incentive plans as set out in the Remuneration Report.  See note 2.5 “Earnings per share”.																																	
<b>Cash Flow Measures</b>																																			
Free cash flow	Net cash from operating activities	Net cash from operating activities after proceeds from property, plant and equipment and software, purchase of property, plant and equipment, and capitalisation of software and development costs. This measure reflects the cash generated in the period that is available to invest in accordance with the Group’s capital allocation policy.  See “Five Year Financial Summary” on page 173.																																	
Operating cash flow	Net cash from operating activities	Free cash flow before payment of interest, tax, restructuring costs, transaction costs relating to acquisition of businesses and integration costs. This is a measure of the cash generation and working capital efficiency of the Group’s operations. Operating cash flow as a percentage of adjusted operating profit is a key management incentive metric.																																	
		<table border="1"> <thead> <tr> <th></th> <th>2019 £m</th> <th>2018 £m</th> </tr> </thead> <tbody> <tr> <td>Net cash from operating activities</td> <td>48.6</td> <td>47.4</td> </tr> <tr> <td>Proceeds from sale of property, plant and equipment and software</td> <td>0.5</td> <td>0.5</td> </tr> <tr> <td>Purchase of property, plant and equipment</td> <td>(6.2)</td> <td>(8.4)</td> </tr> <tr> <td>Capitalisation of software and development costs</td> <td>(12.4)</td> <td>(6.0)</td> </tr> <tr> <td><b>Free cash flow</b></td> <td><b>30.5</b></td> <td>33.5</td> </tr> <tr> <td>Add back:</td> <td></td> <td></td> </tr> <tr> <td>Interest paid</td> <td>4.3</td> <td>2.5</td> </tr> <tr> <td>Tax paid</td> <td>6.3</td> <td>4.1</td> </tr> <tr> <td>Payment of restructuring costs, transaction costs relating to acquisition of businesses and integration costs</td> <td>3.4</td> <td>4.6</td> </tr> <tr> <td><b>Operating cash flow</b></td> <td><b>44.5</b></td> <td>44.7</td> </tr> </tbody> </table>		2019 £m	2018 £m	Net cash from operating activities	48.6	47.4	Proceeds from sale of property, plant and equipment and software	0.5	0.5	Purchase of property, plant and equipment	(6.2)	(8.4)	Capitalisation of software and development costs	(12.4)	(6.0)	<b>Free cash flow</b>	<b>30.5</b>	33.5	Add back:			Interest paid	4.3	2.5	Tax paid	6.3	4.1	Payment of restructuring costs, transaction costs relating to acquisition of businesses and integration costs	3.4	4.6	<b>Operating cash flow</b>	<b>44.5</b>	44.7
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		This is a measure used within the Group’s incentive plans as set out in the Remuneration Report.																																	
<b>Other Measures</b>																																			
Return on Capital Employed (ROCE)	None	Calculated as adjusted operating profit for the last 12 months divided by average total assets less current liabilities excluding the current portion of interest-bearing borrowings. This is a measure of the efficiency of the Group’s asset base.																																	
Adjusted EBITDA	Operating profit	Calculated as adjusted operating profit for the last 12 months before depreciation of tangible fixed assets and amortisation of intangibles (other than those already excluded from adjusted operating profit).																																	

# Five Year Financial Summary

years ended 31 December

	2019 £m	2018 <sup>(1)</sup> £m	2017 <sup>(2)</sup> £m	2016 <sup>(2)</sup> £m	2015 £m
<b>Revenue</b>	<b>376.1</b>	385.4	353.3	318.9	317.8
Adjusted operating profit	<b>52.4</b>	53.5	45.2	41.4	35.4
Net interest on interest-bearing loans and borrowings	<b>(3.7)</b>	(2.7)	(2.6)	(4.2)	(4.0)
Interest on lease liabilities	<b>(0.9)</b>	–	–	–	–
Other financial income/(expense)	<b>0.2</b>	0.4	(0.2)	0.2	0.1
<b>Adjusted profit before tax</b>	<b>48.0</b>	51.2	42.4	37.4	31.5
Cash generated from operating activities	<b>59.2</b>	54.0	48.7	64.8	41.7
Interest paid	<b>(4.3)</b>	(2.5)	(2.6)	(5.2)	(4.0)
Tax paid	<b>(6.3)</b>	(4.1)	(11.0)	(7.2)	(5.6)
<b>Net cash from operating activities</b>	<b>48.6</b>	47.4	35.1	52.4	32.1
Net capital expenditure on property, plant and equipment, software and development costs	<b>(18.1)</b>	(13.9)	(11.6)	(7.8)	(15.9)
<b>Free cash flow</b>	<b>30.5</b>	33.5	23.5	44.6	16.2
<b>Capital employed</b>					
Intangible assets	<b>127.7</b>	132.1 <sup>(1)</sup>	88.4	99.0	90.7
Property, plant and equipment	<b>46.7</b>	33.7	31.0	54.0	53.8
Other net assets	<b>64.9</b>	60.8	44.1	37.7	45.0
	<b>239.3</b>	226.6	163.5	190.7	189.5
<b>Financed by</b>					
Shareholders' funds – equity	<b>156.7</b>	162.3	135.6	139.8	126.3
Net debt	<b>96.0</b>	81.0	42.9	75.1	76.3
Deferred tax	<b>(13.4)</b>	(16.7) <sup>(1)</sup>	(15.0)	(24.2)	(13.1)
	<b>239.3</b>	226.6	163.5	190.7	189.5
<b>Statistics</b>					
Adjusted operating profit (%)	<b>13.9</b>	13.9	12.8	13.0	11.1
Adjusted effective tax rate (%)	<b>24.4</b>	17.9	27.4	27.2	30.4
Adjusted basic earnings per share (p)	<b>80.6</b>	93.2	68.1	61.3	49.4
Basic earnings per share (p)	<b>44.9</b>	76.1	61.4	20.2	29.3
Dividends per share (p)	<b>39.0</b>	37.0	30.5	27.2	24.6
Year end mid-market share price (p)	<b>1,100.0</b>	1,192.5	1,130.0	648.5	602.5

(1) In 2019, the process to measure the fair values of the assets and liabilities acquired was completed in respect of the Amimon acquisition. The 2018 Balance Sheet was adjusted to reflect an increase in goodwill of £1.3 million which was recognised in the period as a result of fair value adjustments to deferred tax assets.

(2) Revenue and adjusted profit before tax of 2017 and 2016 reflect continuing operations only. The US broadcast services business and Haigh-Farr defence antennae business, both part of the previous Broadcast Division, have been classified as discontinued operations in these years.

# Shareholder Information and Financial Calendar

## Shareholder information

The Investors section of the Group website, [www.vitecgroup.com](http://www.vitecgroup.com), contains detailed information on news, key financial information, annual reports, financial calendar, share price information, dividends and key contact details. The following is a summary and readers are encouraged to view the website for more detailed information.

## Shareholder enquiries

For all enquiries about your shareholding please contact the Company's registrar, Equiniti Limited:

### Equiniti Limited

<b>Website</b>	<a href="http://www.shareview.co.uk">www.shareview.co.uk</a>
<b>Address</b>	Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, UK
<b>Phone from UK</b>	0371 384 2030*

\* Or if calling from overseas +44 (0) 121 415 7047. Lines are open between 8:30am to 5:30pm (UK time) Monday to Friday (except public holidays in England and Wales).

Alternatively you can contact the Group Company Secretary either by phone on +44 (0)20 8332 4600 or email on [info@vitecgroup.com](mailto:info@vitecgroup.com).

## Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan that enables shareholders to reinvest cash dividends into additional shares in the Company. Application forms can be obtained from Equiniti Limited. You must arrange for your Dividend Reinvestment Plan application form to be received by Equiniti Limited no later than Wednesday, 6 May 2020 to join the Plan for the final dividend for the year ended 31 December 2019.

## International dividend payment service

Overseas shareholders can receive their dividends in a local currency instead of Sterling and can find out more about this by contacting Equiniti Limited on +44 121 415 7047. Any election to receive dividends in local currency in respect of the final dividend for the year ended 31 December 2019 must be received by Equiniti Limited no later than the record date for the final dividend, Friday, 24 April 2020.

## Share price information

The closing mid-market price of a share of The Vitec Group plc on 31 December 2019 was £11.00. During 2019, the share price fluctuated between £10.00 and £13.05. The Company's share price is available on our website with a 15-minute delay, and from the Financial Times website, [www.ft.com](http://www.ft.com), with a similar delay.

## Share scams

Shareholders should be aware that fraudsters may try and use high-pressure tactics to lure investors into share scams. Information on share scams can be found on the Financial Conduct Authority's website, [www.fca.org.uk/scams](http://www.fca.org.uk/scams), or via their consumer helpline: 0800 111 6768.

## Financial calendar

Ex-dividend date for 2019 final dividend	Thursday, 23 April 2020
Record date for 2019 final dividend	Friday, 24 April 2020
Last day for DRIP election	Wednesday, 6 May 2020
Annual General Meeting	Wednesday, 27 May 2020 (11:00am)
2019 final dividend payment date	Friday, 29 May 2020
Announcement of 2020 half year results	Thursday, 6 August 2020
Proposed 2020 interim dividend payment date	October 2020

## Analysis of shareholdings as at 31 December 2019

Shares held	Number of holders	% of holders	Number of shares	% of shares
Up to 1,000	431	49.3	151,446	0.3
1,001 to 5,000	245	28.0	576,973	1.3
5,001 to 10,000	55	6.3	401,109	0.9
10,001 to 50,000	64	7.3	1,562,879	3.4
50,001 to 100,000	30	3.4	1,958,827	4.3
100,001 and over	50	5.7	41,073,156	89.8
<b>Total</b>	<b>875</b>	<b>100</b>	<b>45,724,390</b>	<b>100</b>
Institutions and companies	324	37	44,141,255	96.5
Individuals including Directors and their families	551	63	1,583,135	3.5
<b>Total</b>	<b>875</b>	<b>100</b>	<b>45,724,390</b>	<b>100</b>



# Notes

# Notes



This report has been printed on material which is certified by the Forest Stewardship Council. The paper is made at a mill with ISO 14001 Environmental Management System accreditation.



**The Vitec Group plc**

Bridge House  
Heron Square  
Richmond  
TW9 1EN  
United Kingdom

t +44 (0)20 8332 4600

[info@vitecgroup.com](mailto:info@vitecgroup.com)  
[www.vitecgroup.com](http://www.vitecgroup.com)

