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21 February 2019

The Vitec Group plc

2018 Full Year Results

Record financial performance and significant strategic progress

The Vitec Group plc ("Vitec" or "the Group"), the international provider of premium branded products and solutions to the fast moving and growing "image capture and content creation" market, announces its audited results for the year ended 31 December 2018.

Results	2018	2017	% change: As reported	% change: Constant FX rates
Continuing operations				
Revenue	£385.4m	£353.3m	+9.1%	+10.8%
Adjusted operating profit*	£53.5m	£45.2m	+18.4%	+17.1%
*Adjusted operating margin**	*13.9%*	*12.8%*		
Adjusted profit before tax*	£51.2m	£42.4m	+20.8%	+17.5%
Adjusted basic earnings per share*	93.2p	70.5p	+32.2%	
Statutory results				
Operating profit	£40.2m	£30.2m	+33.1%	
Operating margin	*10.4%*	*8.5%*		
Profit before tax	£37.9m	£27.4m	+38.3%	
Basic earnings per share from continuing and discontinued operations	76.1p	61.4p	+23.9%	
Total dividend per share	37.0p	30.5p		
Free cash flow*	£33.5m	£23.5m		
Net debt	£81.0m	£42.9m		

Highlights

- **Record Group performance in revenue, adjusted profit before tax* and EPS**
  - Growth in revenue of 9.1% and adjusted profit before tax* of 20.8%
  - Adjusted basic earnings per share* significantly improved by 32.2%, partially benefitting from lower 2018 tax rate
  - ROCE* increased to 21.8% (2017: 19.6%)
- **Significant strategic progress: continued organic growth; improved margins; transformational acquisitions**
  - Invested selectively in faster growing market segments to achieve organic growth
  - Continued to improve margin to 13.9%, up 110 basis points (c. 13.5% excluding SmallHD insurance benefit)
  - Expanded addressable markets and higher technology capabilities through acquisition of Amimon core technology and Rycote audio
- **Total dividend increased by 21.3% to 37.0 pence with dividend cover at 2.5 times**
- **Strong balance sheet and good cash generation: free cash flow* of £33.5 million; operating cash conversion* of 84%; and a net debt/adjusted EBITDA* ratio at 1.2x**
- **Outlook for further progress in 2019 remains unchanged**

** In addition to statutory reporting, Vitec reports 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.*

Commenting on the results, Stephen Bird, Group Chief Executive, said:

"This is a record financial performance for Vitec, with strong growth in revenue, profit and earnings per share. The results benefitted from organic growth, improved margins, continued operational excellence, the Winter Olympics and growth at SmallHD despite the disruption earlier in the year. We also successfully completed the integration of JOBY and Lowepro, acquired in the previous year.

We have continued to grow our addressable markets and add to our higher technology capabilities. During the year, we completed the transformational acquisitions of Amimon core technology and Rycote audio. Strong cash generation and a robust balance sheet will support further acquisitions.

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

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

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Vitec will present its results to analysts at 9.00am on Thursday, 21 February 2019. A live video webcast of the presentation will be available on our website, and an on-demand recording, along with the presentation slides and a highlights video, will be available after the meeting.

Users can pre-register to access the recording and slides using the following link:

www.vitecgroup.com/investors/results-reports-and-presentations/

Notes to Editors:

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

Vitec's customers include broadcasters, independent content creators, photographers and enterprises, and our activities comprise: design, manufacture and distribution of high performance products and solutions including camera supports, camera mounted electronic accessories, robotic camera systems, prompters, LED lights, mobile power, monitors, bags, motion control and noise reduction equipment.

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

The Vitec Group plc is listed on the London Stock Exchange with 2018 revenue of £385.4 million.

More information can be found at: www.vitecgroup.com

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Notes

1 This statement is based on information sourced from management estimates and includes comparing performance at constant exchange rates to assist in understanding the underlying performance of the Group.
2 2018 average exchange rates: £1 = $1.33, £1 = €1.13, €1 = $1.18, £1 = Yen147.
3 2017 average exchange rates: £1 = $1.29, £1 = €1.14, €1 = $1.13, £1 = Yen145.
4 The Company's Annual General Meeting ("AGM") will be held on Tuesday, 21 May 2019. The 2018 Annual Report and Accounts and Notice of AGM will be posted to shareholders and available on the Company's website from Wednesday, 20 March 2019.
5 This announcement contains inside information. The person responsible for arranging the release of this announcement on behalf of The Vitec Group plc is Jon Bolton, Group Company Secretary.

2018 management and financial overview

	Adjusted*				Statutory	
	2018	2017	% Change	% Change *at constant exchange rates*	2018	2017
Revenue						
Continuing operations	£385.4m	£353.3m	+9.1%	+10.8%	£385.4m	£353.3m
Total	£385.4m	£378.1m	+1.9%	+3.5%	-	-
Operating profit						
Continuing operations	£53.5m	£45.2m	+18.4%	+17.1%	£40.2m	£30.2m
Total	£53.5m	£44.8m	+19.4%	+18.2%	-	-
Profit before tax						
Continuing operations	£51.2m	£42.4m	+20.8%	+17.5%	£37.9m	£27.4m
Total	£51.2m	£42.0m	+21.9%	+18.6%	-	-
Earnings per share						
Continuing operations	93.2p	70.5p	+32.2%		76.1p	23.4p
Total	93.2p	68.1p	+36.9%		76.1p	61.4p

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

Imaging Solutions' revenue grew by 14.6% to £201.6 million and adjusted operating profit* increased by 4.0% to £31.1 million. This growth was against the backdrop of a challenging market, particularly in H2 due to the delayed launch of highly anticipated premium mirrorless cameras from Canon and Nikon. At constant exchange rates, revenue was 15.8% higher and adjusted operating profit* was 7.0% higher. This included a year-on-year benefit from the JOBY, Lowepro and Adeal acquisitions; on an organic constant currency basis, profit for the Division was in line with the prior year.

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

Creative Solutions' revenue increased by 3.0% to £65.1 million and adjusted operating profit* was 20.8% higher at £15.7 million. Revenue growth included the benefit of acquiring Rycote and Amimon towards the end of the year and successful new product introductions offset by the significant disruption caused by the fire adjacent to SmallHD's premises. On a like-for-like basis, adjusting for the estimated SmallHD lost revenue, the Division outperformed the market in 2018. At constant exchange rates, revenue increased by 6.2% and adjusted operating profit* grew by 24.6%.

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

Group adjusted gross margin* from continuing operations at 45.2% was higher than the prior year (2017: 44.3%) including the impact of booking insurance income to gross profit with no adjustment for lost revenue. The improvement in gross margin also reflects continued operational excellence across the Group. Organic adjusted gross margin* excluding the impact of the insurance was up c. 70 basis points.

Adjusted operating expenses* from continuing operations were £9.3 million higher than 2017 at £120.6 million, mainly reflecting the impact of acquisitions, principally JOBY and Lowepro. This also includes

additional investment in Creative Solutions to drive future growth, offset by reduced expenditure at Imaging Solutions in the face of challenging market conditions.

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

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

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

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

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

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

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

The Board has recommended a final dividend of 25.5 pence per share (2017: 20.1 pence per share). The final dividend, subject to shareholder approval at the 2019 Annual General Meeting, will be paid on Friday, 24 May 2019 to shareholders on the register at the close of business on Tuesday, 23 April 2019. This will bring the total dividend for the year to 37.0 pence per share (2017: 30.5 pence per share) and will provide full year adjusted dividend cover of 2.5 times (2017: 2.2 times). The Group has sufficient distributable reserves to cover future dividend payments for a number of years.

Further strategic progress

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

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

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

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

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

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

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

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

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

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

Amimon acquisition: on 8 November 2018, Vitec acquired Amimon for an expected total investment of US$59.9 million (£46.1 million) including employee retention, deal and integration costs.

Established in 2004, Amimon develops proprietary algorithms, hardware and software for real-time wireless video transmission, primarily for professional filmmaking and high end live productions. Amimon operates primarily from an R&D centre in Israel, where the majority of its 60 employees are based.

The acquisition is in line with Vitec's strategy to develop and grow in the wireless video market and has increased Vitec's higher technology capabilities, bringing exclusive, market-leading technology and high calibre engineering capabilities to the Group. We know the business well as Vitec and Amimon have had a strong customer/supplier relationship since 2012, having worked together to build a new market for professional wireless video. Amimon is the key supplier to Teradek, having developed market-leading, exclusive and patented technology, which is recognised as the industry-standard for zero delay wireless video. Amimon's technology is used in many of our Creative Solutions products, enabling very high quality, zero delay video to be transmitted wirelessly between cameras and monitors. This connects a director and crew to the camera in a real-time, cable-free environment, and allows fast changes on set, saving time and money.

Owning the core technology in our Teradek products has transformed our wireless video capabilities and enables us to focus on developing new products for our customers and expand quickly and cost-effectively into the adjacent Broadcast on-location sports and news market.

Since acquisition, Vitec has retained and integrated Amimon's product development and engineering teams into its Creative Solutions Division without the loss of any key people, and its Israel facility will become primarily an R&D centre of excellence. We have also integrated the two sales forces, with a particular focus on growing sales in Japan and China.

Initial cost synergies identified are starting to come through and we have established a joint product roadmap which includes launching new cine products in 2019 and developing products for Broadcast sports to launch in 2020.

The market opportunity that the acquisition of Amimon offers Vitec is as exciting as we initially anticipated. It will help accelerate the Group's stated objective to achieve mid-teen adjusted operating profit margins. As previously guided, it is also expected to enhance adjusted earnings per share from 2019, and strategically, it transforms our wireless video capabilities, opening up the opportunity for us to develop further integrated products that support the camera eco-system with innovative new functionality.

Rycote acquisition: on 17 September 2018, Vitec acquired Rycote Microphone Holdings Ltd., for its Creative Solutions Division, for up to £8.5 million in cash.

Based in Stroud, UK, Rycote is a market-leading brand, trusted by creative professionals, and a manufacturer of advanced noise reduction equipment for the audio capture market. Quality audio is an integral element in the creation of high quality videos and Vitec's existing customers, whether broadcasters, videographers or independent content creators, already buy audio products.

The Rycote acquisition has increased our addressable markets served by enabling us to enter the growing audio capture market, adding innovative and complementary audio devices for our customers. There are opportunities across all three of Vitec's Divisions to sell Rycote products in conjunction with JOBY GorillaPods, Manfrotto tripods, SmallHD monitors, Teradek transmitters, Flowtech tripods and Anton/Bauer batteries.

Syrp acquisition: on 22 January 2019, Vitec acquired Syrp Limited ("Syrp"), the New Zealand based slider and motion control company, for an initial cash consideration of NZ$4.5 million (£2.4 million), including deal costs. Up to a further NZ$25.5 million (£13.4 million) cash consideration will be payable dependent on Syrp meeting financial targets in 2019 and 2020, subject to the vendors remaining employed by the Group at the earnout date. The maximum consideration is payable only if the contribution from products that include Syrp's technology exceeds NZ$13.4 million (£7.0 million) in 2020.

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. Founded in 2012, by two skilled videographers who are remaining with the business, Syrp has 22 employees, the majority of whom work in R&D, and software design and development.

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 will give our photographer and ICC customers greater flexibility to create and share exceptional content.

Syrp is being integrated into Imaging Solutions where it will become an R&D centre of excellence for mechatronic development. There are growth opportunities to sell Syrp's current products through Vitec's global sales and distribution network, and the business will benefit from our marketing, manufacturing and supply chain capabilities.

Conclusion: Vitec is in better shape than ever before, with higher margins and higher technology capabilities. The strength and breadth of our product portfolio, the experience and knowledge of our people, and our manufacturing and distribution capabilities enable the Group to develop ground-breaking new products for our customers, drive operational efficiencies through our value chain and identify carefully targeted acquisitions to deliver further growth.

Imaging Solutions

The Imaging Solutions Division designs, manufactures and distributes premium branded equipment for photographic and video cameras, and smartphones, and provides dedicated solutions to professional and non-professional image makers and independent content creators. This consists of camera supports and heads, camera bags, lighting supports, LED lights, lighting controls, motion control and lens filters marketed under the most recognised accessories brands in the industry. Imaging Solutions represents 52% of Group revenue, and our three year strategy is to increase revenue and maintain margins.

	Adjusted*				Statutory	
Imaging Solutions	**2018**	**2017**	**% Change**	**% Change *at constant exchange rates***	**2018**	**2017**
Revenue	£201.6m	£175.9m	+14.6%	+15.8%	£201.6m	£175.9m
Operating profit	£31.1m	£29.9m	+4.0%	+7.0%	£28.6m	£26.1m
Operating margin	15.4%	17.0%	-160 bps	-130 bps	14.2%	14.8%

** For Imaging Solutions, before charges associated with acquisition of businesses of £2.5m (2017: £3.8m).*

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

After seeing stabilisation in the shipments of interchangeable lens cameras ("ILC"s) in Q2 based on data from Camera & Imaging Products Association ("CIPA"), ILC shipments in H2 were softer than in the prior year. This coincided with the delayed launch of highly anticipated premium mirrorless cameras from Canon

and Nikon. The Division's underlying sales performed ahead of CIPA trends, which showed a 7.8% reduction in full year ILC shipments compared to the prior year.

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

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

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

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

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

Our 2019 outlook for the Division reflects growth in line with the market and the benefit from acquisitions, in line with the three year strategy to increase revenue and maintain margins.

Production Solutions

Production Solutions designs, manufactures and distributes premium branded products and solutions for broadcasters, film and video production companies, independent content creators and enterprises. Products include video heads, tripods, lights, batteries and speciality camera systems. Production Solutions represents 31% of Group revenue, and our three year strategy is to maintain revenue and improve margins.

	Adjusted*				Statutory	
Production Solutions	**2018**	**2017**	**% Change**	**% Change *at constant exchange rates***	**2018**	**2017**
Revenue	£118.7m	£114.2m	+3.9%	+5.6%	£118.7m	£114.2m
Operating profit	£20.1m	£15.2m	+32.2%	+19.7%	£18.7m	£14.1m
Operating margin	16.9%	13.3%	+360 bps	+180 bps	15.8%	12.3%

** For Production Solutions' continuing operations, before charges associated with acquisition of businesses of £1.4m (2017: £1.1m).*

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

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

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

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

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

Our outlook for 2019 is in line with the Division's three-year strategy to maintain revenue and improve margins, excluding the non-repeat of the Olympics.

Creative Solutions

Creative Solutions designs, 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, Wooden Camera, RTMotion and Rycote. Creative Solutions represents 17% of Group revenue, and our three year strategy is to increase revenue and maintain higher margins.

	Adjusted*				Statutory	
Creative Solutions	**2018**	**2017**	**% Change**	**% Change *at constant exchange rates***	**2018**	**2017**
Revenue	£65.1m	£63.2m	+3.0%	+6.2%	£65.1m	£63.2m
Operating profit	£15.7m	£13.0m	+20.8%	+24.6%	£6.3m	£2.9m
Operating margin	24.1%	20.6%	+350 bps	+360 bps	9.7%	4.6%

** For Creative Solutions, before charges associated with acquisition of businesses of £9.4m (2017: £10.1m).*

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

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

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

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

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

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

The 2019 outlook for the Division reflects growth in revenue in line with the market, including normalised SmallHD sales and the benefit from acquisitions. We expect to maintain higher margins in line with the three-year strategy.

Corporate costs

Corporate costs include payroll and bonus costs for the Directors and head office team, Long Term Incentive Plan costs for key individuals across the Group, professional fees, property costs and travel costs.

Corporate costs	Adjusted*				Statutory	
	2018	2017	% Change	% Change *at constant exchange rates*	2018	2017
Operating (loss)	£(13.4)m	£(12.9)m	3.9%	3.9%	£(13.4)m	£(12.9)m

The increase in corporate costs includes higher Long Term Incentive Plan accruals linked to good financial performance.

Financial detail

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

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

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

** Before charges associated with acquisition of businesses and material non-operating events as defined in the Glossary.*

Net financial expense

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

Profit before tax

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

Acquisitions

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

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

vendors remaining employed by the Group at the earnout date. In 2018 an amount of £0.4 million was provided for and charged to the Income Statement in relation to the remuneration expense.

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

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

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

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

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

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

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

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

As part of the accounting for business combinations, the Group measures acquired inventory at fair value as required under IFRS 3. This has resulted in the carrying value of acquired inventory being materially higher than its original cost based measure. The impact of the uplift in value has the effect of reducing the Group's profit margin which is not representative of ongoing performance. As a result, a fair value uplift of £0.3 million relating to acquired inventory which has been sold by the Group since the business combination is adjusted from cost of sales to arrive at adjusted operating profit*.

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

Cash flow and net debt

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

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

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

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

Trade receivable days increased slightly to 46 days (2017: 45 days) and remain well controlled with a good ageing profile. On a cash flow basis, trade and other receivables increased by £0.5 million (2017: £5.6

million). The reported carrying value of trade receivables at year end of £58.0 million included a £0.6 million increase from foreign exchange compared to the prior year.

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

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

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

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

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

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

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

** Before charges associated with acquisition of businesses, impairment of goodwill, restructuring costs, and material non-operating events as defined in the Glossary.*

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

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

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

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

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

Treasury

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

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

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

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

Financing activities

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

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

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

Foreign exchange

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

Impact of IFRS 16 (applies from 1 January 2019)

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

Dividend

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

Outlook

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

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

Principal risks and uncertainties

Vitec is exposed to a number of risk factors which may affect its performance. 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. However, no system of control or mitigation can completely eliminate all risks. The Board has determined that the following are the principal risks facing the Group.

Demand for Vitec's products

Demand for our products may be adversely affected by many factors, including changes in customer and consumer preferences and our ability to deliver appropriate products or to support changes in technology.

The Group increasingly produces and sells products that are more technologically advanced, including encoders, transmitters and on-camera monitors. These products have a shorter life cycle than our historical products, and continuous investment in new product development is needed to keep up with the changing demand. Demand may also be impacted by competitor activity, particularly from low-cost countries.

We value our relationships with our customers and to mitigate this risk we closely monitor our target markets and user requirements. We maintain good relationships with our key customers and make significant investments in product development and marketing activities to ensure that we remain competitive in these markets. In support of our new product launches, we have completed appropriate market analysis 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.

New markets and channels of distribution

As we enter new markets and channels of distribution, we may achieve lower than anticipated trading volumes and pricing levels or higher costs and resource requirements. This may impact the levels of profitability and cash flows delivered.

We expect that the proportion of our business conducted through online channels will continue to increase, and we will continue to invest in new innovative products which address the needs of independent content creators. We are also increasing our presence and investment in APAC.

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.

In 2018, we have continued to expand our geographical reach with the acquisition of Adeal in Australia. We are also entering new, adjacent markets through the acquisitions of Rycote and Amimon.

Acquisitions

In pursuing our business strategy, we continuously explore opportunities to enhance our business through development activities such as strategic acquisitions. This involves a number of calculated risks including: acquiring desired businesses on economically acceptable terms; integrating new businesses, employees, business systems and technology; and realising satisfactory post-acquisition performance. We recently acquired Amimon and Rycote, both of which generate new opportunities within the image capture and content creation market.

We mitigate these risks by having a clear acquisition strategy with a robust valuation model. Thorough due diligence processes are completed including the use of external advisers where appropriate. The post-acquisition performance of each business is closely monitored and, before completion of any acquisition, a plan is developed to integrate the acquired businesses in an effective way.

Pricing pressure

Vitec provides premium branded products and faces a number of competitors. The strength of this competition varies by product and geographical market.

We continue to face price pressure from new market entrants, which we are responding to through the launch of new competitive product ranges. We continually review our production and sourcing activities for cost saving opportunities. We have also faced issues relating to parallel trades and price arbitrage, particularly in our Imaging Solutions business, which led us to enforce “Minimum Advertised Price” where this is permitted.

To mitigate this risk, we ensure that our product and service offering remains competitive by investing in new product development and in appropriate marketing and product support, and by improving the management of supply chain costs. This, combined with working closely with our suppliers and managing our expenses and cost base appropriately, allows us to support price increases when required. We are rationalising our product range to reduce complexity, which will also allow us to achieve some cost savings on production. Most of our products and services have a premium or niche differentiation. We continue to monitor our pricing across the main currencies to reflect ongoing fluctuations.

Dependence on key suppliers

We source materials and components from many suppliers in various locations and, in some instances, are more dependent on a limited number of suppliers for particular items. If any of these suppliers or subcontractors fail to meet the Group’s requirements, we may not have readily available alternatives,

thereby impacting our ability to provide an appropriate level of customer service. 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.

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.

The recent acquisition of Amimon and the successful development of alternative raw materials for some products have addressed some areas of exposure.

Dependence on key customers

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.

Vitec's largest customer accounted for more than 10% of the Group's total turnover in 2018. The business also works with a variety of customers on large sporting events and the extent of these activities varies year-on-year.

We mitigate this risk by closely monitoring our performance with all customers through developing strong relationships and dedicated account management teams, and we monitor the financial performance of our key customers and the receivable balances outstanding from them. We continue to expand our customer base including entering into new channels of distribution to expand our portfolio of customers.

People

We employ around 1,800 people and are exposed to a risk of being unable to retain or recruit suitable diverse talent to support the business. We manufacture and supply products from a number of locations and it is important that our people operate in a professional and safe environment.

We recognise that it is important to motivate and retain capable people across our businesses to ensure we are not exposed to risk of unplanned employee turnover. We fairly reward our people and have appropriate recruitment, appraisal, talent management and succession planning strategies to ensure we recruit and retain diverse, good quality people and leadership across the business. We take our employees' health and safety very seriously and have suitable processes in place to allow us to monitor and address any issues appropriately.

Laws and regulations

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.

Recent political developments in the US and Europe may have implications for several areas of regulations which include: the customs and import tariffs that our businesses will be subject to; corporation tax rates; employment laws and regulations; and other business regulation. The recent increase in tariffs on imports from China to the US has already started to adversely affect the purchase cost for some of our raw materials product codes.

The UK's exit from the European Union (Brexit) may have an impact on rates of duties and other taxes applied to our UK entities' exports and imports, which we expect to be minimal. There may be other legal, regulatory and commercial ramifications, the likely impact of which are difficult to measure given the uncertainties surrounding the outcome of the current negotiations between the UK and the EU.

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.

We enhance our controls, processes and employee knowledge to maintain good governance and to comply with laws and regulations. The Group has processes in place, including senior management training, to ensure that its worldwide business units understand and apply the Group's culture and processes to their own operations. We actively protect our intellectual property, and will legally pursue any party that infringes our intellectual property rights.

We have a Brexit steering group which monitors developments and implements contingency measures to minimise the risk of disruption to trade flows which may arise around the Brexit date. We aim to optimise product flow to reduce incremental tariffs and will review our pricing strategy in response to any changes in input costs, maintaining close contact with our distributors and suppliers.

With regards to the ongoing increase in tariffs affecting imports from China into the US, we continually evaluate our pricing and sourcing strategy to mitigate the impact of additional tariff costs.

Reputation of the Vitec Group

Damage to our reputation and our brand names can arise from a range of events such as poor product performance, unsatisfactory customer service, and other events either within or outside our control. We are mindful of the increasing level of regulatory and stakeholder scrutiny of companies' affairs, coupled with the widespread impact of social media. We manage this risk by recognising the importance of our reputation and attempting to identify any potential issues quickly and address them appropriately. We recognise the importance of providing high quality products, good customer service and managing our business in a safe and professional manner. This requires all employees to commit to, and comply with, the Vitec Code of Conduct. A Social Media Policy is in place and communicated to all employees and contractors. A whistleblowing facility is in place to allow employees to confidentially report any compliance issues.

We have implemented a compliance programme with key vendors which includes site inspections, compliance database checks, and we require all vendors to sign up to the Vitec Code of Conduct or equivalent standards.

Exchange rates

The global nature of the Group's business means it is exposed to volatility in currency exchange rates in respect of foreign currency denominated transactions, and the translation of net assets and Income Statements of foreign subsidiaries and equity accounted investments. The Group is exposed to a number of foreign currencies, the most significant being the US Dollar, Euro and Japanese Yen. The uncertain outcome of Brexit negotiations may increase Sterling's volatility in the next few years, which in turn may have a material impact on the Group's translated results.

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.

Business continuity including cyber security

There are risks relating to business continuity resulting from specific events such as natural disasters including earthquakes, floods or fires. These may impact our manufacturing plants or supply chain, particularly where these account for a significant amount of our trading activity. We are also dependent on our IT platforms continuing to work effectively in supporting our business and therefore there is a cyber security risk for the Group.

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. We have global insurance in place which provide cover for business interruption and damage to our assets. We review coverage annually to determine whether adjustments are needed.

In 2018, our SmallHD business was significantly impacted by a fire emanating from an adjacent facility. Insurance payments have been received, covering damage to assets and business interruption.

Forward-looking statements

This announcement contains forward-looking statements with respect to the financial condition, performance, position, strategy, results and plans of the Group based on Management's current expectations or beliefs as well as assumptions about future events. These forward-looking statements are not guarantees of future performance. Undue reliance should not be placed on forward-looking statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. The Company undertakes no obligation to publically revise or update any forward-looking statements or adjust them for future events or developments. Nothing in this announcement should be construed as a profit forecast.

The information in this announcement does not constitute an offer to sell or an invitation to buy shares in the Company in any jurisdiction or an invitation or inducement to engage in any other investment activities. The release or publication of this announcement in certain jurisdictions may be restricted by law. Persons who are not resident in the United Kingdom or who are subject to other jurisdictions should inform themselves of, and observe, any applicable requirements.

This announcement contains brands and products that are protected in accordance with applicable trademark and patent laws by virtue of their registration.

Going concern and viability

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have considered the potential near-term risks of Brexit and, whilst continuing to monitor developments as the Group implements contingency plans, they currently consider these risks to be minimal. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

The Directors have also assessed the long-term viability of the Group over a three year period, taking account of the Group's current position and prospects, its strategic plan, risk appetite and the principal risks and how these are managed. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over this period.

For and on behalf of the Board

Stephen Bird
Group Chief Executive

Kath Kearney-Croft
Group Finance Director

Consolidated Income Statement
For the year ended 31 December 2018

	Notes	**2018 £m**	2017 £m
Revenue	2	**385.4**	353.3
Cost of sales		**(219.4)**	(196.8)
Other income	3	**7.8**	-
Gross profit		**173.8**	156.5
Operating expenses		**(133.6)**	(126.3)
Operating profit		**40.2**	30.2
Comprising			
- Adjusted operating profit	4	**53.5**	45.2
- Charges associated with acquisition of businesses and material non-operating events	4	**(13.3)**	(15.0)
		40.2	30.2
Net finance expense	5	**(2.3)**	(2.8)
Profit before tax		**37.9**	27.4
Comprising			
- Adjusted profit before tax	4	**51.2**	42.4
- Charges associated with acquisition of businesses and material non-operating events	4	**(13.3)**	(15.0)
		37.9	27.4
Taxation		**(3.6)**	(16.9)
Comprising taxation on			
- Adjusted profit	6	**(9.2)**	(10.8)
- Charges associated with acquisition of businesses and material non-operating events	6	**5.6**	(6.1)
	6	**(3.6)**	(16.9)
Profit from continuing operations		**34.3**	10.5
Profit after tax from discontinued operations	9	**-**	17.0
Profit attributable to owners of the parent		**34.3**	27.5
Earnings per share from continuing operations	7		
Basic earnings per share		**76.1p**	23.4p
Diluted earnings per share		**75.6p**	23.3p
Earnings per share from continuing and discontinued operations	7		
Basic earnings per share		**76.1p**	61.4p
Diluted earnings per share		**75.6p**	61.0p
Average exchange rates			
Euro		**1.13**	1.14
US$		**1.33**	1.29

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	2018 £m	2017 £m
Profit for the year	**34.3**	27.5
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of defined benefit obligation	**4.0**	0.6
Related tax	**(0.7)**	(0.1)
Items that are or may be reclassified subsequently to profit or loss:		
Foreign exchange gain recycled to the Income Statement on disposal of businesses	**-**	(17.3)
Currency translation differences on foreign currency subsidiaries	**7.6**	(10.8)
Net investment hedges - net (loss)/gain	**(3.7)**	2.7
Cash flow hedges - reclassified to the Income Statement, net of tax	**(0.2)**	3.3
Cash flow hedges - effective portion of changes in fair value, net of tax	**(1.8)**	1.9
Other comprehensive income/(expense), net of tax	**5.2**	(19.7)
Total comprehensive income for the year attributable to owners of the parent	**39.5**	7.8

Consolidated Balance Sheet
As at 31 December 2018

	2018 £m	2017 £m
Assets		
Non-current assets		
Intangible assets	**130.8**	88.4
Property, plant and equipment	**33.7**	31.0
Trade and other receivables	**2.0**	0.9
Derivative financial instruments	**-**	0.4
Deferred tax assets	**29.7**	17.7
	196.2	138.4
Current assets		
Inventories	**80.1**	69.8
Trade and other receivables	**68.7**	65.8
Derivative financial instruments	**0.1**	1.9
Current tax assets	**1.6**	1.2
Cash and cash equivalents	**17.5**	12.6
	168.0	151.3
Total assets	**364.2**	289.7
Liabilities		
Current liabilities		
Bank overdrafts	**2.4**	-
Interest-bearing loans and borrowings	**0.5**	0.5
Trade and other payables	**70.3**	67.4
Derivative financial instruments	**1.1**	0.4
Current tax liabilities	**5.2**	4.4
Provisions	**3.2**	9.3
	82.7	82.0
Non-current liabilities		
Interest-bearing loans and borrowings	**95.6**	55.0
Derivative financial instruments	**-**	0.1
Other payables	**0.8**	-
Post-employment obligations	**9.4**	12.6
Provisions	**1.7**	1.7
Deferred tax liabilities	**11.7**	2.7
	119.2	72.1
Total liabilities	**201.9**	154.1
Net assets	**162.3**	135.6
Equity		
Share capital	**9.1**	9.0
Share premium	**18.6**	16.8
Translation reserve	**(4.7)**	(8.6)
Capital redemption reserve	**1.6**	1.6
Cash flow hedging reserve	**(0.7)**	1.3
Retained earnings	**138.4**	115.5
Total equity	**162.3**	135.6
Balance Sheet exchange rates		
Euro	**1.11**	1.13
US$	**1.27**	1.35

Consolidated Statement of Changes in Equity

	Notes	Share capital	Share premium	Translation reserve	Capital redemption reserve	Cash flow hedging reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2018		**9.0**	**16.8**	**(8.6)**	**1.6**	**1.3**	**115.5**	**135.6**
Adoption of IFRS 9	1	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Balance at 1 January 2018 (adjusted)		**9.0**	**16.8**	**(8.6)**	**1.6**	**1.3**	**115.4**	**135.5**
Total comprehensive income for the year								
Profit for the year		**-**	**-**	**-**	**-**	**-**	**34.3**	**34.3**
Other comprehensive income/(expense) for the year		-	**-**	**3.9**	**-**	**(2.0)**	**3.3**	**5.2**
Contributions by and distributions to owners								
Dividends paid		**-**	**-**	**-**	**-**	**-**	**(14.1)**	**(14.1)**
Own shares purchased		**-**	**-**	**-**	**-**	**-**	**(3.7)**	**(3.7)**
Share-based payment charge, net of tax		**-**	**-**	**-**	**-**	**-**	**3.2**	**3.2**
New shares issued		**0.1**	**1.8**	**-**	**-**	**-**	**-**	**1.9**
Balance at 31 December 2018		**9.1**	**18.6**	**(4.7)**	**1.6**	**(0.7)**	**138.4**	**162.3**
Balance at 1 January 2017		9.0	15.4	16.8	1.6	(3.9)	100.9	139.8
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	27.5	27.5
Other comprehensive (expense)/income for the year		-	-	(25.4)	-	5.2	0.5	(19.7)
Contributions by and distributions to owners								
Dividends paid		-	-	-	-	-	(12.4)	(12.4)
Own shares purchased		-	-	-	-	-	(3.5)	(3.5)
Share-based payment charge		-	-	-	-	-	2.2	2.2
Tax on share-based payment charge		-	-	-	-	-	0.3	0.3
New shares issued		-	1.4	-	-	-	-	1.4
Balance at 31 December 2017		9.0	16.8	(8.6)	1.6	1.3	115.5	135.6

Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	Notes	**2018 £m**	2017 £m
Cash flows from operating activities			
Profit for the year		**34.3**	27.5
Adjustments for:			
Taxation		**3.6**	13.3
Depreciation		**7.2**	10.3
Impairment losses on property, plant and equipment		**-**	0.2
Amortisation of intangible assets		**10.6**	12.2
Write-off of intangible assets		**0.6**	-
Net gain on disposal of property, plant and equipment and software		**(0.2)**	(0.7)
Fair value losses/(gains) on derivative financial instruments		**0.2**	(0.6)
Foreign exchange losses		**0.3**	-
Share-based payment charge		**3.1**	2.2
Earnout charges		**1.4**	4.1
Profit on disposal of businesses, before tax		**-**	(15.0)
Net finance expense		**2.3**	2.8
Operating profit before changes in working capital and provisions		**63.4**	56.3
Increase in inventories		**(0.8)**	(9.9)
Increase in receivables		**(0.5)**	(5.6)
(Decrease)/increase in payables		**(4.3)**	6.1
(Decrease)/increase in provisions		**(3.8)**	1.8
Cash generated from operating activities		**54.0**	48.7
Interest paid		**(2.5)**	(2.6)
Tax paid		**(4.1)**	(11.0)
Net cash from operating activities		**47.4**	35.1
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and software		**0.5**	3.5
Purchase of property, plant and equipment		**(8.4)**	(10.8)
Capitalisation of software and development costs		**(6.0)**	(4.3)
Acquisition of businesses, net of cash acquired	8	**(51.8)**	(12.4)
Cash inflow on previous disposal	9	**0.5**	32.4
Net cash (used in)/from investing activities		**(65.2)**	8.4
Cash flows from financing activities			
Proceeds from the issue of shares		**1.9**	1.4
Own shares purchased		**(3.7)**	(3.5)
Repayment of interest-bearing loans and borrowings		**(101.7)**	(144.5)
Borrowings from interest-bearing loans and borrowings		**138.1**	110.7
Dividends paid		**(14.1)**	(12.4)
Net cash used in financing activities		**20.5**	(48.3)
Increase/(decrease) in cash and cash equivalents	11	**2.7**	(4.8)
Cash and cash equivalents at 1 January		**12.6**	16.8
Effect of exchange rate fluctuations on cash held		**(0.2)**	0.6
Cash and cash equivalents at 31 December	11	**15.1**	12.6

1 Accounting policies

Basis of preparation

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. Note 13 “Glossary of Alternative Performance Measures” 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.

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.

Impact of adoption of new accounting standards

The Group has applied IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” from 1 January 2018, which has resulted in new accounting policies as set out below.

IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. In accordance with the transitional provisions of IFRS 9, comparative figures have not been restated.

The Group was required to revise its provision methodology under IFRS 9 for its trade receivables and contract assets. The £0.1 million impact of the change in the Group’s retained earnings is reported in the Consolidated Statement of Changes in Equity.

IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 retrospectively using the cumulative effect method and has chosen not to adjust contract consideration for the effects of a significant financing component when the period between delivery of a specified good or service and payment by a customer is less than one year. The Group generally does not have contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

There has been no material impact on the financial statements of adopting IFRS 15. The Group previously recognised a net provision for returns in trade receivables. Under IFRS 15, a refund liability of £0.9 million for the expected refunds to customers is recognised in other payables, and a separate asset for the right to the returned goods of £0.5 million is recognised in other receivables.

There has been no material impact on the financial statements of adopting other new standards or amendments.

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations will become effective for the Group in future years.

IFRS 16 "Leases"

IFRS 16 "Leases" was issued in January 2016. It requires lessees to recognise most leases on the balance sheet, as the distinction between operating and finance leases is removed. Currently, under IAS 17, leases categorised as operating leases are not recognised on the balance sheet. Under the new standard, a right-of-use asset and a lease liability are recognised. The only exceptions are for short-term leases and leases of low-value assets.

As at the reporting date, the Group has non-cancellable operating lease commitments of £23.7 million. Of these commitments, an immaterial amount relates to short-term leases and leases of low-value assets which will continue to be expensed in the Income Statement. For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately £20 million and lease liabilities of £22 million on 1 January 2019. The expected impact to operating profit is an increase of approximately £1 million but no overall effect on the profit before tax.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. Right of use assets will be measured on transition as if the new rules had always applied. The Group has taken advantage of the practical expedients available for transition under the standard.

Other 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 is effective for annual periods beginning on or after 1 January 2019. The Group does not expect the interpretation to have a material impact on its financial statements.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement - The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. The amendments are effective for annual periods beginning on or after 1 January 2019. The Group does not expect the amendments to have a material impact on its financial statements.

Other amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

2 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.

From continuing operations:	Imaging Solutions		Production Solutions		Creative Solutions		Corporate and unallocated		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Total revenue from external customers	**201.6**	175.9	**118.7**	114.2	**65.1**	63.2	**-**	-	**385.4**	353.3
Inter-segment revenue[1]	**0.6**	0.6	**0.4**	1.0	**0.2**	0.2	**(1.2)**	(1.8)	**-**	-
Total revenue	**202.2**	176.5	**119.1**	115.2	**65.3**	63.4	**(1.2)**	(1.8)	**385.4**	353.3
Adjusted operating profit/(loss)	**31.1**	29.9	**20.1**	15.2	**15.7**	13.0	**(13.4)**	(12.9)	**53.5**	45.2
Amortisation of acquired intangible assets	**(1.0)**	(0.4)	**(0.7)**	(1.1)	**(4.7)**	(5.9)	**-**	-	**(6.4)**	(7.4)
Effect of fair value of acquired inventory	**-**	-	**-**	-	**(0.3)**	-	**-**	-	**(0.3)**	-
Transaction costs relating to acquisition of businesses	**(0.1)**	(1.2)	**-**	-	**(1.9)**	(0.1)	**-**	-	**(2.0)**	(1.3)
Earnout charges	**-**	-	**-**	-	**(1.4)**	(4.1)	**-**	-	**(1.4)**	(4.1)
Integration costs	**(1.4)**	(2.2)	**-**	-	**(0.5)**	-	**-**	-	**(1.9)**	(2.2)
Development costs written off	**-**	-	**-**	-	**(0.6)**	-	**-**	-	**(0.6)**	-
Guaranteed minimum pension charge	**-**	-	**(0.7)**	-	**-**	-	**-**	-	**(0.7)**	-
Operating profit/(loss)	**28.6**	26.1	**18.7**	14.1	**6.3**	2.9	**(13.4)**	(12.9)	**40.2**	30.2
Net finance expense									**(2.3)**	(2.8)
Taxation									**(3.6)**	(16.9)
Profit for the year									**34.3**	10.5
Segment assets	**134.5**	124.9	**87.2**	87.6	**92.1**	41.4	**1.6**	4.3	**315.4**	258.2
Unallocated assets										
Cash and cash equivalents							**17.5**	12.6	17.5	12.6
Current tax assets							**1.6**	1.2	1.6	1.2
Deferred tax assets							**29.7**	17.7	29.7	17.7
Total assets									**364.2**	289.7
Segment liabilities	**43.4**	44.6	**22.2**	31.0	**13.2**	7.2	**7.7**	8.7	**86.5**	91.5
Unallocated liabilities										
Bank overdrafts							**2.4**	-	2.4	-
Interest-bearing loans and borrowings							**96.1**	55.5	96.1	55.5
Current tax liabilities							**5.2**	4.4	5.2	4.4
Deferred tax liabilities							**11.7**	2.7	11.7	2.7
Total liabilities									**201.9**	154.1
Cash flows from operating activities	**26.0**	13.8	**21.1**	19.5)	**13.0**	11.7	**(12.7)**	(13.2)	**47.4**	31.8
Cash flows from investing activities[2]	**(8.2)**	(13.5)	**(5.8)**	(6.9)	**(51.7)**	(4.9)	**-**	-	**(65.7)**	(25.3)
Cash flows from financing activities	**-**	-	**-**	-	**-**	-	**20.5**	(48.3)	**20.5**	(48.3)
Capital expenditure										
Property, plant and equipment	**3.5**	4.2	**4.1**	4.9	**0.8**	0.2	**-**	-	**8.4**	9.3
Software and development costs	**2.2**	2.0	**1.9**	1.6	**1.9**	0.6	**-**	-	**6.0**	4.2

[(1)] Inter-segment pricing is determined on an arm's length basis. These are eliminated in the corporate and unallocated column.

[(2)] Cash flows from investing activities exclude cash inflow of £0.5 million in the year, relating to a previous disposal.

One customer (2017: one) accounted for more than 10% of external revenue. In 2018, the total revenue from this customer, which was recognised in all three segments, was £50.7 million (2017: £42.1 million).

Geographical information

	2018 £m	2017 £m
Continuing operations – analysis of revenue from external customers, by location of customer		
United Kingdom	**42.5**	40.3
The rest of Europe	**94.3**	83.1
North America	**158.9**	144.3
Asia Pacific	**78.6**	73.5
The rest of the World	**11.1**	12.1
Total revenue from external customers	**385.4**	353.3

The Group's operations are located in several geographical locations, and sell products and services on to external customers in all parts of the world.

3 Other income

On 26 April 2018, the offices and warehouse of SmallHD LLC ("SmallHD") in North Carolina, US (part of the Creative Solutions Division) were damaged as a result of a fire in an adjacent office. An evacuation was conducted successfully with no injuries to our team. The insurance policy held by the Group covers both damage to assets and business interruption.

As at the date of the financial statements, the outcome of the insurance claim has not been finalised. At the balance sheet date, £7.8 million of staged cash payments have been received from the insurer. This has been recognised in other income.

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

Charges associated with acquisition of businesses and material non-operating events are excluded from key performance measures by virtue of their size and nature in order to more accurately show the underlying business performance of the Group in a consistent manner. This also reflects how the business is managed and measured on a day-to-day basis. Non-cash charges associated with acquisition of businesses include amortisation of acquired intangible assets and the effect of fair valuation of acquired inventory. Cash charges include transaction costs, earnout and deferred payments and significant costs relating to the integration of acquired businesses.

	2018 £m	2017 £m
From continuing operations:		
Amortisation of acquired intangible assets[(1)]	**(6.4)**	(7.4)
Effect of fair valuation of acquired inventory[(2)]	**(0.3)**	-
Transaction costs relating to acquisition of businesses[(3)]	**(2.0)**	(1.3)
Earnout charges[(4)]	**(1.4)**	(4.1)
Integration costs[(5)]	**(1.9)**	(2.2)
Development costs written off[(6)]	**(0.6)**	-
Guaranteed minimum pension charge[(7)]	**(0.7)**	-
Charges associated with acquisition of businesses and material non-operating events	**(13.3)**	(15.0)
From discontinued operations:		
Amortisation of acquired intangible assets	**-**	(1.2)

[(1)] Acquired intangibles are measured at fair value, which takes into account the future cash flows expected to be generated by the asset rather than past costs of development. Additionally, acquired intangibles include assets such as brands, know-how and relationships which the group would not normally recognise as assets outside of a business combination. The amortisation of the fair value of acquired intangibles is not considered to be representative of the underlying performance of the businesses within the group. On an ongoing basis the group capitalises development costs of intangible assets and the costs of purchasing software. These intangible assets are recognised at cost and the amortisation of these costs are included in adjusted operating profit.

[(2)] As part of the accounting for business combinations, the Group measures acquired inventory at fair value as required under IFRS 3. This has resulted in the carrying value of acquired inventory being materially higher than its original cost based measure. The impact of the uplift in value has the effect of reducing the Group's profit margin which is not representative of ongoing performance. As a result, the fair value uplift of £0.3 million relating to acquired inventory which has been sold by the Group since the business combination is adjusted from costs of sales to arrive at adjusted operating profit.

[(3)] Transaction costs of £2.0 million (Amimon: £1.8 million; Rycote: £0.1 million and Adeal: £0.1 million) were incurred in relation to acquisitions.

[(4)] The charge of £1.4 million comprises an increase of £0.6 million in earnout payable in relation to Wooden Camera's performance for the year ending 31 December 2017, a charge of £0.8 million as a result of employment and certain non-financial targets being met during 2018 for RT Motion (£0.5 million) and the 2018 portion of such targets that are expected to be met during 2019 for Rycote (£0.3 million).

[(5)] Integration costs of £1.9 million mainly comprise costs to terminate agreements with third party distributors in relation to the integration of JOBY and Lowepro and employment termination costs in relation to the integration of Amimon into the Group.

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

[(7)] In October 2018, the High Court reached a judgement in relation to Lloyds Bank's defined benefit pension schemes, which concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues arising from the judgement will apply to most other UK defined benefit pension schemes. To reflect the estimated impact of this judgement, the Group has recognised a past service cost of £0.7 million in the Income Statement and increased the liabilities of the defined benefit pension scheme by the same amount.

5 Net finance expense

	2018 **£m**	2017 £m
Finance income		
Net current translation gains	**0.8**	0.1
Finance expense		
Unwind of discount on liabilities	**(0.2)**	-
Interest expense on interest-bearing loans and borrowings	**(2.7)**	(2.6)
Interest expense on net defined benefit pension scheme	**(0.2)**	(0.3)
	(3.1)	(2.9)
Net finance expense	**(2.3)**	(2.8)

6 Taxation

	2018 £m	2017 £m
The total taxation charge/(credit) in the Income Statement is analysed as follows:		
Summarised in the Income Statement as follows		
Continuing operations		
Current tax	**4.3**	6.2
Deferred tax	**(0.7)**	10.7
	3.6	16.9
Discontinued operations		
Current tax	**-**	0.4
Deferred tax	**-**	(4.0)
	-	(3.6)
Continuing and discontinued operations		
Current tax	**4.3**	6.6
Deferred tax	**(0.7)**	6.7
	3.6	13.3
Charges associated with acquisition of businesses, profit on disposal of businesses and material non-operating events		
Continuing operations		
Current tax (1)	**(3.2)**	(0.2)
Deferred tax (2)	**(2.4)**	6.3
	(5.6)	6.1
Discontinued operations		
Current tax (1)	**-**	0.4
Deferred tax (2)	**-**	(4.7)
	-	(4.3)
Continuing and discontinued operations		
Current tax (1)	**(3.2)**	0.2
Deferred tax (2)	**(2.4)**	1.6
	(5.6)	1.8
Before charges associated with acquisition of businesses, profit on disposal of businesses and material non-operating events		
Continuing operations		
Current tax	**7.5**	6.4
Deferred tax	**1.7**	4.4
	9.2	10.8
Discontinued operations		
Current tax	**-**	-
Deferred tax	**-**	0.7
	-	0.7
Continuing and discontinued operations		
Current tax	**7.5**	6.4
Deferred tax	**1.7**	5.1
	9.2	11.5

(1) Current tax credit of £3.2 million (2017: £0.2 million charge) was recognised in the year of which £0.4 million credit (2017: £0.1 million) related to integration costs, £nil (2017: £0.1 million credit) to amortisation of intangible assets, £0.1 million credit (2017: £0.4 million charge) to tax on the disposal of businesses and £2.7 million credit for the Italian Patent Box benefit in respect of prior years (2017: £nil).

(2) Deferred tax credit of £2.4 million (2017: £1.6 million charge) was recognised in the year of which £0.4 million credit (2017: £0.2 million) relates to integration costs, £0.3 million credit (2017: £1.8 million) to acquisitions, £1.1 million credit (2017: £0.4 million charge) to amortisation of intangible assets, £nil (2017: £4.7 million credit) to the disposal of businesses and £0.6 million credit (2017: £7.9 million charge) to the impact of US tax reform.

7 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 adjusted EPS measure is used by management to assess the underlying performance of the ongoing businesses, and therefore excludes charges associated with acquisition of businesses, profit on disposal of businesses and material non-operating events, all net of tax.

The calculation of basic, diluted and adjusted EPS is set out below:

	2018 £m	2017 £m
Profit for the financial year		
Continuing operations	**34.3**	10.5
Discontinued operations	**-**	17.0
	34.3	27.5
Add back charges associated with acquisition of businesses, material non-operating events and profit on disposal of businesses, all net of tax		
Continuing operations	**7.7**	21.1
Discontinued operations	**-**	(18.1)
	7.7	3.0
Adjusted profit after tax		
Continuing operations	**42.0**	31.6
Discontinued operations	**-**	(1.1)
	42.0	30.5

	Weighted average number of shares '000		**Adjusted earnings per share**		**Earnings per share**	
	2018 Number	2017 Number	**2018 pence**	2017 pence	**2018 pence**	2017 pence
From continuing and discontinued operations						
Basic	**45,084**	44,798	**93.2**	68.1	**76.1**	61.4
Dilutive potential ordinary shares	**324**	319	**(0.7)**	(0.5)	**(0.5)**	(0.4)
Diluted	**45,408**	45,117	**92.5**	67.6	**75.6**	61.0
From continuing operations						
Basic	**45,084**	44,798	**93.2**	70.5	**76.1**	23.4
Dilutive potential ordinary shares	**324**	319	**(0.7)**	(0.5)	**(0.5)**	(0.1)
Diluted	**45,408**	45,117	**92.5**	70.0	**75.6**	23.3
From discontinued operations						
Basic	**45,084**	44,798	**-**	(2.4)	**-**	38.0
Dilutive potential ordinary shares	**324**	319	**-**	-	**-**	(0.3)
Diluted	**45,408**	45,117	**-**	(2.4)	**-**	37.7

8 Acquisitions

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.

Acquisition of Amimon

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

Amimon designs and develops chipsets and modules for real-time wireless video transmission, primarily for professional filmmaking and high-end productions (“cine market”). Amimon operates primarily from its headquarters in San Jose, California, and a research and development centre in Israel. The acquisition is part of Vitec's strategy to develop and grow in the wireless video market and gives Vitec access to patented core technology as well as new intellectual property. Amimon operates within the Creative Solutions Division.

A summary of the effect of the acquisition of Amimon is detailed below:

	Fair value of net assets acquired £m
Net Assets acquired	
Intangible assets	23.4
Property, plant and equipment	0.7
Inventories	3.8
Trade and other receivables	0.7
Government grant liability	(0.5)
Trade and other payables	(2.6)
Cash	4.6
Deferred tax asset	5.8
Deferred tax liability	(3.7)
	32.2
Goodwill	12.9
Consideration	45.1

The trade receivables acquired had a fair value and a gross contractual value of £0.3 million.

Acquisition of Rycote

On 17 September 2018, the Group acquired 100% of the issued share capital of Rycote Microphone Holdings Limited ("Rycote"), a private company based in the UK, for net cash consideration of £5.6 million, after taking account of £0.3 million of cash in the business at acquisition date. The fair value of the net assets acquired, excluding cash in the business at acquisition date, was £3.6 million resulting in goodwill of £2.0 million.

Under the terms of the acquisition, there are two potential deferred payments of £1.25 million each payable in cash, one in January 2020 and the other in January 2021. These are dependent on the achievement of non-financial targets being met over a 24 month period following completion subject to the vendors remaining employed by the Group at the earnout date. In 2018 an amount of £0.4 million was provided for and charged to the Income Statement in relation to the remuneration expense.

Rycote manufactures advanced noise reduction equipment for the audio capture market. The acquisition complements the Group's existing activities in the expanding Independent Content Creator market and its products will be marketed through the Group's global distribution network. Rycote operates within the Creative Solutions Division.

A summary of the effect of the acquisition of Rycote is detailed below:

	Fair value of net assets acquired £m
Net Assets acquired	
Intangible assets	3.7
Property, plant and equipment	0.2
Inventories	0.4
Trade and other receivables	0.3
Trade and other payables	(0.4)
Cash	0.3
Deferred tax	(0.6)
	3.9
Goodwill	2.0
Consideration satisfied from existing cash resources	5.9

The trade receivables acquired had a fair value and a gross contractual value of £0.2 million.

Acquisition of Adeal

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

Adeal is a distributor of consumer and professional imaging products and accessories, and Vitec's former Imaging Solutions distribution partner in Australia. The acquisition complements the Group's global distribution network. Adeal operates within the Imaging Solutions Division.

A summary of the effect of the acquisition of Adeal is detailed below:

	Fair value of net assets acquired £m
Net Assets acquired	
Property, plant and equipment	0.1
Inventories	2.3
Trade and other receivables	1.1
Trade and other payables	(0.9)
Cash	0.1
Provisions	(0.2)
Deferred tax	0.1
Current tax	(0.1)
	2.5
Goodwill	0.1
Consideration satisfied from existing cash resources	2.6

The trade receivables acquired had a fair value and a gross contractual value of £1.1 million.

The results of the acquisitions made during the year included in the Group's consolidated results comprise the following:

	Amimon £m	Rycote £m	Adeal £m
Revenue	0.6	0.9	6.1
Operating loss	(1.4)	(0.1)	(0.1)

The level of profitability is stated after charges associated with acquisition of businesses. Amimon's operating loss is stated after also eliminating profit on inventory sold to other businesses within the Group post acquisition, which remained within the Group at the balance sheet date.

Due to limitations in available data for the pre-acquisition period, the Directors consider that it is impracticable to disclose the results of the combined entity as though the acquisition of Amimon had impacted the Group's consolidated results for the full year.

Had the acquisitions of Rycote and Adeal been made at the beginning of the year they would have contributed £10.7 million to revenue and a loss of £0.3 million to the operating profit of the Group.

An analysis of cash flows relating to acquisitions is provided below:

	2018 £m
Net outflow of cash in respect of acquisitions	
Total consideration	53.6
Deferred consideration	(0.3)
Settlement of pre-existing contractual relationship at the amounts recorded	(0.4)
Liability for pre combination amount related to unvested options	(0.3)
Cash consideration	52.6
Cash acquired	(5.0)
Net cash outflow in respect of 2018 acquisitions	47.6
Earnout payment for Wooden Camera (acquired in 2016)	4.3
Receipt of final working capital adjustment for RT Motion (acquired in 2017)	(0.1)
Net cash outflow in respect of acquisitions	51.8

Acquisition of Syrp in 2019

On 22 January 2019 The Group acquired 100% of the issued share capital of Syrp Ltd ('Syrp'), a company based in New Zealand, for an initial cash consideration of NZ$4.5 million (£2.4 million).

Syrp designs and develops motorised camera sliders and motion control hardware and software, which enable independent content creators to control their camera equipment remotely. This acquisition is in line with the Group's strategy to drive growth by increasing our addressable markets and expanding our higher technology capabilities.

At the time the financial statements were authorised for issue, the initial accounting for the business combination was incomplete as information is being finalised to enable valuations to be performed, and accordingly, the Group is unable to disclose any provisional fair values for major classes of assets and liabilities, including acquired receivables, the fair value of the receivables, the gross contractual amounts receivable and contractual cash flows not expected to be collected at the acquisition date.

Acquisition of JOBY and Lowepro in 2017

In the year, the process to measure the fair values of the assets and liabilities acquired was completed in respect of the JOBY and Lowepro acquisitions. An increase in goodwill of £1.4 million was recognised in the year as a result of fair value adjustments mainly to contingent liabilities.

9 Disposals and discontinued operations in 2017

Both Haigh-Farr and the US broadcast services business were disposed in 2017 and were classified as discontinued operations in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations".

The table below shows the results of the discontinued operations which were included in the Group Income Statement and Group Statement of Cash Flows respectively.

a) Income Statement - discontinued operations	**2018** **£m**	2017 £m
Revenue	**-**	24.8
Expenses	**-**	(26.4)
Operating loss	**-**	(1.6)
Comprising		
- Operating loss before amortisation of acquired intangible assets	**-**	(0.4)
- Amortisation of acquired intangible assets	**-**	(1.2)
	-	(1.6)
Taxation	**-**	(0.7)
Loss after tax from discontinued operations	**-**	(2.3)
Gain on disposal of discontinued operations before tax	**-**	15.0
Taxation	**-**	4.3
Gain on disposal of discontinued operations after tax	**-**	19.3
Profit after tax from discontinued operations attributable to owners of parent	**-**	17.0

a) Statement of Cash Flows – discontinued operations	**2018** **£m**	2017 £m
Net cash from operating activities	**-**	3.3
Net cash from investing activities[(1)]	**0.5**	33.7
Net cash from discontinued operations	**0.5**	37.0

[(1)] As a result of a final working capital adjustment, an amount of £0.5 million was received in the year in relation to disposal of businesses in the prior year.

10 Dividends

The proposed final dividend for the year ended 31 December 2018 was recommended by the Directors. This is subject to approval by shareholders at the AGM on Tuesday 21 May 2019 and, if approved, will be paid on Friday 24 May 2019. The dividend has not been included as a liability in these financial statements.

	2018 **£m**	2017 £m
Amounts arising in respect of the year		
Interim dividend for the year ended 31 December 2018 of 11.5p (2017: 10.4p) per ordinary share	**5.1**	4.7
Proposed final dividend for the year ended 31 December 2018 of 25.5p (2017: 20.1p) per ordinary share	**11.5**	9.0
	16.6	13.7
The aggregate amount of dividends paid in the year		
Final dividend for the year ended 31 December 2017 of 20.1p (2016: 17.3p) per ordinary share	**9.0**	7.7
Interim dividend for the year ended 31 December 2018 of 11.5p (2017: 10.4p) per ordinary share	**5.1**	4.7
	14.1	12.4

11 Analysis of net debt

The table below analyses the Group's components of net debt and their movements in the year:

	2018 £m	2017 £m
Increase/(decrease) in cash and cash equivalents	**2.7**	(4.8)
Government grant taken over on acquisition	**(0.5)**	-
Repayment of interest-bearing loans and borrowings	**101.7**	144.5
Borrowings from interest-bearing loans and borrowings	**(138.1)**	(110.7)
(Increase)/decrease in net debt resulting from cash flows	**(34.2)**	29.0
Effect of exchange rate fluctuations on cash held	**(0.2)**	0.6
Effect of exchange rate fluctuations on debt held	**(3.7)**	2.6
Effect of exchange rate fluctuations on net debt	**(3.9)**	3.2
Movements in net debt in the year	**(38.1)**	32.2
Net debt at 1 January	**(42.9)**	(75.1)
Net debt at 31 December	**(81.0)**	(42.9)
Cash and cash equivalents in the Balance Sheet	**17.5**	12.6
Bank overdrafts	**(2.4)**	-
Cash and cash equivalents in the Statement of Cash Flows	**15.1**	12.6
Interest-bearing loans and borrowings	**(96.1)**	(55.5)
Net debt at 31 December	**(81.0)**	(42.9)

12 Financial instruments

This provides details on:

- Financial risk management
- Derivative financial instruments
- Fair value hierarchy
- Interest rate profile
- Maturity profile of financial liabilities

Financial risk management

The Group's multinational operations and debt financing expose it to a variety of financial risks. In the course of its business, the Group is exposed to foreign currency risk, interest rate risk, liquidity risk and credit risk.

Financial risk management is an integral part of the way the Group is managed. Financial risk management policies are set by the Board of Directors. These policies are implemented by a central treasury department that has formal procedures to manage foreign currency risk, interest rate risk and liquidity risk, including, where appropriate, the use of derivative financial instruments. The Group has clearly defined authority and approval limits built into these procedures.

Foreign currency risk

Foreign currency risk arises both where sale or purchase transactions are undertaken in currencies other than the respective functional currencies of Group companies (transactional exposures) and where the results of overseas companies are consolidated into the Group's reporting currency of Sterling (translational exposures).

The Group has businesses that operate around the world and accordingly record their results in a number of different functional currencies. Some of these operations also have some customers or suppliers that transact in a foreign currency. The Group's results which are reported in Sterling are therefore exposed to changes in foreign currency exchange rates across a number of different currencies with the most significant exposures relating to the US Dollar (USD), Euro (EUR) and Japanese Yen (JPY). The Group proactively manages a proportion of its short-term transactional foreign currency exposures using derivative financial instruments, but remains exposed to the underlying translational movements which remain outside the control of the Group.

The Group manages its transactional exposures to foreign currency risks through the use of forward exchange contracts including the US Dollar, Euro and Japanese Yen. Forward exchange contracts are typically used to hedge approximately 75% of the Group's forecasted foreign currency exposure in respect of forecast cash transactions for the following 12 months. Forward exchange contracts may also be used to hedge a proportion of the forecast cash transactions for the following 13 to 24 months. The forward exchange contracts currently have maturities of less than two years at the Balance Sheet date.

The Group's translational exposures to foreign currency risks relate to both the Income Statement and net assets of overseas subsidiaries which are converted into Sterling on consolidation. The Group does not seek to hedge the translational exposure that arises primarily from changes in the exchange rates of the US Dollar, Euro and Japanese Yen against Sterling. However the Group does finance overseas investments partly through the use of foreign currency borrowings in order to provide a net investment hedge over the foreign currency risk that arises on translation of its foreign currency subsidiaries.

The Group ensures that its net exposure to foreign denominated cash balances is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. In addition the Group manages the denomination of surplus cash balances across the overseas subsidiaries to allow natural hedging where effective in any particular country.

It is estimated that the Group's adjusted operating profit for the year ended 31 December 2018 would have increased/decreased by approximately £3.2 million from a ten cent stronger/weaker US Dollar against Sterling, by approximately £1.6 million from a ten cent stronger/weaker Euro against Sterling and by approximately £0.3 million from a ten Yen stronger/weaker Japanese Yen against Sterling. This reflects the impact of the sensitivities to the translational exposures and to the proportion of the transactional exposures that are not hedged. The Group, in accordance with its policy, does not use derivatives to manage translational risks. During 2018 the Group's operating profit included a net profit of £0.6 million (2017: £2.3 million loss) in relation to the crystallisation of forward exchange contracts as described later in this note.

It is estimated that the statutory operating profit for the year ended 31 December 2018 would have increased/decreased by £2.5 million from a ten cent stronger/weaker US Dollar against Sterling, by approximately £1.5 million from a ten cent stronger/weaker Euro against Sterling and by approximately £0.3 million from a ten Yen stronger/weaker Japanese Yen against Sterling.

Interest rate risk

Interest rate risk comprises the interest cash flow risk that results from borrowing at variable rates.

For the year ended 31 December 2018, it is estimated that a general increase/decrease of one percentage point in interest rates, would decrease/increase the Group's profit before tax by approximately £0.8 million.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group increased its five year Multicurrency Revolving Credit Facility that expires in July 2021 from £125 million to £150 million in November 2018. The Group was utilising 63% of the £150 million Multicurrency Revolving Credit Facility at 31 December 2018.

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations. The Group is exposed to credit risk on financial assets such as trade receivables, cash balances and derivative financial instruments. The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Group Balance Sheet.

a) Trade receivables

The Group's credit risk is primarily attributable to its trade receivables. Trade receivables are subject to credit limits, and control and approval procedures in the operating companies. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables.

b) Cash balances and derivative financial instruments

Credit risk associated with cash balances is managed by transacting with a number of major financial institutions worldwide and periodically reviewing their credit worthiness. Transactions involving derivative financial instruments are managed centrally. These are only with banks that are part of the Group's £150 million Multicurrency Revolving Credit Facility Agreement and which have strong credit ratings. Accordingly, the Group's associated credit risk is limited. The Group has no significant concentration of credit risk.

Derivative financial instruments

This is a summary of the derivative financial instruments that the Group holds and uses to manage transactional exposure. The value of these derivatives changes over time in response to underlying variables such as exchange rates. They are carried in the Balance Sheet at fair value.

The fair value of forward exchange contracts is determined by estimating the market value of that contract at the reporting date. Derivatives with a positive fair value are recorded as assets and negative fair values as liabilities, and presented as current or non-current based on their contracted maturity dates.

Accounting policies

Financial assets classification and measurement

The Group classifies its financial instruments depending on the business model for managing the financial assets and their contractual cash flows. Trade receivables and contract assets are measured at amortised cost while derivatives are measured at fair value through profit or loss unless designated in a qualifying hedging relationship.

Derivative financial instruments

In accordance with Board approved policies, the Group uses derivative financial instruments such as forward foreign exchange contracts to hedge its exposure to fluctuations in foreign exchange rates arising from operational activities. These are designated as cash flow hedges. It does not hold or use derivative financial instruments for trading or speculative purposes.

Cash flow hedge accounting

Cash flow hedges are used to hedge the variability in cash flows of highly probable forecast transactions caused by changes in exchange rates.

At 31 December 2017 the Group's foreign currency forward contracts which were designated in hedging relationships continue to qualify for hedge accounting under IFRS 9 and these relationships are therefore treated as continuing hedges. As a result of adopting IFRS 9, there have been no changes to the accounting for qualifying cash flow hedges.

Where a derivative financial instrument is designated in a cash flow hedge relationship with a highly probable forecast transaction, the effective part of any change in fair value arising is deferred in the cash flow hedging reserve within equity, via the Statement of Comprehensive Income. The gain or loss relating to the ineffective part is recognised in the Income Statement within net finance expense. Amounts deferred in the cash flow hedging reserve are reflected in the Income Statement in the periods when the hedged item is recognised in the Income Statement.

If a hedging instrument expires or is sold but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

For hedges of foreign currency sales, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item and the Group designates the forward exchange rate as the hedged risk. The group therefore performs a qualitative assessment of effectiveness. In hedges of foreign currency sales, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

If a derivative financial instrument is not formally designated in a cash flow hedge relationship, any change in fair value is recognised in the Income Statement.

Forward exchange contracts

The following table shows the forward exchange contracts in place at the Balance Sheet date. These contracts mature in the next 13 months, therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 13 months

	Currency	**As at 31 December 2018 millions**	**Average exchange rate of contracts**	As at 31 December 2017 millions	Average exchange rate of contracts
Cash flow hedging contracts					
USD / GBP forward exchange contracts	USD	**9.1**	**1.31**	9.0	1.30
USD / EUR forward exchange contracts	USD	**30.2**	**1.20**	25.2	1.14
EUR / GBP forward exchange contracts	EUR	**15.9**	**1.09**	17.6	1.15
JPY / GBP forward exchange contracts	JPY	**542.2**	**143.5**	508.8	143.0
JPY / EUR forward exchange contracts	JPY	**891.7**	**128.9**	946.6	123.7

A net profit of £0.6 million (2017: £2.3 million loss) relating to forward exchange contracts was reclassified to the Income Statement, to match the crystallisation of the hedged forecast cash flows which affect the Income Statement.

The table below provides further information on the Group's cash flow hedging relationships:

	2018 £m
Net forward exchange contracts liability	**(1.0)**
Maturity dates	**January 2019 to January 2020**
Hedge ratio	**1:1**
Change in value of hedging instruments since 1 January 2018	**(2.1)**
Change in value of the hedged item used to determine hedge effectiveness	**2.1**

The balances and movements into and out of the cash flow hedging reserve are shown in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity respectively. Amounts reclassified from the cash flow hedging reserve to the Consolidated Statement of Comprehensive Income are included in cost of sales.

Fair value hierarchy

The following summarises financial instruments carried at fair values and the major methods and assumptions used in estimating these fair values.

The different levels of fair value hierarchy have been defined as follows:

Level 1

Fair value measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of the Group's financial instruments approximate their fair value. The fair value of floating rate borrowings approximates to the carrying value because interest rates are at floating rates where payments are reset to market rates at intervals of less than one year. The Group's derivative financial instruments are Level 2.

Accounting policies

Net investment hedge accounting

The Group uses its US Dollar, Euro and Japanese Yen denominated borrowings as a hedge against the translation exposure on the Group's net investment in overseas companies. The Group designates the spot rate of the loans as the hedging instrument. There was no ineffectiveness to be recognised on hedges of net investments in foreign operations.

At 31 December 2017 the Group's borrowings which were designated in hedging relationships continue to qualify for hedge accounting under IFRS 9 and these relationships are therefore treated as continuing hedges. As a result of adopting IFRS 9, there have been no changes to the accounting for qualifying net investment hedges.

Where the hedge is fully effective at hedging the variability in the net assets of such companies caused by changes in exchange rates, the changes in value of the borrowings are recognised in the translation reserve within equity, via the Statement of Comprehensive Income. The ineffective part of any change in value caused by changes in exchange rates is recognised in the Income Statement.

The effective portion will be recycled into the Income Statement on the sale of the foreign operation.

The table below provides further information on the Group's net investment hedging relationships:

	2018 **£m**
Hedge ratio	**1:1**
Change in value of hedging instruments due to foreign currency movements since 1 January 2018	**(3.7)**
Change in value of the hedged item used to determine hedge effectiveness	**3.7**

The balances and movements into and out of the foreign currency translation reserve are shown in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity respectively.

Interest-bearing loans and borrowings

The table below analyses the Group's interest-bearing loans and borrowings including bank overdrafts, by currency:

Currency	Total £m	Fixed rate borrowings £m	Floating rate borrowings £m
US Dollar	**62.5**	**-**	**62.5**
GB Pound	**7.4**	**-**	**7.4**
Euro	**25.0**	**1.7**	**23.3**
Japanese Yen	**3.6**	**-**	**3.6**
At 31 December 2018	**98.5**	**1.7**	**96.8**
US Dollar	21.4	-	21.4
GB Pound	30.0	-	30.0
Euro	2.1	2.1	-
Japanese Yen	2.0	-	2.0
At 31 December 2017	55.5	2.1	53.4

The floating rate borrowings comprise borrowings bearing interest at rates based on LIBOR.

Maturity profile of financial liabilities

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the carrying amounts disclosed on the Balance Sheet.

The following are the contractual maturities of financial liabilities, including undiscounted future interest payments:

	Carrying amount £m	**Total contractual cash flows £m**	**Within one year £m**	**From two to five years £m**
2018				
Unsecured interest-bearing loans and borrowings including bank overdrafts[1]	**(98.0)**	**(103.9)**	**(5.3)**	**(98.6)**
Trade payables	**(34.3)**	**(34.3)**	**(34.3)**	**-**
Forward exchange contracts	**(1.1)**	**(1.6)**	**(1.6)**	**-**
	(133.4)	**(139.8)**	**(41.2)**	**(98.6)**
2017				
Unsecured interest-bearing loans and borrowings	(55.5)	(59.6)	(1.7)	(57.9)
Trade payables	(35.1)	(35.1)	(35.1)	-
Forward exchange contracts	(0.5)	(0.5)	(0.5)	-
	(91.1)	(95.2)	(37.3)	(57.9)

(1) This excludes an amount of £0.5 million of an interest bearing liability in relation to a government grant which does not meet the definition of a financial liability.

The Group had the following undrawn borrowing facilities at the end of the year:

Expiring in :	**2018 £m**	2017 £m
Less than one year		
- Uncommitted facilities	**8.7**	11.0
More than one year but not more than five years		
- Committed facilities	**56.0**	71.6
Total	**64.7**	82.6

13 Glossary of Alternative Performance Measures (“APMs”)

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Definition & Purpose</th></tr>
<tr><td colspan="3">Income Statement Measures</td></tr>
<tr><td>Adjusted operating profit</td><td>Operating profit</td><td>Calculated as operating profit before charges associated with acquisition of businesses and material non-operating events. These are excluded by virtue of their size and nature in order to more accurately show the underlying business performance of the Group in a consistent manner. This is a key management incentive metric.

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.

See Consolidated Income Statement for reconciliation.</td></tr>
<tr><td>Adjusted operating margin</td><td>None</td><td>Calculated as adjusted operating profit divided by revenue. Progression in adjusted operating margin is an indicator of the Group’s operating efficiency.</td></tr>
<tr><td>Adjusted operating expenses</td><td>Operating expenses</td><td>Calculated as operating expenses before charges associated with acquisition of businesses and material non-operating events. These are excluded by virtue of their size and nature in order to more accurately show the underlying operating cost base of the Group in a consistent manner.

The table below shows the reconciliation for continuing operations:
<table>
<tr><th></th><th>2018
£m</th><th>2017
£m</th></tr>
<tr><td>Operating expenses</td><td>133.6</td><td>126.3</td></tr>
<tr><td>Charges associated with acquisition of businesses and material non-operating events</td><td>(13.0)</td><td>(15.0)</td></tr>
<tr><td>Adjusted operating expenses</td><td>120.6</td><td>111.3</td></tr>
</table></td></tr>
</table>

Adjusted profit before tax	Profit before tax	Calculated as profit before tax, before charges associated with acquisition of businesses and material non-operating events. These are excluded by virtue of their size and nature in order to more accurately show the underlying business performance of the Group in a consistent manner. This is a key management incentive metric. See Consolidated Income Statement for reconciliation.
Adjusted profit after tax	Profit after tax	Calculated as profit after tax before charges associated with acquisition of businesses, material non-operating events, and profit on disposal of businesses. 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. See note 7 “Earnings per share”.

<table>
<tr><td colspan="3">Cash Flow Measures</td></tr>
<tr><td>Free cash flow</td><td>Net cash from operating activities</td><td>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.</td></tr>
<tr><td>Operating cash flow</td><td>Net cash from operating activities</td><td>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>
<tr><th></th><th>2018
£m</th><th>2017
£m</th></tr>
<tr><td>Net cash from operating activities</td><td>47.4</td><td>35.1</td></tr>
<tr><td>Proceeds from sale of property, plant and equipment and software</td><td>0.5</td><td>3.5</td></tr>
<tr><td>Purchase of property, plant and equipment</td><td>(8.4)</td><td>(10.8)</td></tr>
<tr><td>Capitalisation of software and development costs</td><td>(6.0)</td><td>(4.3)</td></tr>
<tr><td>Free cash flow</td><td>33.5</td><td>23.5</td></tr>
<tr><td>Add back:</td><td></td><td></td></tr>
<tr><td>Interest paid</td><td>2.5</td><td>2.6</td></tr>
<tr><td>Tax paid</td><td>4.1</td><td>11.0</td></tr>
<tr><td>Payment of restructuring costs, transaction costs relating to acquisition of businesses and integration costs</td><td>4.6</td><td>3.3</td></tr>
<tr><td>Operating cash flow</td><td>44.7</td><td>40.4</td></tr>
</table></td></tr>
<tr><td colspan="3">Other Measures</td></tr>
<tr><td>Return on capital employed (ROCE)</td><td>None</td><td>Calculated as adjusted operating profit for the last twelve months divided by average total assets less current liabilities excluding the current portion of interest-bearing borrowings. This is a measure of the efficiency of the Group’s asset base.</td></tr>
<tr><td>Adjusted EBITDA</td><td>Operating profit</td><td>Calculated as adjusted operating profit for the last twelve months before depreciation of tangible fixed assets and amortisation of intangibles (other than those already excluded from adjusted operating profit).</td></tr>
</table>