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STUNNING LIVE VIDEO ANYTIME, ANYWHERE

ANNUAL REPORT & ACCOUNTS 2012

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VISLINK

INVESTOR PROPOSITION STATEMENT

INTRODUCTION AND STRATEGY

VISLINK'S CORE COMPETENCE IS THE COLLECTION OF WIRELESS LIVE VIDEO AND DATA FROM THE FIELD TO THE POINT OF USAGE.

We enjoy long term relationships with our customers globally in the Broadcasting and Surveillance sectors. The markets we are serving are growing and we aim to deliver our three year growth target of £80m revenue and £8m adjusted operating profit by the end of 2014.

www.vislink.com

Image Closing Ceremony of the 2012 Olympics — Many of the Broadcasting and Surveillance aspects of the event were transmitted through Vislink equipment.

HIGHLIGHTS 2012

PROFITABLE GROWTH

Broadcast and Surveillance both delivered revenue growth
Leading brand presence in core and emerging markets
Substantial increase in year-on-year profit

SUCCESSFUL EXECUTION

Gigawave fully integrated
Planned cost reductions achieved
Investment continued in global sales channels and market leading Research and Development

TECHNOLOGICALLY AGILE

Industry leading portfolio of products
Launched 'MSAT' Man Portable Satcom Data System
Accelerating investment in IP (Internet Protocol) and cellular

STRATEGY ON TRACK

Group remains debt free with cash available for investment
Confident that our stated strategy is on track to meet targets

OVERVIEW

BUSINESS REVIEW

GOVERNANCE

FINANCIAL STATEMENTS

COMPANY INFORMATION

OUR STRATEGY

ANNOUNCED IN NOVEMBER 2011 — ON TRACK

OUR GOAL

To achieve profitable growth to revenue of £80 million with an adjusted operating margin of 10% by the end of 2014.

CELLULAR PRODUCT AND SERVICES	RECURRING REVENUES
SOFTWARE PRODUCT AND SERVICES	SURVEILLANCE REVENUES TARGET 25% OF SALES

ROADMAP FOR EXECUTION OF THE STRATEGY

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DELIVER SUSTAINED, PROFITABLE GROWTH

GROW OUR BROADCAST REVENUE AND MARKET SHARE BY LEVERAGING OUR BRAND PRESENCE

MILESTONES ACHIEVED

- Broadcast revenue up 11% to £47 1 million (2011 £42 3 million)
- Gigawave fully integrated into the business
- Gigawave "On-Board" improved product portfolio
- Introduced High Definition Video Clip-On Wireless Camera System
- Introduced Integrated Wireless Camera System for Sony Broadcast Cameras
- Launched LiveGear Cellular products in the US market

FOCUS FOR 2013

- Develop Wireless Camera Systems products to fulfil future broadcast roadmap
- Roll out LiveGear across Vislink markets
- Invigorate Broadcast Satellite Newsgathering with new Mantis MSAT design family of satellite products

READ MORE ON PAGES 10-15

GROW SURVEILLANCE BUSINESS BY LEVERAGING OUR TECHNOLOGY AND PARTNERSHIPS

MILESTONES ACHIEVED

- Surveillance revenue up 26% to £10 1 million (2011 £8 0 million)
- Benefited from Gigawave aerial downlink products
- Launched Advent Mantis 'MSAT' Man Portable Data System
- MSAT is successfully delivering secure military communications in operational environments

FOCUS FOR 2013

- Strengthen our routes to market for surveillance products outside of our core USA and UK markets
- Leverage our key customer partnerships to deliver compelling surveillance products globally
- Strengthen our ability to deliver integrated solutions

READ MORE ON PAGES 16-21

STRENGTHEN OUR INTERNATIONAL BUSINESS BY FOCUSING ON HIGH GROWTH EMERGING MARKETS

MILESTONES ACHIEVED

- Local sales teams in high-growth regions expanded
- Middle East and Africa and APAC delivered revenue growth
- Opened sales office in Australia to support our customers and business partners
- Strong demand for new satellite products

FOCUS FOR 2013

- Capitalise on increased defence and security spending
- Focus on anticipated spectrum changes
- Benefit from broadcast and surveillance opportunities from major sporting events in Brazil and other emerging markets

DEVELOP RECURRING REVENUE STREAMS FROM PRODUCT, SOFTWARE AND SERVICES

MILESTONES ACHIEVED

- Established partnerships with Avanti, Eutelsat, and iDirect that validate our Satcom designs and create co-marketing and recurring revenue opportunities
- Launched the LiveGear™ brand and associated products in North America and acquired Partner status with leading cellular providers – enabling air-time revenue opportunities

FOCUS FOR 2013

- Execute a LiveGear product roll-out
- Engage a broader range of customers for broadcast products by productising hybrid cellular/microwave products
- Continue to expand our 'IP' transport based technologies

VISLINK AT A GLANCE

OUR BUSINESS

The core competence of Vislink is the collection of wireless high quality, live video and associated data from the field to the point of usage

We provide solutions to two core markets Broadcast and Surveillance The broadcast market for the collection of live news, sport and entertainment events, and the video surveillance markets such as law enforcement and public safety By creating new products through three development centres, two in the UK and one in the US, our sales are made through partnerships and direct sales globally

OUR BRANDS

OUR LOCATIONS

We manage our business through our three main operational sites in the UK and the US

Our business is becoming more international in focus so the sales offices we have in Florida, California, Dubai, Singapore, and Australia are becoming increasingly important We are backing up our sales presence by moving our customer support closer to our customers as well

UK
USA
DUBAI
AUSTRALIA
SINGAPORE

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BROADCASTING

LIVE TV COVERAGE CONTINUES TO BE A MAJOR SUCCESS STORY.

The growing importance of "Live" TV and delivering content over multiple channels (TV, personal computers and smartphones) has driven broadcasters to focus on live content production, driving demand for Vislink broadcast products

2012 saw Vislink's broadcasting products sales increase in line with expectations with the introduction of new products in 2013 expected to strengthen performance in the future The growing importance of "Live" TV has driven broadcasters to focus more on live content production ensuring a strong market for Vislink's wireless camera product brands Gigawave and Link Remote event coverage continues to drive demand for Satellite Newsgathering (SNG) equipment

KEY MARKET DRIVERS

Image Quality Migration:
- High Definition (HD) broadcast — only a minority of global broadcasters have currently transitioned to HD
- Beyond HD – Taking advantage of new technologies such as 4K ultra high definition TV and High Efficiency Video Coding (HEVC)

Spectrum Change:
- Digital switchover and spectrum dynamics will continue to generate opportunities
- 2015 is the date generally viewed as an internationally mandated analogue switch-off date There are a number of broadcasters worldwide still in transition

Cellular and IP Products:
- IP and cellular networking and content delivery is accelerating
- Transition to file-based/IP (Internet Protocol) production tools

Emerging Markets
- Increased global demand for "high-quality" transmission (major sporting, entertainment and political events)

Increased Demand.
- 2nd and 3rd screen (PCs and mobile devices) content delivery Live broadcasts are extending the market reach for broadcasters, monetising content and making it easier and more engaging for consumers to access

SURVEILLANCE

HOMELAND SECURITY IS TOP OF THE AGENDA FOR MOST NATIONS AND THE THREATS ARE GREATER THAN EVER, PLACING IMMENSE FOCUS ON THE ABILITY TO TAKE DECISIVE ACTION BASED ON REAL-TIME INFORMATION.

Increasingly the tactical information of choice is video A picture may be a thousand words but high quality real-time video is several orders of magnitude more! The ability of news organisations and social networks to capture high quality video and distribute it widely has not gone unnoticed by authorities trying to keep tabs on situations on their borders or within It is this dynamic that places Vislink at the centre of the homeland security market opportunity

Distributing tactical information, video, voice or data is an opportunity for satellite data terminals like Vislink's Mantis MSAT, designed with military use in mind Weighing as little as 12 5kg they can also be deployed and operated by just one man

KEY MARKET DRIVERS

- Linking both deployed headquarters and teams of field personnel in active theatre with national command authorities for safer, real-time tactical decision making
- Integrating commercial off-the-shelf (COTS) components and systems, and those purpose built for military use to address defence requirements
- Replacing manned reconnaissance and response aircraft with Unmanned Aerial Vehicles (UAV)
- Develop true integration of technologies (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance)

EXECUTIVE CHAIRMAN'S STATEMENT

"PROFITABLE GROWTH"

"Whilst markets are tough we have been able to grow in 2012 both in revenues and profits through our global presence"

INTRODUCTION

The core competence of Vislink is the collection of wireless high quality, live video and associated data from the field to the point of usage We provide solutions to two core markets the broadcast market for the collection of live news, sport and entertainment events, and the video surveillance markets such as law enforcement and public safety

2012 was a year of sustained profitable growth for the Group We achieved our objective of sustaining quarter on quarter growth in revenues and profits We have reduced our cost but increased revenues and produced a substantial increase in profit over 2011

2012 was a tremendous year for profiling our technology as we dominated events such as the Olympics and the Queen's Diamond Jubilee celebrations In fact if you add up all of the outside broadcast events around the world, Vislink would be delivering two-thirds of these to broadcasters by deploying Vislink products

During the year we have further strengthened our management teams in operations, marketing and product development

We successfully introduced a new lightweight satellite terminal, MSAT, to both the surveillance and broadcast markets The MSAT has begun volume shipments and we have high hopes for this product and will use the design philosophy to rebrand and refresh our family of satellite products We successfully developed our first cellular based product, LiveGear In this product area we see high growth opportunities by integrating cellular applications into our wireless camera backs and stand-alone cellular products These products allow live video to be fed straight into a website and will open up new markets for our products, including magazine and newspaper publishers who are extending their reach into new markets and developing their digital assets

SUCCESSFUL EXECUTION

Our model going forward is scalable and we deploy contract manufacturing of our key components to enable us to grow profitably without the need to hire lots of additional staff.

GROUP REVENUE

£57.2m

2011 £50 3m

As we stated in our November 2011 strategy document, Vislink is the market leader in the broadcast market with its range of wireless video contribution products representing around 20 per cent of the market Equally relevant to us in the future will be the deployment of our core technology into the surveillance markets Here, we see increased demand for high quality video delivered wirelessly for application in aerial surveillance, unmanned ground and airborne vehicles and also the deployment of these devices in new market areas such as building and remote pipeline inspections

In 2013 we will focus on the exploitation of our core technology into some of these new markets and begin to develop our services strategy to encourage recurring revenue opportunities for our business An example of this will be the deployment of full service offerings in satellite and cellular application areas where we will launch a renewal model for these services, including the billing of airtime This 'full service" approach will make it easier for our customers to deploy the technology that we offer

Our philosophy is to involve customers at the beginning of an idea to ensure it is what they want, to develop it quickly so we fully exploit the opportunity, produce it efficiently, support it globally and build a sustainable relationship with customers

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All our regions are now profitable and are contributing to our success, with a particularly good turnaround in the Americas which has gone from an adjusted loss of £0 8 million in 2011 to an adjusted profit of £0 4 million in 2012

Whilst markets are tough we have been able to grow in 2012 both in revenues and profits through our global presence We have seen good growth in the Americas, the Middle East and somewhat surprisingly in Europe, driven in part by the acquisition of Gigawave which has now been fully integrated into the Group structure

FINANCIAL RESULTS

Group revenues were £57 2 million (2011 £50 3 million) which was up 13 7 per cent on the previous year Orders received were £50 1 million (2011 £52 8 million), down 5 1 per cent on last year (including the full year effect of the Gigawave acquisition)

As at 31 December 2012 the order book stood at £5 2 million (2011 £12 4 million) Order intake in the fourth quarter was disappointing In this quarter, we also took the decision to carry out a comprehensive review of the order book As part of this review we took the decision to remove a number of specific orders which primarily related to government funded projects that had been significantly delayed As a result of the fourth quarter net order intake, overall orders for 2012 finished down 5 1 per cent on 2011 However, recent activities have seen the development of a strong pipeline in 2013, that gives us confidence that our strategy remains on track

Whilst we grew our business we achieved this with fewer people, reducing our overall workforce from 269 to 244 This was achieved whilst maintaining our investments in product development, sales and marketing, but by reducing the levels of middle management and administration Our model going forward is scalable and we deploy contract manufacturing of our key components to enable us to grow profitably without the need to hire lots of additional staff At the same time we are bringing in new skills and graduates to accelerate our capabilities in the IP (internet protocol) and cellular development areas

ADJUSTED OPERATING PROFIT

£3.1m

2011 Loss £0 2m

INVESTING IN NEW TECHNOLOGIES

The introduction of cellular technology in our LiveGear range of wireless camera applications allows us for the first time to offer a "full service approach" to our customers.

The reported operating profit was £2 2 million (2011 loss of £3 6 million) after charging £1 6 million in respect of the amortisation of acquired intangibles (2011 £1 2 million) and crediting £0 7 million of non-recurring costs (2011 charged £2 2 million) Non-recurring costs include £0 3 million in respect of a contractual dispute and a credit of £1 0 million in respect of deferred consideration not paid

The Group has maintained a strong balance sheet throughout the year and remains debt free Net cash was £8 1 million (2011 £10 1 million) There was some working capital increase throughout the year associated with our growth and building some inventory for the new MSAT product to fulfil the pipeline

The business generated cash of £3 7 million (2011 £0 5 million) from operating activities throughout the year As a result of adjustments to the Gigawave balance sheet the final deferred consideration and associated cash payments for the Gigawave acquisition was adjusted down from £1 5 million to £0 75 million with £0 5 million paid in December 2012 and the balance of £0 25 million paid in January 2013

EARNINGS PER SHARE

The reported basic undiluted earnings per share for the year was 1 9 pence (2011 loss per share of 2 6 pence)

EXECUTIVE CHAIRMAN'S STATEMENT CONTINUED

After adjusting for amortisation and impairment of acquired intangibles the Group's adjusted earnings per share was 2 5 pence (2011 adjusted loss per share of 0 2 pence)

DIVIDENDS

The Board is proposing that the full year dividend be maintained at 1 25 pence per share (2011 1 25 pence)

ACQUISITIONS

In 2012 we have concentrated on organic growth and the successful integration of Gigawave which is reflected in this set of results and our debt free balance sheet We anticipate adding a number of "bolt-on" acquisitions principally to drive our services strategy and to provide a contribution to our three year growth target of £80 million revenue and £8 0 million adjusted operating profit by the end of 2014

STRATEGY

Our strategy for the Group, announced in November 2011, is on track The Board reviewed progress in October 2012 and taking into account organic development, a strong balance sheet and opportunities for "bolt-on" acquisitions, the Board remains confident of achieving its 2014 objective of £80 million revenue and £8 0 million adjusted operating profit for the Group compared to revenues of £43 1 million and an adjusted operating loss of £8 4 million at the end of 2010

We will continue to develop our core competence in wireless video contribution for both the broadcast and surveillance markets We will exploit the strengths of our established brands Advent, Gigawave, Link, MRC, PMR and LiveGear

We will maintain investment levels through our core product development, particularly in IT based technology such as 3G/4G, Wi-Fi and both private and public cloud infrastructure

We see growth in video applications to further the appeal of our customers' websites through increased use of video content as well as enhancing the appeal of live programming, particularly sports Our continued efforts in miniaturisation of high quality video contribution coupled with the integration of microwave, satellite communication, Wi-Fi and cellular to deliver ultimately first mover advantage to our customers, whether in traditional broadcast or in "special operations" in surveillance, will be key to our future and will therefore become our concentration and focus

STRATEGY ON TRACK

Both our long term and short term objectives are wholly aligned to deliver our financial objectives and we remain confident that our clear strategy is on track to meet them.

The London Olympics, US Presidential Election and the Queen's Diamond Jubilee showcased our strength and capabilities in 2012

Vislink currently has the widest product portfolio in the broadcast contribution sector and has consolidated its number one position in today's fragmented market Our market share is currently 20 per cent and in fact we are growing our global share

The Group sees an almost equal opportunity in the surveillance area where we have estimated the market for our wireless video application to be *circa* £200 million globally We grew this sector of our business by 26 3 per cent in 2012 and anticipate that this will grow much faster during the next two to three years as organisations continue to invest in homeland security, border control and more agile, better equipped defence organisations utilising technology

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capable of monitoring and deploying assets more efficiently and more safely through the utilisation of high definition wireless miniaturised video

For example there is a growing demand for unmanned aircraft and other vehicles where our experience in providing wireless video contribution has been transferred New applications have now been packaged and sold giving Vislink access to new markets such as video assist for film production, defence applications deploying MSAT, and first-to-the-scene journalists utilising MSAT for news gathering

The introduction of cellular technology in our LiveGear range of wireless camera applications allows us for the first time to offer a "full service approach" to our customers The new technology phenomenon is the concept of machine to machine internet (M2M), "the Internet of Things" (IOT), which we have developed with our latest range of wireless camera backs These enable the Group to develop recurring services revenues by deploying and supporting their devices which connect to public mobile networks, enabling Vislink to begin offering a managed service to customers

Our acquisition strategy will seek opportunities for Vislink to further expand its services offering providing recurring revenues to the Group which at the present time has limited visibility of its orders beyond three months

The financial goal is for profitable growth to £80 million of annual revenue within three years (December 2014) with an adjusted operating profit margin of 10 per cent We expect growth from a combination of organic growth and "bolt-on" acquisitions in services and IP/software technologies assisting our desire to build recurring revenues into our business model

THE BOARD, MANAGEMENT AND EMPLOYEES

We continue to benefit from the experience brought about by the enhancement of the Board in 2011 by increasing our depth of experience in the broadcast and surveillance markets

We also witnessed the smooth handover of the Group Finance Director role from James Trumper, who remained with the Group until August 2012 at which time Ian Davies was appointed as Group Finance Director

Within the business units we strengthened our marketing product management, operations capabilities, and began to hire graduates bringing in engineering with IP and cellular expertise to supplement the rich skill base of our existing RF engineering groups

On behalf of the Board I would like to thank all our employees for their enthusiasm, hard work and dedication to the Group throughout the year 2012 saw a renewed momentum in faster product development and an increase in the pace of the business which all employees have enthusiastically embraced

CURRENT OUTLOOK TRADING

Our markets continue to be challenging However, the Group enters 2013 with a renewed confidence buoyed by the introduction of new products that are gaining momentum in the marketplace

NET CASH

£8.1m

2011 £10 1m

We are confident of maintaining our organic growth and see opportunities continuing in Asia and Latin America for both our broadcast and, in particular, our surveillance products We believe that we can continue to scale our business whilst maintaining the current levels of expenditure in R&D and sales and therefore obtaining better utilisation of our key assets and improving our profit and cash generation

We have a good strategy and will continue to concentrate on successful execution

Both our long term and short term objectives are wholly aligned to deliver our financial objectives which, if successful, will provide long term growth and generate an increase in value for our shareholders

John Hawkins
EXECUTIVE CHAIRMAN

WHAT WE DO — BROADCASTING

WE OPERATE IN THE "HIGH-END" BROADCAST MARKET FOR LIVE NEWS, SPORTS AND ENTERTAINMENT EVENTS

Vislink has a deep understanding of the technologies and the systems required to deliver live video broadcasts from any location to anywhere in the world It has decades of experience building outdoor satellite broadcast and wireless video camera systems

Our systems are used in situations where reliability and quality of service are paramount We are specialists in providing solutions for challenging environments and "on-board" applications Our customers include global broadcasters especially those specialising in news gathering, live entertainment and sports, religious broadcasting and education We have five key brands

- Advent Communications for fixed and mobile satellite uplink terminals for satellite news gathering (SNG)
- Gigawave for microwave products for electronic news gathering (ENG) and specialist on-board wireless applications for motorsports and other high profile events
- Link Research for wireless camera systems
- Microwave Radio Communications (MRC), the market leader for ENG in the Americas
- LiveGear for wireless cellular broadband 3G/4G LTE transmission solutions

Broadcasters and media companies are highly motivated to invest in major events and 2012 provided them and Vislink with opportunities such as the London Olympics, the US presidential elections, the Americas Cup and motorsport events such as MotoGP, and Deutsche Touring Car (DTM) Championships

The increasing global demand for video contribution comes with the proliferation of broadcasters and content providers, particularly in the emerging markets, together with the increase in video-enabled broadband and mobile devices, all driving demand for contribution technology

"ON-BOARD"

Each customer has a specific need which is why each solution has a bespoke application, uniquely built to high specification

- Robust lightweight on-board HD video and telemetry transmitters
- Receive sites placed around the track
- Connected via Fibre or Triax back to an Outside Broadcast Track
- Transmitted via Satellite or Fibre network to TV Play-out

WHY WE DO IT

OUR PURPOSE

Demand

Broadcasters are relying more than ever on the immediacy and audience interaction that comes from live broadcast Vislink enables live broadcast through its Outdoor Broadcast Satcom solutions and its Wireless Camera Systems

Cellular

Next to quality, cost is the most important consideration for broadcasters Cellular electronic news gathering solutions drive down the cost of remote operations while making the technology available to a wider range of news gatherers including traditional and digital publishers

Internet Protocol

The increasing popularity of file-based content distribution and digitisation of content portfolios is driving the update of IP-based connectivity for broadcast contribution side equipment

Q&A WITH JOHN VARNEY
INDEPENDENT NON-EXECUTIVE DIRECTOR

Q

WHAT ARE THE KEY CHALLENGES FACING BROADCASTERS GOING INTO 2013?

A

Although the majority of commercial broadcasters are doing well right now, that income has got to be stretched across many more propositions Increased competition for viewers across all platforms, particularly the rise in Web based viewing, means that content creators need to be bold and imaginative if they are to retain their audience figures Live TV coverage continues to be a major success story and is still seen to underpin channel brands That, of course, is good news for Vislink, but we would also expect to see increasing demands for our offerings as broadcasters rise to the challenge of local TV services

Q

DIGITAL BROADCAST — THERE ARE A CONSIDERABLE NUMBER OF BROADCASTERS WORLDWIDE STILL IN TRANSITION WHAT ARE THE ISSUES AND OPPORTUNITIES SURROUNDING THE ON-GOING DIGITAL SWITCHOVER?

A

Digital switchover creates a number of opportunities for Vislink In a small number of cases (Australia being the most notable), digital switchover is part of a comprehensive spectrum realignment, where Broadcasters need to retool to use new frequency bands for wireless production equipment However, by far the largest benefit of switchover is the ability to deliver many more channels of content As with territories where switchover has already completed successfully, we would expect to see a rise in the number of sports and news channels, all targeting audiences with immediacy and the excitement of live coverage Again, great news for Vislink

Q

WHAT IMPACT IS 2ND SCREEN BEHAVIOUR HAVING ON BROADCASTERS?

A

2nd screen consumption means using a smartphone, tablet or laptop to view related content while watching a programme on TV This was, perhaps, the greatest innovation in viewer habits over the last year or so For content owners, this presents a terrific opportunity to extend programme brands into new platforms, augmenting revenues, while maintaining a core TV proposition 2nd screen also presents a creative opportunity, with the ability to deliver original content to the second screen in parallel with the first As an example, think of a live talent show on TV, while exclusive live content to subscribers is shown simultaneously from the Green Room Broadcasters must be aware, however, that it is highly likely that today's 2nd screen will quickly evolve to become the main viewing platform and be ready with compelling creative offerings

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OUR CLIENTS

Our customers are large, tier 1 broadcasters and media companies that traditionally purchase high quality "mission critical" equipment We have market leading brands and customer support that addresses these customers' requirements However, we recognise that our customers increasingly are looking for innovative high-end solutions coupled with lower-cost devices blended with satellite, microwave, 3G/4G and Wi-Fi

Our strategy is to maintain our strong market position by improving our relationships with broadcast leaders We will continue to improve service and support and develop revenue opportunities and increase our "on-board" coverage for sport and event broadcasting

DORNA CASE STUDY

2012 marked the 10th anniversary of the successful collaboration between Dorna Sports and Gigawave to provide broadcast video and imagery for the MotoGP race series Dorna holds the global rights to organize the FIM Road Racing World Championship Grand Prix Dating back to 1949, it is the oldest motorsport World Championship in existence

Gigawave provides the complete wireless video broadcast system from the MotoGP bike-mounted cameras to the multi-channel diversity-receive trackside links and the digital wireless central receive site The system also links the broadcast cameras used in the paddock, the aerial coverage helicopter and the pit lane On a typical race day, more than 100 cameras are managed by the system

For MotoGP, the HD on-board transmitter allows for three remotely switched cameras to be installed on a bike, each remotely controlled and colour corrected via telemetry In addition to the video transmission, a data connection to the bike's engine management system provides a data stream which is used to produce on-screen graphics of the bike's engine rpm, speed, and control status All this at speeds up to 340km/hr[1]

The close partnership between Dorna Sports and Gigawave has produced a series of never-seen-before innovations designed and tested to deliver the highest reliability and quality, ensuring Dorna can bring cutting-edge race day coverage of the biggest motorcycle series in the world to a viewing audience of millions in more than 200 countries

CONTROLLING
100 CAMERAS
TRAVELLING UP TO **340** KM/HR

BROADCAST
CONTENT DELIVERY

THE LIVEVIDEO VALUE CHAIN IS EVOLVING.

Broadcasters are under constant pressure to create compelling content on tighter budgets Under pressure from over-the-top content providers who bypass the traditional broadcasting value chain, increasingly broadcasters are turning to live products that engage audiences with a greater level of immediacy and interaction With more live production, across more channels, broadcasters are looking for efficient content delivery

Vislink brought to market in 2012 new products that deliver content from live events to broadcasters across new routes as efficiently as possible with no loss of quality Vislink's microwave wireless camera systems portfolio strengthened in 2012 with the introduction of the Gigawave Clip-On 4 with High Definition Video capability Gigawave also introduced the industrys first wireless transmitter designed to be integrated into a broadcast-grade camera body the INCAM for the Sony HDC-2500 LiveGear cellular IP products open up the option of using public cellular and Wi-Fi networks to carry content back to the production studio It also creates the opportunity to stream live content direct to the web opening up opportunities with new media publishers

Using IP networks for content delivery creates new markets for Vislink Broadcasters are using IP content delivery to drive down the cost of remote live event production, but for publishers and new media broadcasters, it enables a broadening engagement with content producers for the second and third screen Vislink is one of the few broadcast vendors who have full content delivery contact across all delivery streams pre and post production

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WHAT WE DO — SURVEILLANCE

WE CAPTURE AND DELIVER LIVE FOOTAGE TO SUPPORT POLICE DOWNLINKS, SATELLITE COMMUNICATIONS AND SPECIAL FORCES SURVEILLANCE

Today the tactical information of choice is video

Vislink designers are responding to the challenge with hybrid designs that mix new technology with established approaches, Microwave links are updated with new modulation schemes that are more flexible and efficient mated to miniaturised transmitters that can be installed in small unmanned aircraft Integration of air support aircraft and land-based vehicles onto a single network is possible with the output and control carried over secure IP infrastructure

Access to portable high-capacity data terminals can make all the difference when heading into an unknown situation Satellite data terminals, like Vislink's Mantis MSA1, are much smaller than previous attempts They are ideal for use in reconnaissance missions, connecting disparate teams of personnel to command and control authorities, creating a multi-hop real-time information engagement solution

"AERIAL DOWNLINKS"

Each customer has specific needs which is why each solution has a bespoke application, uniquely built to high specification

- Aerial downlinks
- Remote broadband communications
- Tactical information for instantaneous decision making

WHY WE DO IT

OUR PURPOSE

Microwave

Broadcast quality visual intelligence for essential tactical decision making Vislink provides solutions that are deployed equally effectively in the ground and in the air providing seamless overt and covert coverage

Satellite

Uplifting video intelligence or providing two-way broadband connectivity from anywhere in the world is easier with a wide range of portable satcom terminals from Vislink The 12 5kg Mantis MSAT can be deployed and operated by one person

Internet Protocol

Integration with secure IP networks is an essential part of any surveillance solution today Vislink's portfolio of microwave, cellular and Satcom products support IP network connectivity and encryption protocols

Q&A WITH ANDREW SLEIGH

INDEPENDENT NON-EXECUTIVE DIRECTOR

Q

HOW SIGNIFICANT IS THE TREND TO REPLACE MANNED RECONNAISSANCE AND RESPONSE AIRCRAFT WITH MORE AND BETTER INTEGRATED UNMANNED AERIAL VEHICLES (UAV)?

A

We are seeing rapidly growing use of smaller UAVs in a range of reconnaissance applications, including in policing, national security and in commercial monitoring and inspection The platform technology has now evolved to offer reliability and usability that gives UAVs comparable capability to manned aircraft at vastly lower costs and more rapid deployment We expect to see significant growth in use of UAVs in all aspects of surveillance, and their closer and closer integration with wider operational tactics and procedures

Q

VISLINK HAS A VISION FOR LINKING BOTH DEPLOYED HEADQUARTERS AND TEAMS OF FIELD PERSONNEL IN ACTIVE THEATRE WITH NATIONAL COMMAND AUTHORITIES FOR SAFER, REAL-TIME TACTICAL DECISION MAKING HOW IMPORTANT IS REAL-TIME VISUAL VALIDATION IN THE DECISION MAKING PROCESS?

A

Access to real-time video throughout the command chain is becoming accepted as a vital complement to the formal decision making process Ubiquitous, lightweight, low cost video sensors are already deployed in many defence and crisis management situations, with the technology to make video output available laterally and vertically, to inform commanders and to give situation awareness to operators in the field For example, downlinking aerial reconnaissance video to police on the ground opens up significant increases in operational effectiveness from the investment already made Gold Commanders in a crisis management team can get a direct view of events as they unfold to reduce the "fog of war" effect that has limited effective response in the past

Q

WHAT ARE THE MAIN CHALLENGES FACING SECURITY PRODUCT VENDORS GOING INTO 2013?

A

The market for security products is large and varied, with much opportunity for sustained long term relationships with customers However, the market has always featured fragmentation in demand, for example between different security organisations across and within nations. Orders tend to be highly granular with uncertainty in timing, making it essential to have access to global demand to achieve resilience Perhaps the biggest current challenge is how to help user organisations harness innovative technology to deliver operational efficiency

This requires strong relationships and the ability to work with partners to deliver complete solutions

WHO WE SERVE
OUR CUSTOMERS

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OUR CLIENTS

Our surveillance solutions provide secure, wireless, video and data communications systems, for worldwide military forces, law enforcement agencies, first responders and public safety personnel

We are specialists in airborne applications with downlinks to mobile command and control centres and we have an established base in the law enforcement community Vislink plays a critical role in supplying robust systems for military, public safety and satellite telecommunications worldwide

We provide complete solutions to support inter-agency sharing and cooperation of mission critical real-time video surveillance both on the ground and in the air

LONDON METROPOLITAN POLICE CASE STUDY

The Metropolitan Police are one of the most iconic police forces in the world and one of the most sophisticated and technologically advanced With an annual budget of just over £4 billion, it's not surprising to find out that the Met have some of the most advanced real-time video acquisition technology available, essential for making timely tactical decisions

Since 2006, Gigawave has provided the Metropolitan Police Air Support Unit with a wireless real-time video surveillance system for their three Eurocopter EC-145 helicopters The solution departs from the norm in that it provides broadcast quality video through both downlink and uplink via both mobile and central receive sites dotted over metropolitan London Each central receive site has the capability to ensure full coverage across the metropolitan area.
One of the key features of the system is the flexibility it offers for delivering the video from the helicopters In addition to broadcasting back to the Metropolitan police command centre, output from the aircraft can be viewed via pod receivers easily installed in vehicles, boats and temporary structures or via handheld units and briefcase receivers on the ground

During the 2012 Olympic Games the Met wanted to be able to operate their three helicopters continuously if required With radio spectrum at a premium during the event, the Gigawave team developed a new frequency scheme that expanded operational capacity with no image quality impact, further demonstrating the flexibility of the Gigawave solution

LENGTH OF CUSTOMER RELATIONSHIP **7** YEARS

SURVEILLANCE

CONTENT DELIVERY

Vislink has a deep understanding of how to deliver secure, real-time video transmissions from vehicular and aerial platforms covering tactical, industrial and security applications We are experienced in applications for covert and urban surveillance, airborne downlinks, mobile command and control solutions, unmanned systems and mobile satellite systems We have an established base in the law enforcement community and we are making inroads with military forces globally

The surveillance market represents 18 per cent of our revenues in 2012, compared to 16 per cent in 2011 We believe the addressable global market for our surveillance products is *circa* £200 million The law enforcement market is driven by the need for robust video surveillance, particularly airborne, for complex situations such as crowd control or during natural disasters The need for interoperability between agencies is driving the demand for common platforms In the military market there is increasing demand for video surveillance products to be used in unmanned ground or airborne vehicles to minimise the risk to human life when assessing potential threats

OUR STRATEGY

The combination of technologies and products which blend private licensed frequency bands with unlicensed wireless infrastructure leverages the strong position currently enjoyed by Vislink within its core market whilst attracting new customers This approach expands mission capability for legacy customers and sets the stage for expansion into new and under-served markets The requirement for improved video collection and dissemination utilising specialized network edge devices will drive market growth

Our strategy for military customers is to strengthen existing routes to market through channel development and partnerships We've had success developing new customers for the military with our new Advent Mantis MSAT man-portable satellite terminal being delivered to our lead customer in quantity and deployed in theatre in 2012 We will leverage the success of this lead customer to raise awareness of Vislink and the Advent MSAT with military forces around the world

www vislink.com
Stock Code VLK

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OPERATING AND FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2012

REGIONAL OPERATIONS

	2012 £m	2011 £m	Change %
UK business	**37.8**	31 2	+21 2
US business	**25.3**	24 2	+4 5
Inter-segmental	**(5.9)**	(5 1)	+15 7
Total Revenue	**57.2**	50 3	+13 7
UK business	**4.9**	2 5	
US business	**0 4**	(0 8)	
Central costs	**(2 2)**	(1 9)	
Total adjusted operating profit/(loss)	**3.1**	(0 2)	

The UK has benefited from revenue growth in the Middle East and also the full year benefit of Gigawave, which was acquired in June 2011 The addition of the Gigawave product range has enabled growth in both the UK and Europe against the background of relatively flat markets

In 2011, Gigawave contributed a net adjusted operating loss of £0 6 million on revenue of £5 6 million As we have previously announced, we fully integrated Gigawave into the UK operation in the first quarter of 2012 and hence no separate operating profit is disclosed The anticipated cost savings on this integration have been achieved and the product portfolio and brand has enhanced earnings in 2012

The UK has also benefited from strong inter-segmental sales, with strong demand for satellite products in South America

UK revenue including Gigawave products increased to £37 8 million for 2012 UK adjusted operating profit increased to £4 9 million

The US has seen significantly improved financial performance, with overall revenue growth and reduced costs delivering a turnaround in the profitability of the business Revenues have increased by 4 5 per cent to £25 3 million and the adjusted operating profit has improved from a £0 8 million loss in 2011 to a £0 4 million profit in 2012

REVENUE BY MARKET

	2012 £m	2011 £m	Change %
Broadcast revenues by region			
UK and Europe	**12 3**	10 1	+21 8
Americas	**20 3**	18 3	+10 9
Middle East and Africa	**8 1**	7 5	+8 0
Asia/Pacific	**6 4**	6 4	0 0
Broadcast	**47 1**	42 3	+11 3
Surveillance	**10 1**	8 0	+26 3
Total Revenue	**57 2**	50 3	+13 7

BROADCAST

Total revenue in Broadcast was £47 1 million (2011 £42 3 million) This total benefited from a full year of Gigawave product, which sold principally in the UK and Europe, and the Middle East, although there were also some sales to the Americas In 2011 post acquisition trading, Gigawave contributed revenue of £4 5 million

The USA and Western Europe remain the largest markets for our Broadcast business The 10 9 per cent increase in revenue in the Americas reflects a strengthening of revenues in the USA against a market that is perceived to be relatively flat

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Major events that supported revenue included the Presidential Election in the USA and the Olympics in the UK

In Asia/Pacific, the Group opened a sales office in Australia in early 2012 which provides strong local support for our business partners in the region and a focus on the anticipated spectrum change

South America remains a key market, with the World Cup in 2014 and the Olympics in 2016 in Brazil providing an impetus for further investment in both Broadcast and Surveillance in the region

SURVEILLANCE

Total revenue increased from £8 0 million to £10 1 million and this increase benefited from a full twelve months of Gigawave products In 2011 Gigawave contributed £1 1 million in post acquisition revenues and in 2012 the Group continued to benefit from the airborne downlink range of products

The USA is still the largest market for the Group for Surveillance products, with the US Government both directly and indirectly being a key customer Sales cycles can be long, but the Group is well positioned on a number of initiatives and programmes and expects this to be an increasingly significant source of revenue going forward

The launch of the Advent Mantis 'MSAT' Man Portable Data System provided an immediate boost to revenues in UK Surveillance sales in 2012 Weighing only 12 5kg and providing a 5Mbps link within five minutes, it provides robust functionality that is now providing secure military communications in operational environments

There are further opportunities for this range to be extended and provide additional solutions for both Surveillance and Broadcast applications

BUSINESS PERFORMANCE TECHNOLOGY

Expenditure on Research and Development in 2012 was £5 1 million (2011 £5 4 million) representing 9 per cent of revenues (2011 11 per cent)

The business has capitalised development costs of £2 8 million (2011 £2 2 million) Amortisation of development costs was £2 6 million (2011 £2 1 million) and this is included in the reported Research and Development expenses in the consolidated Group income statement

Key product introductions included the new 'MSAT' Man Portable Data Terminal which was launched at CABSAT in March 2012 and exhibited prominently at IBC in September 2012 The system is specifically designed for rapid deployment in hostile or emerging environments, but has seen increasing interest for broadcast applications such as news gathering Further products are being developed based on this design concept

Our LiveGear bonded cellular solution exhibited at the Consumer Electronics Show (CES) in Las Vegas in January 2013 Cellular is providing an increasingly important option for news gathering for initial image capture The Group believes it will benefit from its ability to develop a hybrid solution of microwave and cellular for wireless video capture

We are also continuing to expand our 'IP' transport based technologies through both organic teams and third party technology partnerships

Our engineering teams remain focused on continuing to strengthen our market, brand and technology presence We have continued to strengthen our hardware and software design teams and have recruited both graduate and more experienced engineers

BUSINESS PERFORMANCE KEY INDICATORS

The table below sets out the key indicators that are used to measure the performance of the business

Continuing business £m unless otherwise stated	**Group Total 2012**	Group Total 2011	Change %
Orders received	**50.1**	52 8	-5 1%
Revenue	**57.2**	50 3	+13 7%
Material cost margin	**29.3**	26 0	+12 7%
Material margin as a percentage of revenue	**51 2%**	51 7%	-0 5pts
Total operating costs	**26.2**	26 2	0 0%
Adjusted operating profit/(loss)	**3.1**	(0 2)	
Adjusted earnings/(loss) per share (pence)	**2.5p**	(0 2)p	
Net cash generated from operating activities	**3 7**	0 5	

Notes

Material margin is defined as revenue less material costs in cost of sales

Operating costs comprise sales and marketing expenses administration expenses, and the overhead costs associated with Logistics and Research and Development

Adjusted operating profit is defined as operating profit before the amortisation and impairment of goodwill and acquired intangibles and other non-recurring costs Adjusted EPS is calculated on the same basis after taking account of related tax effects

OPERATING AND FINANCIAL REVIEW CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL REVIEW

The Group's reported trading performance is summarised as follows

	2012 £m	2011 £m	Change %
Continuing business			
Revenue	**57 2**	50 3	+13 7
Gross profit	**22.5**	20 7	+8 7
Gross margin %	**39 3%**	41 2%	-1 9pts
R&D expenses	**(5 1)**	(5 4)	-5 6
SG&A expenses	**(14 3)**	(15 5)	-7 7
Adjusted operating profit/(loss)	**3 1**	(0 2)	
Amortisation of acquired intangibles	**(1 6)**	(1 2)	
Non-recurring items	**0 7**	(2 2)	
Reported operating profit/(loss)	**2 2**	(3 6)	
Net finance costs	**—**	—	
Profit/(loss) before tax	**2.2**	(3 6)	
Taxation	**(0 1)**	0 5	
Profit/(loss) after tax – continuing business	**2 1**	(3 1)	
Discontinued activities			
Profit after tax from discontinued operations	**—**	0 3	
Profit/(loss) attributable to equity shareholders	**2.1**	(2 8)	
Basic earnings/(loss) per share – continuing operations	**1.9p**	(2 6)p	
Adjusted earnings/(loss) per share[1] – continuing operations	**2.5p**	(0 2)p	

[1] Adjusted EPS is calculated on operating profit before the amortisation and impairment of acquired intangibles and other non recurring items after taking account of related tax effects

GOODWILL IMPAIRMENT

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill and acquired intangibles might be impaired Given the current uncertain economic environment the Board has undertaken a full impairment review The basis for the review was to assess the strategic plans and to discount the future expected cash flows using the Group's weighted average cost of capital in accordance with IAS 36 "Impairment of Assets" The Board considered the estimated discounted cash flows from the business plan for the next two years and beyond The Board also reviewed the performance in 2012 against the projections used in the impairment review undertaken last year Having reviewed all the relevant calculations and the sensitivities the Board concluded that there had been no impairment in the current year (2011 no impairment)

NON-RECURRING ITEMS

The Group credited £0 7 million of non-recurring costs to the consolidated income statement The credit comprised

- £0 3 million costs associated with a contractual dispute, and
- £1 0 million gain in respect of adjustments to deferred consideration

FINANCE COSTS

There was a net interest credit of £0 03 million (2011 credit of £0 02 million) The Group operated with a net cash balance throughout the year and earned finance income of £0 03 million

TAXATION

There was a net tax charge for the year of £0 1 million (2011 credit of £0 5 million) The current tax charge in the year was £0 2 million (2011 £nil) There was a deferred tax credit of £0 1 million (2011 £0 5 million) The effective tax rate of 5 0 per cent for the year is lower than the standard UK corporation tax rate applicable during the year of 24 5 per cent (2011 26 5 per cent) due to the level of losses utilised in the period and the recognition of previously unrecognised losses

At 31 December 2012 tax payable was £0 01 million (2011 tax payable of £nil)

DISCONTINUED ACTIVITIES

On 29 December 2010 shareholders approved the disposal of the entire issued share capital of HERNIS Scan Systems AS ("HERNIS") to Cooper Industries for £32 5 million The disposal was completed on 30 December 2010 The results of HERNIS have been treated as a discontinued operation The profit from discontinued operations in the year was £nil (2011 £0 3 million)

NET ASSETS

The balance sheet at 31 December 2012 is summarised as follows

	2012 £m	2011 £m
Intangible assets	**28.7**	30 9
Property, plant and equipment	**2.7**	3 6
Other non-current assets and (liabilities)	—	(2 2)
Current assets and (liabilities)	**7 9**	4 6
	39 3	36 9
Cash and cash equivalents	**8 1**	10 2
Net assets	**47 4**	47 1

The increase in net assets in the year of £0 3 million comprises the profit for the financial year of £2 1 million and the value of employee services of £0 2 million, offset by £1 4 million of dividends paid and a foreign exchange loss on translation of overseas operations of £0 5 million

WORKING CAPITAL

Our key metrics for managing working capital are days sales outstanding (DSO) for trade receivables and net inventory days The table below shows that trade receivables have increased to 72 days whilst inventory days have increased due to the introduction of new satcom products We will continue to focus on reducing inventory days into 2013

Days (source: Group management accounts)	**2012**	2011
Trade receivables — days sales outstanding[1]	**72**	63
Inventory days[2]	**119**	95

[1] Trade receivables at the end of the financial year divided by quarter 4 revenue multiplied by the number of days in quarter 4
[2] Net inventory at the end of the financial year divided by quarter 4 material costs of sales multiplied by the number of days in quarter 4

CASH FLOWS

The Group held cash and cash equivalents of £8 1 million at 31 December 2012 (2011 £10 2 million) The table below summarises the cash flows for the year

	2012 £m	2011 £m
Cash generated from operating activities	**3 7**	0 5
Net cash used in investing activities	**(4 3)**	(5 8)
Proceeds from sale of HERNIS	—	0 8
Repayment of borrowings	—	(0 9)
Returns to shareholders	**(1 4)**	(6 6)
Effects of foreign exchange	**(0 1)**	—
Net (decrease)/increase in cash and cash equivalents	**(2 1)**	(12 0)
Cash and cash equivalents at 1 January	**10 2**	22 2
Cash and cash equivalents at 31 December	**8 1**	10 2

OPERATING AND FINANCIAL REVIEW CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2012

There was a net cash inflow from operating activities in the year of £3 7 million (2011 £0 5 million)

The cash outflow from investing activities amounted to £4 3 million (2011 £5 8 million) which comprised £0 1 million in respect of proceeds from the sale of property, plant and equipment (2011 £0 1 million), £1 3 million of deferred consideration paid in respect of previous acquisitions (2011 £0 9 million), £nil paid out in respect of the acquisition of subsidiaries (2011 £2 3 million) and £3 1 million in respect of capital expenditure and the capitalisation of development costs (2011 £2 7 million)

At 31 December 2012 all borrowings had been repaid in full

Returns to shareholders were in the form of a dividend payment of £1 4 million (2011 £1 4 million) In 2011 the returns to shareholders also included a return of £5 0 million through the Tender Offer (a total outflow of £5 2 million including costs)

RETURNS TO SHAREHOLDERS

It is the Group's stated strategy to only recommend a final dividend The Board is recommending that the dividend be maintained at 1 25 pence per share (2011 1 25 pence) The payment of the dividend will absorb approximately £1 4 million of cash Subject to the approval of shareholders, the dividend will be paid on 19 July 2013 to those shareholders on the register at 28 June 2013

PENSIONS

The Group operates defined contribution pension schemes, where it contributes a pre-determined amount proportionate to the salaries of the participating employee to the scheme

PRINCIPAL RISKS AND UNCERTAINTIES FOR THE GROUP

THE GROUP MAY BE AFFECTED ADVERSELY BY GLOBAL ECONOMIC CONDITIONS

The operating and financial performance of the Group is influenced by the economic conditions of the regions in which it operates, particularly the UK, Continental Europe and the USA The Group is mitigating its reliance on these regions by expanding its activities in Asia/Pacific, the Middle East and Africa However, the current strained global economic conditions and the volatility of international markets could result in a general reduction in business activity and a consequent loss of income for the Group The global credit market conditions mean financial institutions are applying more stringent lending criteria and the availability of debt is low by historical comparison, which may mean that it may be more costly for the Group to raise funds to take advantage of opportunities, should additional funding be required

The Group expects to weather the current economic climate through focus on its existing customers as well as developing new relationships and partnerships through expanding its international presence Improving the operational efficiency of the Group combined with cost reductions already undertaken will help underpin the performance of the Group going forward

RISKS ASSOCIATED WITH THE GROUP'S MARKETS

The markets in which the Group operates are mature and highly competitive with respect to price, geographic distinction, functionality, brand recognition and the effectiveness of sales and marketing

Due to price pressure, the Group may experience fluctuations in future operating results If the Group is unable to offset any reductions in selling prices and margins by increases in volumes and/or by decreases in operating expenses, turnover and profitability may be affected negatively Competition could be intensified due to companies entering certain markets with new products or favourable cost structures In such events Group sales, margins and/or market shares may decrease

Group management and the business units are aware of the competitive risks in the Group's markets and regularly review competitor activity in order to create strategies to protect the Group's position as far as possible

REPUTATIONAL RISKS FOR OPERATIONAL INCIDENTS

Many of the Group's products are for mission critical services, such ensuring live news is available in real time or that mission critical video surveillance is uninterrupted There is the risk that product failure will cause loss of services to Vislink customers, bringing damage to the Group's reputation Customer service and support is a key part of the Group's offering to customers to mitigate such damage

OPERATIONS OVERSEAS

The Group conducts its business in multiple jurisdictions and, as a result, assumes the accompanying risks which may include government regulations, and administrative policies could change quickly Governments could expropriate assets, burdensome taxes or tariffs could be imposed Political changes in the business environment in which the Group operates and economic downturns, political instability and civil disturbances could disrupt the Group's business activities Where appropriate the Group will take out insurance to cover political risks Management monitor the exposure that the Group has to higher risk countries

The Group's business may be affected by the default of customers in respect of monies owed to the Group

As a consequence of its normal operations, the Group often has significant amounts owed to it by its customers In the current market environment, the Group's operating and financial performance may be impacted by increased exposure to the default of customers, which may reduce the Groups cash flows

The Group policy is to limit its exposure by setting credit limits for each customer, where possible by reference to published credit ratings, to manage its exposure In addition, on larger contracts the Group seeks deposits and advance payments to maintain a positive cash flow and to cover its costs

SENIOR MANAGEMENT AND SENIOR PERSONNEL

The Group is dependent on members of its senior management team and skilled personnel Its future success will depend in part on its ability to attract and retain highly skilled management and personnel If the Group does not succeed in attracting and retaining skilled personnel, it may not be able to grow its business as anticipated

Further, the departure of certain senior employees from the Group could, in the short term, have a material adverse effect on the Group's business The Board gives regular consideration to succession planning

FOREIGN EXCHANGE

The Group's exposure to market risk, liquidity risk, credit risk and cash flow interest rate risk remains largely unchanged from the position at 31 December 2011

The Group's principal risks and uncertainties continue to be the impact of foreign exchange rates on margins for non-domestic sales in each of our businesses The Group mitigates this risk as far as possible through hedging expected foreign exchange receipts when appropriate

The Group is exposed to the translational risk of fluctuations in the value of sterling when translating overseas results and assets The exchange risk to the Group in terms of its reported results lies in the translation of the results of our trading entities in the United States The Group accounting policy is to translate the profits and losses of overseas operations using the average exchange rate for the financial year and the net assets and liabilities of overseas subsidiaries at the year end exchange rate It continues to be Group policy not to hedge the foreign currency exposures on the translation of overseas profits or losses and net assets or liabilities as they are considered to be accounting rather than cash exposures

In 2012 the net assets of the Group decreased by £0 1 million on the translation of foreign currency net investments (2011 increased by £0 1 million) as a result of the strengthening of the US dollar against sterling

The principal exchange rates used by the Group in translating overseas profits and net assets into sterling are set out in the table below

Rate compared to £ sterling	**Average rate 2012**	Average rate 2011	**Year end rate 2012**	Year end rate 2011
US dollar	**1 585**	1 60	**1 617**	1 55

If the results for the year to 31 December 2011 had been translated at the 2012 average rate then the translation impact would be to increase prior year revenue by £0 2 million and increase the loss before tax by £0 03 million

RISK MANAGEMENT

The Board regularly reviews the full range of business risks facing the Group The approach adopted is to identify, evaluate and manage the likely impact of risk on the Group's business objectives Where the risks are unavoidable they are managed through business controls and where appropriate through insurance and treasury activities

The Group has a programme of regular risk assessment, which incorporates internal control reviews of both a financial and non-financial nature A process of continuous review has been in place throughout the year at an operating company level to consider the risk environment and the effectiveness of controls The results of reviews, initiatives and progress on implementing control improvements are regularly reported to the Board

John Hawkins
EXECUTIVE CHAIRMAN

Ian Davies
GROUP FINANCE DIRECTOR & COMPANY SECRETARY
25 March 2013

BOARD OF DIRECTORS

AC = Audit Committee
NC = Nomination Committee
RC = Remuneration Committee
* Committee Chairman

JOHN HAWKINS
EXECUTIVE CHAIRMAN
(NC*)

Joined the Board in December 2010 as a Non-executive Director He became Chief Executive on 1 April 2011 and was appointed Executive Chairman on 18 May 2011 He was formerly Chief Executive of Atex Media Command Limited, Chairman of Genus plc and Chairman of Psion plc which was successfully sold in 2012 Prior to that he was Chief Executive of Anite plc where he was responsible for taking the Group from a £68 million loss to a £30 million profit He spent 25 years with Philips Electronics most recently as Global Head of Multimedia and was instrumental in formulating the DVD standard He currently holds a number of non-executive directorships in private companies

IAN DAVIES
GROUP FINANCE DIRECTOR & COMPANY SECRETARY

Joined the Board in August 2012 as Group Finance Director and Company Secretary He previously held the position of Finance Director of Victoria PLC where he was appointed to the Board in March 2007 Prior to this, Ian spent ten years in the aerospace sector, where he had become Financial and Commercial Director of Umeco plc's International Components Division He is a chartered accountant and an engineering graduate

ROBIN HOWE BSC, FCIM
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR
(AC, RC*, NC)

Joined the Board in 2006 He is Chairman of MetaSphere Ltd and Spinflow GmbH and is a director of Access2 Ltd He also advises and invests in a number of early stage companies Previously he was CEO of UDEX Holdings Ltd and headed the Broadcast Systems Division of VITEC Group plc Robin has built a career running successful technology businesses

OLIVER ELLINGHAM BA, ACA
INDEPENDENT NON-EXECUTIVE DIRECTOR (AC*, RC, NC)

Joined the Board in October 2007 He is a former Head of Corporate Finance (Europe) at BNP Paribas and senior executive within BNP Paribas UK He also previously held senior management roles within Charterhouse Bank and Robert Fleming Oliver previously served as a Non-executive Director with the Irish Bank Resolution Corporation Limited, McCarthy & Stone plc, Notting Hill Housing Trust and Cenkos Securities plc He currently holds non-executive directorships in a number of companies including the Naafi Pension Fund Oliver is also Chairman and owner of Woking Storage Solutions

JOHN VARNEY BA
INDEPENDENT NON-EXECUTIVE DIRECTOR (AC, RC, NC)

Joined the Board in October 2011 He has spent 35 years in the broadcast industry, including Director of Technology and Chief Technology Officer for Granada He was Global Chief Technology Officer at the BBC, and has spent the last five years working as an adviser and Non-executive Director for emerging technology companies, combined with work across a broad range of organisations inside and outside the broadcast sector John is a member of OFCOM's Advisory Committee for England

ANDREW SLEIGH MA, FINSTP, CPHYS
INDEPENDENT NON-EXECUTIVE DIRECTOR (AC, RC, NC)

Joined the Board in October 2011 He has worked primarily within the Ministry of Defence and was Group Managing Director of the Defence and Technology sector at QinetiQ plc, going on to become the Group Technology Officer Andrew holds several advisory positions, including Vice Chair to the European Advisory Group for security research and between 1998 and 2009 he was a member of the OFCOM Spectrum Management Advisory Board Andrew is an Adjunct Professor at Imperial College Business School

DIRECTORS' REPORT

The directors present the annual report of Vislink plc together with the audited Group financial statements for the year ended 31 December 2012, which were approved by the directors on 25 March 2013 The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) The Company financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP)

PRINCIPAL ACTIVITIES, FUTURE DEVELOPMENTS AND REVIEW OF THE BUSINESS

Vislink plc ("the Company") and its subsidiaries (together "the Group") is a global technology business specialising in the collection and delivery of high quality video and associated data from the field to the point of usage Vislink provides solutions to the broadcast market for the collection of live news, sport and entertainment events and to the surveillance market including defence, law enforcement and public safety With offices in the UK, USA, Australia, UAE, South Africa, Singapore and manufacturing operations in the UK and the USA we employ over 200 people worldwide and have net assets of £47 million Our solutions include the design and manufacture of microwave radio, satellite transmission and wireless camera systems An overview of the Group's activities is given on pages 4 to 5, which is incorporated into this report by reference

A review of the Group's trading and an indication of future developments are contained in the Executive Chairman's Statement and the Operating and Financial Review on pages 6 to 27 Details of turnover and operating profits for each business unit are contained in note 5 to the consolidated financial statements The principal subsidiaries that contribute to the profits and net assets of the Group in the year are listed in note 32 to the Group financial statements

Vislink plc is incorporated in England (company registration number 4082188) and has its registered office at Marlborough House, Charnham Lane, Hungerford, Berkshire, RG17 0EY

RESULTS AND DIVIDENDS

The results for the year ended 31 December 2012 are set out in the consolidated income statement on page 48 The Group has reported an operating profit from its continuing activities of £2 2 million (2011 loss of £3 6 million) After accounting for net finance costs the consolidated income statement shows a profit before taxation of £2 2 million (2011 loss of £3 6 million)

After taxation and the profits from discontinued activities the profit attributable to shareholders was £2 1 million (2011 loss of £2 8 million)

The directors are recommending a final dividend of 1 25 pence (2011 1 25 pence) per ordinary share amounting to £1 4 million payable on 19 July 2013 to shareholders on the Company's register at the close of business on 28 June 2013 The shares will be quoted ex dividend from 26 June 2013

DIRECTORS

The directors of the Company who served during the year are as follows

- John Hawkins (Executive Chairman)
- Ian Davies (Group Finance Director and Company Secretary) (appointed 9 August 2012)
- Robin Howe (Senior Independent Non-executive Director)
- Oliver Ellingham (Non-executive Director)
- John Varney (Non-executive Director)
- Andrew Sleigh (Non-executive Director)
- James Trumper (Group Finance Director and Company Secretary) (retired 31 August 2012)

Short biographies of each current director are provided on page 28 to 29

In accordance with the Company's Articles of Association, Oliver Ellingham will retire by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting The Company's Articles of Association require any new directors appointed by the Board to retire from office and offer themselves for election by shareholders at the next Annual General Meeting following their appointment Ian Davies therefore seeks election by shareholders this year James Trumper retired from the Board on 31 August 2012

Details of the directors' service contracts and letters of appointment are given in the Remuneration Report on pages 38 to 44 Disclosure of the directors' interests in shares, including share options, is also given in the Remuneration Report During the year the Group maintained insurance providing liability cover to its directors and officers

MATERIAL INTEREST IN CONTRACTS

No director, either during or at the end of the financial year, was materially interested in any significant contract with the Company or any subsidiary undertaking

SHARE CAPITAL

Details of the Company's share capital are shown in note 25 to the consolidated financial statements

The Company's share capital comprises one class of ordinary shares and as at 25 March 2013 there were in issue 113,902,230 fully paid ordinary shares of 2 5 pence each All shares except for those held by the employees' share trust are freely transferable and rank *pari passu* for voting and dividend rights

In accordance with the Transparency Rules of the Financial Services Authority, the Company has been notified of the following interests in more than 3 per cent of the Company's issued share capital at 28 February 2013 (being the last practicable date before the production of this report)

	Number of shares	per cent
Ferlim Nominees Limited	28,734,950	25 23
Barclayshare Nominees Limited	7,499,576	6 58
HSBC Global Custody Nominee (UK) Limited	4,675,655	4 10
L R Nominees Limited	4,223,260	3 71
TD Direct Investing Nominees (Europe) Limited	4,151,940	3 65

FIXED ASSETS

In the opinion of the directors the current open market value of the Group's interest in land and buildings is in line with the book value There would be no tax liability if the land and buildings were sold at book value

RESEARCH AND DEVELOPMENT

The Group recognises the importance of investing in research and development programmes that result in innovative new products for the Group as well as improvements to existing products Expenditure on Research and Development charged to the income statement amounted to £5 1 million in the continuing business (2011 £5 4 million) Further details of our development activities are given in the operating and financial review on pages 22 to 27

FINANCIAL RISK MANAGEMENT

The Group's policies on financial risk management are set out in note 3 to the consolidated financial statements

SOCIAL RESPONSIBILITY

The Board takes regular account of the significance of social, environmental and ethical matters The following specific matters fall under the broad definition of Social Responsibility

EMPLOYEES

The Group recognises the role that its employees play in its success Each business unit within the Group has lines of communication in place to ensure that employees are consulted with and kept informed of issues relevant to them Staff notices, emails and staff meetings are used to communicate immediate issues to them The Executive Chairman presents a half yearly review to all staff either in person or via a broadcast link In addition, the businesses produce their own newsletters for both internal and external purposes

The Group provides employees with access to training carried out both within the organisation and on external accredited courses that are relevant to an employee's role and development

It is the policy of the Group not to discriminate between employees or potential employees with disabilities or on the grounds of age, race, religion, sex or political belief and to offer the same employment opportunities, training, career development and promotion prospects to all

Applications for employment by disabled persons are always fully considered bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged It is the policy of the Group that the training, career development and promotion of a disabled person, so far as possible, be identical with that of other employees

EMPLOYEE SHARE SCHEME INCENTIVES

Vislink plc operates a number of share based incentive schemes on an all UK employee and discretionary basis for the benefit of the Group's employees and its senior management The aim of the share based incentive schemes is to align the interests of the employees with those of the Company's shareholders To encourage employee interest and participation in the financial performance of the Group, a Vislink plc Share Incentive Plan and a savings related share option scheme (SAYE) are in place

At 31 December 2012 the Employee Share Ownership Plan (ESOP) held 840,000 (2011 840,000) shares in the Company representing 0 7 per cent of the issued share capital (2011 0 7 per cent) The ESOP has waived its rights to receive dividends

HEALTH AND SAFETY

It is the policy of the Group to ensure the health and welfare of employees by maintaining a safe place and system of work This policy is based on the requirements of national employment legislation in the countries where the Group operates, including the Safety, Health and Welfare at Work Act 1989

ENVIRONMENTAL MANAGEMENT

The Group is committed to environmental management through a process of continuous improvement As manufacturers of electronic equipment the Group's businesses are compliant with the latest legislation for the European Union (EU) directives regarding Waste Electrical and Electronic Equipment (WEEE) and the Restriction of Hazardous Substances (RoHS)

DIRECTORS' REPORT CONTINUED

Vislink International has achieved the international environmental management system standard of ISO 14001 for its operations, we are committed to delivering our environmental policy and minimising our impact on the environment by reducing our waste and carbon footprint through energy management and recycling schemes Our US factory is registered with the environment agency and has a producer compliance scheme for the recycling of all electrical and electronic waste produced on site All our businesses are conscious of the need to reduce their waste and carbon footprint through energy management and recycling schemes

The Group actively encourages all shareholders to contribute towards a greener countryside by registering for our registrar's eTree service under which we dedicate a tree to be planted on each registered shareholder's behalf in a UK reforestation area This can be accessed through the investors' page on the Group website at www vislink com

CREDITOR PAYMENT POLICY

The Group operates a decentralised supplier payment system It is the Group's policy that payments to suppliers are made in accordance with those terms agreed between each operating company and its suppliers, provided that all trading terms and conditions have been complied with The aggregate creditor days for the UK subsidiaries was 48 days (2011 60 days)

The Company is a holding company and has minimal trade purchases, therefore, its numbers of days' purchases outstanding is not meaningful

CHARITABLE AND POLITICAL DONATIONS

The Group made a number of charitable donations in support of local communities totalling £2,289 through its UK and overseas subsidiaries during the year (2011 £3,099) No political donations were made

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 29 Cloth Fair, London, EC1A 7NN on Wednesday 22 May 2013 at 12 00 noon Share capital resolutions will be proposed at the Annual General Meeting to renew for a further year the directors' authority to allot equity securities for cash other than to existing shareholders on a pro rata basis and to authorise purchases by the Company of its own shares

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

In the case of the individuals who are directors of the Company at the date when this report was approved

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- each of the directors has taken all the steps they ought to have taken individually as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

CORPORATE GOVERNANCE

The Company's statement on corporate governance can be found in the Corporate Governance Statement on page 33 of these financial statements The Corporate Governance Statement forms part of this directors' report and is incorporated into it by its cross-reference

INDEPENDENT AUDITORS

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting

By order of the Board

Ian Davies
GROUP FINANCE DIRECTOR & COMPANY SECRETARY
25 March 2013

CORPORATE GOVERNANCE STATEMENT

The Group is committed to high standards of corporate governance, which it considers are critical to business integrity and to maintaining investors' and other stakeholders' trust in the Group The Group expects all directors and employees to act with honesty, integrity and fairness With an international presence, the Group strives to act in accordance with the laws and customs of the countries in which it operates, adopt proper standards of business practice and procedure, operate with integrity, and observe and respect the culture of every country in which it does business

This report shows how the principles of corporate governance contained in the UK Corporate Governance Code ("the Code") have been applied by the directors For the purpose of applying the Code the Group qualifies as a smaller company

STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

As part of the commitment to maintaining the high standards of corporate governance, the Board applies, where they are deemed appropriate, the principles of corporate governance as set out in the Code Throughout the year ended 31 December 2012 the Group has been in compliance with all relevant provisions set out in the Code except for the following matters

Following the retirement of James Trumper on 31 August 2012, Ian Davies was appointed Group Finance Director and Company Secretary on 9 August 2012

The role of Chairman and Chief Executive continues to be combined (since May 2011) by John Hawkins under the role of Executive Chairman, which continues to be considered not independent

The Board structure therefore comprises four independent Non-executive Directors and an Executive Chairman and Executive Finance Director

Further explanation of how both the main provisions and the supporting provisions of the Code have been applied is set out below and, in connection with directors' remuneration, in the Remuneration Report on pages 38 to 44

THE ROLE OF THE BOARD

BOARD COMPOSITION AND OPERATION

The size of the Board and the balance between executives and non-executives is considered to be appropriate to the Company's size and scope of activities and provides for effective operation The Board currently comprises an Executive Chairman, four Non-executive Directors and an Executive Director All the Non-executive Directors are considered by the Board to be independent Robin Howe is the nominated Senior Independent Director and is available to shareholders if they have concerns that cannot be addressed through the normal channels

The Board has approved a formal schedule of matters reserved for its decision which it reviews annually The Board makes decisions and reviews and approves key policies and decisions of the Group in particular relating to

- Strategy and values,
- Corporate governance,
- Structure and capital,
- Financial reporting and external communications,
- Annual operating and expenditure budgets,
- Treasury policies,
- Significant capital and revenue projects,
- Risk management strategies including approach to/appetite for risk,
- Systems for internal control,
- Board and key management appointments,
- Remuneration policies,
- Acquisitions and disposals, and
- Any other matter which has a material consequence for the Group

The Board has delegated all authorities other than those contained in the schedule of matters reserved to the Executive Directors on the understanding that they will at all times act in accordance with the best interests of the Group, its shareholders and staff and that their actions will be consistent with the Group's financial and strategic plans and objectives and in conformity with relevant legislation and best practice and that they will report regularly to the Board on the execution of these responsibilities

The Board has also established three permanent committees the Audit Committee, the Nomination Committee and the Remuneration Committee These operate within defined terms of reference, which are reviewed by the Board annually Full details of the terms of reference are provided on the Group website at www vislink com

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Board met ten times during the year, excluding ad hoc meetings convened solely to deal with procedural matters Attendance at Board and Committee meetings during 2012, expressed as the number of meetings attended compared to the number entitled to attend, was as follows

	Board No Attended	Audit No Attended	Remuneration No Attended
John Hawkins	10/10	3*/3	4*/5
James Trumper	7/7	2*/2	1*/4
Robin Howe	9/10	2/3	5/5
Oliver Ellingham	10/10	3/3	5/5
John Varney	10/10	3/3	4/5
Andrew Sleigh	10/10	3/3	4/5
Ian Davies	4/4	2*/2	0†/0

* In attendance for part of the meeting
† N/A Not a member of the Committee

At the invitation of the relevant committees, the Executive Chairman and Financial Director usually attend Audit Committee meetings and the Executive Chairman attends the Remuneration Committee meetings other than when his own remuneration is discussed Where directors are unable to attend Board meetings they are advised of the matters to be discussed in advance of the meeting and given the opportunity to provide their views to the Executive Chairman or Senior Independent Director

In addition to the formal scheduled meetings the Board held informal discussions with executive directors and senior operational managers on strategy, business development and other topics important to the Group's progress throughout the year Non-executive Board members were invited to attend the executive management meetings in furtherance of these discussions

The Executive Chairman is responsible for the running of the Board He ensures that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings In his executive capacity his responsibilities focus on co-ordinating the Company's business and implementing Group strategy as set by the Board The Company Secretary is responsible for ensuring that Board procedures are complied with All directors are able to take independent professional advice in furtherance of their duties if necessary and have access to both the Company Secretary and the Senior Independent Director

The terms of appointment for the Non-executive Directors are available for inspection at the Company's registered office during normal business hours and for 30 minutes prior to, and during, the Annual General Meeting (AGM) All directors offer themselves for re-election at the first AGM subsequent to their appointment and at least once every three years thereafter Ian Davies was appointed during the year and a resolution proposing his election will be put to the forthcoming AGM Oliver Ellingham retires from office by rotation and offers himself for reappointment by shareholders Biographical information and terms of appointment for each of the directors are set out on pages 28 to 29, and pages 38 to 44 All other directors have been re-elected within the last three years The Executive Chairman confirms that, having taken into consideration the results of the performance evaluation undertaken in the year, the directors being proposed for re-election have demonstrated commitment to their responsibilities and continue to perform effectively

New directors receive a formal induction on joining the Board appropriate to their level of knowledge and experience and are encouraged to visit different areas of the Group as part of a familiarisation programme A Board meeting is held at one of the Group's overseas locations at least once every other year to allow all directors to meet with local senior management in their environment

Appropriate directors' and officers' liability insurance cover has been in place throughout the year and is approved by the Board as part of the global insurance programme

EXECUTIVE CHAIRMAN

The role of Chairman and Chief Executive was combined under John Hawkins on 18 May 2011 The Board sees this as an appointment for three years in order to execute the current growth strategy that has been announced to shareholders At the end of this term the Board expects the role of Chairman and Chief Executive to be separated

BOARD PERFORMANCE EVALUATION

The directors confirm that they have conducted an evaluation of the performance and effectiveness of the Board for 2012 The directors met with the Executive Chairman on a one-to-one basis and discussed matters of performance, structure, objectives and process of the Board and its individual members The results were then reported back to the Board The Board identified and agreed actions where appropriate The directors addressed any comments on the Executive Chairman's performance to the Senior Independent Director The evaluation of the Executive Chairman's performance during the year was led by the Senior Independent Director

THE AUDIT COMMITTEE

MEMBERSHIP AND DUTIES

The Audit Committee is chaired by Oliver Ellingham As a qualified Chartered Accountant, Oliver has the relevant financial experience as required by the Code Robin Howe, Andrew Sleigh and John Varney served on the Committee throughout the year

The Code allows the company chairman to be a member of the Audit Committee, provided that the company was outside the FTSE350 and the chairman was considered independent on his appointment as chairman

The Executive Chairman and Financial Director are normally invited to attend each Committee meeting as are the external auditors, who have direct access to the Chairman of the Committee at all times The Committee also meets with the external auditors without the presence of executive directors, for independent discussions

The Audit Committee's responsibilities include making recommendations to the Board regarding the appointment of the external auditors based on its review of the scope of work, cost-effectiveness and independence of the external auditors, keeping under review the effectiveness of the Group's system of internal controls and risk management and reporting to the Board its findings, reviewing the internal control review programme, monitoring the financial reporting process, reviewing and challenging the actions and judgements of management in relation to the interim and annual financial statements before submission to the Board, reviewing the Company's arrangements for its employees to raise concerns in confidence about possible wrongdoing, and reviewing the Company's procedures for detecting fraud

In order to ensure the independence and objectivity of our auditors, PricewaterhouseCoopers LLP, the Committee regularly reviews the remuneration received by them for audit services, audit-related services and non-audit work These reviews ensure a balance of objectivity, value for money and compliance with our requirement for independence The outcome of these reviews was that the performance of non-audit work by our auditors was the most cost-effective way of conducting our business and that no conflicts of interest existed between such audit and non-audit work

There are certain areas in which the Committee considers that the external auditors can add value to the Group, without compromising their independence In accordance with the Group's policy on non-audit services, the Group received non-audit services during the year related to tax compliance and tax advice Any significant non-audit work undertaken by the external auditors was approved by the Audit Committee to ensure that the auditors' independence was not compromised These reviews enabled the Audit Committee to confirm that it continues to receive an efficient, effective and independent audit service

The Audit Committee confirms that it has conducted an assessment of the external auditors and determined that adequate policies and safeguards are in place to ensure that their independence and objectivity has not been impaired Audit partners are rotated at least every five years

ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee met three times during the year and once up to the date of this report in 2013 and reported its conclusions to the Board In these meetings the Audit Committee has

- reviewed the accounting policies,
- reviewed the preliminary announcement of the financial results of the Group for the year ended 31 December 2011, 31 December 2012 and the 2012 interim results prior to approval by the Board,
- considered and reviewed the 2011 and 2012 annual report and financial statements and the 2012 interim report, paying particular attention to critical areas of management judgement, together with the external auditors' reports,
- considered and discussed the audit plan with the external auditor for the 2012 audit,
- considered and recommended to the Board the reappointment of the auditors which will be put to shareholders for approval at the AGM,
- reviewed and considered reports from internal control visits and the external auditors on the effectiveness of the system of internal control, and reported to the Board on the results of the review,
- reviewed the reports from management on the Group's main risks and the assessment and mitigation of those risks,
- approved the statutory audit fee for 2012, and reviewed non-audit fees paid to the external auditors to ensure they were in accordance with the Group's policy,
- monitored the independence and undertook an evaluation of the effectiveness of the external auditors,
- reviewed the policies introduced to comply with the UK Bribery Act 2010, and
- reviewed the Code of Conduct which sets out how the Group's employees are able to raise concerns over financial or other irregularities in confidence This policy was in place throughout the year

In addition, the Audit Committee reviewed the need for an internal audit department and concluded that there was not a requirement given the present size of the Group and internal control reviews undertaken by the head office function

CORPORATE GOVERNANCE STATEMENT CONTINUED

THE NOMINATION COMMITTEE

John Hawkins chairs the Nomination Committee Oliver Ellingham, Robin Howe, John Varney and Andrew Sleigh served on the Committee throughout the year The Group Company Secretary also attends the meetings

The Nomination Committee reviews the structure, size and composition of the Board It also ensures that there is adequate succession planning in regard to Board and senior management appointments

There were no formal meetings of the Committee during the year

THE REMUNERATION COMMITTEE

Details of the Remuneration Committee and the Group's compliance with the requirements of the Code are provided in the Remuneration Report as set out on pages 38 to 44

RELATIONS WITH SHAREHOLDERS

The Board welcomes enquiries from both institutional and private investors throughout the year and responds quickly either verbally or in writing to enquiries received from both The Executive Chairman and the Finance Director meet at regular intervals with institutional investors to discuss the Group's performance and objectives The Non-executive Directors are available to attend meetings with shareholders if they are requested to do so

The Group, via its website at www vislink com, provides up-to-date information on the Company and its operating subsidiaries, including all stock exchange announcements and downloadable copies of the most recent report and accounts and interim statements The website also provides a communication channel to the Group via email Shareholders may elect to receive all shareholder documents electronically by registering with the Group's registrars

The Company uses its AGM as an opportunity to communicate with its shareholders and encourages their participation As in previous years, it is the intention of the Board to incorporate a presentation reviewing the Group's objectives and strategy, followed by a question and answer session with members of the Board at the next AGM on 22 May 2013 The notice of the AGM is sent to shareholders at least 21 working days in advance of the date of the meeting and contains details of the separate resolutions that are proposed for shareholder approval The notice of the AGM separately accompanies the annual report Separate resolutions are proposed on each substantially different issue and the number of proxy votes cast for each resolution is disclosed by the Chairman at the meeting Shareholders have the option of submitting their voting instructions electronically or by returning the personalised proxy form which separately accompanies the annual report

The notice of meeting for the forthcoming AGM separately accompanies the Annual Report and may be viewed on the Company's website (www vislink com/news)

Documents relating to the Company's governance and the full terms of reference of its standing Committees are also available on the Company's website (www vislink com/investors/governance)

FINANCIAL REPORTING

Reviews of the performance and financial position of the Group are included in the Executive Chairman's Statement and the Operating and Financial Review on pages 6 to 27 The Board uses these, together with the Directors' Report on pages 30 to 32, to present a balanced and understandable assessment of the Group's position and prospects

The directors' responsibilities in respect of the Group financial statements are described in the Statement of Directors' Responsibilities on page 45

RESPONSIBILITY FOR RISK AND INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control although it should be recognised that it can provide only reasonable and not absolute assurance against material misstatement or loss The effectiveness of the Group's system of internal control has been reviewed by the Board during the year having special regard to the structural and cultural changes implemented during the year

The directors confirm that the internal control framework is consistent with the revised Turnbull Guidance, that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Group, which is regularly reviewed by the Board, and that this process was in place throughout the year ended 31 December 2012 and up to the date of this report

The Group has an internal control system in place which is designed to protect shareholders' investments by safeguarding the assets of the Group and facilitating its efficient operation The Board considers that strong internal controls are integral to the sound management of the Group, and it is committed to maintaining strict financial, operational and risk management control over all its activities

It is recognised that there are risks associated with achieving the Company's growth strategy The Board aims to take business risks in an informed and proactive manner, such that the level of risk is aligned with the potential business rewards Management regularly review risk exposures against current business risk level tolerances The aim of risk management is to provide reasonable assurance that the risks associated with achieving business objectives are understood and that these risks are being responded to appropriately at all levels within the organisation

The key elements of internal control within the Group to monitor the key risks are described below

CONTROL ENVIRONMENT

There is a clear organisation structure in place, levels of authority are well defined and responsibility for operational control of the business units is delegated to managing directors Whilst management guidelines and a comprehensive management reporting package are in place for all subsidiaries, the Group also monitors these controls by a number of means including regular internal review

IDENTIFICATION AND EVALUATION OF RISKS AND CONTROL OBJECTIVES

The Board has the primary responsibility for identifying and evaluating the major risks facing the Group and developing appropriate policies and procedures to manage them It identifies the key risks faced by the Group, and delegates responsibility for managing those risks to executive and senior management The effectiveness of the risk control procedures in place is reported to the Board on at least an annual basis

FINANCIAL REPORTING

The Group operates a comprehensive budgeting, financial reporting and forecasting system Each operating entity is required to complete management accounts on a monthly basis which compare actual results with budget, forecast and prior year, these are reviewed at both executive and Board level meetings to ensure that variances and discrepancies are identified and acted upon on a timely basis

Towards the end of each financial year the operating entities prepare budgets for the following year The Board reviews budgets before they are formally adopted The Group reports to its shareholders at the half year and full year ends as well as through Interim Management Statements

MAIN CONTROL PROCEDURES AND MONITORING SYSTEMS USED BY THE BOARD

There are a number of key control procedures in place that are reviewed on an annual basis by the Board These cover the key risks faced by the Group and are predominantly of an operational and financial nature

The Group finance function consolidates the Group results monthly, and a full financial review is presented at each Board meeting, accompanied by appropriate Key Performance Indicators for the Group Each Group entity compiles forecasts of profits and cash flows reflecting their current expectations, which are also monitored by the Board In addition the Board considers the following matters

- Commercial risk All significant commercial contracts are reported to the Board and are controlled by the use of appropriate vetting processes and authorisation levels
- Investment appraisal The Group has a clearly defined framework for controlling and reporting acquisitions, disposals and capital expenditure including the use of appropriate authorisation levels
- Legal matters Significant litigation and legal matters are reported to the Board
- Operating business financial controls The executive management have defined the financial controls and procedures that each operating entity is required to comply with Key controls over major business risks include reviews against key performance indicators and exception reporting The operating entities make periodic assessments of their exposure to major business risks and the extent to which these risks are controlled These are reviewed by the executive management and reported to the Board
- Strategic planning The executive management are responsible for keeping the Board appraised of the Group strategy The Board reviews strategic plans as part of the ongoing business planning process and has been closely involved in the review of the strategy undertaken during 2011
- Computer systems Much of the Group's financial management information is processed by and stored on computer systems Accordingly the Group has established controls and procedures over the security of data held on computer systems The Group operates a Group-wide ERP system Acquisitions are moved across to this system as part of the post acquisition integration process whilst being careful to ensure that the ability of the business to continue to operate effectively is not impaired
- Insurance The Group's programme of insurance covers the major risks to the Group's assets and business and is reviewed annually by the Board
- Internal Audit The Group does not have an internal audit function although the head office team fulfils some functions of an internal audit department and has undertaken internal control reviews throughout the financial year The directors believe the Group falls into the category of small for this purpose The Audit Committee reviews the need for an internal audit department at least annually

GOING CONCERN

The Directors are required to make an assessment of the Group's ability to continue to trade as a going concern Because of the difficult prevailing economic and market conditions this assessment has been subject to close scrutiny by the Board The Directors have given this matter due consideration in the light of current trading and of its current net cash position and have concluded that it is appropriate to prepare the Group financial statements on a going concern basis

By order of the Board

Ian Davies
GROUP FINANCE DIRECTOR &
COMPANY SECRETARY
25 March 2013

REMUNERATION REPORT

This report has been prepared in accordance with the Companies Act 2006 ("the Act"), the Listing Rules of the Financial Services Authority and the UK Corporate Governance Code ("the Code")

As required by the Act, a resolution to approve the report will be proposed at the next AGM of the Company at which the Group financial statements will be approved

The Act requires the auditors to report to the Company's members on the "auditable part" of the Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Act The report has therefore been divided into separate sections for the audited and unaudited information

UNAUDITED INFORMATION

REMUNERATION COMMITTEE

The responsibilities of the Committee are to advise upon and make recommendations to the Board on the Group's remuneration policies and, within the framework established by the Board, to recommend the remuneration of the Executive Directors The Executive Chairman is invited to attend meetings to discuss remuneration packages and bonus schemes for senior executives within the Group

The Remuneration Committee is constituted in accordance with the recommendations of the Code Robin Howe chairs the Committee Oliver Ellingham, John Varney and Andrew Sleigh served on the Committee throughout the year

No member of the Committee has any personal financial interest (other than as a shareholder), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business The Committee makes recommendations to the Board

The Remuneration Committee will measure the performance of the Executive Directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards and share plan awards to the Board for final determination The remuneration of the Non-executive Directors is recommended by the Executive Directors and takes account of the time spent on Board and committee matters The Board as a whole will make the final determination but no director plays a part in any discussion about his own remuneration The Remuneration Committee has access to both internal and external advice including, where appropriate, information on the remuneration of similar executives in comparable organisations

REMUNERATION POLICY

It is the policy of the Board to ensure that remuneration packages offered to Executive Directors and senior management are designed to be competitive to attract, motivate and retain executives of the high calibre needed for the long term development of the Group and to reward them for enhancing value to shareholders

There are four main elements of the remuneration package for Executive Directors and senior management

- Basic annual salary (including directors fees) and benefits,
- Annual bonus payments,
- Share incentive schemes, and
- Pension arrangements

The Group's policy is that a substantial and increasing proportion of the remuneration of Executive Directors and senior management should be performance related As described below, Executive Directors and senior management may earn annual incentive payments in addition to their basic salary together with the benefits of participation in share incentive schemes

BASIC SALARY AND BENEFITS

Each Executive Director's basic salary and benefits are reviewed annually having regard to performance and are intended to be competitive but fair using information provided from both internal and external sources Whilst salaries will continue to be benchmarked against an appropriate peer group by the Remuneration Committee's advisers, the Committee intends that basic salaries should normally be increased by not more than the rate of inflation each year whilst progressively increasing the performance related element of pay Benefits include the provision of a car allowance, private medical insurance, life assurance and permanent health insurance

The Executive Chairman recommends the salaries of senior managers to the Remuneration Committee These are also benchmarked against an appropriate peer group However, for senior managers the amount of performance related pay, being a combination of cash bonus and long term incentives, is expected to increase over time

Executive Directors' salaries were reviewed at the beginning of 2011 and a decision was taken to freeze them at their 2010 level This policy was repeated at the beginning of 2012 and 2013

PERFORMANCE RELATED BONUS

The Remuneration Committee establishes the objectives that must be met each financial year for a cash bonus to be paid Bonus parameters address the financial performance of the Group as well as key goals and strategic objectives

The Executive Directors are entitled to an annual cash bonus that is capped at 100 per cent of basic annual salary Senior managers within the Group can earn up to 60 per cent of their base salaries as performance related bonuses against the same performance criteria as the Executive Directors

For the financial year beginning 1 January 2012, the Remuneration Committee determined the performance metrics and their weighting to be as follows

	Weighting
Adjusted operating profit	50 0%
Orders received growth target	12 5%
Revenue growth target	12 5%
Material margin percentage target	12 5%
Operating cash flow	12 5%
Total	100 0%

There was an overriding condition that no performance related cash bonus could be earned unless the Group achieved an adjusted operating profit of £2 8 million (defined as profit before net finance costs, amortisation of acquired intangibles, non-recurring items and taxation) The specific targets for each of the above parameters were set to accelerate the financial performance of the Group, with bonuses being earned in line with the improvement of the Group's performance The Executive Chairman agreed to convert any cash bonus received in respect of the Group's performance in 2012 into shares in the Company

With regards to 2013, the Remuneration Committee has determined the performance metrics and their weighting to be as follows

	Weighting
Adjusted operating profit	50 0%
Orders received growth target	12 5%
Revenue growth target	12 5%
Material margin percentage target	12 5%
Operating cash flow	12 5%
Total	100 0%

For 2013 there is an overriding criterion that no performance related cash bonus can be earned unless the Group has achieved an adjusted operating profit of £4 2 million (defined as profit before net finance costs, amortisation of acquired intangibles, non-recurring items and taxation) The Executive Chairman has agreed to convert any cash bonus received in respect of the Group's performance in 2013 into shares in the Company

REMUNERATION REPORT CONTINUED

LONG TERM INCENTIVE PLAN (LTIP)

The Vislink plc LTIP was introduced in 2008, and extension approved on 30 May 2012 It is designed to reward and retain executives over the long term whilst aligning their interests with those of shareholders

Details of awards made in the year ended 31 December 2012 can be found in note 25 to the financial statements The principal performance condition in respect of the awards made under the scheme is EPS growth No LTIP awards were made in 2011

SHARE OPTIONS

The Group has historically operated both an HMRC Approved Share Option Scheme and an Unapproved Share Option Scheme The Group's historic policy was to grant options to Executive Directors and senior management at the discretion of the Committee taking into account individual performance and their position in the Group Generally, it was the Group's policy to phase the granting of share options rather than to award them in a single block to any individual

The exercise of options granted to current Executive Directors under the scheme was not dependent upon performance criteria, since the options were awarded as an incentive or for individual past performance

No options were granted to Executive Directors during the year, 700,000 options were granted to senior management at a price of 29 0 pence on 29 March 2012 Details of option grants can be found in note 25 to the consolidated financial statements

The Group operates an HMRC Approved Sharesave Scheme open to eligible employees (including Executive Directors) in the United Kingdom who have worked for the Group for a minimum qualifying period and agree to save a fixed amount for a period of either three or five years under an approved savings contract HMRC rules limit the maximum amount that can be saved by a participant to £250 per month Options in normal circumstances are exercisable for six months following the completion of the savings contract utilising the proceeds of the contract

The Group also operates a Share Incentive Plan (SIP) for all qualifying employees Under the scheme employees can invest a maximum of £1,500 (or local currency equivalent) of their salary a year in Company shares and receive awards of matching shares (currently at the ratio of one matching share for every employee share purchased) provided that they remain employed by the Company for three years and that they retain the shares that they acquired for this period

PENSION ARRANGEMENTS

The Group operates a defined contribution pension scheme and it is the Group's policy that only basic salaries are pensionable for Executive Directors Up until his leaving the Company on 31 August 2012, for James Trumper the Company contributed 20 per cent of his basic salary Ian Davies is entitled to receive 10 per cent of his basic salary towards a private pension scheme or to contribute to the Group scheme No payments have been made into either scheme for Ian Davies as he has yet to finalise his arrangement There are no pension arrangements for the Executive Chairman or the Non-executive Directors There are no unfunded pension promises or similar arrangements for current or previous directors

OTHER BENEFITS

For Ian Davies, other benefits payable include permanent health insurance, a car allowance, life assurance and private medical insurance

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

JOHN HAWKINS

John Hawkins was appointed as a Non-executive Director of the Company by way of a letter of appointment dated 17 November 2010 The letter provided for John joining the Board as Non-executive Chairman elect with a fee of £30,000 per annum He was appointed as Non-executive Chairman pursuant to an agreement for services dated 13 May 2011 The fee for the services is £100,000 per annum The appointment was for an initial term of three years, subject to re-election by shareholders at the first AGM following appointment and then subsequently at least once every three years The appointment can be terminated at the discretion of either party upon six months' notice The agreement does not contain provisions relating to compensation for any early termination of appointment

John Hawkins was appointed as Chief Executive pursuant to a separate agreement for services dated 13 May 2011 Under the agreement John commits 166 working days per annum to the role and such additional time as required to ensure that his duties are fully performed The fee for the services is £260,000 per annum and an entitlement to participate in the executive performance related bonus scheme There is no provision for pension contributions, life assurance, permanent health insurance, car allowance or cost of living increases The appointment can be terminated at the discretion of either party upon twelve months' notice The Company will review in January, on an annual basis, the need to recruit a new Chief Executive, in the event that the Company decides to undertake such recruitment the notice period will be reduced to three months

On 28 March 2012, pursuant to Listing Rule 9 4 2(2), a one-off contingent share award was made to Mr Hawkins over 2,000,000 shares The vesting criteria are based on the average adjusted earnings per share for the three financial years beginning on 1 January 2012 and ending on 31 December 2014 If the average adjusted earnings per share over the three years is less than 3 0 pence no shares will vest; if the average is 3 75 pence the shares will vest in full, between 3 0 pence and 3 75 pence the shares will vest pro rata The award was made to facilitate Mr Hawkins' retention as Chief Executive and Chairman of the Company and it is intended it should vest following the end of the 2014 financial year on 28 March 2015 subject to the satisfaction of the earnings per share performance conditions which apply to the award and, generally, provided that he is still employed by the Company on that date

JAMES TRUMPER

James Trumper left the Company on 31 August 2012 It had been announced on 30 August 2011 that Mr Trumper would leave the Company on 30 April 2012 but it was subsequently agreed that he would delay his leaving as a result of the delayed arrival of the new Group Finance Director, Ian Davies

Mr Trumper had a rolling 12 month service contract dated 23 March 2000, which required one year's notice for termination On termination of the Executive Directors' service contract there was entitlement to predetermined compensation, linked to annual salary and contractual benefits

Mr Trumper was therefore entitled to a retention bonus representing a full year's gross salary of £175,000 and this sum was paid in July 2012 In recognition of Mr Trumper's agreement to delay his leaving date, it was agreed to confirm his inclusion in the 2012 Executive Bonus Scheme to which he would not normally be entitled under the terms of the contract It was agreed that Mr Trumper would receive 75 per cent of his bonus entitlement, calculated according to the rules of the scheme and based upon the audited results for 2012 on the basis that he had been employed for the full year The Committee agreed that the minimum bonus payment would be £60,000, subject to the overriding criterion that the Group had achieved the profit before tax target of £2 8 million If the target was not met then there would be no bonus entitlement

Based on the 2012 Management Accounts, the £2 8 million target had been met and the amount of £60,000 was paid to Mr Trumper in January 2013

All share option awards had to be exercised before 28 February 2013 or they would have lapsed His LTIP share awards lapsed on 31 August 2012

IAN DAVIES

Ian Davies was appointed as Group Finance Director on 9 August 2012 and has a Service Agreement dated 25 April 2012 Mr Davies' Service Contract requires not less than six months' notice in writing by either party

On 15 December 2012 the Remuneration Committee granted a conditional nil cost share award over 404,000 shares to Mr Davies under the Vislink plc Long Term Incentive Plan (the "LTIP") approved by shareholders on 7 March 2008, and extension approved on 30 May 2012 The shares will be released in three years' time subject to continued employment and the Company's achievement of EPS performance conditions which apply to this award

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Non-executive Directors serve under letters of appointment for a period of five years which continue until terminated by either party giving one month's written notice They are subject to election by shareholders at the first AGM following their appointment and to re-election at least once every three years thereafter None of the Non-executive Directors' letters of appointment contain provisions relating to compensation for any early termination of appointment

Robin Howe was appointed a Non-executive Director of the Company by way of a letter of appointment dated 4 April 2006 On 6 April 2011 his appointment was extended for a second term of five years Oliver Ellingham has a letter of appointment dated 26 September 2007 On 6 April 2011 his appointment was extended for a second term of five years John Varney and Andrew Sleigh have letters of appointment dated 19 September 2011

REMUNERATION REPORT CONTINUED

The remuneration of the Non-executive Directors is determined by the Chairman together with the executive members of the Board, taking into account current practices in other similar companies The Board reviews the fee levels on an annual basis and following the review in 2012 it was decided to leave fees unchanged The Non-executive fees have remained unchanged since April 2007

The Non-executive Directors cannot participate in the Company's share option schemes, do not participate in any performance related bonus schemes and are not eligible to join the Company's pension scheme

AUDITED INFORMATION

AGGREGATE DIRECTORS' REMUNERATION

Directors' emoluments and pension contributions for the year ended 31 December 2012 were as follows

	Basic salary & fees £	Performance related bonus £	Benefits £	Emoluments before pension contributions £	Pension contributions £	Termination payments £	**2012 Total £**	2011 Total £
Executive Directors								
J Hawkins	360,000	—	8,512	368,512	—	—	**368,512**	268,750
J Trumper (to 31 August 2012)	123,067	—	11,232	134,299	23,333	175,000	**332,632**	227,073
D Lewis (to 31 March 2011)	—	—	—	—	—	—	—	251,258
I Davies (from 8 August 2012)	69,776	—	7,760	77,536	—	—	**77,536**	—
Non-executive Directors								
R Howe	30,000	—	—	30,000	—	—	**30,000**	30,000
O Ellingham	30,000	—	—	30,000	—	—	**30,000**	30,000
J Varney (from 1 October 2011)	30,000	—	—	30,000	—	—	**30,000**	7,500
A Sleigh (from 1 October 2011)	30,000	—	—	30,000	—	—	**30,000**	7,500
T Trotter (to 18 May 2011)	—	—	—	—	—	—	—	25,000
S Bellamy (26 June 2010 to 5 January 2011)	—	—	—	—	—	—	—	2,500
	672,843	—	27,504	700,347	23,333	175,000	**896,680**	849,581

Benefits include the provision of a car allowance and non-cash benefits relating to private medical insurance, life insurance and permanent health insurance for each Executive Director

DIRECTORS' SHARE OPTIONS

Details of share options granted to the Executive Directors are as follows

	Date of Grant	31 Dec 2011	Granted/ (exercised)	Lapsed	31 Dec 2012	Exercise price	Date from which exercisable	Expiry Date
J Trumper	14 April 2005	500,000	—	—	500,000	27 3p	13 April 2008	28 February 2013

The market price of the share options granted at the date of grant equates to the exercise price as the exercise price was based on the average price for the three days immediately preceding the grant

The highest and lowest market prices of the shares during the year were 37 00 pence and 20 63 pence respectively The mid-market price on 31 December 2012 was 25 31 pence

DIRECTORS' INTEREST IN LTIP SHARES

The directors' beneficial interest in the LTIP is shown below

	Award date	Vesting date	Market price of a share on award	Interest at 31 Dec 2011	Awards made in year	Lapsed	Interest at 31 Dec 2012
J Trumper	13 April 2010	13 April 2013	24 25p	875,000	—	(875,000)	—
J Hawkins	28 March 2012	28 March 2015	29 50p	—	2,000,000	—	2,000,000
I Davies	15 Dec 2012	15 Dec 2015	25 99p	—	404,000	—	404,000

SHARESAVE SCHEME

The Vislink plc Sharesave Scheme was introduced in 2000 following approval by the shareholders There are currently no share options granted to the Executive Directors under these schemes

SHARE INVESTMENT PLAN

The Vislink plc Share Investment Plan was introduced in 2008 following approval by the shareholders There are currently no share options granted to the Executive Directors under these schemes

PERFORMANCE GRAPH

Vislink shares are quoted within the TechMARK index, and the directors believe that this provides the most appropriate comparative performance measure The following graph shows the Group's performance, measured by total shareholder return, compared with the performance of the TechMARK The chart shows the theoretical change in value of a shareholding in the Company over the last five years, assuming that dividends are reinvested to purchase additional units of equity at the closing price on the ex dividend date

REMUNERATION REPORT CONTINUED

THE REMAINDER OF THE REMUNERATION REPORT IS UNAUDITED

DIRECTORS' INTERESTS IN SHARES

The beneficial and non-beneficial interests of the directors in office at the end of the year in the share capital of the Company were as follows

	Number of shares		
	31 Dec 2011 or date of appointment if later	31 Dec 2012	Report date
J Hawkins	—	66,700	66,700
J Trumper	465,154	—	—
I Davies	—	—	—
R Howe	1,132,578	1,132,578	1,132,758
O Ellingham	100,000	167,000	167,000
J Varney	—	32,827	32,827
A Sleigh	250,000	450,000	450,000

TRANSACTIONS WITH DIRECTORS

No director is, or has been, interested in any transaction which is, or was, unusual in its nature or conditions, or significant to the business of the Group

SHAREHOLDER APPROVAL OF THE REMUNERATION REPORT

As required by the Companies Act 2006, the Company is proposing an ordinary resolution to its shareholders approving this Remuneration Report

On behalf of the Board

Robin Howe
CHAIRMAN OF THE REMUNERATION COMMITTEE
25 March 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) In preparing the Group financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether IFRSs as adopted by the European Union and IFRSs issued by IASB and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the Company's website, www vislink com Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Each of the directors, whose names and functions are listed on pages 28 to 29, confirm that to the best of their knowledge

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

By order of the Board

Ian Davies
GROUP FINANCE DIRECTOR &
COMPANY SECRETARY
25 March 2013

INDEPENDENT AUDITORS' REPORT

We have audited the Group financial statements of Vislink plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 45, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the directors' statement, set out on page 37, in relation to going concern,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration

OTHER MATTERS

We have reported separately on the parent company financial statements of Vislink plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited

Colin Bates
(SENIOR STATUTORY AUDITOR)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
25 March 2013

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
Continuing operations			
Revenue	5	**57,203**	50,314
Cost of sales		**(34,655)**	(29,613)
Gross profit		**22,548**	20,701
Sales and marketing expenses		**(8,654)**	(8,749)
Research and development expenses		**(5,053)**	(5,361)
Administrative expenses		**(5,751)**	(6,822)
Other expenses	6	**(883)**	(3,403)
Operating profit/(loss)	6	**2,207**	(3,634)
Operating profit/(loss) is analysed as			
Adjusted operating profit/(loss)		**3,090**	(231)
Amortisation of acquired intangibles		**(1,589)**	(1,214)
Non-recurring items	6	**706**	(2,189)
Finance costs	8	**(4)**	(29)
Finance income	8	**29**	46
Profit/(loss) before taxation		**2,232**	(3,617)
Income tax (expense)/income	9	**(112)**	515
Profit/(loss) for the year from continuing operations		**2,120**	(3,102)
Discontinued operations			
Profit for the year from discontinued operations	10	**—**	255
Profit/(loss) for the year being profit/(loss) attributable to owners of the parent		**2,120**	(2,847)
Basic earnings/(loss) per share			
From continuing operations	12	**1.9p**	(2.6)p
From discontinued operations	12	**0.0p**	0.2p
		1.9p	(2.4)p
Diluted earnings/(loss) per share			
From continuing operations	12	**1.9p**	(2.6)p
From discontinued operations	12	**0.0p**	0.2p
		1.9p	(2.4)p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
Profit/(loss) for the financial year		**2,120**	(2,847)
Other comprehensive income			
Exchange difference on translation of overseas operations	26	**(576)**	138
Total comprehensive income/(loss) for the year attributable to owners of the parent		**1,544**	(2,709)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
Assets			
Non-current assets			
Intangible assets	13	**28,676**	30,876
Property, plant and equipment	14	**2,695**	3,560
Deferred tax assets	24	**1,211**	432
Total non-current assets		**32,582**	34,868
Current assets			
Inventories	15	**9,533**	8,540
Trade and other receivables	16	**10,214**	9,769
Cash and cash equivalents	17	**8,131**	10,184
Total current assets		**27,878**	28,493
Liabilities			
Current liabilities			
Trade and other payables	18	**10,893**	12,803
Current tax liabilities	19	**70**	41
Financial liabilities — borrowings	20	**—**	37
Provisions for other liabilities and charges	23	**838**	842
Total current liabilities		**11,801**	13,723
Net current assets		**16,077**	14,770
Non-current liabilities			
Deferred tax liabilities	24	**700**	—
Other non-current liabilities	21	**—**	1,498
Provisions for other liabilities and charges	23	**582**	1,082
Total non-current liabilities		**1,282**	2,580
Net assets		**47,377**	47,058
Shareholders' equity			
Ordinary shares	25	**2,848**	2,848
Share premium account	26	**4,900**	4,900
Capital redemption reserve	26	**617**	617
Merger reserve	26	**30,565**	30,565
Translation reserve	26	**4,154**	4,730
Retained earnings	27	**4,293**	3,398
Total equity		**47,377**	47,058

The financial statements on pages 48 to 90 were approved by the Board of Directors on 25 March 2013 and were signed on its behalf by

John Hawkins   Ian Davies

DIRECTORS

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2011	3,465	4,900	—	30,565	4,592	12,751	56,273
Comprehensive income							
Retained (loss) for the financial year	—	—	—	—	—	(2,847)	(2,847)
Exchange differences on translation of overseas operations (note 26)	—	—	—	—	138	—	138
Total comprehensive income for the year	—	—	—	—	138	(2,847)	(2,709)
Transactions with owners							
Share based payments Value of employee services (note 25)	—	—	—	—	—	107	107
Dividends paid (note 11)	—	—	—	—	—	(1,413)	(1,413)
Repurchase of own shares	(617)	—	617	—	—	(5,200)	(5,200)
Transactions with owners	(617)	—	617	—	—	(6,506)	(6,506)
Balance at 1 January 2012	**2,848**	**4,900**	**617**	**30,565**	**4,730**	**3,398**	**47,058**
Comprehensive income							
Retained profit for the financial year	—	—	—	—	—	2,120	2,120
Exchange differences on translation of overseas operations (note 26)	—	—	—	—	(576)	—	(576)
Total comprehensive income for the year	—	—	—	—	(576)	2,120	1,544
Transactions with owners							
Share based payments Value of employee services (note 25)	—	—	—	—	—	188	188
Dividends payable (note 11)	—	—	—	—	—	(1,413)	(1,413)
Transactions with owners	—	—	—	—	—	(1,225)	(1,225)
Balance at 31 December 2012	**2,848**	**4,900**	**617**	**30,565**	**4,154**	**4,293**	**47,377**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
Cash flow from operating activities			
Cash generated from operations	28	**3,918**	(408)
Interest paid		**(4)**	(42)
Taxation (paid)/received		**(165)**	907
Net cash generated from operating activities		**3,749**	457
Cash flows from investing activities			
Interest received		**29**	46
Acquisition of subsidiary (net of cash acquired)		**—**	(2,312)
Proceeds from sale of subsidiary (net of working capital adjustments)		**—**	755
Deferred consideration in respect of acquisition		**(1,312)**	(886)
Proceeds from sale of property, plant and equipment		**127**	84
Purchase of property, plant and equipment	14	**(379)**	(522)
Expenditure on capitalised development costs	13	**(2,759)**	(2,198)
Net cash used in investing activities		**(4,294)**	(5,033)
Cash flows from financing activities			
Repayment of borrowings		**(37)**	(895)
Dividend paid to shareholders		**(1,413)**	(1,413)
Repurchase of own shares		**—**	(5,200)
Net cash used in financing activities		**(1,450)**	(7,508)
Net decrease in cash and cash equivalents		**(1,995)**	(12,084)
Effect of foreign exchange rate changes		**(58)**	38
Cash and cash equivalents at 1 January		**10,184**	22,230
Cash and cash equivalents at 31 December	17	**8,131**	10,184
Net cash comprises			
Cash and cash equivalents at 31 December		**8,131**	10,184
Borrowings	20	**—**	(37)
Net cash	17	**8,131**	10,147

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Vislink plc ("the Company") and its subsidiaries (together "the Group") is a global technology business specialising in the collection and delivery of high quality video and associated data from the field to the point of usage Vislink provides solutions to the broadcast market for the collection of live news, sport and entertainment events and to the surveillance market including defence, law enforcement and public safety With offices in the UK, USA, Australia, UAE, South Africa, Singapore and manufacturing operations in the UK and the USA we employ over 200 people worldwide and have net assets of £47 million Our solutions include the design and manufacture of microwave radio, satellite transmission and wireless camera systems

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK The address of its registered office is Marlborough House, Charnham Lane, Hungerford, Berkshire, RG17 0EY

The registered number of the Company is 4082188

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

BASIS OF PREPARATION

The Group financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise judgement in the process of applying the Group's accounting policies The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group financial statements are disclosed in note 4

New accounting standards and interpretations have been issued during the year The Group's approach to these is as follows

(A) NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on the Group

(B) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing theses consolidated financial statements None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below

Amendment to IAS 1 "Financial statement presentation" regarding other comprehensive income The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments) The amendments do not address which items are presented in OCI

IFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP The Group is yet to assess the full impact of IFRS 13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 9 "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities IFRS 9 was issued in November 2009 and October 2010 It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments IFRS 9 requires financial assets to be classified into two measurement categories those measured as at fair value and those measured at amortised cost The determination is made at initial recognition The classification depends on the entity's business model for managing its financial instruments and contractual cash flow characteristics of the instrument For financial liabilities, the standard retains most of the IAS 39 requirements The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in the other comprehensive income rather than the income statement, unless this creates an accounting mismatch The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board

IFRS 10 "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company The standard provides additional guidance to assist in the determination of control where this is difficult to assess The Group is yet to asses IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU

IFRS 12 "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group

BASIS OF CONSOLIDATION

The Group financial statements include the results of the Company and its subsidiary undertakings Subsidiaries are entities that are controlled by the Group Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities, generally such control is accompanied by a shareholding of more than 50 per cent of the voting rights Subsidiaries are fully consolidated from the date on which control is transferred to the Group They are de-consolidated from the date that control ceases

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred

The financial statements of the subsidiaries and the Company are prepared for the same reporting year as the Group Adjustments are made on consolidation to bring into line any dissimilar accounting policies that may exist

BUSINESS COMBINATIONS

All business combinations are accounted for applying the purchase method The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill

Since 1 January 2010 costs directly attributable to an acquisition are charged directly to the income statement Prior to that date the costs of acquisition were included as part of the costs of acquisition in calculating goodwill

SEGMENTAL REPORTING

The Group's internal organisational and management structure and its system of internal financial reporting to the Board of Directors are based on the geographical location of its businesses These comprise two regions, the UK and the United States of America (US) Each business location has its own managing director who sits on the Executive Management Board under the chairmanship of the Executive Chairman to oversee the running of the Group The chief operating decision-maker has been identified as the Executive Management Board

The Management Board reviews the Group's internal financial reporting in order to assess performance and allocate resources The same information is provided to the Board of Directors of Vislink plc Management has therefore determined that the operating segments for the Group will be based on these reports

The UK business is responsible for the sales and marketing of all Group products and services outside of the Americas It is also the product centre for the Advent satellite communication products, Link wireless camera systems and the Gigawave products The US business is responsible for the sales and marketing of all Group products and services in North and South America and Canada It is also the product centre for the MRC and PMR microwave product brands and the services business of WTS

Group management are also focused on developing global revenue growth from the two main markets that the Group serves, Broadcast and Surveillance Segmental reporting is therefore also provided by reference to revenue by market by geographic region

FOREIGN CURRENCY TRANSLATION

(A) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") The Group financial statements are presented in pounds sterling (GBP), which is the Company's functional and presentation currency

(B) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

(C) GROUP COMPANIES

Trading results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows

- assets and liabilities for each statement of financial position presented are translated at the closing rate of exchange prevailing at the reporting date,
- income and expenditure for each income statement are translated at the average rates of exchange prevailing during the year, and
- all resulting exchange differences arising from restatement of the opening balance sheets and trading results of overseas subsidiaries are recognised as a separate component of shareholders' equity

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate

INTANGIBLE ASSETS

(A) GOODWILL

Goodwill represents the excess of the fair value of the purchase consideration for the interest in subsidiary undertakings over the fair value to the Group of the net assets acquired, including acquired intangible assets and any contingent liabilities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses Impairment losses are recognised for the amount by which an asset's carrying amount exceeds its recoverable amount, that recoverable amount is the higher of the asset's fair value less costs to sell and its value in use Impairments of goodwill are not reversed Gains and losses on the disposal of an entity will be net of the carrying amount of goodwill relating to the entity sold

Goodwill is allocated to cash-generating units for the purposes of impairment testing The allocation is made to cash-generating units that are expected to benefit from the business combination in which the goodwill arose Goodwill is allocated to each business segment within the Group's segmental reporting

(B) ACQUIRED INTANGIBLES

Intangible assets acquired as part of business combinations are capitalised at fair value at the date of acquisition Following the initial recognition, the carrying amount of an intangible asset is its cost less accumulated amortisation and any accumulated impairment losses Amortisation is charged on the basis of the estimated useful life on a straight-line basis and the expense is taken to the income statement (note 13)

The Group has recognised customer relationships, intellectual property and brands as separately identifiable acquired intangible assets The useful economic life attributed to each intangible asset is determined at the time of acquisition and ranges from six to ten years

Impairment reviews are undertaken when the directors consider that there has been a potential indication of impairment

(C) RESEARCH AND DEVELOPMENT COSTS

Research expenditure is written off as incurred

Where development expenditure meets the criteria for capitalisation as set out in IAS 38 "Intangible Assets" the costs are capitalised and amortised over its useful economic life from the date of commercial manufacture of the product The key eligibility criteria for capitalisation relate to

- The identification of development costs In general the Group's research and development activities are closely inter-related and it is not until the technical feasibility of a product can be determined with reasonable certainty that development costs are separately identifiable, and
- The generation of future economic benefit Intangible assets are not recognised unless the resultant product is expected to generate future economic benefit in excess of the amount capitalised

Development costs are amortised over the estimated useful life of the products with which they are associated Amortisation commences when a new product is in commercial production The amortisation period ranges from one to three years If a product becomes unviable the deferred development costs are written off

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use

Depreciation is calculated in order to write off the cost of property, plant and equipment, other than land, over their estimated useful lives by equal annual instalments using the following rates

Freehold land and buildings	2 per cent for buildings No depreciation on land
Leasehold improvements	The remaining term of the lease
Fixtures and fittings	10 per cent
Plant, tools, test and computer equipment	10 per cent – 33 per cent

Group depreciation rates and the carrying values of property, plant and equipment are reviewed annually to consider their appropriateness An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount

Gains and losses on the disposal of assets are determined by comparing the proceeds with the carrying amount and are recognised in administration expenses in the income statement as they arise

LEASES

Operating leases are leases where the risks and rewards of ownership are retained by the lessor Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease

INVENTORIES

Inventories are stated at the lower of cost and net realisable value Cost represents direct costs incurred and, where applicable, production or conversion costs and other costs to bring the inventory to its existing condition and location Inventory is accounted for on a standard cost basis Net realisable value comprises the actual or estimated selling price less all further costs to completion, and less all costs to be incurred in marketing, selling and distribution Provisions for inventories are recognised when the book value exceeds its net realisable value The Group makes provision for slow-moving, obsolete and defective inventory as appropriate

TRADE RECEIVABLES

Trade receivables are initially recognised at fair value, being the original invoice amount, and subsequently measured at amortised cost less provision for impairment A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable Trade receivables that are less than three months past due are not considered impaired unless there are specific financial or commercial reasons that lead management to conclude that the customer will default Older debts are considered to be impaired unless there is sufficient evidence to the contrary that they will be settled The amount of the provision is the difference between the asset's carrying value and the present value of the estimated future cash flows The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within sales and marketing expenses When a trade receivable is uncollectable it is written off against the allowance account Subsequent recoveries of amounts previously written off are credited against sales and marketing expenses in the income statement

CASH AND CASH EQUIVALENTS

Cash and short term deposits in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of less than three months

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above

SHARE CAPITAL

Ordinary shares are classified as equity Proceeds in excess of the nominal value of shares issued are allocated to the share premium account and are also classified as equity Incremental costs directly attributable to the issue of new ordinary shares or options are deducted from the share premium account

Where shares are issued in part or full consideration for the acquisition of more than 90 per cent of the issued share capital of another company, the excess of value attributed to the shares over the nominal value of shares issued is allocated to the merger reserve The merger reserve is also classified as equity

Where any Group company purchases the Company's equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's owners until the shares are cancelled or reissued Where such shares are reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in retained earnings When the shares are cancelled, share capital is reduced by the nominal value of the cancelled shares and a capital redemption reserve is created at an equivalent value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer) If not, they are presented as non-current liabilities

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

CURRENT AND DEFERRED TAXATION

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generate taxable income Management evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes Deferred tax liabilities are recognised in respect of all temporary differences except where the deferred tax liability arises from the initial recognition of goodwill in business combinations

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and tax losses, to the extent that they are regarded as recoverable They are regarded as recoverable where, on the basis of available evidence, there will be suitable taxable profits against which the future reversal of the underlying temporary differences can be deducted The carrying value of the amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the tax asset to be utilised

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted at the reporting date

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis

EMPLOYEE BENEFITS

(A) PENSION OBLIGATIONS

The Group employees are members of defined contribution money purchase schemes where the obligations of Group companies are charged to the income statement as they are incurred The Group has no further obligations once the contributions have been paid

(B) SHARE BASED COMPENSATION

The Group operates a number of equity-settled, share based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) in the Company The fair value of the employee services received in exchange for the grant of the options is recognised as an expense The total amount to be expensed is determined by reference to the fair value of the options granted

- including any market performance conditions (for example, the Group's share price),
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save)

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity

When the options are exercised, the Company issues new shares The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised

(C) EMPLOYEE SHARE OWNERSHIP PLAN

The Group's Employee Share Ownership Plan (ESOP) is a separately administered trust The Company guarantees liabilities of the ESOP, and the assets of the ESOP mainly comprise shares in the Company The assets, liabilities, income and costs of the ESOP have been included in the Group financial statements

PROVISIONS

Provisions are made in respect of residual onerous long leasehold properties where expected future rental costs are in excess of expected income from subletting

Provision is made for product warranty claims to the extent that the Group has a current obligation under warranties given Warranty accruals are based on historic warranty claims experience Provisions are discounted to their present value where the impact is significant

Provision is made for contractual disputes where the Group has an obligation at the balance sheet date to settle legal contractual issues

Provision is made for rationalisation costs to the extent that any restructuring of the Group, or any part thereof, has been announced prior to the end of the reporting period Rationalisation costs include the costs of redundancy, outplacement fees and relocation where appropriate Rationalisation costs are reported separately within the income statement under the heading "other expenses"

REVENUE RECOGNITION

(A) SALE OF GOODS

Revenue represents amounts receivable from outside customers for goods sold by Group companies in the ordinary course of business and excluding value added tax Sales are recognised in accordance with IAS 18 "Revenue", when the significant risks and rewards of ownership of the goods are transferred to the customer, the sales price agreed and the receipt of payment can be assured

(B) CONSTRUCTION CONTRACTS

From time to time the Group enters into construction contracts that will take a number of months to complete Customer contracts that are expected to span more than one period end are recognised in revenue in accordance with IAS 11

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date This is measured by the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable such costs will be recoverable Contract costs are recognised as expenses in the period in which they are incurred

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately

(C) SALES OF SERVICES

Revenue from service contracts that are not accounted for as construction contracts under IAS 11 is recognised in line with the delivery of service to the customer Related costs are deferred on the statement of financial position and then recorded as a cost of sale when the revenue is recognised

(D) INTEREST INCOME

Interest income is recognised on a time apportionment basis

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders

NON-RECURRING ITEMS

Non-recurring items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group They are material items of income or expense that have been shown separately due to the significance of their nature or amount

3. FINANCIAL RISK MANAGEMENT

FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks market risk (foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Group's financial performance

Risk management policy is carried out through a central treasury function within the executive management team at the Group's head office The treasury function identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units The Board provides written principles for overall risk management whilst the central treasury function provides specific policy guidance for the operating units in terms of managing foreign exchange risk, credit risk, cash and liquidity management and the use of hedging instruments

(A) MARKET RISK

(I) FOREIGN EXCHANGE RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily between the US dollar and GBP Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations

At a transactional level the UK business has a broadly neutral exposure to foreign currency transactions, in that their revenues in euros and US dollars match their purchases Foreign currency bank accounts are maintained to minimise exchange risk by trading currencies into sterling only when forecast surpluses or deficits are expected to arise Approximately 30 per cent of the US business's cost of goods sold comes from its fellow subsidiaries in the UK and is priced in US dollars The flow of cash from the USA to the UK businesses is managed by central treasury in order to minimise the risk to the Group

The exchange risk to the Group in terms of its reported results lies in the translation of the results of the US business from US dollars to GBP The Group's accounting policy is to translate the profits and losses of overseas operations using the average exchange rate for the financial year and the net assets and liabilities of overseas subsidiaries at the year end exchange rate It continues to be the Group's policy not to hedge the foreign currency exposures on the translation of overseas profits or losses and net assets or liabilities to sterling as they are considered to be accounting rather than cash exposures

The principal exchange rates used by the Group in translating overseas profits and net assets into GBP are set out in the table below

Rate compared to GBP	**Average rate 2012**	Average rate 2011	**Year end rate 2012**	Year end rate 2011
US dollar	**1.585**	1 600	**1 617**	1 550

If the average rate for the US dollar was 5 cents (3 per cent) lower against GBP with all other variables held constant, pre tax losses for the year would have been £0 04 million higher (2011 losses higher by £0 1 million) as a result of foreign exchange losses on translation of US dollar denominated losses The pre tax result is less sensitive in 2012 than in 2011 due to the lower level of foreign currency denominated trading losses

If the year end US dollar was 5 cents (3 per cent) lower against GBP, equity would have been £0 04 million higher (2011 £0 1 million higher) due to the foreign exchange gains on the translation of the net investments of the overseas operations

The rate of 5 cents is used here to illustrate the sensitivity of the Group's results and equity to the value of the US dollar relative to GBP Management regularly monitor the impact of changes in exchange rates on the forecast results of the Group

(II) CASH FLOW INTEREST RATE RISK

The Group's income and operating cash flows are substantially independent of changes in market interest rates having held net cash throughout the year The Group looks to maximize its investment returns from its cash balances whilst retaining sufficient flexibility to meet working capital requirements Full details of the Group's cash position are given in note 17 to the financial statements

Had the average interest rate been 100 basis points higher or lower in 2012 then the Group's post tax profit would not have been materially different due to the low rates of investment income returns during the year

The Group's policy in relation to the finance of its overseas operations requires that sufficient liquid funds be maintained in each of its territory subsidiaries to support short and medium term operational plans Where necessary, short term funding is provided by the holding company In the UK the working capital bank facility and the management of liquid funds in excess of operational needs are controlled centrally Typically excess funds are placed as short term deposits, to provide a balance between interest earnings and flexibility

Where overseas acquisitions are made, it is the Group's policy to arrange any borrowings required in local currency

It is the Group's policy not to trade in financial instruments The Group does not use interest rate swaps The Group does not speculate in foreign currencies and no operating company is permitted to take unmatched positions in any foreign currency The Group will use borrowings in currencies other than GBP where appropriate to specific transactions, such as overseas acquisitions This policy has been in force throughout the financial year and remains so

(B) CREDIT RISK

Credit risk is managed on a Group basis, except for credit risk relating to accounts receivable balances

Each local subsidiary is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered It is the Group policy to obtain deposits from customers where possible, particularly overseas customers In addition, the Group will seek confirmed letters of credit for the balances due The nature of the customer base (for example national TV stations, government procurement agencies) makes the use of credit insurance inappropriate Credit risk is managed at the operating business unit level and monitored at the Group level to ensure adherence to Group policies If there is no independent rating, the finance function assesses the credit quality of the customer, taking into account its financial position, past experience and other factors Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board The utilisation of credit limits is regularly monitored

(C) LIQUIDITY RISK

A material portion of the Group's net assets are represented by its cash balances Any material loss of cash through ineffective investment of this resource would undermine our ability to generate growth in shareholder value Similarly an inability to access these funds would undermine the Group's ability to meet its financial obligations We have assessed the likelihood of loss to be low but with a high potential impact

Therefore in mitigation the Group's liquidity risk management policy is to maintain sufficient cash and available funding through an adequate amount of committed credit facilities from its bankers, Santander Due to the dynamic nature of the underlying businesses, central treasury aims to maintain flexibility in funding by keeping committed credit lines available, as disclosed in note 20

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date The amounts disclosed in the table are the contractual undiscounted cash flows

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Less than one year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Total £000
At 31 December 2012.				
Deferred consideration	**411**	**—**	**—**	**411**
Finance leases	**—**	—	**—**	**—**
Trade and other payables	**10,465**	**—**	**—**	**10,465**
At 31 December 2011				
Deferred consideration	1,292	4,324	—	5,616
Finance leases	37	—	—	37
Trade and other payables	11,304	—	—	11,304

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital

Consistent with other businesses the Group monitors capital on the basis of the gearing ratio This ratio is calculated as net debt divided by total capital Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the statement of financial position) less cash and cash equivalents Total capital is the sum of net debt plus equity

The Group is currently ungeared, having net cash at 31 December 2012 It is the stated strategy of the Group to grow both organically and through acquisition Acquisitions would be funded through an appropriate combination of equity and borrowings Future gearing would not be expected to exceed 50 per cent

FAIR VALUE ESTIMATION

The carrying value less impairment provision of trade receivables and payables are assumed to approximate to their fair value In the case of other non-current liabilities due after more than one year the future cash flows are discounted in arriving at the book value and therefore book value equates to fair value

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies, management has made accounting judgements in the determination of the carrying value of certain assets and liabilities Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates The following judgements have the most significant effect on the amounts recognised in the financial statements

ACQUIRED INTANGIBLES

Intangible assets (intellectual property, brands and customer relationships) have been acquired as part of the net assets of certain subsidiaries These intangible assets were capitalised at their fair value at the date of acquisition Determining the value of acquired intangibles required the calculation of estimated future cash flows expected to arise from the intangible assets at a suitable discount rate in order to calculate their present value In addition, an estimate of the useful life of the intangible asset has to be made, over which period the cash flows were expected to be generated The carrying amount of acquired intangibles at the reporting date was £3 1 million (note 13) (2011 £4 8 million)

IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires the estimation of the value in use of the cash-generating units to which goodwill has been allocated The value in use calculation requires the entity to estimate future cash flows expected to arise from the cash-generating unit at a suitable discount rate in order to calculate the present value The carrying amount of goodwill at the reporting date was £20 1 million (2011 £20 4 million) Details of the impairment review are provided in note 13 There was no impairment charge during the year

DEFERRED TAX ASSETS

The carrying value of deferred tax assets is dependent on sufficient taxable profits being generated in certain territories in future periods The carrying amount of net deferred tax assets at the reporting date was £0 5 million (note 24) (2011 £0 4 million) In addition, there were £5 9 million of deferred tax assets not recognised (2011 £7 3 million)

PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Included within the statement of financial position are warranty provisions amounting to £0 3 million (2011 £0 6 million), onerous property leases of £0 8 million (2011 £1 1 million) and a provision for contractual disputes of £0 3 million (2011 £nil) (note 23)

Management believe that the warranty provisions are adequate to cover the future risk of product warranty claims based on historic claims history applied to the current revenue levels

The onerous property lease provision relates to vacant leasehold properties acquired with Gigawave Limited The properties are currently being marketed Property provisions have been made in respect of the vacated lease premises and represent the future liabilities associated with the property to the end of the lease, net of anticipated income from subletting It has been anticipated that the properties can be relet within 24 months but at a subsidised rental In the current economic environment we cannot be certain that this provision will be sufficient to cover the total future liabilities associated with these properties and the requirement for provision will be reassessed annually The total liability for future rent and rates on vacant properties, excluding any potential benefit from subletting, is £1 7 million over an aggregate period of 6 5 years

The contractual dispute provision is in respect of an ongoing dispute with a distributor regarding contractual obligations Management believe that the provision is sufficient to cover the potential future liability associated with the legal costs incurred in resolveing the dispute

IMPAIRMENT OF TRADE RECEIVABLES

The carrying amount of receivables at year-end was £9 2 million (2011 £8 7 million), against which there was an impairment provision of £0 5 million (2011 £0 7 million) (note 16) Trade receivables that are less than three months past due are not considered impaired unless there are specific financial or commercial reasons that lead management to conclude that the customer will default Older debts are considered to be impaired unless there is sufficient evidence to the contrary that they will be settled Management believe that the provision is adequate to cover the risk of bad debts

INVENTORY PROVISIONS

The carrying amount of inventory at year-end was £9 5 million (2011 £8 5 million) after a provision for excess and obsolete inventory of £4 8 million (2011 £5 8 million) (note 15) During the year £2 0 million of the provision was utilised following the scrapping and sale of obsolete inventory Inventory write-downs of £0 5 million were written back to the income statement on the sale of products against which provisions had previously been made Such products had a net realisable value that was below their cost hence the requirement for the provision

SHARE BASED PAYMENTS

A number of accounting estimates and judgements are incorporated within the calculation of the charge to the income statement in respect of share based payments These are described in more detail in note 25

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5 SEGMENTAL REPORTING

The two markets in each of the regions are Broadcast and Surveillance As the regions manage and control the markets directly, costs are shared across markets in certain regions which means that any allocation of costs to markets would be arbitrary The focus of management is to ensure that the appropriate material margins are being achieved in each market as a sub analysis of the regional performance

The segment information provided to the Executive Management Board for the reportable continuing segments for the year ended 31 December 2012 is as follows

Segmental reporting by geographic location	UK £000	US £000	Inter-segmental transactions £000	Central £000	Total £000
Year ended 31 December 2012					
Income statement — continuing business					
Broadcast	29,227	17,845	—	—	47,072
Surveillance	3,390	6,741	—	—	10,131
Inter-segmental revenue	5,227	686	(5,913)	—	—
Total revenue	37,844	25,272	(5,913)	—	57,203
Adjusted operating profit/(loss)	4,942	397	—	(2,249)	3,090
Amortisation of acquired intangibles	(352)	(1,237)	—	—	(1,589)
Non-recurring items	(330)	—	—	1,036	706
Finance costs	(2)	—	—	(2)	(4)
Finance income	14	—	—	15	29
Profit/(loss) before taxation	4,272	(840)	—	(1,200)	2,232
Taxation	55	(561)	—	394	(112)
Profit/(loss) for the year from continuing operations	4,327	(1,401)	—	(806)	2,120
Discontinued operations					
Profit for the year from discontinued operations	—	—	—	—	—
Profit/(loss) for the year being profit attributable to owners of the parent	4,327	(1,401)	—	(806)	2,120
Segment assets					
Non-current assets	19,762	11,076	—	533	31,371
Current assets	12,905	11,311	—	3,662	27,878
Deferred tax assets (note 24)	—	—	—	511	511
Total assets	32,667	22,387	—	4,706	59,760
Total liabilities	8,166	3,702	—	515	12,383
Total net assets	24,501	18,685	—	4,191	47,377
Other segment items — continuing business					
Capital expenditure	156	223	—	—	379
Capitalised development expenditure	1,141	1,618	—	—	2,759
Depreciation	453	375	—	87	915
Amortisation of intangibles	1,131	2,732	—	—	3,863

Inter-segmental revenues represent the transfer of goods between US and UK subsidiaries at agreed transfer prices

Central costs represent corporate expenses

Segment assets include property, plant and equipment, goodwill, intangibles, inventories, trade receivables and operating cash Segment assets exclude inter-segment investments Segment liabilities comprise operating liabilities, taxation and segmental provisions for liabilities and charges Segmental liabilities also include amounts owed to other segments and central

Segmental capital expenditure comprises additions to property, plant and equipment It excludes segmental additions resulting from acquisitions through business combinations

Segmental reporting by geographic location	UK £000	US £000	Inter-segmental transactions £000	Central £000	Total £000
Year ended 31 December 2011					
Income statement — continuing business					
Broadcast	25,669	16,627	—	—	42,296
Surveillance	1,548	6,470	—	—	8,018
Inter-segmental revenue	3,935	1,122	(5,057)	—	—
Total revenue	31,152	24,219	(5,057)	—	50,314
Adjusted operating profit/(loss)	2,482	(820)	—	(1,893)	(231)
Amortisation of acquired intangibles	(205)	(1,009)	—	—	(1,214)
Goodwill impairment	—	—	—	—	—
Non-recurring items	(1,091)	(326)	—	(772)	(2,189)
Finance costs	(24)	—	—	(5)	(29)
Finance income	—	—	—	46	46
Profit/(loss) before taxation	1,162	(2,155)	—	(2,624)	(3,617)
Taxation	(87)	170	—	432	515
Profit/(loss) for the year from continuing operations	1,075	(1,985)	—	(2,192)	(3,102)
Discontinued operations					
Profit for the year from discontinued operations	—	—	—	255	255
Profit/(loss) for the year being loss attributable to owners of the parent	1,075	(1,985)	—	(1,937)	(2,847)
Segment assets					
Non-current assets	20,586	13,230	—	620	34,436
Current assets	11,974	11,428	—	5,091	28,493
Deferred tax assets	—	—	—	432	432
Total assets	32,560	24,658	—	6,143	63,361
Total liabilities	9,957	3,841	—	2,505	16,303
Total net assets	22,603	20,817	—	3,638	47,058
Other segment items — continuing business					
Capital expenditure	351	171	—	—	522
Capitalised development expenditure	1,022	1,176	—	—	2,198
Depreciation	515	538	—	83	1,136
Amortisation of intangibles	893	2,442	—	—	3,335

GEOGRAPHIC EXTERNAL REVENUE ANALYSIS

The revenue analysis in the table below is based on the geographical location of the customer for each business unit The analysis of assets and capital expenditure is not relevant to this table as the geographic location of assets and liabilities follows that of the segments identified above There are no individual customers that represent more than 10 per cent of Group revenues

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

	Broadcast £000	Surveillance £000	2012 Total £000	Broadcast £000	Surveillance £000	2011 Total £000
By market:						
UK & Europe	**12,259**	**3,352**	**15,611**	10,086	1,206	11,292
Americas	**20,358**	**6,385**	**26,743**	18,280	6,434	24,714
Middle East & Africa	**8,085**	**87**	**8,172**	7,555	278	7,833
Asia/Pacific	**6,370**	**307**	**6,677**	6,375	100	6,475
	47,072	**10,131**	**57,203**	42,296	8,018	50,314

6 OPERATING PROFIT/(LOSS)

The following items have been included in arriving at the operating profit/(loss) for the continuing business

	2012 £000	2011 £000
Depreciation of property, plant and equipment (note 14)	**915**	1,136
Amortisation of acquired intangibles (note 13)	**1,589**	1,214
Operating lease rentals	**415**	905
Loss on sale of property, plant and equipment	**75**	83
Repairs and maintenance expenditure on property, plant and equipment	**162**	152
Exchange losses/(gains) charged to profit and loss	**288**	(98)
Research and development expenditure		
— Expensed in the year	**5,053**	5,361
— Capitalised expenditure (note 13)	**2,759**	2,198
— Amortisation and impairment of capitalised development costs (note 13)	**2,889**	2,121

OTHER EXPENSES

Other expenses comprise

	2012 £000	2011 £000
Amortisation of acquired intangibles	**1,589**	1,214
Non-recurring items	**(706)**	2,189
	883	3,403

NON-RECURRING ITEMS

The following items of unusual nature, size or incidence have been charged in arriving at the operating profit for the period and are described as non-recurring

	2012 £000	2011 £000
Rationalisation and redundancy costs	**3**	1,273
Costs associated with the integration of Gigawave Limited	**—**	585
Provision against contractual issues	**330**	—
Adjustments to deferred consideration	**(1,039)**	—
Acquisition and disposal costs	**—**	331
	(706)	2,189

The Group has incurred rationalisation and redundancy costs of £3,000 in the year (2011 £1,273,000) In 2011 a further £585,000 of cost was incurred as a result of the decision to integrate the business of Gigawave into the UK operations of the Group

At 31 December 2012 the Group had a provision in place which relates to a contractual dispute of £330,000 (2011 £nil)

There were adjustments to deferred consideration to the value of £1,039,000 in the year as these amounts are no longer required to be paid (2011 £nil)

SERVICES PROVIDED BY THE GROUP'S AUDITORS AND NETWORK FIRMS

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs detailed below

	2012 £000	2011 £000
Audit services		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**47**	57
Fees payable to the Company's auditors and its associates for other services		
— The audit of the Company's subsidiaries	**40**	70
— Audit related assurance services	**10**	5
— Taxation compliance services	**21**	21
— Taxation advisory services	**15**	15
— Other non-audit services	**9**	9
	142	177

A description of the work of the Audit Committee is set out in the Corporate Governance Statement on page 33 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7 DIRECTORS AND EMPLOYEES

Staff costs during the year for the continuing business were as follows

	2012 £000	2011 £000
Wages and salaries	**13,468**	13,869
Social security costs	**1,144**	1,042
Pension costs — defined contribution plans	**332**	350
Termination benefits	**271**	314
Vislink Share Investment Plan contributions	**38**	36
Share based payments (note 25)	**188**	107
	15,441	15,718

The monthly average number of employees employed by the Group during the year was as follows

	Continuing	Discontinued	2012 Number	Continuing	Discontinued	2011 Number
Average monthly number of employees						
Sales and Marketing Broadcast	**40**	—	**40**	38	—	38
Sales and Marketing Surveillance	**8**	—	**8**	12	—	12
Services	**21**	—	**21**	25	—	25
Technology	**48**	—	**48**	77	—	77
Logistics	**98**	—	**98**	90	—	90
Central	**36**	—	**36**	50	—	50
	251	—	**251**	292	—	292

The average number of employees has been calculated on a pro rata basis from the date of disposal or acquisition of subsidiaries and businesses The average number of employees includes directors with service contracts

The total number of employees at 31 December 2012 was 244 (2011 269)

Key management compensation for the continuing business

	2012 £000	2011 £000
Short term employee benefits — including salaries, social security costs and non-monetary benefits	**1,729**	1,702
Post employment benefits — defined contribution pension plans	**62**	97
Termination benefits	**271**	314
Share based payments (note 25)	**188**	107
	2,250	2,220

The analysis of key management compensation above includes Executive Directors Key management is defined as the senior management teams in each of the business units of the Group Details of directors' emoluments are included in the Remuneration Report on pages 38 to 44

8 FINANCE INCOME — NET

	2012 £000	2011 £000
Interest payable on bank borrowing	2	19
Finance lease liabilities	2	10
Finance costs	4	29
Finance income	(29)	(46)
Finance income — net	(25)	(17)

Finance income is derived from cash held on deposit

There is no unwinding of discounting on deferred consideration in the current year (2011 £nil) The liability for deferred consideration on the acquisition of PMR was reduced in 2011 and 2012 following a review of the likely consideration to be paid, to the extent that the discount element became immaterial The liability for deferred consideration on the acquisition of Gigawave was reduced in 2012 following a review of the likely consideration to be paid The discount associated with the deferred consideration for Gigawave Limited is also considered not to be material (note 21)

9 INCOME TAX EXPENSE

(A) ANALYSIS OF THE TAX CHARGE/(CREDIT) IN PERIOD

	2012 £000	2011 £000
Current tax		
UK corporation tax	26	—
Foreign tax — current year	—	—
Foreign tax — prior year adjustment	163	—
Total current tax	189	—
Deferred tax		
UK corporation tax	(474)	(279)
Foreign tax	397	(236)
Total deferred tax	(77)	(515)
Total taxation	112	(515)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9 INCOME TAX EXPENSE (CONTINUED)

(B) FACTORS AFFECTING TAX CHARGE FOR YEAR

The charge for the year can be reconciled to the profit in the income statement as follow

	2012 £000	2011 £000
Profit/(loss) before tax on continuing operations	**2,232**	(3,617)
Tax at the UK corporation tax rate of 24 5% (2011 26 5%)	**547**	(959)
Adjustment in respect of prior years	**143**	—
Permanent differences	**(37)**	82
Enhanced R&D tax relief	**(216)**	—
Deferred consideration not taxable	**(183)**	—
Current year losses not recognised	**897**	744
Additional losses now recognised	**(325)**	—
Brought forward losses utilised against current year profit	**(518)**	—
Effects of changes of UK tax rate	**6**	—
Effects of different tax rates of subsidiaries operating in other jurisdictions	**(202)**	(382)
Total taxation	**112**	(515)

10 DISCONTINUED OPERATIONS

	2012 £000	2011 £000
Pre tax gain recognised on disposal of the assets of HERNIS	—	255
Post tax gain recognised on the disposal of the assets of HERNIS	**—**	255
Profit for the year from discontinued operations	**—**	255

11 DIVIDENDS AND RETURNS TO SHAREHOLDERS

	2012 £000	2011 £000
Final dividend paid of 1 25 pence per share (2011 1 25 pence per share)	**1,413**	1,413

The directors are proposing a final dividend in respect of the financial year ended 31 December 2012 of 1 25 pence per share which will absorb an estimated £1 41 million of shareholders' funds It will be paid on 19 July 2013 to shareholders who are on the register of members on 28 June 2013

12 EARNINGS/(LOSS) PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares The dilutive shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below

	2012 Earnings £000	**Weighted average number of shares 000s**	**2012 Earnings per share pence**	2011 Earnings £000	Weighted average number of shares 000s	2011 Earnings per share pence
Basic earnings per share						
Profit/(loss) attributable to ordinary shareholders from continuing activities	**2,120**	**113,063**	**1 9**	(3,102)	119,846	(2 6)
Profit from discontinued operations attributable to ordinary shareholders	**—**	**113,063**	**—**	255	119,846	0 2
Basic earnings/(loss) per share	**2,120**	**113,063**	**1 9**	(2,847)	119,846	(2 4)
Diluted earnings per share						
Profit/(loss) attributable to ordinary shareholders	**2,120**	**113,796**	**1.9**	(3,102)	119,871	(2 6)
Profit from discontinued operations attributable to ordinary shareholders	**—**	**113,796**	**—**	255	119,871	0 2
Diluted earnings/(loss) per share	**2,120**	**113,796**	**1.9**	(2,847)	119,871	(2 4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12 EARNINGS/(LOSS) PER ORDINARY SHARE (CONTINUED)

ADJUSTED EARNINGS

The directors believe that adjusted operating profit, adjusted profit before tax, adjusted earnings and adjusted earnings per share provide additional useful information on underlying trends to shareholders These measures are used by management for internal performance analysis and incentive compensation arrangements The term "adjusted" is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies The principal adjustments are made in respect of the amortisation of acquired intangibles, impairment of goodwill and non-recurring items and their related tax effects

The reconciliation between reported and underlying earnings and basic earnings per share is shown below

		2012		2011
	£000	**Pence**	£000	Pence
Reported earnings/(loss) per share	**2,120**	**1 9**	(3,102)	(2 6)
Amortisation of acquired intangibles after tax	**1,508**	**1 3**	892	0 7
Non-recurring items after tax	**(788)**	**(0 7)**	2,013	1 7
Adjusted and adjusted diluted earnings/(loss) per share	**2,840**	**2 5**	(197)	(0 2)

13 INTANGIBLE ASSETS

	Goodwill £000	Acquired customer relationships £000	Acquired intellectual property £000	Acquired brands £000	Capitalised development costs £000	Total £000
Cost						
At 1 January 2011	32,879	10,883	3,720	703	16,275	64,460
Additions	3,394	75	—	—	2,198	5,667
Additions from acquisition of business	—	1,500	—	1,019	351	2,870
Reductions	(288)	(400)	—	—	—	(688)
Disposals	—	—	—	—	(51)	(51)
Exchange adjustment	130	101	—	9	186	426
At 1 January 2012	36,115	12,159	3,720	1,731	18,959	72,684
Additions	—	—	—	—	2,759	2,759
Additions from acquisition of business	—	—	—	—	—	—
Reductions	—	—	—	—	—	—
Disposals	—	—	—	—	—	—
Exchange adjustment	(440)	(314)	—	(29)	(564)	(1,347)
At 31 December 2012	**35,675**	**11,845**	**3,720**	**1,702**	**21,154**	**74,096**
Accumulated aggregate amortisation						
At 1 January 2011	15,673	7,646	3,720	164	10,869	38,072
Charge for the period						
— continuing business	—	1,086	—	128	2,121	3,335
Additions from acquisition of business	—	—	—	—	156	156
Impairment charge	—	—	—	—	—	—
Disposals	—	—	—	—	(51)	(51)
Exchange adjustment	60	87	—	4	145	296
At 1 January 2012	15,733	8,819	3,720	296	13,240	41,808
Charge for the period						
— continuing business	—	1,129	—	171	2,564	3,864
Impairment charge	—	—	—	—	325	325
Accelerated amortisation	—	289	—	—	—	289
Additions from acquisition of business	—	—	—	—	—	—
Disposals	—	—	—	—	—	—
Exchange adjustment	(193)	(248)	—	(11)	(414)	(866)
At 31 December 2012	**15,540**	**9,989**	**3,720**	**456**	**15,715**	**45,420**
Net book value						
At 31 December 2012	**20,135**	**1,856**	—	**1,246**	**5,439**	**28,676**
At 31 December 2011	20,382	3,340	—	1,435	5,719	30,876
At 1 January 2011	17,206	3,237	—	539	5,406	26,388

Additions in the year related to capitalised development costs Reductions of goodwill and acquired intangible assets arose when the deferred consideration was reduced following a review of the likely maximum consideration that could be earned (note 21)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13 INTANGIBLE ASSETS (CONTINUED)

The estimated useful life for the intellectual property and customer relationships acquired with the business of Link Research Limited has been determined to be five years based on the expected future cash flows that they would generate in arriving at their fair value The estimated useful life of the customer relationships associated with the business of WTS has been estimated to be four years on the same basis These assets are now fully written down, having had an original cost of £9 3 million

The remaining net book value of brands and customer relationships were acquired with the businesses of Gigawave and PMR and are associated with the Broadcast and Surveillance markets The estimated useful lives had been determined to be ten years and six years respectively based on the expected future cash flows that they would generate in arriving at their fair value

The amortisation of development costs is included in Research and Development costs in the Consolidated Group income statement Within development costs there are £10 7 million (2011 £8 8 million) of fully written down assets that are still in use

The amortisation of customer relationships, brands and intellectual property are all charged to other expenses in the Consolidated Group Income Statement and are referred to as the amortisation of acquired intangibles

IMPAIRMENT TEST FOR CASH-GENERATING UNITS CONTAINING GOODWILL

Historic goodwill acquired in a business combination was allocated, at acquisition, to the cash-generating units (CGUs) that were expected to benefit from that business combination, being the markets that the Group serves, namely Broadcast and Surveillance

In accordance with the requirements of IAS 36 "Impairment of assets", goodwill is required to be tested for impairment on an annual basis, with reference to value of the cash-generating units in question The goodwill relating to the Surveillance market was fully written down in 2010 hence an impairment review is only required in respect of the Broadcast market, for which the carrying value of goodwill at 31 December 2012 is £20 1 million (2011 £20 4 million)

The carrying value of the Broadcast cash-generating unit (including goodwill) has been assessed with reference to value in use over a projected period of four years with a terminal value This reflects projected cash flows based on actual operating results and approved budget, strategic plans and management projections

The key assumptions on which the value in use calculations are based relate to business performance over the next four years, long term growth rates beyond 2016 and the discount rate applied Growth rates for 2017 and beyond are assumed to be 3 per cent which is considered to be at or below long term market trends for the underlying business

The cash flow projections have been discounted to present value using the Group's pre-tax weighted average cost of capital, which has been calculated on a consistent basis using the capital asset pricing model to determine cost of equity, as the Group has no debt This has resulted in a pre-tax discount rate of 9 3 per cent (2011 9 0 per cent), which has been used for the purpose of the impairment test The value in use was found to be higher than the carrying value, hence no impairment is necessary

However, the directors consider that current market conditions have led to the discount rate deviating from the long term average rate that might be considered appropriate for businesses of a similar nature and scale as the Group With this in mind, the impairment test calculations have been re-run using a higher pre-tax discount rate of 13 per cent, which may be considered to be more appropriate for similar companies and no impairment was identified

In addition, further sensitivity testing was performed, taking into account the following reasonably possible scenarios

- reductions in cash flow generation of 20 per cent
- reductions in growth rates beyond 2013 to 1 per cent

Taking these factors into account, using the higher discount rate, the value in use remains in excess of the carrying value of the Broadcast cash-generating unit, demonstrating there is adequate headroom and limited risk of impairment resulting from reasonably possible reductions in the forecast cash flows

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £000	Leasehold improvements fixtures and fittings £000	Plant, tools, test and computer equipment £000	Total £000
Cost				
At 1 January 2011	931	1,304	9,648	11,883
Additions	—	220	302	522
Additions from acquisition of business	—	429	2,283	2,712
Disposals	—	(443)	(2,649)	(3,092)
Exchange adjustment	7	8	40	55
At 1 January 2012	938	1,518	9,624	12,080
Additions	—	56	323	379
Additions from acquisition of business	—	—	—	—
Disposals	—	(103)	(1,252)	(1,355)
Exchange adjustment	(21)	(25)	(175)	(221)
At 31 December 2012	**917**	**1,446**	**8,520**	**10,883**
Accumulated depreciation				
At 1 January 2011	154	824	7,682	8,660
Charge for the period — continuing business	35	204	897	1,136
Additions from acquisition of business	—	258	1,338	1,596
Disposals	—	(329)	(2,596)	(2,925)
Exchange adjustment	3	8	42	53
At 1 January 2012	192	965	7,363	8,520
Charge for the period — continuing business	27	151	737	915
Additions from acquisition of business	—	—	—	—
Disposals	—	(63)	(1,007)	(1,070)
Exchange adjustment	(3)	(19)	(155)	(177)
At 31 December 2012	**216**	**1,034**	**6,938**	**8,188**
Net book value				
At 31 December 2012	**701**	**412**	**1,582**	**2,695**
At 31 December 2011	746	553	2,261	3,560
At 1 January 2011	777	480	1,966	3,223

The Group has pledged land and buildings having a carrying amount of approximately £0 33 million (2011 £0 35 million) to secure banking facilities granted to the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Plant, tools, test and computer equipment includes the following amounts where the Group is a lessee under a finance lease

	2012 £000	2011 £000
Cost — capitalised finance leases	—	360
Accumulated depreciation — capitalised finance leases	—	(213)
	—	147

15 INVENTORIES

	2012 £000	2011 £000
Raw materials and consumables	**4,442**	5,907
Work in progress	**928**	39
Finished goods and goods for resale	**4,163**	2,594
	9,533	8,540

The cost of inventories recognised as an expense and included in "cost of sales" amounted to £31 7 million (2011 £23 4 million)

During the year the Group consumed £28 4 million (2011 £25 0 million) of inventories and credited £2 0 million (2011 credited £0 4 million) to the income statement in respect of inventory write downs Inventory write downs were written back on the sale of products against which provisions had previously been made Such products had a net realisable value that was below their cost hence the requirement for the provision

16 TRADE AND OTHER RECEIVABLES

	2012 £000	2011 £000
Amounts due within one year		
Trade receivables	**9,161**	8,743
Less provision for impairment	**(512)**	(720)
Trade receivables — net	**8,649**	8,023
Amounts recoverable on contracts	**184**	443
Other receivables	**505**	378
Prepayments and accrued income	**876**	925
	10,214	9,769

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated Due to this, management believes there is no further credit risk provision required in excess of the normal provision for doubtful receivables The value of fully performing receivables at 31 December 2012 is £5 6 million (2011 £5 7 million)

Trade receivables that are less than three months past due are not considered impaired unless there are specific financial or commercial reasons that lead management to conclude that the customer will default At 31 December 2012 trade receivables of £3 7 million (2011 £3 1 million) were past due but not impaired The credit quality of the Group's customers is good, being a combination of large broadcast stations (public and private), government agencies and departments Controls within Group companies are in place to ensure that appropriate credit limits are in place The overdue amounts relate to customers with no history of default The ageing of these receivables is as follows

	2012 £000	2011 £000
Up to 3 months	**2,617**	2,239
3 to 6 months	**460**	670
Over 6 months	**657**	177
	3,734	3,086

At 31 December 2012 trade receivables of £0 5 million (2011 £0 8 million) were impaired and provided for in whole or in part The provision of £0 5 million (2011 £0 7 million) is set against specific customer debts In general customer debts that are considered impaired are as a result of contractual disputes rather than as a result of customer cash flow difficulties, although some specific customers in the US, for which the debts have been provided in full, have filed for relief from its creditors under Chapter 11 in the United States The ageing of these receivables is as follows

	2012 £000	2011 £000
Up to 3 months	**—**	—
3 to 6 months	**—**	164
Over 6 months	**495**	605
	495	769

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies

	2012 £000	2011 £000
Pounds sterling	**3,614**	3,163
US dollars	**5,313**	5,499
Euros	**234**	81
	9,161	8,743

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16 TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements on the group provision for impairment of trade receivables is as follows

	2012 £000	2011 £000
At 1 January	**720**	850
Provision for receivable impairment	**70**	62
Receivables written off during the year as uncollectible	**(188)**	(225)
Receivables previously provided that were recovered in full or part	**(79)**	(242)
Addition on acquisition of business	**—**	269
Exchange adjustment	**(11)**	6
At 31 December	**512**	720

The creation and release of provision for impaired receivables have been included in "sales and marketing expenses" in the income statement Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash

The other classes within trade and other receivables do not contain impaired assets

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above The Group does not hold any collateral as security

17 CASH AND CASH EQUIVALENTS

	2012 £000	2011 £000
Cash at bank and in hand	**8,131**	5,261
Short term bank deposits	**—**	4,923
	8,131	10,184

Cash of £nil (2011 £4 9 million) was held in an escrow account The cash was held in escrow to be able to satisfy any potential claims by the buyer of HERNIS Scan Systems AS under the terms of the sale and purchase agreement for breaches of warranties and indemnities The cash was released from this account on 30 June 2012

The effective interest rate on short term deposits was 0 5 per cent (2011 0 5 per cent) and these deposits have an average maturity of nil days (2011 28 days)

The credit quality of the cash and cash equivalents that are not impaired can be assessed by reference to the external credit ratings of the banks where the deposits are held

Credit rating (S&P)	2012 £000	2011 £000
AA	**—**	—
A+	**—**	8,410
A	**6,285**	—
A-	**—**	1,774
BBB+	**1,846**	—
Total	**8,131**	10,184

Reconciliation of decrease in cash and cash equivalents to movement in net cash

	2012			2011		
	Net cash and cash equivalents £000	**Other borrowings £000**	**Total net cash £000**	Net cash and cash equivalents £000	Other borrowings £000	Total net cash £000
At 1 January	**10,184**	**(37)**	**10,147**	22,230	—	22,230
Cash flow for period before financing and acquisition of subsidiary	**(545)**	**—**	**(545)**	(2,264)	—	(2,264)
Cash and borrowings acquired with subsidiary	—	—	—	71	(932)	(861)
Purchase of subsidiary	—	—	—	(2,383)	—	(2,383)
Repurchase of own shares	—	—	—	(5,200)	—	(5,200)
Repayment of borrowings	**(37)**	**37**	**—**	(895)	895	—
Dividend paid to shareholders	**(1,413)**	**—**	**(1,413)**	(1,413)	—	(1,413)
Exchange rate adjustments	**(58)**	**—**	**(58)**	38	—	38
Cash and cash equivalent at 31 December	**8,131**	**—**	**8,131**	10,184	(37)	10,147

18 TRADE AND OTHER PAYABLES

	2012 £000	2011 £000
Payments received on account	**1,193**	2,407
Trade payables	**6,664**	6,254
Accruals and deferred income	**2,608**	2,643
Other taxes and social security costs	**17**	207
Deferred consideration for acquisitions	**411**	1,292
	10,893	12,803

19 CURRENT TAX ASSETS AND LIABILITIES

	2012 £000	2011 £000
Current tax liabilities	**29**	—
Foreign corporation tax	**41**	41
Current tax assets		
Foreign corporation tax	**—**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20 FINANCIAL LIABILITIES — BORROWINGS

	2012 £000	2011 £000
Current:		
Finance lease liabilities	—	37

The finance lease obligations were acquired by the Group as part of the Gigawave acquisition The fair value of the obligations is considered to be their carrying amount, the impact of discounting is not deemed to be significant Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of a default

	2012 £000	2011 £000
Gross finance lease liability — minimum lease payments		
No later than one year	—	38
Future finance charges on finance leases	—	(1)
Present value of finance lease liabilities	—	37

BANK BORROWING FACILITIES

The facilities expiring within one year comprise the Group bonding and ancillary facility that are subject to review during 2013 in the normal course of business At 31 December 2012 the Group had a gross bank overdraft facility of £2 0 million, net limit of £1 0 million Interest on the overdraft facility is charged at 2 25 per cent over base rate

The bank facilities are secured by fixed and floating charges over the Group's assets and by cross-guarantees between the Company and certain UK and US subsidiaries

Prudent liquidity risk management implies maintaining sufficient cash and available funding through an adequate amount of committed credit facilities Due to the dynamic nature of the underlying businesses, Group treasury aims to maintain flexibility in funding by keeping committed credit lines available

The Group does not use interest rate swaps to manage its exposure to interest rate movements on its bank borrowings The effective interest rates at the balance sheet dates were as follows

	2012	2011
Bank overdraft	2 75%	2 75%

21 OTHER NON-CURRENT LIABILITIES

	2012 £000	2011 £000
Deferred consideration for acquisitions	—	1,498

The vendors of Pacific Microwave Research are entitled to deferred consideration calculated on the basis of the sales performance of the surveillance business The maximum deferred consideration that could be earned is $7 0 million (£4 9 million) between September 2008 and September 2012, with payments being made within three months of the end of each financial year The deferred consideration has been discounted to its present value at the rate of 3 5 per cent being the rate applying at the date of the acquisition During 2012 deferred consideration was reduced by £0 3 million (2011 £0 7 million) following a review of the likely maximum consideration that could be earned Intangible assets were reduced by the same amount reflecting accelerated amortisation of acquired customer relationships (note 13)

The vendors of Gigawave Limited were entitled to two deferred consideration payments of £1 0 million each due on the first and second anniversary of the acquisition During the year a renegotiation took place resulting in a reduction of consideration to be paid that was released to the income statement (note 6) The amounts have not been discounted as the impact is not material

Deferred consideration payments of £1 3 million were made during the year (2011 £0 9 million) The current portion of deferred consideration is shown in trade and other payables (note 18)

22 FINANCIAL INSTRUMENTS

Numerical financial instrument disclosures are set out below Additional disclosures are set out in the accounting policies (note 2)

FINANCIAL INSTRUMENTS BY CATEGORY

	2012 Loans and receivables £000	2011 Loans and receivables £000
Assets as per statement of financial position at 31 December		
Trade and other receivables excluding prepayments	**9,338**	8,844
Cash and cash equivalents	**8,131**	10,184
Total	**17,469**	19,028

There are no financial assets that are pledged as collateral for liabilities or contingent liabilities

	2012 Other financial liabilities at amortised cost £000	2011 Other financial liabilities at amortised cost £000
Liabilities as per statement of financial position at 31 December		
Borrowings	—	37
Trade and other payables excluding statutory liabilities	**10,876**	12,596
Non-current deferred consideration	—	1,498
Total	**10,876**	14,131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Warranty Provisions £000	Property Provisions £000	Rationalisation Provisions £000	Contractual Disputes £000	Total £000
At 1 January 2012	587	1,057	280	—	1,924
Charged during the year	244	—	—	330	574
(Utilised) during the year	(492)	(303)	(275)	—	(1,070)
Exchange adjustment	(8)	—	—	—	(8)
At 31 December 2012	**331**	**754**	**5**	**330**	**1,420**

Provisions have been analysed between current and non-current as follows

	2012 £000	2011 £000
Current	**838**	842
Non-current	**582**	1,082
	1,420	1,924

Warranty provisions are made in respect of the expected future warranty costs in certain businesses based on historic actual costs Warranty periods on products are generally between one and two years Other than a warranty provision of £0 2 million (2011 £0 4 million) all provisions are denominated in sterling The warranty provision is reassessed annually based on the warranty claim experience of the previous twelve months relative to the aggregate outstanding warranty period at the year end

The Group has vacant leasehold properties These are currently being marketed Property provisions have been made in respect of the vacated lease premises and represent the future liabilities associated with the property to the end of the lease, net of anticipated income from sub-letting It has been anticipated that the properties can be re-let within twenty four months but at a subsidised rental In the current economic environment we cannot be certain that this provision will be sufficient to cover the total future liabilities associated with these properties and the requirement for provision will be reassessed annually The total liability for future rent and rates on vacant properties, excluding any potential benefit from sub-letting, is £1 7 million over an aggregate period of 6 5 years

Rationalisation provisions are in respect of future liabilities for committed reorganisation costs at the statement of financial position dates, including severance payments, in respect of the closure of the sales office in Singapore The costs will be defrayed within twelve months of the year end

The Group has a contractual dispute provision in place in respect of an ongoing dispute with a distributor regarding contractual obligations The provision represents the potential future liability associated with the legal costs incurred in resolving the dispute

24 DEFERRED TAXATION

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate appropriate to the country in which the deferred tax liability or asset has arisen Deferred tax assets have been recognised in respect of all tax losses and other temporary differences to the extent that they are regarded as more likely than not to be recoverable against future profits

No deferred tax is recognised on unremitted earnings of overseas subsidiaries As the earnings are continually reinvested by the Group no tax is expected to be payable on them in the foreseeable future

The proposed reductions of the main rate of corporation tax by 1 per cent per year to 23 per cent by 1 April 2014 are expected to be enacted separately each year The overall effect of the further changes from 25 per cent to 23 per cent, if these applied to the deferred tax balance at the balance sheet date, would not be material

	Accelerated tax depreciation £000	Intangible assets £000	Losses £000	Other £000	Total £000
Deferred tax liabilities					
At 1 January 2012	—	—	—	—	—
Charge/(credit) to profit or loss	91	(183)	—	334	242
Reclassify to deferred tax assets	1,225	1,733	(697)	(1,805)	456
Exchange adjustment	(52)	(45)	30	69	2
At 31 December 2012	**1,264**	**1,505**	**(667)**	**(1,402)**	**700**

	Accelerated tax depreciation £000	Intangible assets £000	Losses £000	Other £000	Total £000
Deferred tax assets					
At 1 January 2012	(865)	(1,733)	905	2,125	432
Charge/(credit) to profit or loss	(5)	—	586	(258)	323
Reclassify from deferred tax liabilities	1,225	1,733	(697)	(1,805)	456
Exchange adjustment	—	—	—	—	—
At 31 December 2012	**355**	**—**	**794**	**62**	**1,211**

Deferred tax assets are not available for offset against deferred tax liabilities

The movement on net deferred tax assets/(liabilities) in the year was

	2012 £000	2011 £000
Net asset/(liability) at 1 January	**432**	312
Credited in the year — continuing business	**77**	515
Acquisition of a business	**—**	(401)
Exchange adjustment	**2**	6
Net asset at 31 December	**511**	432

Certain deferred tax assets have not been provided for where they are not regarded as recoverable as follows

	2012 £000	2011 £000
Losses	**5,946**	7,301
Unutilised ACT	**584**	584
	6,530	7,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 ORDINARY SHARES

	2012 Number '000s	2012 £000	2011 Number '000s	2011 £000
Ordinary shares of 2.5 pence each at 31 December				
Authorised	**200,000**	**5,000**	200,000	5,000
Allotted, called up and fully paid				
At 1 January	**113,902**	**2,848**	138,594	3,465
Repurchase of own shares	**—**	**—**	(24,692)	(617)
At 31 December	**113,902**	**2,848**	113,902	2,848

There were no shares issued as a result of the exercise of executive share options or under SAYE share options in the year (2011 nil) As a result of the 2011 tender offer, 24,692 shares were cancelled, consequently the issued share capital of the company is now 113,902,230 shares all with equal voting rights

POTENTIAL ISSUE OF SHARES

The Group has the following share-based payment schemes

(A) EXECUTIVE SHARE OPTION SCHEMES

Executive share options are granted at a fixed exercise price equal to the market price of the shares under option at the date of grant The contractual life of an option is ten years Awards are at the discretion of the remuneration committee Options will become exercisable on the third anniversary of the date of grant Exercise of an option is subject to continued employment There are no performance criteria attached to the options

Certain senior executives hold options to subscribe for shares in the company at prices ranging from 19 0 pence to 86 3 pence under the share option schemes approved by shareholders

The number of shares subject to options and the exercise prices are

Date of Grant	Exercise price	Exercise period	2012 Number '000s	2011 Number '000s
05 April 2002	27 5p	05/04/05–04/04/12	**—**	20
07 April 2004	34 5p	07/04/07–06/04/14	**58**	74
14 April 2005	27 3p	14/04/08–13/04/15	**500**	500
13 April 2006	53 5p	13/04/09–12/04/16	**159**	159
27 April 2007	86 3p	27/04/10–26/04/17	**50**	50
08 June 2011	19 0p	08/06/14–07/06/21	**300**	300
29 March 2012	29 0p	29/03/15–28/03/22	**650**	—
			1,717	1,103

A reconciliation of executive option movements over the year is shown below

	2012 Number '000s	2012 Weighted average exercise price	2011 Number '000s	2011 Weighted average exercise price
Outstanding at beginning of year	**1,103**	**31 9p**	1,231	43 1p
Forfeited during the period	**(66)**	**30 3p**	(45)	52 0p
Lapsed during the period	**(20)**	**27 5p**	(383)	55 5p
Issued during the period	**700**	**29.0p**	300	19 0p
Outstanding at the end of the year	**1,717**	**30.9p**	1,103	31 9p
Exercisable at the end of the year	**767**	**37 1p**	803	36 8p

No options were exercised in 2012 (2011 nil) The options outstanding at 31 December 2012 had a weighted average exercise price of 30 9 pence (2011 31 9 pence) and a weighted average remaining contractual life of 6 1 years (2011 5 1 years)

The fair value of the executive options granted during 2012 that vest in 2015 was £27,000 based on the Black–Scholes pricing model The significant assumptions used in the calculation were as follows

	2012
Date of grant	**29 March**
Option type	**Executive**
Weighted average share price at grant	**29.0p**
Weighted average exercise price	**29.0p**
Shares under option	**650,000**
Weighted average vesting period (years)	**3.00**
Expected volatility	**40%**
Risk free rate	**1.9%**
Expected dividends expressed as a dividend yield	**5.0%**
Possibility of ceasing employment before vesting	**0%**
Expectations of meeting performance criteria	**100%**
Fair value per option	**4 2p**

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life

(B) SAYE OPTION PLAN

Until June 2011 the Group operated an HMRC Approved Sharesave Scheme open to eligible employees (including Executive Directors) in the United Kingdom The scheme was discontinued and all options outstanding as at 1 January 2011 (44,000 with a weighted average exercise price of 54 5p) lapsed during the period and there were no remaining options outstanding at 31 December 2011 or 31 December 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 ORDINARY SHARES (CONTINUED)

(C) LONG TERM INCENTIVE PLAN (LTIP)

Options have been granted as nil cost options under this scheme The options granted under this scheme are generally exercisable at the end of the performance period and for six months thereafter Awards under this scheme are reserved for employees at senior management level and above If an employee leaves the employment of the Group, a proportion of his award may be deemed to have vested, subject to satisfying any performance conditions and at the discretion of the Remuneration Committee

Awards under the LTIP scheme are subject to performance criteria, the scales relating to which will be determined annually by the Remuneration Committee Details of the performance criteria are disclosed in the Remuneration Report

The fair value of the LTIP options granted during the year is £734,000, based on the market value of the shares at the date of grant, less the expected dividend yield The fair value is charged over the vesting period, after allowing for options lapsing at an estimated rate of 10 per cent per annum

The number of shares subject to LTIP options and the exercise prices are

Date of Grant	Share price at award date	Vesting date	**2012 Number '000s**	2011 Number '000s
07 April 2008	29 8p	07 April 2011	—	446
13 April 2010	24 3p	13 April 2013	**596**	1,471
28 March 2012	29 5p	28 March 2015	**2,500**	—
15 December 2012	26 0p	15 December 2015	**404**	—
			3,500	1,917

A reconciliation of LTIP option movements over the year is shown below

	2012 Number '000s	**2012 Weighted average exercise price**	2011 Number '000s	2011 Weighted average exercise price
Outstanding at beginning of year	**1,917**	**25 6p**	4,290	25 9p
Lapsed during the year	**(1,371)**	**26.2p**	(2,373)	26 1p
Granted	**2,954**	**29 0p**	—	0 0p
Outstanding at the end of the year	**3,500**	**28 2p**	1,917	25 6p

There were no LTIP options that were exercisable at the end of the year (2011 nil)

(D) SHARE OPTIONS — VALUE OF EMPLOYEE SERVICES

The Group recognised total expenses of £188,000 (2011 £107,000) related to equity-settled share based payment transactions in the year

26 OTHER CAPITAL AND RESERVE ACCOUNTS

	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Translation reserve £000	Total £000
At 1 January 2011	4,900	—	30,565	4,592	40,057
Repurchase of own shares (note 25)	—	617	—	—	617
Exchange differences on translation of overseas operations	—	—	—	138	138
At 1 January 2012	4,900	617	30,565	4,730	40,812
Repurchase of own shares (note 25)	—	—	—	—	—
Exchange differences on translation of overseas operations	—	—	—	(576)	(576)
At 31 December 2012	**4,900**	**617**	**30,565**	**4,154**	**40,236**

The capital redemption reserve has been created as a result of the Company purchasing, and subsequently cancelling 24 7 million ordinary shares in April 2011 (note 25)

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, including all gains and losses arising on net investments

27 RETAINED EARNINGS

	2012 £000	2011 £000
At 1 January	**3,398**	12,751
Profit/(loss) for the financial year	**2,120**	(2,847)
Share options value of employee services	**188**	107
Dividends paid	**(1,413)**	(1,413)
Repurchase of own shares	—	(5,200)
At 31 December	**4,293**	3,398

Retained earnings have been reduced to reflect the investment in the Company's own shares held by the Trustee of the Employees' Share Ownership Plan (the ESOP) This is a trust which holds shares for the benefit of employees and Executive Directors The Trustee may use the shares to meet share requirements when share options are exercised

At 31 December 2012 the ESOP held 840,000 shares (2011 840,000) with a market value of £0 2 million (2011 £0 2 million) The net book value of these shares was £0 2 million (2011 £0 2 million), and has been deducted from retained earnings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

28 CASH FLOW FROM OPERATIONS

Reconciliation of profit/(loss) before taxation to net cash flows from operations

	2012 £000	2011 £000
Profit/(loss) before taxation — continuing operations	**2,232**	(3,617)
Depreciation	**915**	1,136
Loss on disposal of property, plant and equipment	**75**	83
Acquisition related costs	**—**	233
Amortisation and impairment of development costs	**2,600**	2,121
Amortisation of acquired intangibles	**1,589**	1,214
Share options value of employee services	**188**	107
Finance income from continuing operations	**(29)**	(46)
Finance costs from continuing operations	**4**	29
(Increase)/decrease in inventories	**(1,185)**	677
(Increase)/decrease in trade and other receivables	**(678)**	919
(Decrease) in trade and other payables	**(1,381)**	(3,128)
(Decrease) in provisions	**(412)**	(136)
Cash generated from operations	**3,918**	(408)

29 CONTINGENT LIABILITIES AND COMMITMENTS

The Group has contingent liabilities of approximately £0 3 million in respect of performance bonds, advance payment guarantees, terminable indemnities, documentary credits and bills of exchange at 31 December 2012 (2011 £0 4 million)

The aggregate future minimum lease payments due under non-cancellable operating leases are as follows

	2012 Land and buildings £000	**2012 Other £000**	2011 Land and buildings £000	2011 Other £000
Not later than one year	**1,128**	**23**	1,104	23
Later than one year and not later than five years	**3,092**	**49**	3,799	12
Later than five years	**1,375**	**—**	3,392	—
	5,595	**72**	8,295	35

The Group leases a number of office and factory premises under operating leases of periods between five and ten years None of these leases contain contingent rentals Other leases comprise leases for office equipment During the year £0 4 million (2011 £0 9 million) of operating lease payments, net of £0 1 million of rental income recognised from sub-leases, were recognised in the consolidated Group income statement

Leasing commitments at 31 December 2012 include £2 8 million of land and buildings

29 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

The Group has capital expenditure contracted for but not provided at 31 December 2012 of £nil (2011 £190,000) relating to property, plant and equipment

Share options granted between 5 April 1999 and 5 April 2002 under unapproved schemes are subject to employers' and employees' national insurance on the gain made on the exercise of such options by UK employees At 31 December 2012 no accrual was required in respect of this liability (2011 £nil)

30 PENSIONS

DEFINED CONTRIBUTION PLANS

The Group currently operates a Group Personal Pension Plan and funds are invested with Standard Life plc Certain UK employees are entitled to join the plan to which the Company contributes varying amounts subject to status In addition the Group operates a Stakeholder pension scheme in the UK In the US the Group contributes to a 401K plan on behalf of employees up to US$2,500 (£1,545) per employee The total Group pension charge for the year was £0 3 million (2011 £0 4 million)

The Group has no unfunded pension liabilities

31 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note

The Group has a 10 per cent investment in Vislink (China) Limited, a company incorporated in Hong Kong to distribute Vislink products into the People's Republic of China Sales to Vislink (China) Limited in the year ended 31 December 2012 were £0 3 million (2011 £1 1 million) At 31 December 2012 an amount of £nil (2011 £0 3 million) was due to Vislink International Limited from Vislink (China) Limited

Key management includes directors (Executive and Non-executive), members of the Executive Committee, the Company Secretary and the Head of Internal Audit The compensation paid or payable to key management for employee services is disclosed in note 7

Other than the transactions set out above, the Group has not entered into any transactions with any related parties who are not members of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 PRINCIPAL SUBSIDIARY COMPANIES

The following subsidiaries are included in the Group's consolidated results A full list of subsidiaries can be obtained from the Company Secretary at the registered office of Vislink plc

	Proportion of ordinary shares held by the Group	Principal activity	Country of incorporation and operation	Registered office
Continental Microwave Limited*	100%	Broadcast transmission systems integration and project management	UK	Hungerford England
Vislink International Limited* (incorporating the business of Advent Communications, Link Research and Gigawave)	100%	Design and manufacture of wireless camera systems satellite uplink and downlink equipment	UK	Hungerford England
Vislink, Inc. (incorporating the businesses of Microwave Radio Communications, Pacific Microwave Research and Western Technical Services)	100%	Design and manufacture of microwave radio transmission equipment	USA	Delaware USA
Vislink Holdings Limited*	100%	Management holding company	UK	Hungerford England
Vislink Holdings, Inc.	100%	Management holding company	USA	Delaware USA

* Owned directly by the parent company, Vislink plc

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VISLINK PLC

We have audited the parent company financial statements of Vislink plc for the year ended 31 December 2012 which comprise the Company balance sheet, the reconciliation of movements in shareholders' funds and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 45, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VISLINK PLC CONTINUED

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

OTHER MATTER

We have reported separately on the Group financial statements of Vislink plc for the year ended 31 December 2012

Colin Bates
(SENIOR STATUTORY AUDITOR)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
25 March 2013

COMPANY BALANCE SHEET

	Notes	2012 £000	2011 £000
Fixed assets			
Tangible assets	G	**207**	285
Investments	H	**11,339**	11,339
		11,546	11,624
Current assets			
Debtors	I	**18,572**	20,466
Cash at bank and in hand		**3,444**	10
		22,016	20,476
Creditors — amounts falling due within one year	J	**6,594**	2,796
Net current assets		**15,422**	17,680
Total assets less current liabilities		**26,968**	29,304
Creditors — amounts falling due after more than one year	K	**—**	1,000
Net assets		**26,968**	28,304
Capital and reserves			
Called up share capital	M	**2,848**	2,848
Share premium account	N	**4,900**	4,900
Capital redemption reserve	N	**617**	617
Merger reserve	N	**2,670**	2,670
Profit and loss account	N	**15,933**	17,269
Total shareholders' funds		**26,968**	28,304

Company registration number 4082188

The financial statements on pages 93 to 100 were approved by the Board of Directors on 25 March 2013 and were signed on its behalf by

John Hawkins Ian Davies
DIRECTORS

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Notes	2012 £000	2011 £000
Opening shareholders' funds		**28,304**	36,269
Loss for the financial year	B	**(111)**	(1,459)
Share options value of employee services	F	**188**	107
Dividends paid	E	**(1,413)**	(1,413)
Repurchase of own shares		**—**	(5,200)
Movement in the year		**(1,336)**	(7,965)
Closing shareholders' funds		**26,968**	28,304

NOTES TO THE COMPANY FINANCIAL STATEMENTS

A ACCOUNTING POLICIES

The separate financial statements of the Company are presented as required by the Companies Act 2006 They have been prepared on a going concern basis under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law

A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on adoption of new accounting standards in the year

FINANCIAL ASSETS — INVESTMENTS

All investments are initially recorded at cost, being the fair value of consideration given including the acquisition costs associated with the investment Subsequently they are reviewed for impairment on an individual basis, if events or changes in circumstances indicate the carrying value may not be fully recoverable

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment

Depreciation is calculated in order to write off the cost of tangible fixed assets over their estimated useful lives by equal annual instalments using the following rates

Plant and computer equipment	10 per cent – 33 per cent

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred tax assets are recognised for all deductible timing differences, carry-forward of unused tax assets and tax losses, to the extent that they are regarded as recoverable They are regarded as recoverable where, on the basis of available evidence, there will be suitable taxable profits against which the future reversal of the underlying timing differences can be deducted The carrying value of the amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the tax asset to be utilised

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted at the balance sheet date Deferred tax is measured on an undiscounted basis

FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date and non-monetary transactions at the exchange rates ruling at the dates of the transactions All differences on exchange are taken to the profit and loss account

SHARE BASED PAYMENTS

The fair value of employee share plans is calculated using an option-pricing model In accordance with FRS 20 "Share based payments" the resulting cost is charged to the profit and loss account over the vesting period of the plans The value of the charge is adjusted to reflect the expected and actual levels of options vesting

DIVIDENDS

Under FRS 21 dividends are not to be recognised as a creditor until the dividend is approved by the Company's shareholders

PENSIONS

Company employees are members of money purchase schemes where the obligations of the Company are charged to the profit and loss account as they are incurred

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

B LOSS FOR THE YEAR

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account and statement of total recognised gains and losses for the year Vislink plc reported a loss for the financial year of £0 1 million (2011 loss of £1 5 million)

C SERVICES PROVIDED BY THE COMPANY AUDITORS

During the year the Company obtained the following services from the Company's auditors at costs detailed below

	2012 £000	2011 £000
Audit services		
Fees payable to the Company's auditors for the audit of the Company's financial statements	**47**	57
Fees payable to the Company's auditors for other services	**—**	—
— Audit related assurance services	**10**	5
— Taxation compliance services	**11**	11
— Taxation advisory services	**15**	15
— Other non-audit services	**9**	9
	92	97

A description of the work of the Audit Committee is set out in the Corporate Governance Statement on page 35 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors

D DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows

	2012 £000	2011 £000
Wages and salaries	**564**	627
Social security costs	**63**	61
Other pension costs	**41**	201
	668	889

The number of employees employed by the Company was as follows

	2012	2011
Average number of employees	**5**	5

The total number of employees at 31 December 2012 was five (2011 five)

Pension contributions of £41,000 (2011 £201,000) have been paid into defined contribution schemes (see note 30 of the consolidated Group financial statements)

The remuneration of the directors of the company is detailed in the Remuneration Report on pages 38 to 44 Included within the employee costs above are the salaries and benefits of John Hawkins, James Trumper and Ian Davies Non-executive Directors' fees are excluded from the amounts shown

E DIVIDENDS

	2012 £000	2011 £000
Final dividend paid of 1 25p per share (2011 1 25p per share)	**1,413**	1,413

In addition the directors are proposing a final dividend in respect of the financial year ending 31 December 2012 of 1 25 pence per share which will absorb an estimated £1 41 million of shareholders' funds It will be paid on 19 July 2013 to shareholders who are on the register of members on 28 June 2013

F SHARE BASED PAYMENTS

Details of share based payments are shown in note 25 to the consolidated Group financial statements

G TANGIBLE FIXED ASSETS

	Plant and computer equipment £000
Cost	
At 1 January 2012	445
Additions	—
Disposals	(1)
At 31 December 2012	**444**
Accumulated depreciation	
At 1 January 2012	160
Charge for the year	78
Disposals	(1)
At 31 December 2012	**237**
Net book value	
At 31 December 2012	**207**
At 31 December 2011	285

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

H INVESTMENTS

	Investments in subsidiaries' unlisted shares £000
Cost	
At 1 January 2012 and 31 December 2012	**19,245**
Provisions	
At 1 January 2012 and 31 December 2012	**7,906**
Net book value	
At 1 January 2012 and 31 December 2012	**11,339**

The directors believe that the carrying amount of the investments is supported by the value of their underlying net assets

I DEBTORS

	2012 £000	2011 £000
Amounts owed by Group undertakings	**18,194**	19,960
Deferred taxation (note L)	**28**	28
Corporation tax	**202**	314
Other debtors	**40**	55
Prepayments and accrued income	**108**	109
	18,572	20,466

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences to the extent that they are regarded as recoverable against future profits The movement on deferred tax assets in the year relates to the utilisation of timing differences associated with capital allowances

Amounts due from Group undertakings includes loans of £18 2 million (2011 £19 6 million) that bear interest at 2 75 per cent, and which are repayable on demand

J CREDITORS — AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £000	2011 £000
Trade creditors	**113**	107
Amounts owed to Group undertakings	**5,916**	1,348
Taxation and social security costs	**17**	15
Deferred consideration	**250**	1,000
Accruals and deferred income	**298**	326
	6,594	2,796

K CREDITORS — AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012 £000	2011 £000
Deferred consideration	—	1,000
	—	1,000

L DEFERRED TAXATION

Deferred tax assets comprise

	2012 £000	2011 £000
Depreciation in excess of capital allowances	**28**	28
Total deferred tax	**28**	28
At start of year	**28**	
Deferred tax credit in profit and loss account for year	**0**	
At end of year	**28**	

The directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has been recognised in these financial statements

M SHARE CAPITAL

	Number '000s	2012 £000	Number '000s	2011 £000
Authorised ordinary shares of 2 5 pence each at 31 December	**200,000**	**5,000**	200,000	5,000
Allotted and fully paid				
At 1 January	**113,902**	**2,848**	138,594	3,465
Decrease during the year	—	—	(24,692)	(617)
At 31 December	**113,902**	**2,848**	113,902	2,848

POTENTIAL ISSUE OF SHARES

Details of the potential issue of shares are shown in note 25 to the consolidated Group financial statements

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

N RESERVES

	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000	Total £000
At 1 January 2012	4,900	617	2,670	17,269	25,456
Retained loss for the year	—	—	—	(111)	(111)
Value of employee services	—	—	—	188	188
Dividends paid	—	—	—	(1,413)	(1,413)
At 31 December 2012	**4,900**	**617**	**2,670**	**15,933**	**24,120**

At 31 December 2012 the trustee of the Employees Share Ownership Plan (ESOP) held 840,000 shares (2011 840,000) with a market value of £0 2 million (2011 £0 2 million) The net book value of these shares was £0 2 million (2011 £0 2 million) and was deducted from the profit and loss account

O CONTINGENT LIABILITIES AND COMMITMENTS

The Company is party to a cross guarantee to secure bank borrowings and facilities for credit cards, bonds and guarantees to certain members of the Group At 31 December 2012 there were no bank borrowings outstanding (2011 £nil)

The Company has no capital expenditure contracted for but not provided at 31 December 2012 (2011 £nil)

Share options granted between 5 April 1999 and 5 April 2002 under unapproved schemes are subject to employers' and employees' national insurance on the gain made on the exercise of such options by UK employees At 31 December 2012 an accrual of £nil has been made in respect of this liability (2011 £nil)

P RELATED PARTY TRANSACTIONS

The Company is exempt from disclosing related party transactions with entities that are part of the Vislink plc group or investees of Vislink plc under Financial Reporting Standard 8 There are no other related party transactions other than those relating to directors that have been disclosed in note 31 to the consolidated Group financial statements

Q COMPANY PRINCIPAL SUBSIDIARIES

The principal subsidiaries of the Company are listed in note 32 to the consolidated Group financial statements

ANALYSIS OF SHAREHOLDERS

AS AT 31 DECEMBER 2012

Holding size range	Number of shareholders	Percentage of total shareholders	Number of shares ('000)	Percentage of issued share capital
1–1,000	3,804	55 9	1,724	1 5
1,001–5,000	2,234	32 8	5,146	4 5
5,001–10,000	351	5 2	2,645	2 3
10,001–100,000	319	4 7	9,564	8 4
Over 100,000	97	1 4	94,823	83 3
	6,805	100 0	113,902	100 0

WARNING TO SHAREHOLDERS BOILER ROOM SCAMS

Over the last few years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters These are typically from overseas based "brokers" who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments These operations are commonly known as "boiler rooms" These "brokers" can be very persistent and extremely persuasive

The directors have been made aware that approaches have been made to Vislink shareholders Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports

More detailed information on this or similar activity can be found on the FSA website http //www fsa gov uk/
or by calling the FSA on 0845 606 1234

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

John Hawkins
Executive Chairman

Ian Davies
Group Finance Director

Robin Howe*
Senior Independent Non-executive Director
Remuneration Committee Chairman

Oliver Ellingham*
Audit Committee Chairman

Andrew Sleigh*

John Varney*

* Non-executive

SECRETARY

Ian Davies

REGISTERED OFFICE

Marlborough House
Charnham Lane
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Berkshire
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COMPANY REGISTRATION NUMBER

4082188

AUDITORS

PRICEWATERHOUSECOOPERS LLP

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Bristol
BS1 5QD

BANKERS

SANTANDER CORPORATE BANKING

Solent Corporate Banking Centre
1 Dorset Street
Southampton
Hampshire
SO15 2DP

LEGAL ADVISERS

PINSENT MASONS LLP

3 Colmore Circus
Birmingham
B4 6BH

REGISTRARS

COMPUTERSHARE INVESTOR SERVICES

The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

STOCKBROKERS AND FINANCIAL ADVISERS

N+1 SINGER

One Bartholomew Lane
London
EC2N 2AX

SHAREHOLDER QUERIES

All queries regarding shareholdings, dividends, lost share certificates or changes of address should be communicated in writing to Vislink plc, c/o Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ stating the registered shareholder's name and address

Telephone 0870 703 6270

Shareholders may also check their shareholding, dividend payments or update their personal details via the Investor Services section of the Registrars' website at www computershare com This is a secure section of the Computershare website To access your details you will require the unique Shareholder Reference Number, found on the corresponding share certificate

SHAREHOLDER ECOMS

WEBSITE

For further up-to-date shareholder information please visit www vislink com/investors/shareholder information

NEWS ALERTS

To receive the latest news announcements and press releases by email please visit www vislink com and follow the link to the investor/shareholder information page to register your details

UNSOLICITED MAIL

The Company is required by law to make its share register available on request to the public and organisations which may use it as a mailing list resulting in shareholders receiving unsolicited mail Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, DMA House, 70 Margaret Street, London, W1W 8SS or register online at www mpsonline org uk

SHAREHOLDER NOTES

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