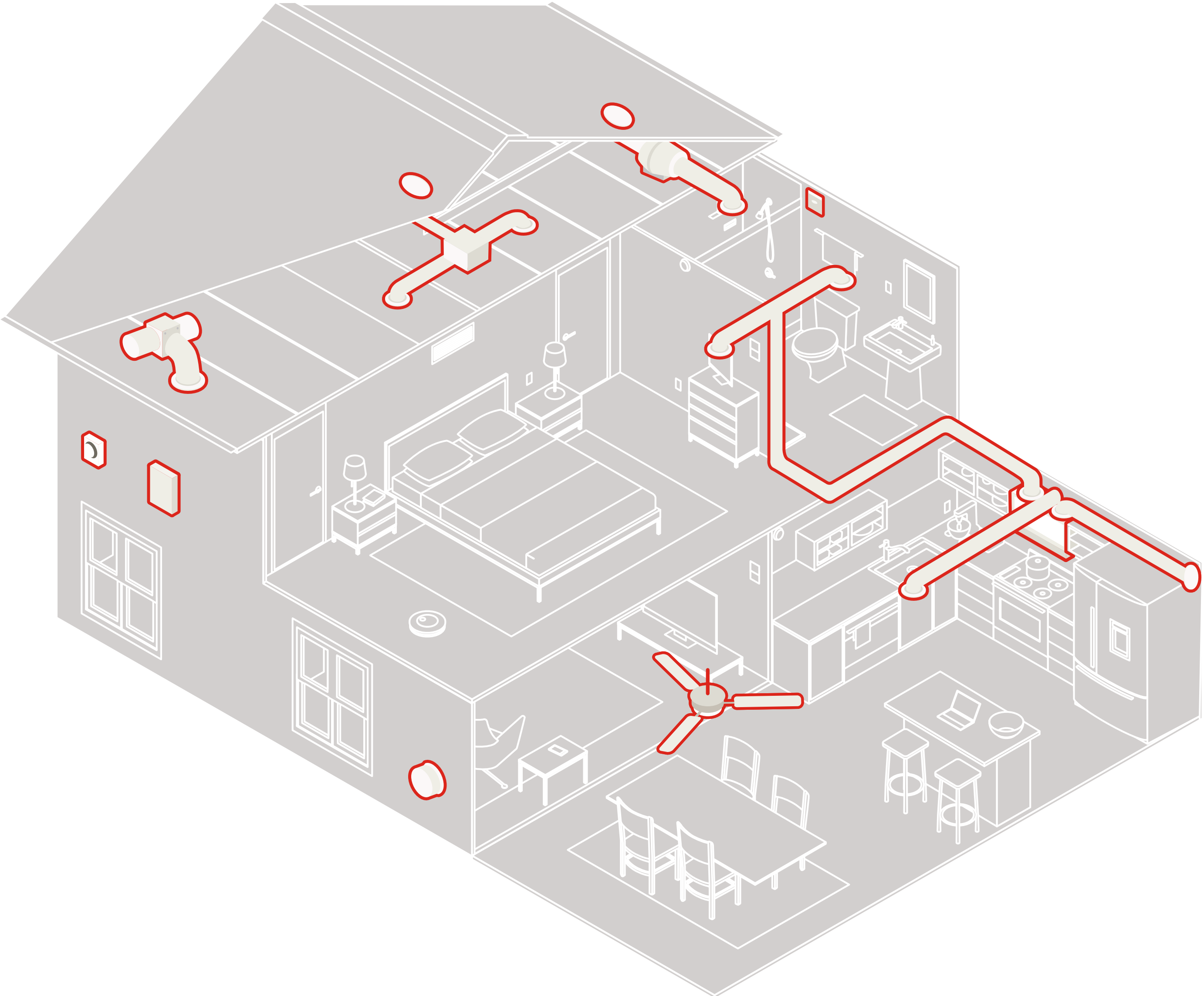


Excellence in ventilation

Volution Group plc Annual Report 2019

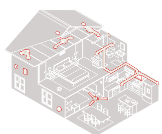
Our purpose

Volution Group plc is a leading supplier of ventilation products to the residential and commercial construction markets in the UK, the Nordics, Central Europe and Australasia.

We aim for our products to enhance our customers' experience of ventilation by reducing energy consumption, improving indoor air quality and design and making them easier to use.

Monsoon Silence range:

The Monsoon Silence range is our latest innovative domestic ventilation solution, providing high extraction rates, low energy use and exceptionally quiet running levels. This bathroom fan has a long-life ball bearing motor and a silent back draft shutter.



Complete home ventilation:

The political and social drive to become more energy efficient has made our homes more air tight meaning the problem of poor indoor air quality has become harder to ignore. This increases the importance of the vital role ventilation products have to play in maintaining a healthy indoor environment.

See residential indoor air quality on page 20

Our Recent History

2006	AAC Capital and Management Team acquires Volution Holdings
2007	Cable Management division sold Manrose Manufacturing acquired
2008	Ronnie George joins Volution Holdings as Managing Director
2012	TowerBrook acquires Volution Holdings Fresh AB acquired
2013	PAX AB acquired
2014	inVENTer GmbH acquired Volution Group plc is formed and listed on the London Stock Exchange Torin-Sifan opens new Manufacturing and Technology Centre in Swindon, UK
2015	Brüggemann Energiekonzepte GmbH acquired Ventilair Group International BVBA acquired Weland AB acquired Energy Technique plc (trading as Diffusion) acquired
2016	NVA Services Limited acquired Breathing Buildings Limited acquired
2017	VoltAir System AB acquired
2018	Simx Limited acquired Oy Pamon Ab acquired Air Connection ApS acquired AirFan B.V. (rebranded Vent-Axia Netherlands) acquired New facility in Reading, UK, opened
2019	Ventair Pty Limited acquired

Find out more online
www.volutiongroupplc.com

Highlights

Strong results: revenue growth of 14.6% and adjusted EPS up 10.3%

Financial

- Revenue growth of 14.6% (15.7% at constant currency):
  - organic revenue growth of 2.6% (3.5% at constant currency); and
  - inorganic revenue growth of 12.0% (12.2% at constant currency).
- Adjusted operating profit increased by 13.3% to £42.1 million (14.9% at constant currency), assisted by acquisitions.
- Adjusted operating profit margin of 17.8% (2018: 18.0%), an improving trend through the year:
  - H1 17.6%, impacted by Reading and Torin-Sifan operational issues; and
  - H2 18.1%, finalised commissioning of Reading facility; strong performance in Central Europe.
- Reported profit before tax increased by £6.4 million to £23.1 million (2018: £16.7 million); exceptional costs significantly reduced to £1.8 million (2018: £6.4 million).
- Adjusted operating cash inflow of £36.9 million (2018: £34.4 million).
- Net debt of £74.6 million was £2.6 million lower than at 31 July 2018 after £10.4 million spent on the acquisition of Ventair Pty Limited and contingent consideration paid relating to Oy Pamon Ab of £0.6 million.
- Full year dividend of 4.90 pence per share, up 10.4% (2018: 4.44 pence).

Strategic and operational

Ventilation

Organic growth

- Highlights in the UK include a return to growth for the UK Public RMI sector and another period of good growth for UK New Build Residential Systems.
- As previously reported, operational difficulties at our Reading facility adversely impacted profitability in the first half of the financial year; however, there was a significant improvement in production levels and efficiency in the second half of the financial year. The Reading facility is now fully commissioned.
- Good sales of our new Xenion range of decentralised heat recovery ventilation in Germany with an associated increase in gross margin in the region.
- The launch of the first application software controlled ventilation extract fan in New Zealand, Genius, under the Manrose brand sold by our company Simx, further demonstrating our capability to launch Volution products into newly accessed markets.

Acquisitions

- On 1 March 2019, we acquired Ventair Pty Limited, a market leading residential ventilation product supplier, in Australia, for an initial cash consideration of AUD19.2 million (approximately £10.4 million). A further amount of deferred cash consideration of up to AUD7.7 million (approximately £4.3 million) may be payable, contingent on Ventair achieving an EBITDA target in the financial year ending 31 July 2020.
- The acquisition of Ventair Pty Limited has further increased our geographic diversity, product offer and market access. The acquisition is integrating and performing well under the management of our Australasian team.
- Including the pro-forma effect of the Ventair acquisition, our revenue from customers outside the UK now represents 53.0% of total Group revenue.

OEM (Torin-Sifan)

- OEM (Torin-Sifan) has continued to see a good take-up of its new, high-efficiency, Revolution 360 range of EC fans (EC3), with further capacity investment underway to support the growth in sales.
- Operations in OEM (Torin-Sifan) were adversely impacted during the year by procurement issues which manifested in higher input costs. However, we are confident these issues have now been resolved.

Progress against strategy

This strong set of results for the year maintains our consistent track record of revenue and earnings growth in the five years since listing in 2014 and continues to validate our strategy:

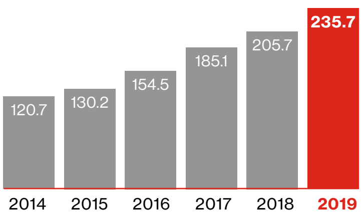
- Organic revenue growth of 3.5% (at constant currency) in the year, an average of 3.2% over the five years since listing in 2014;
- Acquisition strategy delivering inorganic revenue growth of 12.2% (at constant currency) in the year, providing access to new markets, resulting in non-UK revenues increasing from 36.5% in 2014 to 53.0% on a pro-forma basis;
- Strong earnings growth; EPS increased by 82% in the five years since listing in 2014 (13% CAGR);
- Cumulative operating cash flow generation in the five years since listing in 2014 of £165.9 million; and.
- Excellent track record of innovative product introductions; strong development pipeline.

UK leaving the EU

In the context of the considerable uncertainty surrounding the outcome of the Brexit process, we have analysed the potential risks and operational challenges to our business in the event of a no-deal exit from the European Union. We have reviewed potential tariffs which we do not consider to represent a significant impact, and on the supply side we have increased inventory levels of faster moving items in certain locations. We see the principal risk and potential impact to be that of a broader downturn in confidence and activity levels in the UK, albeit noting that the UK does now represent just under half of Volution's revenues.

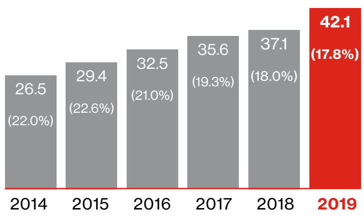
Revenue £m

£235.7m



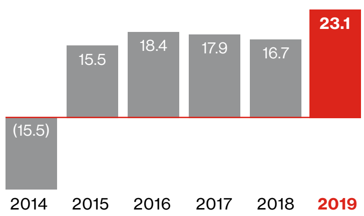
Adjusted operating profit and adjusted operating profit margin
£m (% of revenue)

£42.1m (17.8%)



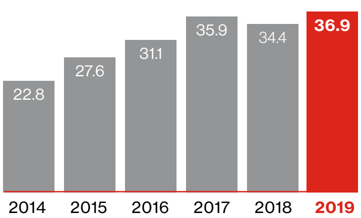
Reported profit before tax £m

£23.1m



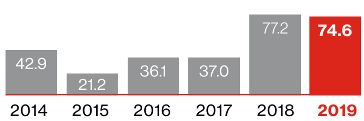
Adjusted operating cash flow £m

£36.9m



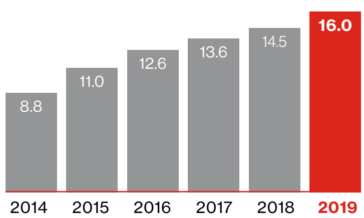
Net debt £m

£74.6m



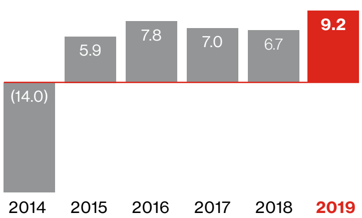
Adjusted EPS p

16.0p



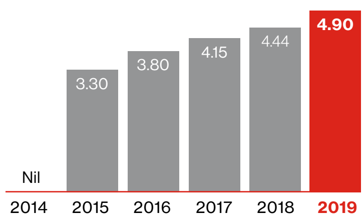
Reported EPS (basic and diluted) p

9.2p



Dividend per share p

4.90p



The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS and adjusted operating cash flow. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 34. A reconciliation to reported measures is set out in note 2.

Key Performance Indicators on page 22

At a Glance

Leading in residential and commercial markets across two business segments

We aim for our products to enhance our customers' experience of ventilation by reducing energy consumption, improving indoor air quality and design and making them easier to use.

Ventilation Group: primarily supplies ventilation products for residential and commercial construction applications in the UK, the Nordics, Central Europe and Australasia.

The Ventilation Group consists of 15 key brands, focused primarily on ventilation markets in the UK, Sweden, Norway, Finland, Denmark, Germany, Belgium, the Netherlands, Australia and New Zealand.

During the year, we completed the acquisition of Ventair in Australia, enhancing and widening the Group's reach and capability.

Ventair is a market leading residential ventilation products supplier throughout Australia for both new and refurbishment applications with channel access enabling us to place more of our existing Group products in this market.

OEM (Torin-Sifan): manufactures and supplies motors, motorised impellers, fans and blowers to OEMs of heating, ventilation and air conditioning products for both residential and commercial construction markets worldwide.

The majority of Torin-Sifan's products are sold into the residential and commercial heating and ventilation products markets.

% of Volution Group revenue by segment

Ventilation Group

90.0%

(2018: 89.0%)

OEM (Torin-Sifan)

10.0%

(2018: 11.0%)

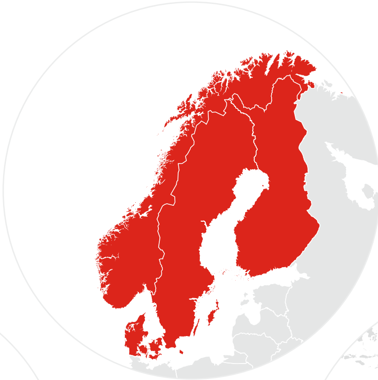
UK

Vent-Axia
MANROSE
DIFFUSION
AIRTECH
NATIONAL VENTILATION
Breathing Buildings
torin-sifan

Central Europe

inVENTer
Ventilair GROUP
Vent-Axia

Nordics



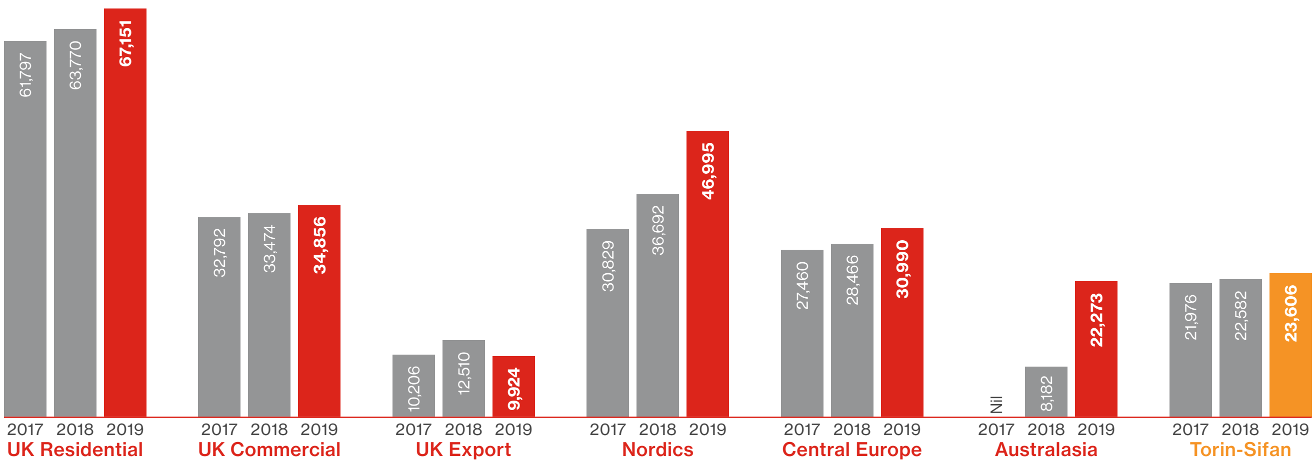
Fresh
PAX
VoltAir LUFTBEHANDLING
AIR CONNECTION
KAIR

Australasia

Simx
ventair THE AIR MOVEMENT SPECIALISTS *

* New acquisition this year

Volution Group revenue by sector £000



% of Volution Group revenue by region

United Kingdom
48.4%
(2018: 52.6%)

Rest of the world
51.6%
(2018: 47.4%)

% of Volution Group revenue by region on a pro-forma basis

United Kingdom
47.0%

Rest of the world
53.0%

Our Investment Case

Why invest in Volution

Operational

Market leadership

In many of our markets we have leading brands, products and sales channel access. Our business model helps develop substantial customer loyalty and barriers to entry.

15
market leading brands in 10 countries

Growth

Organic revenue growth from a focused sales strategy. Strong track record of acquiring and integrating value-adding businesses into the Group, leveraging our sales channels and our expertise in product development, manufacturing and supply chains.

Read more about our growth strategy on page 14

Read more about our recent acquisitions on pages 16 and 17

14%
5-year revenue CAGR

Diversification

We service both residential and commercial sectors, in both public and private new build and refurbishment applications in the UK, the Nordics, Central Europe and Australasia.

Read more about our geographic spread on page 5

Read more about the revenue in our product sectors on page 38

51.6%
of our revenue is from non-UK customers

Strong, consistent development in financial performance

Consistent organic revenue growth and successful integration of acquisitions have driven growth in profitability and operating cash flows.

10%
adjusted operating profit, 5-year CAGR

10%
operating cash flow, 5-year CAGR

Innovation

We are constantly investing in our product range to ensure our customers have the best, highly specified and cost effective solutions to meet their indoor air quality requirements and carbon efficiency goals.

2.2%
of revenue invested in product development and enhancement

Structural

Growing focus on indoor air quality

There is increasing global focus on indoor air quality. There will be increasing demand for ventilation systems which help to provide healthy indoor environments across our markets.

Legislative tailwinds

European directives and local building regulations continue to provide new minimums for energy efficiency and performance of ventilation which has a positive impact on the value of ventilation. Volution Group is strongly positioned to develop customer solutions ahead of the legislation and has a history of being first to market with new ideas.

In the 5 years since listing, Volution Group has grown considerably

Revenue £m

+95% (CAGR 14%)

Adjusted EPS p

+82% (CAGR 13%)

Organic revenue growth supported by regulatory drivers

Commissioning of our Reading, UK, facility creating capacity for future growth

Completed 12 acquisitions providing more geographic and product diversity

Chairman's Statement
Peter Hill, CBE

Strong performance continues to validate our strategy

Summary
- A set of strong results in line with our expectations
- Acquisition of Ventair, enhancing our geographic diversity, product offering and market access
- Andy O'Brien appointed as new CFO
- Adjusted EPS increased by 10.3%
- Full year dividend increased by 10.4%

Dear shareholder,
I am pleased to present our Annual Report and Accounts for the year ended 31 July 2019. The aim of the report is to describe the Group and its performance over the last financial year, and to give an outline of its future development, providing a balanced overview of the business as a whole.

Successful businesses typically have a well-defined purpose; Volution Group's is to innovate and produce products to enhance our customers' experience of ventilation by reducing energy consumption, improving indoor air quality and design and making them easier to use.

The financial year delivered some challenges for the business but I am pleased to report that the Group responded well. We delivered a number of important strategic initiatives which included the acquisition of Ventair (a market leading residential ventilation products supplier in Australia), adding further geographic diversity to the business, and delivery of substantial operational improvements at our new facility based in Reading in the UK. Volution Group has continued to develop as a geographically diverse business with 51.6% of its revenue during the year coming from outside the UK, and 53.0% on a pro-forma basis if the revenues of our Ventair acquisition are annualised.

Economic and political uncertainty continued over the last year in the UK, our largest individual market, presenting further challenges in some of our market sectors and the Group continued to feel the effects of the devaluation of Sterling against the US Dollar on its input costs. Despite this backdrop, I am pleased to report that Volution Group made further progress on its growth strategy.

We expect further political uncertainty ahead, as a consequence of the UK's scheduled departure from the European Union. However, we are an international business with 51.6% of our revenue being generated outside the UK and we remain confident in the long-term prospects for the Group because of our geographic diversification, value-adding business model and clear growth strategy. More detailed analysis of how Brexit may affect Volution Group can be found in the Risk Management and Principal Risks section on page 27.

Performance and results
This strong set of results reflects the growth achieved, both organically and through acquisitions, with the Group's revenue increasing in the year by 14.6% to £235.7 million (2018: £205.7 million). Adjusted operating profit was £42.1 million (2018: £37.1 million), representing 17.8% of revenue and a £5.0 million improvement compared to the prior year. Reported profit before tax increased by 38.3% to £23.1 million (2018: £16.7 million), improving in part due to the lower exceptional operating costs this year of £1.8 million (2018: £6.4 million) mainly as a result of the new production facility in Reading, UK, having been fully commissioned, offset by an increase of £0.7 million in amortisation of acquired intangible assets to £15.4 million (2018: £14.7 million) as a result of recent acquisitions and higher finance costs in the period of £2.1 million (2018: £1.6 million).

Basic and diluted earnings per share for the year was 9.2 pence (2018: 6.7 pence). Our adjusted earnings per share was 16.0 pence, representing a 10.3% increase over the adjusted earnings per share for the prior year of 14.5 pence. The compound annual growth rate of adjusted earnings per share since 2014 was 13%.

Cash generation was good with adjusted operating cash flow of £36.9 million (2018: £34.4 million). Net debt at the year end was £74.6 million (2018: £77.2 million), £2.6 million lower than last year, after having completed the acquisition of Ventair, incurring a net cash outflow of £10.4 million and paying £0.6 million in contingent consideration for the acquisition of Oy Pamon Ab acquired in July 2018.

Dividends

We aim to deliver shareholder value through organic and inorganic revenue growth and a sustainable dividend policy. We paid an interim dividend of 1.60 pence per share in May 2019. On the basis of our results and financial position, the Board has recommended a final dividend of 3.30 pence per share, giving a total dividend for the financial year of 4.90 pence per share (2018: 4.44 pence per share), an increase of 10.4% on the previous year. As a consequence of this recommendation, the resulting adjusted earnings dividend cover for the year was 3.2x (2018: 3.3x). Subject to approval by shareholders at the Annual General Meeting on 12 December 2019, the final dividend will be paid on 18 December 2019 to shareholders on the register at 22 November 2019.

Board

On 21 January 2019, we announced that Ian Dew, our CFO, had informed the Board of his wish to retire from Volution Group during 2019. Ian stepped down from his role as CFO and Andy O'Brien was appointed on 1 August 2019. Ian has continued with the Group for a transitional period to ensure there has been an orderly handover. Ian joined Volution Group in 2012 and was appointed as CFO in January 2014. He played an integral role in Volution Group's successful listing on the London Stock Exchange and subsequently played a key role in the completion of all acquisitions. On behalf of the Board, I would like to thank Ian for his contribution to Volution Group and wish him a long and happy retirement.

The Board was delighted to welcome Andy O'Brien to the Group. Andy joined Volution Group following nine years at Aggreko plc, a FTSE 250 global provider of temporary power, heating and cooling solutions, where he held numerous senior finance roles including most recently finance director, power solutions. He has a broad background working internationally in a global business environment and has lived and worked in the Nordics as well as the UK, Dubai and Singapore. Throughout his career, Andy has operated in environments where cost control has been critical and in his role at Aggreko, Andy also oversaw revenues totalling $1.2 billion and worked on a number of international acquisitions. Andy joins Volution Group at an exciting time in its development and we look forward to working with him as we continue our journey.

During the year the Nomination Committee discussed succession planning for Non-Executive Directors and progressive refreshing of the Board. As a result, a Non-Executive Director succession plan is now in place. I am also pleased to confirm that Claire Tiney was re-appointed as a Non-Executive Director on 3 August 2019 for a second three-year term following the end of her first three-year term on the Board.

Further information on the above can be found in the Nomination Committee Report on pages 62 to 64.

Governance

The Group continues to be committed to high levels of corporate governance, in line with its status as a company with a premium listing on the Main Market of the London Stock Exchange. We are fully compliant with the 2016 edition of the UK Corporate Governance Code (the 2016 Code) and compliance is set out in the Governance Report on pages 52 to 61. We also acknowledge the development of governance standards set out in the new version of the UK Corporate Governance Code published in July 2018 (the 2018 Code) which applies to Volution Group for the financial year ending 31 July 2020. We have reviewed the Group's compliance against the 2018 Code and have implemented some changes to ensure that we will be able to report positively on compliance in the next Annual Report and Accounts.

During the year, a formal performance evaluation of the Board and Committees took place to assist in their development. The results of the evaluations confirmed that the Board and Committees continue to function effectively and that there are no significant concerns among the Directors about their effectiveness. Further information is set out in the Governance Report on pages 57 to 58.

People and culture

The Board is conscious of the increasing importance which corporate culture plays in delivering long-term business and economic success and its role in shaping, monitoring and overseeing culture. The Group's approach to the integration of acquired businesses and induction of new employees ensures that every individual receives the Volution Group Code of Conduct and understands the Group culture. The Board encourages an open and transparent culture across the business and processes have been developed to enable greater oversight of culture and the focus will remain on further developing this area.

I would like to welcome all our new employees who joined us during the year on the acquisition of Ventair in Australia. It is very evident to me that our employees are a major strength of Volution Group and on behalf of the Board I would like to thank all our employees for their commitment, hard work and contribution towards another successful year for the Group.

Peter Hill, CBE
Chairman
9 October 2019

Chief Executive Officer's Review

Ronnie George

Good organic growth and increasing our focus on Operational Excellence

Summary

> Revenue of £235.7 million achieved by both organic and inorganic growth totalling 15.7% at constant currency

> Improving organic growth of 3.5% at constant currency, 3.2% in the first half of the year increasing to 3.8% in the second half

> Adjusted operating profit of £42.1 million, an increase of 13.3% over the prior year driven by good organic growth and recent acquisitions

> Successfully integrated the prior year's acquisitions, substantially increasing our position in the Nordics, and the more recent acquisition of Ventair in Australia, establishing a leading residential position in Australasia

> Ongoing investment in new product development and the establishment of a modular product platform for fan assembly which will future-proof ongoing product innovation for the residential refurbishment markets

> The final commissioning of our Reading, UK, facility provides substantial capacity headroom for injection moulding, extrusion and assembly to underpin our ambitious plans for growth

> Completed our third Management Development Programme, developing our managers and leaders of tomorrow with a number of participants already moved to more senior positions within the Group

Overview

In our fifth full financial year since listing in June 2014 we continued to make good progress with our strategy, bringing the Group's revenue to almost double that of when we listed. We completed the acquisition of Ventair in Australia in March 2019, as well as successfully integrating the acquisitions we made in the prior year. We are now well established as the market leader for residential ventilation in the UK, with leading positions in the ventilation markets in the Nordics, Central Europe and Australasia.

As we have stated previously, the European and international ventilation market remains fragmented and we continue in our ambition to become one of the major suppliers in this market. We have established a portfolio of leading brands and more recently have been able to utilise some of these brands to launch into new markets. In the last two years we have successfully launched the Vent-Axia brand, primarily a leading UK brand, into the market in the Netherlands and we are now making plans to launch this brand in Australia through our newly acquired company, Ventair. We remain focused on adding other leading brands and market positions to our portfolio. As the Group has grown significantly in size and with it a much wider product range, the opportunity when acquiring access to a new market becomes more attractive.

The Group delivered revenue of over £235 million in 2019. Whilst there is an inevitable margin dilution as we acquire companies with a lower margin, we are also conscious that there has been a reduction in our underlying margin over the last two years. Our adjusted operating margin in the year was 17.8%, comprised of 17.6% in the first half of the year and improving to 18.1% in the second half. We have taken action to ensure that operating margin improvement is the key focus for management and employees of the business over the coming years and we have also updated our strategy to now include a sharp focus on Operational Excellence. We believe that the Group has the potential to increase adjusted operating margins back to a level of 20% over the medium term.

Organic revenue growth improved in 2019 to 3.5% at constant currency, with the first half at 3.2% and the second half increasing to 3.8%. All of our geographies delivered organic revenue growth for the year with the exception of our Nordic region where we had an organic revenue decline of 2.3% at constant currency. We are delighted with the performance of Oy Pamon in Finland (Pamon) though, acquired in July 2018, which delivered growth versus the year prior to our ownership of 14.5% (not defined as organic revenue growth by Volution until after twelve months of ownership).

Our project to consolidate and increase manufacturing capacity in Reading, UK, was completed in the year. Our new ventilation manufacturing facility in Reading is one of the largest of its kind in Europe and whilst the project took longer than anticipated to complete, it has been operating at normal service levels during the second half of 2019. At the same time as completing this project there has been considerable innovation in new residential refurbishment products with the establishment of a new, more modular, product structure which will provide the foundation for future development of our product ranges in the years ahead. This more modular approach provides greater flexibility and scale to both injection moulding and fan assembly, an essential ingredient as we continue to grow organically in all of our markets.

We expect further political uncertainty ahead, as a consequence of the UK's scheduled departure from the European Union. However, the Group is now a truly international business with over 50% of our revenue being generated outside the UK which, coupled with our value-adding business model and clear growth strategy, gives us confidence in the long-term prospects for the Group. An analysis of the risks Volution may face as a result of the UK leaving the EU can be found on pages 27 and 28.

Ventilation Group segment

The Ventilation Group's revenue grew by 15.8% (17.0% at constant currency). Organic revenue growth was 2.3% (3.4% at constant currency).

United Kingdom

Sales in our UK New Build Residential Systems sector were £27.8 million (2018: £25.6 million), showing good organic revenue growth of 8.6%, continuing an unbroken growth trend going back to 2010. We continue to benefit from regulatory drivers aimed at reducing the carbon emissions from all new residential dwellings. These regulations, not just in the UK but across all of our markets, are expected to become more supportive of our energy-efficient ventilation solutions.

The UK Residential Public RMI market performed very well in the year with total revenue of £15.6 million, up 5.3% compared to the prior year. Our growth accelerated in the year with the first half improving by 0.9% and the second half increasing by 9.6%.

The considerable investment in our new product range along with a more sophisticated and improved approach to selling has helped us regain market share. Whilst the underlying spending in this sector is still constrained, we are optimistic that the actions we have taken, in particular further new product ranges recently launched or planned for launch, will help underpin further organic revenue growth in the years ahead.

The UK Residential Private RMI market revenue of £23.8 million represented an increase of 1.7% compared to the previous year. The first half of the year was broadly flat with growth increasing to 3.8% in the second half of the year, assisted by both the return to normal customer service at our Reading facility and the successful introduction of more "higher value" and "silent" ventilation ranges towards the end of the financial year. As the significant market leader for the UK Private RMI market, we remain committed to improving the customer experience, extolling the virtues of quieter, more energy efficient and more aesthetically styled products. Our three UK proprietary brands are well placed to deliver a range of good, better and best products and, through strong relationships with our distributors, we believe we are well placed to continue growing this category in the future.

UK Commercial market revenue grew by 4.1% in the year to £34.9 million (2018: £33.5 million) with growth predominantly in the first half of the year. Since the acquisition of both Diffusion and Breathing Buildings our commercial revenue is around one-third refurbishment focused and two-thirds new build market. Whilst our improvements to the natural and hybrid range of products is helping us win share in the new build school market, we noticed a marked slowdown in activity for the supply of energy-efficient fan coils into the new office construction market. Our refurbishment product range performed very well and we are now crystallising the benefits of having one sales leadership team across our commercial market.

UK Export market sales were £9.9 million (2018 like for like: £11.2 million), a decline of 11.3% (10.8% at constant currency) with all of the decline occurring in the first half of the year due mainly to the one-off, large spares order from one customer in Japan that occurred in the prior year. We continue to lead in the Irish market for the supply of New Build Residential Systems and recently extended our exclusive distribution partner agreement for the supply of these products.

In the second half of the year we completed the project to establish a new, purpose-built and higher capacity facility for the injection moulding, extrusion and assembly of unitary fans. This facility in Reading is now operating at service levels equivalent to those prior to the move and, as part of our reinvigorated focus on Operational Excellence, we anticipate efficiency gains in the coming years.

Chief Executive Officer's Review continued

Ventilation Group segment continued

United Kingdom continued

We have further strengthened the UK management team: John Foley joined in May 2019 having had a long established career with the Otis Elevator Division of United Technologies. John is busy establishing his senior leadership team and is working with it to maximise the enlarged opportunity for growth now that we have fully commissioned our facility in Reading.

Nordics

Sales in the Nordics region were £47.0 million (2018: £36.7 million), an increase of 28.1% (32.6% at constant currency) compared to the previous year with an organic revenue decline of 2.3% at constant currency. Whilst the organic revenue decline in the Nordics was a disappointment, the overall progress in the region was very pleasing. Since our first acquisition of Fresh AB in October 2012 we have now established a leading position in the Swedish ventilation market and the acquisitions of Pamon in Finland and Air Connection in Denmark have helped us establish a wider position outside of Sweden. The integration of both of those acquisitions has progressed very well.

During the year we finalised the development of a new product, Intellivent SKY, further enhancing our product portfolio and our position as the leading supplier of high-end product solutions for the residential refurbishment market. We also established the first sales in Denmark and Sweden of the heat recovery ventilation system products manufactured by our business, Pamon, in Finland and have plans to accelerate this cross-selling development in 2020. Whilst the market in Sweden remains subdued there are a number of cross-selling initiatives planned for the new year utilising the wider product capabilities from across the Group.

During the year we further upgraded our ERP system platform in the Nordics and by the end of this calendar year all companies in the Nordic region will be operating on the same ERP system.

Central Europe

Sales in Central Europe were £31.0 million, growth of 8.9% (9.3% at constant currency) compared to the previous year. Our focus on the trade distribution channel in Belgium was very successful during the year with a substantial increase in the number of outlets stocking our products. Coupled with the increasing coverage in the market we have successfully introduced a wider range of the Group's products to Belgium under the Vent-Axia brand. In the Netherlands, using the same approach as in Belgium has increased the number of trade distributors which sell our products, with further new introductions planned for the coming year.

In Germany we benefited from the success of the new range of Xenion decentralised heat recovery products. Launched in our financial year 2018, this improved, quieter and better performing range of products helped us to deliver good organic revenue growth, improving in the second half of 2019. Since acquiring inVENTer in 2014 we have made substantial improvements to the full product range and also the relationships with the sales agents that we primarily use as our route to market. Later in the financial year we had the "soft launch" of our wirelessly connected range of decentralised heat recovery systems, with the products being made available to the market early in our new financial year 2020.

> "Our new facility in Reading, UK, was fully commissioned during the year and is one of the largest of its kind in Europe."

Whilst the market for decentralised heat recovery systems in Germany is competitive, with a significant number of suppliers participating in the space, our ambition, as the founder of the technology in the German market, is to continuously innovate and stay ahead of the competition.

Australasia

Sales in Australasia were £22.2 million, growing by 171% (175% at constant currency) driven by a full year of trading from Simx and the recent acquisition of Ventair in Australia. Organic revenue grew by 7.5% (8.8% at constant currency) with a particularly strong finish to the year. We now have a leading market position for residential ventilation in our Australasian market and have the opportunity to continue to launch many new products in both markets. With the acquisition of Ventair it is our ambition to become one of the leading providers of residential ventilation to the market in Australia, complementing our position as the market leader in the residential refurbishment trade supply market in New Zealand.

OEM (Torin-Sifan) segment

Our OEM (Torin-Sifan) segment's revenue in the year was £23.6 million (2018: £22.6 million), an increase of 4.5% (4.8% at constant currency) compared to the previous year. Sales of our EC3 motor are gaining market share and have been increasingly included within our own products in our Ventilation Group segment. During the year we made several operational and logistics improvements to increase capacity to further support the growth of our EC3 motor sales. Revenue for boiler spares was weaker than anticipated with the winter weather in the UK generally milder than in previous years.

The ERP system implementation that started in 2018 was completed during the year. This caused some resulting disruption to operations, and some logistical delays resulting in spot sourcing of some electronic and other components at premium prices, mainly in the first half of the year. Those issues were resolved in the second half of the year and the ERP system is now delivering benefits across all functional areas of the business. During the year we also completed further enhancements to the business material planning and sourcing functions. These enhancements to the ERP system, our ongoing drive to improve the manufacturing operations and the improved material planning function should deliver improved operational performance in 2020.

Strategy

We will continue to build on our core strengths and strong industry track record to gain further market share in each of our preferred markets and continue our historical growth trends in revenue and profitability. We intend to achieve our goals through a combination of organic revenue growth, selective acquisitions and a focus on Operational Excellence. To achieve this, we have identified three key strategic pillars. These three strategic pillars have recently evolved in line with the development of Volution Group and as a consequence of the successful completion of the Torin-Sifan pillar of the strategy as it was originally constituted. OEM (Torin-Sifan) remains a strategically important part of the Group but following completion of the development of the EC3 product range and the improvements in the offer to its customers we now consider that further development of our OEM business is clearly part of the larger organic growth pillar of our strategy. The refreshed strategy now emphasises an increased focus on Operational Excellence. The following diagram shows the change in focus:

Three strategic pillars

Before

- Organic growth in all our markets
- Growth through a disciplined and value-adding acquisition strategy
- TS Further develop Torin-Sifan's range and build customer preference and loyalty

After

- Organic growth in all our markets
  Now including organic growth in Torin-Sifan
- Growth through a disciplined and value-adding acquisition strategy
- *Operational Excellence*

We made good progress with the strategy in the 2019 financial year. Some of the highlights are:

Organic growth: Organic growth improved in 2019 to 3.5% (constant currency), with the first half at 3.2% and the second half increasing to 3.8%. Our project in the UK to rationalise two older facilities in to one new purpose-built facility in Reading is now complete. This facility is one of the largest of its kind in Europe with substantial capacity headroom for injection moulding, extrusion and assembly to underpin our ambitious plans for growth.

Value-adding acquisitions: The acquisition in March 2019 of Ventair in Australia complements our existing presence in Australasia (Simx in New Zealand) whilst further broadening and strengthening the Group's market reach and geographical diversity. The four acquisitions completed in the previous year are now fully integrated and progressing in line with our expectations.

The new markets which we are entering, as well as our original core markets, continue to benefit from the favourable regulatory backdrop that focuses on reducing carbon emissions from buildings (in particular new buildings) and there is a notable increase in local market trends towards improving indoor air quality and energy efficiency. The scope of our large residential ventilation product range, targeting improvement in indoor air quality, is illustrated on pages 20 and 21.

The ventilation market remains highly fragmented and we will continue to pursue acquisition opportunities leveraging the Group's capabilities in operations, procurement, distribution and finance.

Operational Excellence: We have re-emphasised our dedication to Operational Excellence. Now that the commissioning of the new Reading facility in the UK has been finalised we can attend, more generally, to improving the efficiency of all of our operations and processes.

Further information on our strategy can be found on page 14.

People

It has been another year of growth for the Group with the acquisition and integration of Ventair together with the continued integration of the four acquisitions completed during the prior financial year. Volution Group now employs over 1,600 people in its operations in the UK, the Nordics, Central Europe and Australasia and benefits significantly from the diverse nature of its workforce and their commitment to the Group's success.

Our third internal Management Development Programme concluded in November 2018. We place considerable value on this programme which, as well as helping to develop the effectiveness and scope of our people, has significantly assisted in the integration of new acquisitions as our high-potential managers are made to feel part of a wider group network and assist in the formation of the overall Group culture.

I would like to welcome those employees who joined Volution Group during the year and thank all employees for their collective hard work, commitment and contribution towards the Group's success with another year of growth.

I would also like to personally thank Ian Dew, who stepped down as CFO on 31 July 2019. Ian and I worked together for many years and he played an integral role in Volution Group's successful listing on the London Stock Exchange and subsequently played a key role in the completion of all our acquisitions. I would like to wish Ian a very happy retirement.

Outlook

Whilst there is major uncertainty in the UK economy caused by the current state of Brexit negotiations, we continue to focus on building on our strong financial performance and in particular the pursuit of operational excellence to further our operating margins.

Ronnie George
Chief Executive Officer
9 October 2019

Our Refreshed Strategy

Operational Excellence introduced as one of our three strategic pillars

We have recently reviewed and refreshed our Group strategy. It has evolved in line with the growth and expansion of the Volution Group since its listing in 2014 and as a consequence of the successful completion of the Torin-Sifan pillar of the strategy as it was originally constituted. OEM (Torin-Sifan) remains a strategically important part of the Group and, following the successful completion of the development of its EC3 product range and the improvements in the offer to its customers, we now consider that further development of our OEM (Torin-Sifan) business is clearly part of the larger, organic growth pillar of our strategy.

We will, of course, continue to build on our core strengths and strong industry track record to gain further market share in each of our preferred markets and continue our historical growth trends in revenue and profitability. We intend to achieve our goals through a combination of three strategic objectives, two of which remain unchanged from our earlier strategy: organic growth and selective acquisitions. In addition we have introduced a new pillar to our strategy: a focus on Operational Excellence. The following diagram summarises the evolution of our Group strategy:

Before

Organic growth in all our markets

Growth through a disciplined and value-adding acquisition strategy

TS Further develop Torin-Sifan's range and build customer preference and loyalty

After

Organic growth in all our markets *Now including organic growth in Torin-Sifan*

Growth through a disciplined and value-adding acquisition strategy

Operational Excellence

Organic growth in all our markets

Continue to grow through a focused sales strategy for each of our market sectors. Focus on opportunities arising from favourable regulatory environments. Continue to build public awareness of indoor air quality issues and the benefits of higher value ventilation solutions to grow our markets and increase margins. Continue to develop new products and deliver benefits from recently acquired businesses and drive cross-selling initiatives.

Actions

- Drive demand growth in all our markets benefiting from regulation and educated end users
- Bespoke sales and marketing strategy to address each market sector
- Provide innovative products to address evolving market demand and generate upselling opportunities
- Promote sales opportunities for Group products through newly acquired companies

Achievements during the year

- Organic revenue growth of 2.6% (3.5% at constant currency)
- Continued growth in our value-added product lines
- Continued roll-out of the Calima platform
- Development of the Vent-Axia brand in the Netherlands and Germany
- Development of the Manrose brand in Australasia
- Fully commissioned the Reading facility in the UK providing sufficient capacity headroom to continue to grow organically
- Continued customer support for our Torin-Sifan EC3 product range

FY2020 focus

- Range development, maximising the opportunities arising from our expanding geographic and market sector range
- Expand the range of centralised heat recovery systems
- Development of more sophisticated wireless control networks for ventilation systems
- Increase emphasis on incorporating Torin-Sifan products into Group ventilation products
- Further broaden the EC3 product range in Torin-Sifan

Growth through a disciplined and value-adding acquisition strategy

We will continue to acquire and integrate complementary businesses in the residential market and, where appropriate, in the commercial ventilation market. Our focus will be principally on opportunities in Europe where there are clear synergistic benefits available and, for key strategic opportunities, outside of Europe.

Actions

> Make acquisitions to establish leading positions in new markets and expand our presence in existing markets

> Deliver revenue and cost synergies from acquisitions

> Increase cross-selling and export growth

Achievements during the year

> Inorganic revenue growth of 12.0% (12.2% at constant currency)

> Completed the acquisition of Ventair in Australia

> Continued the active integration of recent acquisitions into the Group

> Four acquisitions made in the prior year now fully integrated

> Continued to substitute externally sourced products used by our recently acquired companies with internally developed and manufactured solutions expanding our gross margins

> Expanded the Vent-Axia and Manrose brands internationally through newly acquired businesses

FY2020 focus

> Continue the integration of Ventair into the Group

> Continue to search and pursue new acquisition opportunities

> Maximise synergies available through our growing scale

> Further grow intercompany sales to widen product categories served internationally

> Focus new product development to expand our offer in acquired channels

Operational excellence

We have re-emphasised our dedication to Operational Excellence. Now that the commissioning of the new Reading facility in the UK has been finalised we can attend more generally to improving efficiency of all our operations and processes.

Actions

> Leverage the opportunities afforded by our new facility in Reading, UK

> Share operational best practice around the Group

> Further develop the potential of our ERP systems to enhance our operations and processes

> Leverage our innovation

> Seek benefits from our supply chain and sourcing arrangements

Achievements during the year

> Finalised the commissioning of the new Reading facility in the UK

> Redesigned a range of extract fans around a common platform for efficient manufacture and inventory reduction

> Enhanced the planning and materials management aspect of our Torin-Sifan ERP system

> Initiated a lean manufacturing culture in our Torin-Sifan facilities

FY2020 focus

> Place additional emphasis on value engineering of products to achieve lower costs and improve ease of manufacture

> Continue to pursue savings and working capital reduction through the scale benefits of our Group-wide supply chain and sourcing benefits

> Continue to roll out a common ERP platform across our UK Ventilation Group

> Increase manufacturing efficiency

> Optimise supply chain and sourcing benefits

Our Recent Acquisitions

Expanding our market opportunity in Australasia

Ventair Pty commenced trading in 2006 and has developed into a leading provider of residential air movement products to electrical wholesalers and retail lighting showrooms in Australia. With facilities in Melbourne, Brisbane and Perth, Ventair supplies over 2,000 customer distribution outlets. A nationwide sales team sells and supports the product range which includes: innovative extract fans, ceiling cooling fans and integrated heat-fan-light units, ensuring that Ventair remains a trusted partner enjoying strong customer loyalty. Its continuing success is founded on excellent customer service and a product range that not only looks good but performs to the highest standards.

The acquisition of Ventair provides Volution with its second route to market in the Australasian region. The product ranges of Simx, Ventair and Volution complement each other well. Ventair is already distributing the Manrose and Vent-Axia brands in Australia which means we have been able to quickly leverage our enlarged product range in our enlarged market. This multi-brand, multi-channel approach will allow Ventair to widen its sales channels further to maximise its sales opportunities.

In addition, Simx in New Zealand has launched and started to trade with some of the premium, added value, Ventair products. These have been launched in New Zealand under the leading Manrose brand and have had a very successful start.

Airbus fans

"We are delighted to have acquired Ventair. This acquisition is consistent with our stated strategy of making selective value-adding acquisitions and we are excited about the opportunity to enlarge our presence in the Australasian region by introducing additional Volution Group product ranges via established routes to market. The range of Ventair products, coupled with the existing Volution product range, provides us with an attractive and improved portfolio for both the Australian and New Zealand markets. So far, the integration is proceeding as planned, with the first products launched, and selling, within two months of acquisition."

Ronnie George
Chief Executive Officer

Spyda ceiling fan

Expanding our market opportunity in the Nordics

In July 2018 we completed the acquisition of both Oy Pamon Ab (Pamon) in Finland and Air Connection ApS (Air Connection) in Denmark. Since acquisition, we have successfully integrated both businesses into the Group.

The management team at Pamon remained in the business and, working with the wider Volution team, has been successful in growing the revenue by 15% over the first twelve months. To build further on this strong growth we are increasing factory capacity to underpin our plans to sell the product range across the wider Group. The combined product ranges of our Voltair brand and Pamon (Kair) brand in the Nordic region has meant that our product proposition in heat recovery units has grown significantly, as has the scope of our sales channel. Maximising sales of these heat recovery products through the wider Group is a further opportunity for growth; due to the complementary nature of the Voltair and Pamon product ranges, the current focus is the sale of the Voltair products through the Pamon sales channels.

As we reported in our half-year results announcement, Air Connection has been expanding its product portfolio with the introduction of other Group products and has implemented a new ERP system. During the second half of the year we have continued that momentum with Air Connection launching products from Pamon, Voltair and inVENTer. The expansion of the product range secures our position in the project market and continues to develop and build strong customer preference.

Pamon in Finland

"We are very pleased with the progress made by Pamon and Air Connection since acquisition. We have strengthened our presence in the Finnish market whilst at the same time expanded our product portfolio in other markets in the Nordic region using products developed by Pamon. We are now working to ensure that Pamon continues its strong period of growth by introducing other Group products into the Finnish market. In addition, Air Connection has provided an excellent platform to introduce new Group products into Denmark and continues to grow in line with our expectations."

Eva Thunholm
Managing Director, Volution Nordics

Air Connection in Denmark

Our Business Model

Creating sustainable value

Volution Group plc is a leading supplier of ventilation products with primary markets in the UK, the Nordics, Central Europe and Australasia. We aim for our products to enhance our customers' experience of ventilation by reducing energy consumption, improving indoor air quality and design and making them easier to use.

WE LISTEN

We listen to our customers and end users to help them solve their ventilation problems and meet their regulatory obligations.

WE INNOVATE

We continue to innovate products to meet customer needs and regulatory obligations.

WE MANUFACTURE

We manufacture and assemble high-quality, technically sophisticated ventilation solutions at optimised cost.

WE DISTRIBUTE

We provide best in class customer service to thousands of customers with thousands of products across the Group.

WE HELP OUR CUSTOMERS

We have specialist sales and marketing teams supporting our customers.

WE GROW

We deliver growth by developing our strong market positions for our brands and cost effective solutions for our customers.

Employees

Volution Group is founded upon and underpinned by the excellence of its people. The experience, knowledge and specialist skills of our employees are key differentiators for us. We are committed to supporting, developing and retaining talent across the Group and it is important to us that our employees fulfil their potential.

We are particularly proud of our Management Development Programme having now run three over the last few years. We are also committed to open and honest communication with our employees and have a number of employee communication channels across the business, including a biannual Employee Forum.

WE LISTEN

Tightening energy efficiency regulations and increased focus on indoor air quality lead to increasingly demanding design criteria for our customers. We also strive to improve the end user experience by minimising noise, improving aesthetics and enhancing ventilation controls.

Impact on our results:
Continued revenue growth and margin improvement.

WE INNOVATE

We spend 2.2% of revenue each year to put ourselves ahead of regulatory developments, differentiate our brands with market leading and market defining products and offer cost effective quality through constant value analysis and value engineering developments.

Impact on our results:
Market leading innovation supports market leading margins.

2.2%
of revenue spent on new product innovation

WE MANUFACTURE

We manufacture where we can add value and flexibility, and outsource component manufacture to trusted experts where it is economically sensible. Our renewed dedication to Operational Excellence will lead to further cost efficiency and improvements in product quality.

Impact on our results:
Great flexibility with manufacture versus buy optimisation reduces cost.

81.0%
of revenue from products made in house

WE GROW

Our vision is to create long-term growth by continuously developing new and exciting propositions for our customers. Our aim is to increase the value to customers in our propositions, develop our strong market positions and engender loyalty through customer service and trust in our brands.

Impact on our results:
Continued revenue growth and margin improvement.

14%
5-year revenue CAGR

WE HELP OUR CUSTOMERS

Our primary communication channel with our customers is through our large sales and marketing teams. We structure specialised teams around local market requirements ensuring expertise and focus.

Impact on our results:
Solution selling and strong specifications generate customer preference.

400+
total sales people across the Group

WE DISTRIBUTE

We supply our products and services through multiple channels in trade, in retail and direct to contractors. Our wide product portfolio and service proposition ensure that we continue to be the supplier of choice for many of our distribution partners.

Impact on our results:
Strong distribution channels and wide availability creating customer loyalty and margin quality.

21,000+
locations being shipped to

WE DELIVER

We create sustainable results for our stakeholders

Our long-term focus on value creation creates a sustainable business model which we continue to develop.

Shareholders: We seek to deliver attractive returns for our shareholders, with sustained growth in profit and cash flow, driving longer-term share price appreciation and year-on-year growth in dividends.

Employees: We offer career advancement through a Management Development Programme and other training within a framework of sustainable employment and international opportunities. We are committed to improving health and safety across the Group.

Customers: We listen to our customers and create innovative products to enhance their experience of ventilation by reducing energy consumption, improving indoor air quality and design and making them easier to use.

Suppliers: We develop long-term relationships with suppliers which adhere to the Group's Code of Conduct, Anti-Bribery and Corruption Policy and innovation ethos and allow us to grow together.

Communities and the environment: We aim to continually innovate with many of our products designed to reduce energy consumption and help deliver more energy-efficient buildings. Our businesses across the Group aim to support the communities in which they operate through employee volunteer programmes and minimising any negative impact our operations have on the environment. We take part in the annual Clean Air Day and Noise Action Week organised by environmental charities in the UK.

Excellence in Ventilation

Residential indoor air quality

The political and social drive to become more energy efficient has made our homes more air tight meaning the problem of poor indoor air quality has become harder to ignore. This strengthens the vital role ventilation products have to play in creating a healthy indoor environment. Without good ventilation, air quality can deteriorate leading to condensation, mould and a build-up of toxic chemicals.

Volution Group is well placed to capture growth in this market by delivering new and innovative solutions to customers, reducing their energy costs whilst preventing the build-up of airborne pollutants and delivering healthy, comfortable and fresh living spaces. This section shows the many and varied residential ventilation products Volution Group has to offer its customers (products offered to the commercial ventilation market are not shown here).

1. MVHR

MVHR (Mechanical Ventilation with Heat Recovery) is a centralised, whole dwelling, ventilation system connected by ducting to deliver warmed, fresh and filtered air to the habitable rooms whilst reducing energy use and costs by recovering the heat from the stale extracted air.

2. dMVHR

dMVHR (Decentralised Mechanical Ventilation with Heat Recovery) is a decentralised ventilation system installed through the walls of a dwelling which delivers warmed, fresh and filtered air to the habitable rooms whilst reducing energy use and costs by recovering the heat from the extracted air.

3. MEV

MEV (Centralised Mechanical Extract Ventilation) is a whole dwelling ventilation system that extracts air continuously, at a low rate. It is a low-energy, continuously running, ventilation system designed with multiple extract points to simultaneously draw moisture-laden air out of all the wet rooms of a dwelling (bathrooms and kitchen) providing a quieter and more energy-efficient system compared to separate intermittent extract fans.

4. PIV

PIV (Positive Input Ventilation) is an energy-efficient method of pushing out and replacing stale, unhealthy air by gently pressurising the home with fresh, filtered air to increase the overall circulation of air in the dwelling.

5. Single room extract fans

Single room extract fans are installed horizontally through the wall or vertically into short duct runs to remove stale and humid air from bathrooms, kitchens and utility rooms.

6. Inline fans

Inline fans are installed in a duct run, typically above the ceiling, and extract air from any space not directly adjacent to an external wall or where higher ventilation rates are required which are not achievable with a traditional single room extract fan.

7. Passive ventilation

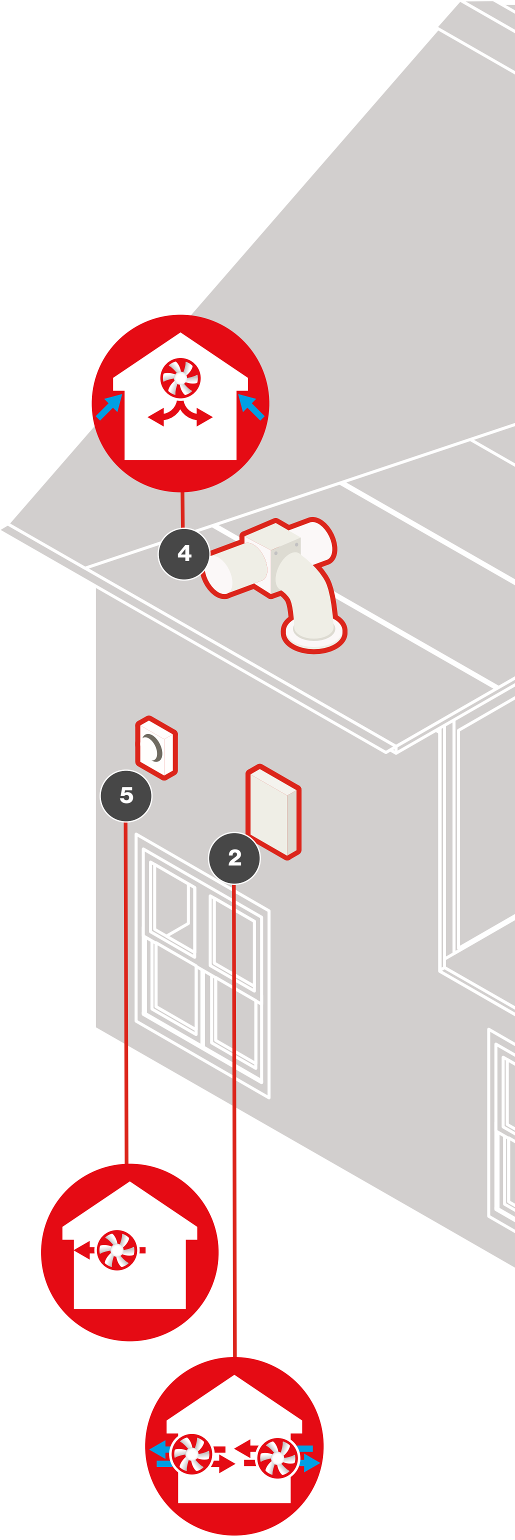
Passive ventilation products provide an opening in the building envelope through which air is free to pass in either direction based on the relative internal and external air pressures. These products are used to provide replacement air for extraction units or exhaust paths for a PIV unit.

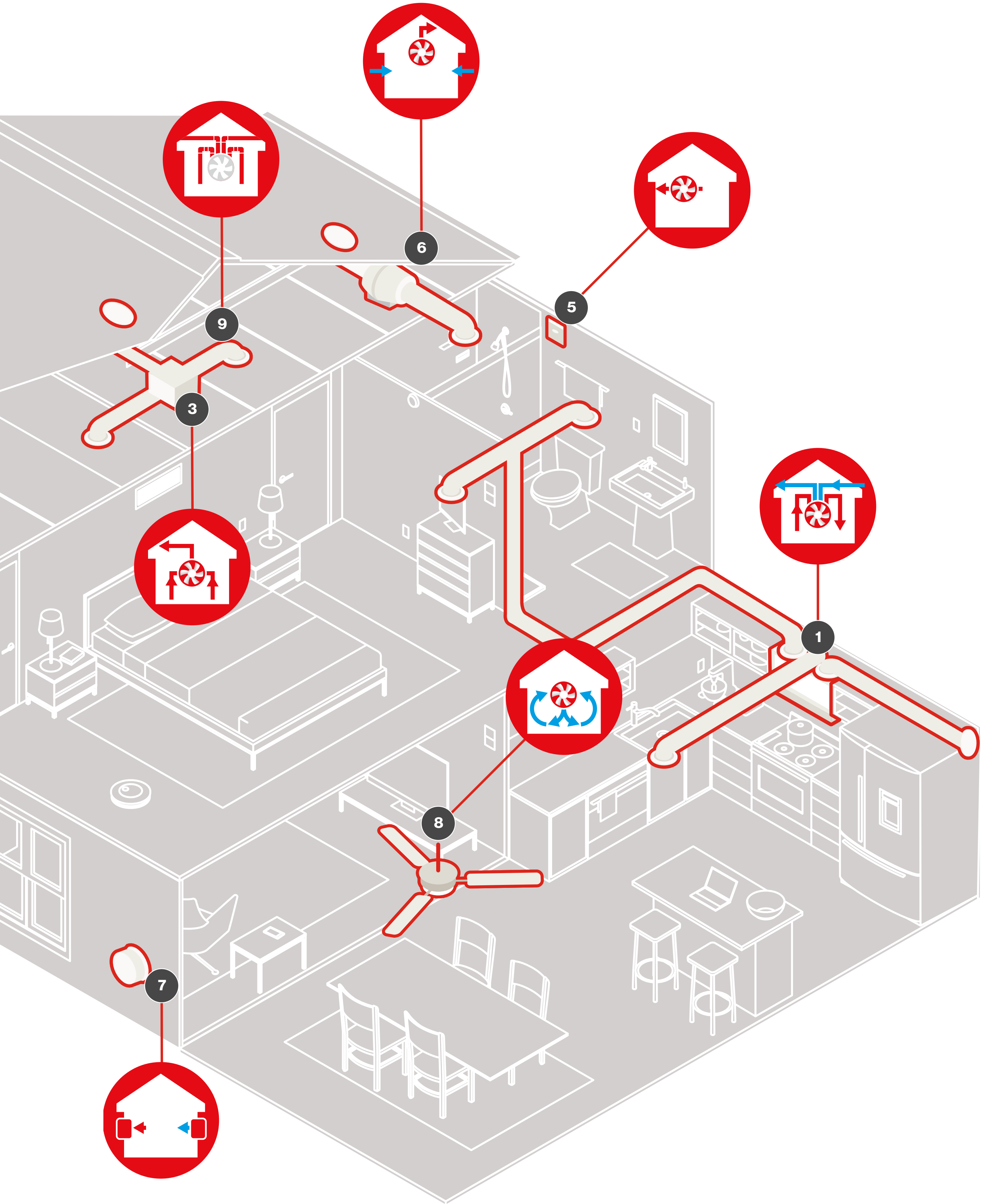
8. Thermal destratification

Thermal destratification is the process of mixing the internal air in a building to eliminate hot and cold layers in the air column of a room and achieve temperature equalisation throughout the building.

9. Ducting

Ducting is a critical component in any centralised system as it connects the target rooms to the ventilation unit ensuring that stale air is extracted from the wet rooms and fresh air is delivered to the habitable spaces. Air filters and noise attenuators can optionally be fitted in the ducting system to improve the indoor environment as required.

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Key Performance Indicators

How we performed over the past year

We have identified a number of financial and non-financial key performance indicators (KPIs) that reflect the internal benchmarks we use to measure the success of our business and strategy. These will enable investors and other stakeholders to measure our progress.

The three strategic pillars

- Organic growth in all our markets
- Growth through a disciplined and value-adding acquisition strategy
- Operational Excellence

We discuss the KPI performance in the Financial Review on pages 43 to 47

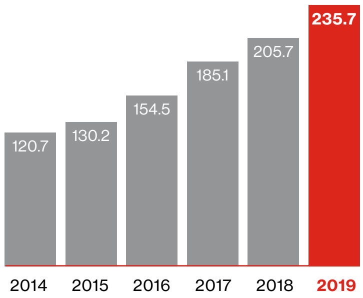
Note

1. The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, constant currency, adjusted EPS and adjusted operating cash flow. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 34. A reconciliation to reported measures is set out in note 2.

Financial performance

Revenue £m

£235.7m



Strategic pillars measured by this KPI

Tracks our performance against our strategic aim to grow the business

Comments

> Strong revenue development in the year with growth of 14.6% (15.7% at constant currency)

> The acquisition of Ventair Pty Limited and a full year of acquisitions completed in the prior year contributed significantly to our inorganic revenue growth of 12.0% (12.2% at constant currency)

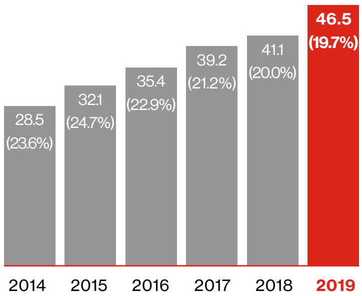
> Organic revenue growth of 2.6% (3.5% at constant currency)

Link to Directors' remuneration

> Annual Bonus Plan (ABP) awards are linked directly to adjusted operating profit and adjusted basic EPS; Long Term Incentive Plan (LTIP) awards are linked directly to measures of EPS growth and TSR, all of which correlate with increasing revenue

Adjusted EBITDA and adjusted EBITDA margin[1] £m (% of revenue)

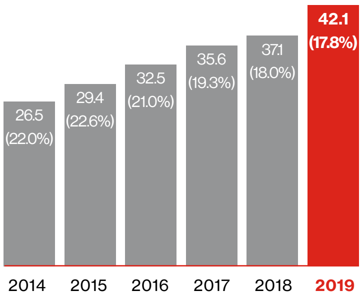
£46.5m (19.7%)



Strategic pillars measured by this KPI

Adjusted operating profit and adjusted operating profit margin[1] £m (% of revenue)

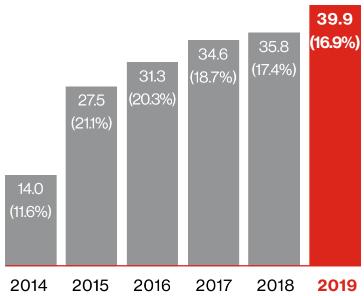
£42.1m (17.8%)



Strategic pillars measured by this KPI

Adjusted profit before tax and adjusted profit before tax margin[1] £m (% of revenue)

£39.9m (16.9%)



Strategic pillars measured by this KPI

These adjusted measures track the underlying financial performance of the Group

Comments

- Good growth in underlying profitability
- Low depreciation charges as the business is not capital intensive
- Margins reduced in the year:
  - Lower margin business acquired in FY2019
  - Temporarily reduced manufacturing efficiency during commissioning of the new Reading facility
  - Higher procurement costs and temporary supply chain difficulties in our Torin-Sifan business
  - Currency inflationary pressure on imported materials

Link to Directors' remuneration

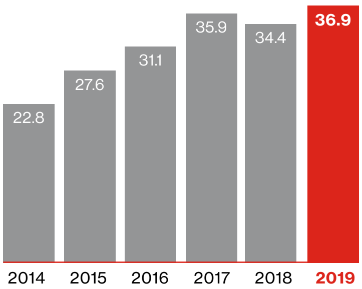
- ABP awards are linked directly to adjusted operating profit and adjusted basic EPS; LTIP awards are linked directly to EPS growth and TSR, all of which correlate with adjusted EBITDA, adjusted operating profit and adjusted profit before tax

Key Performance Indicators continued

Financial performance continued

Adjusted operating cash flow[1] £m

£36.9m



Strategic pillars measured by this KPI

Monitors cash generation at the operational level (important for our acquisition strategy and servicing debt), after movements in working capital and capital expenditure

Comments

> Adjusted operating cash flow in 2019 remained good after capital investment of £5.8 million (2018: £6.3 million) and an increase in working capital of £4.7 million

> Working capital increased but remained under control at 13.6% of revenues (2018: 11.3%)

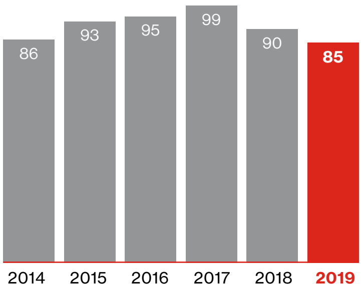
> Some limited inventory increases took place for short-term mitigation of potential disruption to cross-border shipments as a consequence of the UK leaving the European Union

Link to Directors' remuneration

> ABP awards are linked directly to working capital management in order to maintain good adjusted operating cash flow

Adjusted operating cash flow conversion[1] %

85%



Strategic pillars measured by this KPI

Tracks the efficiency of cash generation at the operational level (important for our acquisition strategy), after movements in working capital and after capital expenditure

Comments

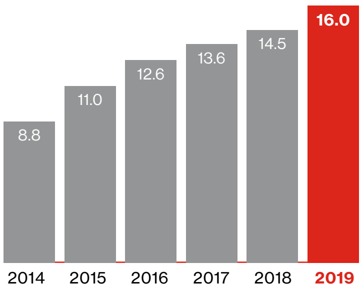
> Reduced cash conversion due to increased working capital

Link to Directors' remuneration

> ABP awards are linked directly to working capital management in order to maintain good adjusted operating cash flow conversion

Adjusted earnings per share[1] p

16.0p



Strategic pillars measured by this KPI

To provide a measure of shareholder value

Comments

> Improved EPS resulting from improved adjusted operating profit and new, profitable acquisitions

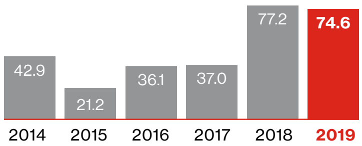
Link to Directors' remuneration

> ABP and LTIP awards are linked directly to measures of earnings per share

Non-financial performance

Net debt[1] £m

£74.6m



Strategic pillars measured by this KPI

To ensure we have an efficient capital structure with headroom to support organic and inorganic revenue growth

Comments

> Good cash generation from operations

> Decrease in net debt of £2.6 million

> Acquisition of Ventair costing £10.4 million

> Contingent consideration paid for the acquisition of Oy Pamon Ab of £0.6 million

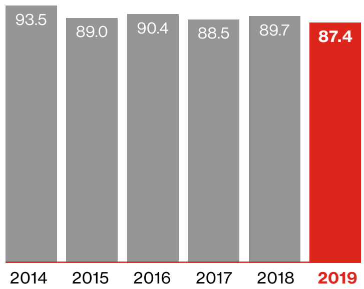
> Leverage (expressed as a ratio of net debt to adjusted EBITDA) was 1.6x (2018: 1.9x)

Link to Directors' remuneration

> ABP awards are linked directly to working capital management in order to maintain good operating cash flow and therefore minimise net debt

Employee retention %

87.4%



Strategic pillars measured by this KPI

To ensure we continue to retain employees, we monitor the number of voluntary resignations from our businesses and calculate the percentage retention as a function of total average full-time equivalent employees

Comments

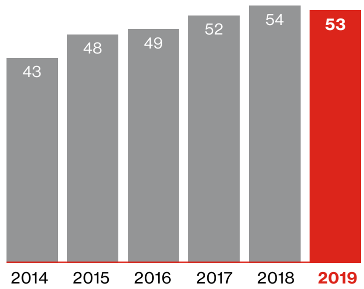
> The high level of staff retention continued in 2019

Link to Directors' remuneration

> ABP awards are linked directly to adjusted operating profit which we believe is associated with high levels of employee engagement and satisfaction which correlates with staff retention

Sales of low-carbon products %

53%



Strategic pillars measured by this KPI

Tracks our success at upselling and the effect of regulations on sales of more energy-efficient low-carbon products (value of low-carbon product sales expressed as a percentage of total sales)

Comments

> Reduced percentage of low-carbon sales due to acquisitions of Simx Limited and Ventair Pty Limited

> Highlights an opportunity in the Australasian market

> Organically, sales of low carbon products grew by 54% in the year

Link to Directors' remuneration

> Sales of low-carbon products generally attract a higher selling price and better margins thus improving revenue and profitability. ABP awards are linked directly to adjusted operating profit and LTIP awards are linked directly to EPS growth and TSR, all of which correlate to higher sales of low-carbon products

Effective risk management is integral to our objective of delivering sustainable long-term value

The Board is committed to protecting and enhancing the Group's reputation and assets in the interests of shareholders as a whole, while having due regard to the interests of other stakeholders. It has overall responsibility for the Group's system of risk management and internal control.

The Group's businesses are affected by a number of risks and uncertainties. These may be impacted by internal and external factors, some of which we cannot control. Many of the risks are similar to those found by other companies of similar scale and operations.

The risks and uncertainties facing the Group have also been considered in the context of the UK leaving the EU. Whilst negotiations continue between the UK and the EU and there is continuing uncertainty in the UK economy, our increasing market and geographical diversity provide some level of risk mitigation and the Board considers the nature of the principal risks to be broadly unchanged. More detail of the specific risk associated with the UK leaving the European Union can be found on pages 27 and 28. A specific assessment of the potential risks and our approach to management of these risks can be found on pages 26 and 27.

Our approach

Risk management and maintenance of appropriate systems of control to manage risk are the responsibilities of the Board and are integral to the ability of the Group to deliver on its strategic priorities. The Board has developed a framework of risk management which is used to establish the culture of effective risk management throughout the business by identifying and monitoring the material risks, setting risk appetite and determining the overall risk tolerance of the Group. To enhance risk awareness, embed risk management and gain greater participation in managing risk across the Group, a programme of employee communication continues with all new employees receiving a brochure on joining Volution Group.

The Group's risk management systems are monitored by the Audit Committee, under delegation from the Board. The Audit Committee is responsible for overseeing the effectiveness of the internal control environment of the Group.

BDO LLP (BDO) continued to act in the capacity of internal auditor and provide independent assurance that the Group's risk management, governance and internal control processes are operating effectively. BDO continued to act in this capacity throughout the financial year ended 31 July 2019.

Board

Overall responsibility for risk management

Reviews principal risks and uncertainties, along with actions taken, where possible, to mitigate them

↓

Audit Committee

Assurance oversight of the internal controls and risk management process

↓

Executive Management

Day-to-day management of risk

Design and implementation of the necessary systems of internal control

Identifying and monitoring material risks

Material risks (including emerging risks) are identified through an analysis of individual processes and procedures (bottom-up approach) and a consideration of the strategy and operating environment of the Group (top-down approach).

The risk evaluation process begins in the operating businesses with a biannual exercise undertaken by management to identify and document the significant strategic, operational, financial and accounting risks facing the businesses. This process ensures risks are identified and monitored and management controls are embedded in the businesses' operations.

The risk assessments from each of the operating businesses are then considered by Group management, which evaluates the principal risks of the Group with reference to the Group's strategy and operating environment for review by the Board.

Our principal risks and uncertainties

The 2016 UK Corporate Governance Code (the 2016 Code) states that the Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and that it should maintain sound risk management and internal control systems. In accordance with provision C.2.1 of the 2016 Code, the Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those which would threaten the business model, future performance, solvency or liquidity.

Set out in this section of the Strategic Report are the principal risks and uncertainties which could affect the Group and which have been determined by the Board, based on the robust risk evaluation process described above, to have the potential to have the greatest impact on the Group's future viability. These risks are similar to those reported last year, although with some movement on the direction of the perceived risk. For each risk there is a description of the possible impact of the risk to the Group, should it occur, together with strategic consequences and the mitigation and control processes in place to manage the risk. This list is likely to change over time as different risks take on larger or smaller significance.

UK leaving the European Union

Following the referendum outcome in June 2016 for the UK to leave the EU, the UK Government and European Commission have been negotiating the terms on which the UK would leave the EU and the framework for the future relationship. At the time of writing the continuing uncertainty in the UK parliament makes it difficult to predict an outcome; however, it remains possible that the UK will leave the EU without a deal on the 31 October 2019 or at some later date. In the absence of a ratified agreement, it is unclear what trading relationships the UK will have with the EU and other significant trading partners after the exit date.

Our UK businesses, as well as those based in Continental Europe, are substantially "domestic" suppliers of goods to their own markets with relatively limited cross border sales activity. We have reviewed the tariffs that would apply to any cross border sales of our products between UK and Europe in the event of a no-deal, and at an estimated tariff level of up to 3%, we do not believe the commerciality of these transactions would be materially impacted.

On the supply chain side, our primary non-UK supply comes from China, and so (aside from any heightened foreign exchange rate volatility) is not materially impacted. Border delays are recognised as a potential source of disruption; as such we have increased some inventories of specific faster moving products and will continue to monitor inventory levels and orders with our key suppliers in the run up to 31 October 2019.

We have undertaken an analysis of the risks and operational challenges to our business of a no-deal exit from the European Union and consideration of these risks has been incorporated into the Group's principal risks as appropriate.

With a strong direct presence in the EU, the Board believes that Volution is well placed to respond to changes to future trading arrangements between the EU and the UK. Whilst it is clear that Brexit uncertainty is impacting confidence and activity levels in the UK, our UK based revenues account for less than 50% of the Group's overall revenues. In the longer term, as an international business with good logistics capabilities and an expanding geographic presence, we consider we have greater flexibility to withstand any UK specific challenges.

We recognise that significant uncertainty will remain until any Brexit proposal is fully agreed and understood, and as such our understanding of potential risks and impacts are being regularly reviewed and assessed.

Risk Management and Principal Risks continued

Risks associated with the UK leaving the EU

Potential risk	Likelihood[1]	Potential impact[1]	Mitigation
Increases in tariffs and duty on goods and raw materials imported into the UK from the EU and exported to the EU			The Group has considered the potential cost impact of World Trade Organization tariffs coming into force for exports from the UK and imports into the UK, and the resultant cost of these potential tariffs is not expected to be material to the Group as a whole. We are also confident in our ability to largely pass through any associated cost increases, given our track record of inflation management with our customers, and the heightened attention on continuity of supply during the transition period.
Regulatory risks relating to potential changes to UK and EU-based law and regulation including product approvals			In the short to medium term we do not expect UK or EU approvals for our products to change.
Exchange rate volatility and reduction in the value of Sterling along with the associated increase in the costs of goods from overseas			The Group's financial results have already been impacted by the ongoing depreciation in Sterling. This has led to increased inflation in supplier costs for the Group's UK-based businesses and this is being managed robustly to maintain gross margins. Group net assets have benefited from translating the results of the Group's overseas businesses into Sterling. To hedge against transactional foreign exchange risk we maintain a rolling twelve months of cover for around 80% of our expected US Dollar purchases. We will maintain our existing hedging strategy to mitigate any further devaluation in Sterling. Our global trading mix and product sourcing arrangements mean that historically we have had a natural gross margin hedge against a depreciation in Sterling versus the Euro at a Group level.
Queues and delays at UK and EU ports as a result of increased customs checks			Inventory holdings of certain components and finished goods have been increased above standard levels and located within the EU to mitigate the risk of delays in customs and border clearances. A prolonged period of disruption at the UK's borders has the potential to impact the supply chain of the Group's UK businesses; however, our businesses maintain a strong depth of inventories and have begun to build inventory levels of their faster moving product lines which would mitigate the impact on their activities from a significant disruption in cross-border trade between the UK and Continental Europe.
Increased uncertainty leading to a slowdown in the UK residential and commercial construction industry			We believe we are already seeing delays and deferment of UK investment programmes and construction-related activity and spend, particularly in the London commercial sector. The diversity and flexibility within the Group have meant we are able to manage this downturn without significant impact on our Group results. Once the uncertainty around the UK leaving the EU has ceased, we expect this market to return to previous levels, with some potential upside as there will be a period of "catch-up".
Labour force impacts, particularly the mobility of the workforce and availability of talent			We note the increased pressure on the availability of lower skilled labour in recent years, and the reduction in migration from EU countries since the Brexit referendum. While we anticipate that these trends will continue, the UK Government has stated that EU citizens would be allowed to remain in the UK until at least the end of 2020 even in the absence of a withdrawal agreement. We are not critically reliant on our workforce having to travel extensively between the EU and the UK, or the need to source EU workers on UK contracts – any such requirements that do arise will raise a manageable administrative workload only.

Note

1. An explanation of likelihood and impact can be found on page 30.

Viability statement

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, the Directors have assessed the viability of the Group over the next three-year period, taking into account the Group's current position and the potential impact of the principal risks documented on pages 30 to 33 of the Annual Report and Accounts. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 July 2022.

The Directors have determined that a three-year period to 31 July 2022 is an appropriate period over which to provide their viability statement given the dynamic nature of the sector and as it is in line with our business planning cycle.

With respect to the longer term viability of the Group, we believe the business model will remain highly relevant. The regulatory and consumer drive towards making our new and existing homes more efficient and therefore airtight will continue, meaning that the opportunities to solve the problems of indoor air quality will only grow, strengthening the vital role ventilation has to play in creating a healthy indoor environment. Customer requirements in terms of enhanced functionality, energy efficiency and aesthetics of products are a favourable trend which we also expect to be sustained.

In making this statement, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Principal risks are identified through our risk management process and are set out on pages 30 to 33. They are recorded in a Group Risk Register which is reviewed and discussed by the Board at least twice a year.

The potential risks identified in the principal risks and uncertainties section (see page 27) resulting from the UK leaving the EU have been aggregated into existing sensitivities, which already model a general prolonged market downturn scenario that represents the "worst-case" impact from the UK leaving the EU.

The Board considers, annually, a three-year strategic plan. The output of this plan is used to perform central debt and headroom profile analysis, which includes a review of sensitivity to key principal risks. It also considers the ability of the Group to raise finance and deploy capital.

Whilst the review has considered all the principal risks identified by the Group, the following were focused on for enhanced stress testing: economic slowdown and supply chain risk affecting gross margins which have both been considered in the context of the UK leaving the EU, increased debt from acquisitions and combinations of the above scenarios.

The stress tests applied use more significant sensitivities than those seen during the most recent global financial crisis in 2008/9.

None of the individual sensitivities applied impact the Directors' assessment of viability. The geographical and sector diversification of the Group's operations helps minimise the risk of serious business interruption or catastrophic damage to our reputation. Furthermore, our business model is structured so that the Group is not reliant on one particular group of customers or sector. In addition, our ability to flex our cost base protects our viability in the face of adverse economic conditions and/or other political or regulatory uncertainties.

Going concern

The financial position of the Group, its cash flows and liquidity position are set out in the Financial Statements section. Furthermore, note 28 on page 141 to the consolidated financial statements includes the Group's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit and liquidity risk.

The Directors believe the Group is in a strong financial position due to its profitable operations and strong cash generation and that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Risk Management and Principal Risks continued

Likelihood of risk occurring

- Unlikely
- Possible
- Likely

Potential impact

- Low
- Medium
- High

Assessment of risk direction

- Reducing
- No change
- Increasing

The Board's assessment of whether there has been a change in the level of risk due to either a change in likelihood or a change in potential impact.

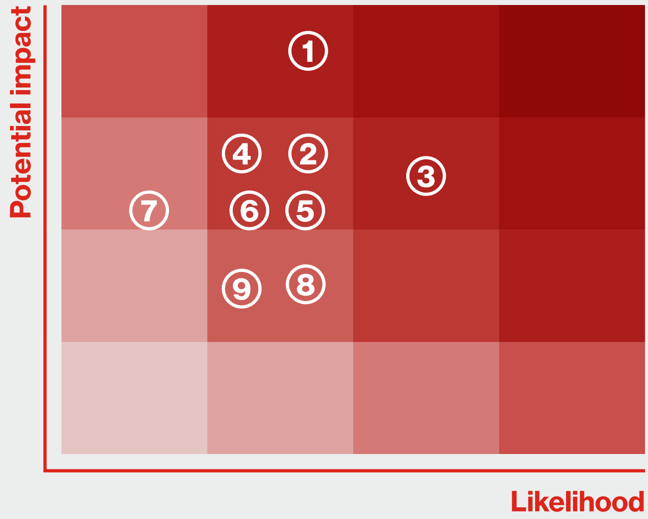
Strategic consequence

- Organic growth in all our markets
- Growth through a disciplined and value-adding acquisition strategy
- Operational Excellence

Risk	Impact	Strategic consequence
Economic risk A decline in general economic activity and/or a specific decline in activity in the construction industry, including, but not exclusively, an economic decline caused by the UK leaving the EU.	Demand for our products serving the residential and commercial construction markets would decline. This would result in a reduction in revenue and profitability.	Our ability to achieve our ambition for continuing organic growth would be adversely affected.
Acquisitions We may fail to identify suitable acquisition targets at an acceptable price or we may fail to complete or properly integrate the acquisition.	Revenue and profitability would not grow in line with management's ambitions and investor expectations. Failure to properly integrate a business may distract senior management from other priorities and adversely affect revenue and profitability. Financial performance could be impacted by failure to integrate acquisitions and to secure possible synergies.	Our strategic ambition to grow by acquisition may be compromised.
Foreign exchange risk The exchange rates between currencies that we use may move adversely.	The commerciality of transactions denominated in currencies other than the functional currency of our businesses and/or the perceived performance of foreign subsidiaries in our Sterling-denominated consolidated financial statements may be adversely affected by changes in exchange rates.	Our ambition to grow internationally through acquisition exposes us to increasing levels of translational foreign exchange risk.
IT systems including cyber breach We may be adversely affected by a breakdown in our IT systems or a failure to properly implement any new systems.	Failure of our IT and communication systems could affect any or all of our business processes and have significant impact on our ability to trade, collect cash and make payments.	We could temporarily lose sales and market share and could potentially damage our reputation for customer service.

Risk heatmap

1. Economic risk
2. Acquisitions
3. Foreign exchange risk
4. IT systems including cyber breach
5. Customers
6. Legal and regulatory environment
7. Supply chain and raw materials
8. Innovation
9. People



Likelihood	Potential impact	Risk direction	Mitigation
		Trading patterns during the year have remained stable including any which may be attributed to the decision to leave the EU. Whilst we do not currently foresee a decline in economic activity from the UK leaving the EU, the increased uncertainty and lack of clarity of what the economic landscape will look like leads us to believe the level of risk has increased during the year.	Geographic spread from our international acquisition strategy helps to mitigate the impact of local fluctuations in economic activity. New product development, the breadth of our product portfolio and the strength and specialisation of our sales forces should allow us to outperform against a general decline. We have a strong presence in the RMI market, which is more resilient to the effects of general economic decline affecting the construction industry. This remains true even under current circumstances. Our business is not capital intensive and our operational flexibility allows us to react quickly to the impact of a decline in volume.
		We continue to implement our strategy, completing one acquisition during the year.	The ventilation industry in Europe remains fragmented with many opportunities to court acquisition targets. Senior management has a clear understanding of potential targets in the industry and a track record of twelve acquisitions since IPO in June 2014. Management is experienced in integrating new businesses into the Group. Our policy of rigorous due diligence prior to acquisition and a structured integration process post-acquisition has been maintained.
		Our policy on foreign currency risk has remained unchanged. We do, however, believe that the increased economic uncertainty in the context of Brexit and US-China trade tensions makes it likely that in the near term exchange rates may see heightened levels of volatility.	Significant transactional risks are hedged by using forward currency contracts to fix exchange rates for the ensuing financial year. Revaluation of foreign currency denominated assets and liabilities is partially hedged by corresponding foreign currency bank debt.
		We believe there is an increasing risk as the frequency and sophistication of cyberattacks on businesses generally.	Disaster recovery and data backup processes are in place, operated diligently and tested regularly. A significant Enterprise Resource Planning system has been implemented for several key sites. A disaster failover site has been implemented. We have a three-layered system of network security protection against cyberattack or breaches of security. This infrastructure is maintained to withstand increasingly sophisticated worldwide cyber threats. We also undertake regular cyber security testing and training of our employees.

Risk Management and Principal Risks continued

Risk	Impact	Strategic consequence
Customers A significant amount of our revenue is derived from a small number of customers and from our relationships with heating and ventilation consultants. We may fail to maintain these relationships.	Any deterioration in our relationship with a significant customer could have an adverse significant effect on our revenue from that customer.	Our organic growth ambitions and Operational Excellence would be adversely affected.
Legal and regulatory environment Laws or regulation relating to the carbon efficiency of buildings, the efficiency of electrical products, competition or compliance may change.	The shift towards higher value-added and more energy-efficient products may not develop as anticipated resulting in lower sales and profit growth. If our products are not compliant and we fail to develop new products in a timely manner we may lose revenue and market share to our competitors. Failure to manage certain compliance risks adequately could lead to death or serious injury of an employee or third party, and/or penalties for non-compliance in health and safety, anti-bribery, data protection or competition law.	Our organic growth ambitions may be adversely affected. We may need to review our acquisition criteria to reflect the dynamics of a new regulatory environment. We may have to redirect our new product development activity.
Supply chain and raw materials Raw materials or components may become difficult to source because of material scarcity or disruption of supply, including as a consequence of the UK leaving the EU.	Sales and profitability may be reduced during the period of constraint. Prices for input materials may increase and our costs may increase.	Organic growth may be reduced. Our product development efforts may be redirected to find alternative materials and components. Operational Excellence may be adversely affected.
Innovation We may fail to innovate commercially or technically viable products to maintain and develop our product leadership position.	Scarce development resource may be misdirected and costs incurred unnecessarily. Failure to innovate may result in an ageing product portfolio which falls behind that of our competition.	Our organic growth ambitions depend in part upon our ability to innovate new and improved products to meet and create market needs. In the medium term, failure to innovate may result in a decline in sales and profitability. Operational Excellence may be adversely affected.
People Our continuing success depends on retaining key personnel and attracting skilled individuals.	Skilled and experienced employees may decide to leave the Group, potentially moving to a competitor. Any aspect of the business could be impacted with resultant reduction in prospects, sales and profitability.	Our competitiveness and growth potential, both organic and inorganic, could be adversely affected. Operational Excellence may be adversely affected.

Likelihood	Potential impact	Risk direction	Mitigation
		Our underlying risk of losing the revenue of any one customer continues unchanged; however, our recent acquisitions have further served to diversify our customer base.	We have strong brands, recognised and valued by our end users, and this gives us continued traction through our distribution channels and with consultants and specifiers. We have a very wide range of ventilation and ancillary products that enhance our brand proposition and make us a convenient "one-stop-shop" supplier. We continue to develop new and existing products to support our product portfolio and brand reputation. We focus on providing excellent customer service.
		There has been no significant new legislation or regulation, or changes to current legislation or regulation, which has had a material impact on the business. The UK Data Protection Act which became law in May 2018 has added some risk as fines for breach are potentially high. Enforcement action by the Information Commissioner's Office has been taking place amongst companies in the UK. As a result, although Volution does not process much personal data, the risk has increased.	We participate in trade bodies that help to influence the regulatory environment in which we operate and as a consequence we are also well placed to understand future trends in our industry. We are active in new product development and have the resource to react to and anticipate necessary changes in the specification of our products. We employ internal specialist expertise, supported where needed by suitably qualified and experienced external providers. Local operational compliance audits are undertaken. We have training and awareness programmes in place such as health and safety, anti-bribery and data protection. We have a whistleblowing hotline managed by an independent third party providing employees with a process to raise non-compliance issues.
		Our pattern of purchasing and relationships with our long-term supplier base remains unchanged. Our policy of ensuring a resilient supply base remains a priority. We recognise that the risk of queues and delays at ports would be increased in the near term in the event of the UK leaving the EU without a deal.	We establish long-term relationships with key suppliers to promote continuity of supply and where possible we have alternative sources identified. We will continue to monitor stock levels and order patterns in the run up to the UK leaving the EU and where deemed necessary will adjust inventory levels to help mitigate any disruptions in supply.
		We continue to demonstrate innovation with new product launches.	Our product innovation is driven by a deep understanding of the ventilation market and its economic and regulatory drivers. The Group starts with a clear marketing brief before embarking on product development.
		There have been no significant changes to the supply and retention of quality employees across the wider workforce. However, some members of the UK Ventilation business Senior Management Team left the business during the year and a search process is currently progressing.	Regular employee appraisals allow two-way feedback on performance and ambition. A Management Development Programme was initiated in 2013 (with the latest concluded in November 2018) to provide key employees with the skills needed to grow within the business and to enhance their contribution to the business.

Sustainability

Key to creating value for stakeholders

We are committed to operating in a manner that protects human rights, provides real opportunities for our employees, protects the environment and makes a positive contribution to the community.

We embrace a culture of continual improvement in all aspects of our business. We aim to understand and respond to the needs of employees, customers, suppliers, shareholders, the communities in which we work and wider society.

As part of our commitment to sustainability we aim to align our business values, purpose and strategy with the needs of our stakeholders, whilst embedding such responsible and ethical principles into everything we do.

As an international organisation with an international supply chain, we take seriously the impact we have in the places where we do business.

People

Human rights

Community

Environment

People

Business and ethics

Our core values and principles, and the standards of behaviour to which every employee and agent across the Group is expected to work, are set out in the Volution Group Code of Conduct. These values and principles are applied to dealings with our customers, suppliers and other stakeholders.

We have a zero-tolerance approach to all forms of bribery and corruption. Our Anti-Bribery and Corruption Policy has been approved by the Board and rolled out across the Group. It applies to all businesses, Directors, employees and agents within the Group to ensure compliance with all laws and regulations governing bribery and corruption in the countries in which the Group operates.

The Group has a "Speak Up" facility operated by an independent external company, where employees can report any incidents or inappropriate behaviours in their own language by telephone or online. The confidentiality of the information reported is protected. In addition, web-based anti-bribery and corruption training is carried out by employees in areas of the business where risk is deemed to be highest.

Health and safety

We are committed to achieving and maintaining the highest standards in health and safety practice. An open culture towards health and safety engages our employees and helps maintain our excellent safety record. Each business invests in specialist roles and training to support this process. Each employee and contractor is given information, instruction and the training necessary to enable safe working. Our employees and contractors recognise that it is their legal duty to take reasonable care for their own safety and the safety of others in their work area with working safely being a condition of employment.

All accidents, dangerous incidents and near-miss situations are promptly investigated. The details of such incidents as well as the remedial and preventative measures taken are assessed closely to assist in raising awareness and reducing the risk of repetition. The Board reviews health and safety at every meeting.

During the year a number of health and safety audits were undertaken to ensure local management placed sufficient focus on health and safety.

Diversity

Although the Group has no specific gender and diversity targets as we believe that appointments should be based on merit, we strongly support diversity throughout the workforce. We employ a diverse workforce and pride ourselves on providing equal opportunities for all. High value is placed on rewarding our people for their commitment, their integrity and their service.

We aim to ensure that no employee is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic or national origins, sexual orientation or gender, marital status, disability, religion or belief, age or being part time. We believe that better business decisions can be made by having representation from different genders and cultural backgrounds with differing skill sets, experience and knowledge, which reflects our customer base and the wider population in our markets.

The building materials industry traditionally attracts a higher than average proportion of male employees. This is reflected in the Group's split between male and female employees as shown on page 36.

Employee communications

We have a number of employee communication channels across the business, including an Employee Forum which has employee representatives from across the UK and European businesses and allows two-way communication between Volution Group senior management and the employee representatives who in turn brief the employees they are representing in each business unit. We also have local internal newsletters which provide a framework for colleagues to participate in two-way communication, giving them a platform from which to help shape and influence decision making within the Group. We have a Sharesave Scheme across the Group which allows employees to share in our success. Employees who participated save for three years and then have the opportunity to buy Volution Group shares at a discounted price which can then translate into the employee becoming a shareholder in the business. We were very pleased with the employee engagement this created with 26% of eligible employees participating in the initial launch of Sharesave in July 2018.

Employee development

As an organisation we actively encourage employee development as it is important to us that our employees fulfil their potential. Eighteen participants from across the Group enrolled on our third Management Development Programme which successfully concluded in November 2018. We plan to further enhance the quality and quantity of our support available to all colleagues with the objective of increasing capability levels across the business, one example of which is to fully utilise the apprenticeship levy in the UK.

Sustainability continued

inVENTer team in Germany celebrate 20th anniversary

Human rights

Breaches of human rights are not considered to be a material risk for the business as our activities are substantially carried out in developed countries that have strong legislation governing human rights. We adhere to policies which support human rights principles.

Modern Slavery Act

We are opposed to slavery, servitude, forced labour and human trafficking. We take a zero-tolerance approach to modern slavery in the supply chain and businesses under our control. The Board has approved a statement setting out the steps that have been taken to combat modern slavery. This statement can be found on the Group's website at www.volutiongroupplc.com. Group employees, agents and suppliers are requested to confirm that they do and will continue to comply with our policy which is set out in our Code of Conduct.

Community

Each company within the Group understands the importance of being a contributing member of society and its impact on the long-term development and sustainability of the business. Each business takes responsibility for managing its relationship with its local community.

Volution Group, together with many of its employees, supported a range of national and local charities during the year. This year the UK teams supported the Salvation Army Christmas Gift Appeal donating gifts to children at Christmas. This charity appeal takes place across the UK and ensures thousands of less privileged children wake up to presents on Christmas Day.

Board Directors

5 – 71%
Male

2 – 29%
Female

Senior managers[1]

8 – 80%
Male

2 – 20%
Female

All other employees

1,102 – 67%
Male

554 – 33%
Female

Note

1. Legislation requires that we define "senior managers" as the directors of our subsidiary companies. However, the Board believes this information does not provide a meaningful analysis of how the Group operates so the data shown reflects the proportion of senior managers by our own internal grading system. The number also excludes Board Directors.

Clean Air Day

As in previous years, we supported Clean Air Day, co-ordinated by environmental charity Global Action Plan. The aim of this day is to raise awareness of the risks of air pollution and the simple things everyone can do to improve their indoor air quality and health. Poor air quality is proven to negatively impact everyone's health, increasing the risk of serious illnesses and making existing conditions, like respiratory disorders, worse. This annual event increases understanding of the risks and provides education on how to reduce air pollution and improve indoor air quality (IAQ).

Volution Group is committed to sharing knowledge of how ventilation can help protect public health. Clean Air Day provides suggestions on quick and easy ways to make positive changes to home and lifestyle to improve IAQ, acknowledging that the first key step that should be taken is to effectively ventilate indoor environments. To help protect health in the home, we have been working hard to provide ventilation solutions to improve IAQ for households and further information on IAQ can be found on pages 20 and 21.

Environment

We recognise the impact that our businesses may have on the environment and, as a minimum standard, we comply with current applicable legislation in the countries in which we operate.

We endeavour to limit the impact on the environment within which we operate and also protect the environment that we all share. Across the Group, energy-reducing initiatives will continue, including using recycled plastics in manufacturing, recycling waste paper and cardboard and working with our customers to reduce waste on site. Our Lo-Carbon range of products will continue to be donated to environmental projects to demonstrate innovative energy reduction techniques.

Our Vent-Axia brand is helping social housing providers reduce their environmental impact by designing modular products (such as the Lo-Carbon Revive fan which is made with recyclable ABS plastic) to reduce plastic waste. By carefully considering the design of its products, Vent-Axia's latest energy-efficient fans are even easier to repair and recycle, reducing carbon footprint and helping make ventilation even more cost effective for social housing providers.

Our product development programme continues to focus on low-carbon initiatives, using technology which reduces power consumption and recovers, recycles and reuses energy that would otherwise be wasted. At all times the Group aims to produce products that are as energy efficient as possible and will continue to research and develop energy-efficient solutions for the marketplace.

Sustainability

To assist Volution Group as a sustainable business, we have been accredited ISO 14001 at our site in Crawley, UK.

During the year our new Reading facility in the UK was fully commissioned. This facility has photovoltaic cells on the roof and a battery management system which reduces our electricity usage. Having closed two sites in Slough and Reading in the UK and consolidated production into this one new site, moving goods between these two sites has also been eliminated.

We ensure that we consistently recycle waste where possible and seek to lower the emissions from our motor fleet. We are constantly looking for ways to improve the efficiency of our motor fleet, which can in turn reduce the amount of emissions produced. We have recently launched our new motor fleet programme which includes a choice of hybrid vehicles.

Greenhouse gas emissions

We are required to measure and report our direct and indirect greenhouse gas (GHG) emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The mandatory requirement is for the disclosure of the scope 1 and 2 emissions only. These are direct emissions such as heating, vehicle fuel and indirect emissions, for example purchased electricity. Our total GHG footprint in line with DEFRA's mandatory reporting requirement is shown in the table below.

Emissions data for the year ended 31 July 2019

Emissions from	**2019 CO_2e tonnes**	2018 CO_2e tonnes
Electricity, gas and other fuels	**3,412**	4,431
Petrol and diesel vehicle fuels	**1,464**	1,284
Refrigerants	**31**	25
Total footprint	**4,907**	5,740
Greenhouse gas emissions intensity ratio: CO_2e tonnes per £m of revenue	**20.81**	27.91

The new Reading facility in the UK is the main contributing factor to the reduction in greenhouse gas emissions due to the photovoltaic cells on the roof and a battery management system. The closing of the two old sites in Slough and Reading has also positively impacted the Group's emissions from electricity, gas and other fuels.

Note that:

- data collected is in respect of the years ended 31 July 2018 and 31 July 2019. The conversion factors used are those published by DEFRA; and
- some extrapolation or estimation techniques have been used to calculate the Group footprint, specifically regarding the calculation of emissions from cooling units.

Operational Review

Ventilation Group segment

The Ventilation Group has sector leading positions in the UK, the Nordics, Central Europe and Australasia.

During the year, we completed the acquisition of Ventair in Australia, enhancing and widening the Group's capability. Ventair is a market leading residential ventilation products supplier in Australia for both new and refurbishment applications with channel access enabling us to place many of our existing Group products in this market. In addition we made good progress with the integration of the four acquisitions we made in the second half of our financial year ended 31 July 2018.

Highlights

Revenue

> £212.1 million, 90.0% of Group revenue (2018: £183.1 million, 89.0% of Group revenue)

Adjusted operating profit

> £41.5 million, 98.7% of Group adjusted operating profit (2018: £35.4 million)

Average number of employees

> 1,413 (2018: 1,382)

Revenue

Revenue within the Ventilation Group grew by 15.8% (17.0% at constant currency), of which 2.3% (3.4% at constant currency) was organic and 13.5% (13.6% at constant currency) the result of acquisitions. Group sales (£1.3 million) made to our recent acquisitions, Simx and Air Connection, completed in the prior year, have been shown separately to illustrate like-for-like growth of 17.9% because in the post-acquisition period these sales were eliminated.

		Constant currency		
Market sectors	**2019 £000**	**2019 £000**	2018 £000	Growth %
Ventilation Group				
UK Residential RMI	**39,356**	**39,356**	38,166	3.1
UK New Build Residential Systems	**27,795**	**27,795**	25,604	8.6
UK Commercial	**34,856**	**34,856**	33,474	4.1
UK Export	**9,924**	**9,985**	11,189	(10.8)
Nordics	**46,995**	**48,663**	36,692	32.6
Central Europe	**30,990**	**31,122**	28,466	9.3
Australasia	**22,176**	**22,456**	8,182	174.5
Total Ventilation Group	**212,092**	**214,233**	181,773	17.9
UK Export – Simx and Air Connection[1]	**—**	**—**	1,321	
Total Ventilation Group	**212,092**	**214,233**	183,094	17.0

Note
1. Sales to Simx and Air Connection in the prior year of £1.3 million have been separated to show a like-for-like comparison with FY2018 because sales to Simx and Air Connection are now eliminated as intercompany sales.

Reading facility (UK)

Volution Ventilation UK

We are pleased to confirm that our facility rationalisation project at Reading in the UK is now fully completed and that we are again providing our normal level of customer service. The facility rationalisation project was an exciting development for Volution, positioning us well for future growth and further operational optimisation.

During the financial year, Volution Ventilation UK grew in each of its three domestic sectors, UK Residential RMI, UK New Build Residential Systems and UK Commercial. We are pleased to report our return to good levels of growth in UK Public RMI, following several years of decline of that market. Over the past 24 months, we have invested heavily in: sales training; the development of new products specifically for the Public RMI sector; and the development of new digital tools that help our customers connect with our solutions in more intuitive ways (e.g. our Airtech brand's new interactive website).

During the financial year we progressed our product platform rationalisation project to establish a common architecture for some of our plastic fans, with the aim of optimising our supply chain and operational performance whilst, at the same time, creating value and additional variety of ventilation solutions. Users of our products will have more choice of enhanced features and performance, particularly at the premium end of our Private RMI product range, such as our new Silent Fan. In addition, during the year, we continued to introduce new products to the UK RMI market from elsewhere in the Group, including the new, innovative, odour sensing, Vent-Axia PureAir fan in the UK.

Vent-Axia PureAir fan

We recorded another year of growth in revenue for our UK New Build Residential Systems sector, where our Kinetic heat recovery products continue to offer market leading performance to meet demanding specifications, driven by a strong regulatory framework around new home energy performance. Growth was stronger in the first half of the year partly as a consequence of a major supply and install customer shifting its seasonal demand pattern.

Despite the uncertainty caused by the UK leaving the European Union, sales of our commercial products performed well. We converted well on price adjustments for our Vent-Axia branded products and continued to develop our hybrid ventilation solutions at Breathing Buildings, introducing metal casings and advanced controls. The development of these products assisted with the revenue growth of our Breathing Buildings brand and will assist in regaining commercial and technical leadership in the education sector with its unique ventilation requirements.

At our facility in West Molesey, we are nearing completion of the construction of our new mezzanine floor, allowing us to consolidate production of fan coils for our UK Commercial sector from two annex buildings which we had been utilising since 2018. This will reduce production cost and improve operational efficiency. At the same site, the commissioning of our new laser metal-cutting machine was completed. This will support future growth and opens up intra-group opportunities to eliminate outsourcing of metal cutting. Commercial revenue for our Diffusion brand grew in the year but slowed in the second half possibly as a consequence of Brexit uncertainty.

Laser metal-cutting machine

UK Export was the only sector in the UK where revenue declined, mainly due to the large, one-off spares order from a customer in Japan in the prior year. We continue to grow sales in the Irish market for the supply of new build residential systems.

Volution Group, Nordics

Revenue in the Nordics grew strongly, despite continuing difficulties in the Swedish construction market, due to the full year effect of the acquisitions made in the prior year (Pamon in Finland and Air Connection in Denmark). Both acquisitions were completed in July 2018, and were integrated into the Nordic organisation during the year. A significant part of the integration process included the transition to the Nordic region's shared Enterprise Resource Planning system which was completed in the year for Air Connection and in September 2019 for Pamon.

Pamon continued to grow well, post-acquisition, in its Finnish market, although we do not recognise this revenue growth as organic until the anniversary of acquisition. Within the Nordic region we now have a wide range of heat recovery ventilation solutions available to us from around the Group and we have increased our focus on cross-selling these products more widely in the Nordic region. We anticipate seeing the benefit of these initiatives in the coming years.

We increased investment in our plastic injection moulding facility located in Gemla, Sweden, to increase capacity and efficiency of plastic parts manufacture for the region.

Operational Review continued

Volution Group, Nordics continued

Intellivent SKY fan

We continued to invest in new innovative products in order to maintain our technical and commercial leadership position in the Nordics. Intellivent SKY, the first bathroom fan equipped with odour-sensing technology, was launched by Fresh in December 2018. It is an exceptionally quiet fan and has a number of additional features including superior pressure performance and an on-board touchscreen with fine tuning via an app and has self-adjusting humidity control. Intellivent SKY won the prestigious Red Dot Award for product design. In addition, we launched at the end of the year, under the Pax brand, a new, advanced, towel warmer timer: Momento II. The timer has a unique memory function which makes it possible to save up to 75% of the energy consumption without any loss of functionality.

Momento II towel warmer timer

Xenion fan

Volution Group, Central Europe

Germany

The new, quieter, more efficient, Xenion decentralised heat recovery ventilation system was launched in 2018, ensuring that inVENTer grew its revenue in the year ended July 2019 and had a very successful year. Nearly all ventilation products under the brand were successfully migrated to this new technology, which contributed to margin improvement.

During the year, new software-driven processes were introduced to give improved customer service, more visibility over the sales order pipeline and more efficiency in our sales processes.

Netherlands

We trade in the Netherlands under the Ventilair and Vent-Axia Netherlands brands which both grew well in the year.

The Netherlands is heavily regulated with regard to energy efficiency and the Government is placing pressure on residential landlords to improve efficiency of their properties by 2020. In the year, Ventilair Group in the Netherlands benefited from becoming part of the BENG association (Bijna Energie Neutraal Gebouw) which offers total renovation solutions to enable landlords to comply with the required energy efficiency regulations.

Belgium

The revenue in Belgium grew well in the year, especially through the electrical wholesaler route to market on which we have more recently been concentrating. Good sales growth of bathroom fans, including newly introduced, technically advanced, products sourced from within the Group, along with a strong position in the market for our semi-rigid ducting system, Uniflex+, has contributed significantly to our growth. We continue to offer a full range of ventilation products to maintain and build our reputation as the partner of choice in Belgium.

Manrose Genius fan

Volution Group, Australasia

New Zealand

Simx's first full year under Volution ownership has seen a focus on launching Volution Group products into New Zealand to encourage the take-up of higher value propositions by our customers. In addition, following the acquisition in the year of Ventair in Australia, Simx gained access to additional premium products, some of which have already been launched under the Manrose brand in New Zealand. As a result we grew in New Zealand both organically and as a consequence of the full year effect post-acquisition.

Spyda ceiling fan

Australia

We acquired Ventair in Australia in March 2019. With Ventair we now have access to over 2,000 third party sales outlets throughout Australia, and, in addition to its own brand, Ventair is now distributing the Manrose and Vent-Axia brands which will bring a number of new value-added products from across the Group to the Australian market.

Operational Review continued

OEM (Torin-Sifan) segment

Torin-Sifan designs and manufactures highly efficient alternating current (AC) and electronically commutated (EC) motors, motorised impellers, fans and blowers for the heating, ventilation and air conditioning (HVAC) industry and is a leading supplier to the residential and commercial HVAC manufacturing markets worldwide.

Highlights

Revenue

> £23.6 million, 10.0% of Group revenue (2018: £22.6 million, 11.0% of Group revenue)

Adjusted operating profit

> £3.2 million, 7.6% of Group adjusted operating profit (2018: £3.8 million)

Average number of employees

> 249 (2018: 235)

Revenue

Revenue within the OEM (Torin-Sifan) segment grew by 4.5% (4.8% at constant currency).

		Constant currency		
Market sectors	**2019 £000**	**2019 £000**	2018 £000	Growth %
Total OEM (Torin-Sifan)	**23,606**	**23,657**	22,582	4.8

Torin-Sifan continued to enjoy strong demand with sales growth of 4.8%. The sales of EC3 motorised impellers continued to gain momentum in the second half of the financial year.

Our operations in Torin-Sifan were adversely impacted during the first half of the year by procurement issues which manifested in higher input costs for electronic components. However, we are confident these issues have now been resolved. Furthermore, investment has been made in several product and supply chain improvements that will further enhance production output, efficiency, costs and quality in future periods.

Residential ventilation sales grew well in the year. The EC3 Revolution 360 range of motorised impellers and blowers was particularly influential in this performance as the range continues to grow its share of the market. Additional manufacturing investment has been made in a second production line for EC3 products, to allow us to meet the increased demand. During the year further investment was made in expanding the EC3 product range. These additions to the range should further increase future sales opportunities.

Torin-Sifan EC3 motorised impeller

Residential heating sales also grew well in the year. Our production fan demand in this market was particularly strong, assisted in part by Brexit stock building by customers. This offset the decline in demand for boiler spares which suffered from a stock readjustment by a key customer.

Our Commercial market business remained stable in the year and we expect this channel to also benefit in the future from our higher powered 170 Watt EC3 motor platform developments.

Our original Greenbridge manufacturing site in Swindon, UK, has benefited from investment in modern lean manufacturing techniques, bringing it in line with our nearby Westmead production facility. This will further enhance efficiency and quality levels in future periods.

Financial Review
Andy O'Brien

Strong results: revenue growth of 14.6% and adjusted operating profit growth of 13.3%

Summary

- Revenue growth of 14.6% (15.7% at constant currency), with 2.6% (3.5% at constant currency) from organic growth and 12.0% (12.2% at constant currency) from inorganic growth
- Adjusted operating profit growth of 13.3%, up by £5.0 million to £42.1 million, with an adjusted operating margin of 17.8% (an improving trend in the year: 17.6% in H1 and 18.1% in H2)
- Reported operating profit growth of 40.8%, up by £7.1 million to £24.7 million
- Exceptional operating costs of £1.8 million relating to acquisitions and re-organisation of the UK Ventilation business (2018: £6.4 million)
- Adjusted operating cash inflow of £36.9 million (2018: £34.4 million)
- Ventair Pty Limited acquired on 1 March 2019, for an initial cash consideration of AUD19.2 million (£10.4 million)
- Net debt reduced by £2.6 million to £74.6 million
- Closing debt leverage of 1.6x (2018: 1.9x)

Revenue

Group revenue for the year ended 31 July 2019 was £235.7 million (2018: £205.7 million), an increase of 14.6% (15.7% at constant currency). Organic growth of 2.6% (3.5% at constant currency) accelerated during the year reaching 3.1% in the second half (3.8% at constant currency) with organic growth across all market sectors except for UK Export and the Nordics. Full year trading from the four acquisitions completed in the year ended 31 July 2018 (Simx Limited in New Zealand, Air Fan B.V. in the Netherlands, Oy Pamon Ab in Finland and Air Connection ApS in Denmark), coupled with the acquisition of Ventair Pty Limited in Australia in March 2019, resulted in inorganic growth of 12.0% (12.2% at constant currency).

Profitability

The Group's underlying result, as measured by adjusted operating profit, increased by 13.3% to £42.1 million (2018: £37.1 million) at an adjusted operating margin of 17.8% (2018: 18.0%). Adjusted operating margin during the first half was adversely impacted by some operational inefficiencies at our new Reading facility (now fully commissioned), coupled with increased sourcing costs in our OEM (Torin-Sifan) segment due to spot buying of some electronic and other components at premium prices. Resolution of these issues meant our second half margins increased to 18.1% from 17.6% in the first half.

Reported profit before tax increased by £6.4 million to £23.1 million (2018: £16.7 million) compared to the £4.1 million increase in adjusted profit before tax due to:

- £4.6 million decrease in exceptional operating costs (principally relating to costs of acquisitions and the costs of the UK Ventilation re-organisation including factory relocation;
- £1.5 million write back of accrual for contingent consideration in 2018 relating to the acquisition of VoltAir System, not repeated in 2019;
- £0.7 million increase in amortisation costs relating to intangible assets (2019: £15.4 million; 2018: £14.7 million); and
- £0.8 million increase in net finance costs as a result of the higher average debt levels due to the acquisitions in the year ended 31 July 2018.

Financial Review continued

Trading performance summary

	Reported			Adjusted[1]		
	Year ended 31 July 2019	Year ended 31 July 2018	Movement	**Year ended 31 July 2019**	Year ended 31 July 2018	Movement
Revenue (£m)	**235.7**	205.7	14.6%	**235.7**	205.7	14.6%
EBITDA (£m)	**44.6**	37.0	20.4%	**46.5**	41.1	13.2%
Operating profit (£m)	**24.7**	17.5	40.8%	**42.1**	37.1	13.3%
Finance costs (£m)	**2.1**	1.6	31.5%	**2.1**	1.3	63.6%
Profit before tax (£m)	**23.1**	16.7	38.3%	**39.9**	35.8	11.5%
Basic EPS (p)	**9.2**	6.7	37.3%	**16.0**	14.5	10.3%
Total dividend per share (p)	**4.90**	4.44	10.4%	**4.90**	4.44	10.4%
Operating cash flow (£m)	**34.9**	29.1	19.9%	**36.9**	34.4	7.3%
Net debt (£m)	**74.6**	77.2	2.6	**74.6**	77.2	2.6

Note
1. The reconciliation of the Group's reported profit before tax to adjusted measures of performance is summarised in the table below and in detail in note 2 to the consolidated financial statements. For a definition of all adjusted measures see the glossary of terms in note 34 to the consolidated financial statements.

Reconciliation of statutory measures to adjusted performance measures

The Board and key management personnel use some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS and adjusted operating cash flow. These measures are deemed more appropriate to track underlying financial performance as they exclude income and expenditure which is not directly related to the ongoing trading of the business. A reconciliation of these measures of performance to the corresponding reported figure is shown below and is detailed in note 2 to the consolidated financial statements.

	Year ended 31 July 2019			Year ended 31 July 2018		
	Reported £000	**Adjustments £000**	**Adjusted results £000**	Reported £000	Adjustments £000	Adjusted results £000
Revenue	**235,698**	**—**	**235,698**	205,676	—	205,676
Gross profit	**111,079**	**—**	**111,079**	96,623	—	96,623
Administration and distribution costs excluding the costs listed below	**(69,027)**	**—**	**(69,027)**	(59,523)	—	(59,523)
Amortisation of intangible assets acquired through business combinations	**(15,439)**	**15,439**	**—**	(14,670)	14,670	—
Exceptional operating costs	**(1,801)**	**1,801**	**—**	(6,417)	6,417	—
CFO succession costs	**(150)**	**150**	**—**	—	—	—
Release of contingent consideration	**—**	**—**	**—**	1,502	(1,502)	—
Operating profit	**24,662**	**17,390**	**42,052**	17,515	19,585	37,100
Net gain on financial instruments at fair value	**605**	**(605)**	**—**	838	(838)	—
Exceptional write off of unamortised loan issue costs upon refinancing	**—**	**—**	**—**	(320)	320	—
Other net finance costs	**(2,127)**	**—**	**(2,127)**	(1,296)	—	(1,296)
Profit before tax	**23,140**	**16,785**	**39,925**	16,737	19,067	35,804
Income tax	**(4,913)**	**(3,354)**	**(8,267)**	(3,414)	(3,598)	(7,012)
Profit after tax	**18,227**	**13,431**	**31,658**	13,323	15,469	28,792

The following are the items excluded from adjusted measures:

> **Amortisation of acquired intangibles**
On acquisition of a business, where appropriate, we value identifiable intangible fixed assets acquired such as trademarks and customer base and recognise these assets in our consolidated statement of financial position; we then amortise these acquired intangible assets over their useful lives. In the year the amortisation charge of these intangible assets increased to £15.4 million (2018: £14.7 million) as a consequence of recent acquisitions. We exclude this accounting adjustment in the calculation of our adjusted earnings because it is a cost associated with acquisitions, not the underlying trading of the businesses.

- **Exceptional operating costs**
  Exceptional operating costs, by virtue of their size, incidence or nature, are disclosed separately in order to allow a better understanding of the underlying trading performance of the Group. During the year, exceptional operating costs were £1.8 million (2018: £6.4 million) which included costs relating to acquisitions of £0.5 million (2018: £1.4 million) and the UK Ventilation re-organisation including factory relocation of £1.3 million (2018: £5.0 million). Details of all these exceptional operating costs can be found in note 5 to the consolidated financial statements.

- **CFO succession costs**
  These costs relate to the search and recruitment process of the new CFO during the year and amounted to £0.2 million (2018: £nil).

- **Reversal of contingent consideration**
  During the year reversal of contingent consideration was £nil (2018: £1.5 million).

- **Fair value adjustments**
  At the end of each reporting period we measure the fair value of financial derivatives and recognise any gains or losses immediately in finance cost. During the year, we recognised a gain of £0.6 million (2018: gain of £0.8 million), a reduction of £0.2 million. We exclude these gains or losses from our measures of adjusted earnings because they are accounting adjustments which will reverse in future periods and do not reflect the underlying trading of the business.

- **Exceptional write off of unamortised loan issue costs upon refinancing**
  During the year exceptional write off of unamortised loan issue costs upon refinancing were £nil (2018: £0.3 million). On 15 December 2017, the Group refinanced its bank debt. As a consequence of the refinance, unamortised loan issue costs of £0.3 million relating to the previous loans were written off in 2018.

Finance revenue and costs

Reported net finance costs were £1.5 million (2018: £0.8 million) including £0.6 million of net gains on the revaluation of financial instruments (2018: net gains of £0.8 million) and £nil related to the exceptional write off of unamortised loan issue costs upon refinancing (2018: costs of £0.3 million). Adjusted finance costs were £2.1 million (2018: £1.3 million). Adjusted finance costs increased in line with increased levels of debt following the four acquisitions made in the prior period and the one acquisition made this year.

Taxation

The UK Finance (No. 2) Act 2015, which was enacted on 18 November 2015, introduced a reduction in the UK headline rate of corporation tax to 19% and 18% from 1 April 2017 and 1 April 2020 respectively. A further reduction in the headline rate to 17% from 1 April 2020 was included in the UK Finance Act 2016, enacted on 15 September 2016.

The effective tax rate for the year was 21.2% (2018: 20.4%).

Our underlying effective tax rate, on adjusted profit before tax, was 20.7% (2018: 19.6%). The increase of 1.1 percentage points in our adjusted effective tax rate, over the prior year, was partly as a result of tax rate changes in the prior year that did not repeat this year as well as higher tax rates applicable to profits in recently acquired businesses in Australasia.

The Group's medium-term adjusted effective tax rate is expected to be approximately 20% of the Group's adjusted profit before tax, with the UK headline tax rate dropping to 17% being partly offset by the full year effect of profits recently acquired in countries with higher tax rates.

Operating cash flow

The Group continued to be cash generative in the year with adjusted operating cash inflow of £36.9 million (2018: £34.4 million). Whilst cash conversion remains strong at 85% (2018: 90%) our working capital has increased during the year predominantly due to inventory levels. Some of these inventory increases are intentional as part of our preparations to leave the European Union, and the increase will be reversed once that is concluded; however, we do recognise an opportunity to optimise inventories across a number of our businesses and this will be an important stream of our new Operational Excellence focus.

Capital expenditure of £5.8 million (2018: £6.3 million) included further investment in the new production facility in Reading, UK, new product development and enhancements to IT systems.

See the glossary of terms in note 34 to the consolidated financial statements for a definition of adjusted operating cash flow and cash conversion.

Reconciliation of adjusted operating cash flow

	2019 £m	2018 £m
Net cash flow generated from operating activities	**31.9**	25.8
Net capital expenditure	**(5.8)**	(6.3)
UK and overseas tax paid	**9.3**	8.9
Cash flows relating to exceptional items	**1.5**	5.4
Exceptional items: fair value of inventories	**–**	0.6
Adjusted operating cash flow	**36.9**	34.4

Employee Benefit Trust

During the year £1.2 million of loans were made to the Volution Employee Benefit Trust for the exclusive purpose of purchasing shares in Volution Group plc in order to partly fulfil the Company's obligations under its share incentive plans (2018: £nil). The Volution Employee Benefit Trust acquired 650,000 shares at an average price of £1.85 per share in the period (2018: no shares acquired) and 19,981 shares (2018: 37,013) were released by the trustees with a value of £36,000 (2018: £65,000). The Volution Employee Benefit Trust has been consolidated into our results and the shares purchased have been treated as treasury shares deducted from shareholders' funds.

Financial Review continued

Net debt

Year-end net debt was £74.6 million (2018: £77.2 million), comprised of bank borrowings of £86.1 million (2018: £95.4 million), offset by cash and cash equivalents of £11.5 million (2018: £18.2 million). The net debt of £74.6 million represents leverage of 1.6x adjusted EBITDA.

Movements in net debt position for the year ended 31 July 2019

	2019 £m	2018 £m
Opening net debt at 1 August	**(77.2)**	(37.0)
Movements from normal business operations:		
Adjusted EBITDA	**46.5**	41.1
Movement in working capital	**(4.7)**	(0.9)
Share-based payments	**0.9**	0.5
Capital expenditure	**(5.8)**	(6.3)
Adjusted operating cash flow:	**36.9**	34.4
– Interest paid net of interest received	**(1.9)**	(0.9)
– Income tax paid	**(9.3)**	(8.9)
– Exceptional items	**(1.5)**	(6.0)
– Dividend paid	**(9.1)**	(8.5)
– Purchase of own shares	**(1.2)**	—
– FX on foreign currency loans/cash	**(0.1)**	1.6
– Issue costs of new borrowings	**(0.2)**	(0.9)
Movements from acquisitions:		
– Acquisition consideration net of cash acquired and debt repaid	**(11.0)**	(51.0)
Closing net debt at 31 July	**(74.6)**	(77.2)

Acquisition-related costs

On 1 March 2019, we acquired Ventair Pty Limited, a market leading residential ventilation product supplier in Australia, for an initial cash consideration of AUD19.2 million (approximately £10.4 million). A further amount of deferred cash consideration of up to AUD7.7 million (approximately £4.3 million) may be payable, contingent on Ventair achieving an EBITDA target in the financial year ending 31 July 2020.

Further cash consideration of £0.6 million was paid for Oy Pamon Ab, acquired in July 2018. Part of the consideration was contingent upon its earnings achieved for the year ending November 2018. A further amount of deferred cash consideration may be payable contingent on Oy Pamon Ab earnings for its year ending November 2019.

Bank facilities, refinancing and liquidity

The Group has in place a £120 million multicurrency revolving credit facility and in addition an accordion facility of up to £30 million.

In December 2018, the Group exercised the option to extend this facility by a period of twelve months at a cost of £0.2 million; the maturity date is now 15 December 2022.

As at 31 July 2019, we had £33.9 million of undrawn, committed bank facilities and £11.5 million of cash and cash equivalents on the consolidated statement of financial position.

Foreign exchange

The Group is exposed to the impact of changes in the foreign currency exchange rates on transactions denominated in currencies other than the functional currency of our operating businesses. We have significant Euro income in the UK which is broadly balanced by Euro expenditure in the UK. We have little US Dollar income but significant expenditure due to our purchases from suppliers in China. We managed our transactional foreign exchange risk by purchasing the majority of our forecast US Dollar requirements for the 2019 financial year in advance, and similarly we have purchased the majority of our forecast US Dollar requirements in advance of the 2020 financial year.

We are also exposed to translational currency risk as the Group consolidates foreign currency denominated assets, liabilities, income and expenditure into Group reporting denominated in Sterling. We hedge the translation risk of the net assets in the Nordics with £24.0 million of borrowings denominated in SEK (2018: £24.5 million). We have partially hedged our risk of translation of the net assets in Belgium, the Netherlands, Germany and Finland by having Euro-denominated bank borrowings in the amount of £40.6 million as at 31 July 2019 (2018: £40.0 million). The acquisition of Ventair in Australia was financed using Sterling-denominated debt to rebalance our debt with our strong Sterling cash flow. The Sterling value of our foreign currency denominated loans and cash increased by £0.1 million in the year as a consequence of exchange rate movements. We do not hedge the translational exchange rate risk to the results of overseas subsidiaries.

During the year, movements in foreign currency exchange rates have had an unfavourable effect on the reported revenue and profitability of our business. If we had translated the full year performance of our business at our 2018 exchange rates, our reported Group revenues would have been £2.2 million or 1.1% higher and adjusted operating profit would have been £42.6 million or £0.5 million higher.

At the end of the financial year the Sterling value of foreign currency denominated working capital increased by £0.6 million compared to the foreign exchange rates applying at the beginning of the year.

Earnings per share

Our reported basic earnings per share grew by 37.3% to 9.2 pence (2018: 6.7 pence).

Our adjusted basic earnings per share grew by 10.3% to 16.0 pence (2018: 14.5 pence).

Dividends

In May 2019 the Group paid an interim dividend of 1.60 pence per share.

The Board has proposed a final dividend of 3.30 pence per share. Subject to approval at our Annual General Meeting of shareholders on 12 December 2019, the recommended final dividend will be paid on 18 December 2019 to shareholders who are on the register on 22 November 2019.

Andy O'Brien
Chief Financial Officer
9 October 2019

The Strategic Report was approved by the Board and signed on its behalf by Ronnie George, Chief Executive Officer, on 9 October 2019.

Ronnie George
Chief Executive Officer

Introduction to Governance
Peter Hill, CBE

Committed to the highest standards of corporate governance

Dear shareholder,

On behalf of the Board, I am pleased to introduce you to the Governance Report. This review and the reports of the Nomination, Audit and Remuneration Committees that follow summarise the Board's activities during the year.

The Board is committed to high standards of corporate governance to underpin the business through a period of sustained growth. Decisions are made based on what the Board believes is likely to be for the benefit of all stakeholders by promoting and maintaining the long-term success of the Company and its reputation. The ways in which we listen and engage with our key stakeholders is set out on pages 59 and 60.

Compliance with the 2016 UK Corporate Governance Code

Our approach to governance is based on the concept that good corporate governance enhances longer-term shareholder value and sets the culture, ethics and values for the Group. Consistent with our belief in the importance of corporate governance, I am pleased to report that the Company has complied in full with the principles and provisions of the 2016 UK Corporate Governance Code (the 2016 Code). A copy of the 2016 Code can be found at www.frc.gov.uk.

2018 UK Corporate Governance Code

The Board acknowledges the development of governance standards set out in the new version of the UK Corporate Governance Code published in July 2018 (the 2018 Code) which applies to Volution Group for the financial year ending 31 July 2020. We have reviewed the Group's compliance against the 2018 Code and have implemented some changes to ensure that we will be able to report positively on compliance in the next Annual Report and Accounts.

Board composition

On 21 January 2019, we announced that Ian Dew, our CFO, had informed the Board of his wish to retire from Volution Group during 2019. Ian stepped down from his role as CFO and Andy O'Brien was appointed on 1 August 2019. Ian has continued with the Group for a transitional period to ensure there has been an orderly handover. Ian joined Volution Group in 2012 and was appointed as CFO in January 2014. Ian played an integral role in Volution Group's successful listing on the London Stock Exchange and subsequently played a key role in the completion of all acquisitions. On behalf of the Board, I would like to thank Ian for his contribution to Volution Group and wish him a long and happy retirement.

The Board was delighted to welcome Andy O'Brien to the Group. Andy joined Volution Group following nine years at Aggreko plc, a FTSE 250 global provider of temporary power, heating and cooling solutions, where he held numerous senior finance roles including most recently finance director, power solutions. Andy joins Volution Group at an exciting time in its development and we look forward to working with him as we continue our journey.

During the year the Nomination Committee discussed succession planning for Non-Executive Directors and progressive refreshing of the Board. As a result, a Non-Executive Director succession plan is now in place. I am also pleased to confirm that Claire Tiney was re-appointed as a Non-Executive Director on 3 August 2019 for a second three-year term following the end of her first three-year term on the Board.

Further information on the above can be found in the Nomination Committee Report on pages 62 to 64.

Succession planning and diversity

This year we have continued to review the Group's talent pipeline and senior management succession planning. Although the Group has no specific gender and diversity targets as we believe that appointments should be based on merit, we strongly support diversity throughout the workforce. We believe that better business decisions can be made by having representation from different genders and cultural backgrounds with differing skill sets, experience and knowledge, which reflects our customer base and the wider population in our markets. Further information on the Group's diversity and inclusion is provided on pages 34 to 37.

Evaluating the Board's effectiveness

Each year, the Board undertakes a formal evaluation of its effectiveness. This year we carried out an externally facilitated evaluation to assist in the development of the Board. The results of the Board evaluation confirmed that the Board continues to function effectively and that there are no significant concerns among the Directors about its effectiveness. The Board members were seen as engaged and committed while the Board's culture remains open, respectful and constructive. A number of actions were identified to further enhance the Board's effectiveness, together with the progress made on the actions identified in the 2018 Board evaluation. Further information is set out on pages 57 and 58.

Election and re-election of Directors

In accordance with the 2016 Code Provisions and following performance evaluation of those Directors standing for election and re-election at the Annual General Meeting, I can confirm that they all continue to be effective and committed to their roles and have sufficient time available to perform their duties. Accordingly, as recommended by the Nomination Committee, all Directors will be offering themselves for election or re-election at the Company's Annual General Meeting to be held on 12 December 2019, in accordance with the 2016 Code. Further information on the Directors can be found in the Directors' biographies on pages 50 and 51.

Remuneration Policy

Following the review of Volution Group's Remuneration Policy in 2017, a new Policy was designed to operate for three years and was approved by shareholders at the Annual General Meeting in December 2017. Accordingly, approval from shareholders will next be sought at the Annual General Meeting in December 2020. Further details are provided in the Directors' Remuneration Report, which can be found on pages 72 to 90.

Annual General Meeting

All Directors will attend this year's Annual General Meeting which will again provide an opportunity for all shareholders to hear more about our performance during the year and to ask questions of the Board. I look forward to meeting any shareholders who can join us at our Annual General Meeting on 12 December 2019 and extend my thanks to you all for your continued support as we look forward to the year ahead.

Peter Hill, CBE
Chairman
9 October 2019

Board of Directors

Peter Hill, CBE

Non-Executive Chairman

N R

Appointed 23 June 2014

Re-appointed 23 June 2017

Term of office Peter joined the Board on listing as Non-Executive Chairman and chairman of the Nomination Committee.

Key strengths Wide ranging public company experience and extensive international business experience gained in both executive and non-executive roles.

Experience Peter has extensive experience of this role and is currently Non-executive Chairman of Keller Group plc. He was previously Non-executive Chairman of Imagination Technologies Group plc and Alent plc. He has been Non-executive Director on the Boards of Cookson Group plc, Meggitt PLC, Oxford Instruments plc and Essentra plc, and was a Non-executive Board member of UK Trade and Investment and a Non-executive Director on the board of the Royal Air Force. He also has substantial experience in executive roles, having been Chief Executive of Laird PLC from 2002 until late 2011, an Executive Director of Costain Group plc and a senior executive at BTR plc (subsequently Invensys plc).

External appointments Peter is currently Non-executive Chairman of Keller Group plc.

Ronnie George

Chief Executive Officer

Appointed 15 May 2014

Re-appointed N/A

Term of office Ronnie joined in 2008 as Managing Director of Vent-Axia Division (now the Ventilation Group) and a director of the holding company, Volution Holdings Limited, and was appointed CEO and a director of our then holding company, Windmill Topco, in February 2012.

Key strengths Significant strategic and operational expertise together with extensive merger and acquisition experience, both in the UK and internationally, and in-depth knowledge of the ventilation industry.

Experience Ronnie has over 30 years' experience in industry and, prior to joining us, served as the managing director of Draka UK, a £200 million turnover business with c.450 employees focusing on electric cable production for construction, where he had full financial and operational responsibility for the UK business. Latterly, he also served as the president of Draka's global marine, oil and gas division.

External appointments None.

Andy O'Brien

Chief Financial Officer

Appointed 1 August 2019

Re-appointed N/A

Term of office Andy joined as Chief Financial Officer in August 2019.

Key strengths Financial and accounting expertise both in the UK and internationally.

Experience Andy joined Volution following nine years at Aggreko plc, a FTSE 250 global provider of temporary power, heating and cooling solutions, where he held numerous senior finance roles including most recently Finance director, power solutions. He has a broad background working internationally in a global business environment and has lived and worked in the Nordics as well as the UK, Dubai and Singapore. Throughout his career, Andy has operated in environments where cost control has been critical and in his role at Aggreko, Andy also oversaw revenues totalling $1.2 billion and worked on a number of international acquisitions.

External appointments None.

Anthony Reading, MBE

Senior Independent Non-Executive Director

A N R

Appointed 23 June 2014

Re-appointed 23 June 2017

Term of office Tony joined the Board on listing as Senior Independent Non-Executive Director and chairman of the Remuneration Committee.

Key strengths Extensive public company experience and wide ranging international business experience gained in both executive and non-executive roles.

Experience Tony has extensive board experience, having been a non-executive director of Taylor Wimpey plc, Laird PLC, e2v technologies plc, Spectris plc and George Wimpey plc. He was previously an executive director of Tomkins plc and chairman and chief executive of Tomkins Corp. USA.

External appointments None.

Committee membership: A Audit Committee N Nomination Committee R Remuneration Committee X Chairman of Committee

Amanda Mellor

Independent Non-Executive Director

A N R

Appointed 19 March 2018

Re-appointed N/A

Term of office Amanda joined the Board in March 2018 as an independent Non-Executive Director.

Key strengths Experience in international M&A, retail, shareholder relations, strategy and governance.

Experience Appointed in March 2018. Amanda is currently the group secretary of Standard Chartered PLC having previously spent nine years as group secretary and head of corporate governance at Marks and Spencer Group plc where she was also an executive member of the operating committee. Prior to that, Amanda was director of corporate and investor relations at Arcadia Group plc. Prior to working in investor relations, Amanda worked in investment banking at James Capel and Robert Fleming. Amanda served as a non-executive director at Kier Group plc from 2011 to 2016 and has served as a member of the council and the remuneration committee of Leeds University, where she is also a visiting professor of the Inter-Disciplinary Ethics Applied Centre. Amanda is a fellow of the Institute of Chartered Secretaries.

External appointments Amanda is currently group secretary of Standard Chartered PLC.

Paul Hollingworth

Independent Non-Executive Director

A N R

Appointed 23 June 2014

Re-appointed 23 June 2017

Term of office Paul joined the Board on listing as an independent Non-Executive Director and chairman of the Audit Committee.

Key strengths Financial and accounting expertise together with extensive public company experience and wide ranging international business experience, particularly in manufacturing environments.

Experience Paul previously headed the finance function and served on the boards of a number of UK listed public companies, including Thomas Cook Group plc, Mondi Group plc, BPB plc, De La Rue plc and Ransomes plc. He retired as a non-executive director and chairman of the audit committee of Electrocomponents plc, having served nine years on its board in July 2017.

External appointments None.

Claire Tiney

Independent Non-Executive Director

A N R

Appointed 3 August 2016

Re-appointed 3 August 2019

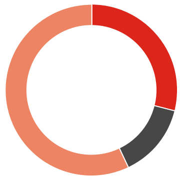
Term of office Claire joined the Board in August 2016 as an independent Non-Executive Director.

Key strengths Extensive board-level experience with key strengths in business strategy and turnaround, strategic development and change management.

Experience Claire has over 30 years' experience in large PLCs and has spent half of her career as an executive director in businesses including WHSmith Group plc, Mothercare plc and McArthurGlen Ltd, the developer and owner of designer outlet villages throughout Europe. She now runs her own consultancy business working with executive teams as a coach and facilitator.

External appointments Claire is currently the senior independent director and chair of the remuneration committee at Topps Tiles Plc and non-executive director and chair of the remuneration committee of Hollywood Bowl Group plc.

Board composition



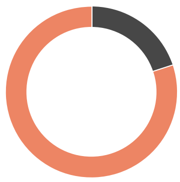
Executive Directors	2
Non-Executive Chairman	1
Independent Non-Executive Directors	4

Board balance

2018/19	
Male	5
Female	2

2017/18 5 male/2 female
2016/17 6 male/1 female

Non-Executive Director tenure



<1 year	N/A
1–3 years	1 Director
4–6 years	4 Directors

Corporate Governance

Overview

The Board fully supports the principles laid down in the UK Corporate Governance Code as issued by the Financial Reporting Council in April 2016 (the 2016 Code), which applies to the financial year ended 31 July 2019 and is available at www.frc.org.uk.

This report sets out the Company's governance structure and how it complies with the 2016 Code and also includes items required by the Disclosure Guidance and Transparency Rules (DTRs). The disclosures in this report relate to our responsibilities for preparing the Annual Report and Accounts, including compliance with the Code to the extent required, our report on the effectiveness of the Group's risk management and internal control systems, and the functioning of our Committees.

Compliance with the 2016 UK Corporate Governance Code

The Board considers that it and the Company have, throughout the year, complied with the provisions of the 2016 UK Corporate Governance Code, which is the version of the Code which applies to the Company for its financial year ended 31 July 2019.

The role of the Board and its Committees

Board

The Board is collectively responsible for promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. The Board sets the Group's purpose, strategy and values, and satisfies itself that these are aligned with the overall culture of the Group. The Board sets the Group's risk appetite and satisfies itself that financial controls and risk management systems are robust, while ensuring the Group is adequately resourced. It also ensures there is appropriate dialogue with shareholders on strategy and remuneration. The Board's main responsibilities are included in a schedule of matters reserved for the Board, as set out on page 54.

The Board has delegated certain responsibilities to three Committees to assist it with discharging its duties. The Committees play an essential role in supporting the Board to implement its strategy and provide focused oversight of key aspects of the business. Set out below is the governance framework giving a summary of the membership and responsibilities of each Committee. The full terms of reference for each Committee are available on the Company's website, www.volutiongroupplc.com.

Members:
Non-Executive Chairman
Four independent Non-Executive Directors
Two Executive Directors

Nomination Committee

Responsibility for Board composition, succession planning and Director selection

Members:
Non-Executive Chairman
Four independent Non-Executive Directors

The Committee Report can be found on pages 62 to 64

Audit Committee

Responsibility for oversight and governance of the Group's financial reporting, internal controls, risk management and relationship with external auditor

Members:
Four independent Non-Executive Directors

The Committee Report can be found on pages 65 to 71

Remuneration Committee

Responsibility for Remuneration Policy and setting individual remuneration levels for Executive Directors and senior management

Members:
Non-Executive Chairman
Four independent Non-Executive Directors

The Committee Report can be found on pages 72 to 90

Board responsibilities

Role	Main responsibilities
Chairman of the Board **Peter Hill, CBE**	> Manages and provides leadership to the Board of Directors > Acts as a direct liaison between the Board and the management of the Company, through the Chief Executive Officer > Ensures that the Directors are properly informed and that sufficient information is provided to enable the Directors to form appropriate judgements > In concert with the Chief Executive Officer and the Company Secretary, develops and sets the agendas for meetings of the Board > Recommends an annual schedule of work including the date, time and location of Board and Committee meetings > Ensures effective communications with shareholders and other stakeholders
Chief Executive Officer **Ronnie George**	> Responsible for the day-to-day management of the Group > Together with the Senior Management Team, is responsible for executing the strategy, once it has been agreed by the Board > Creates a framework that optimises resource allocation to deliver the Group's agreed strategic objectives over varying timeframes > Ensures the successful delivery against the financial business plan and other key business objectives, allocating decision making and responsibilities accordingly > Together with the Senior Management Team, identifies and executes new business opportunities and potential acquisitions or disposals > Manages the Group with reference to its risk profile in the context of the Board's risk appetite
Chief Financial Officer **Andy O'Brien**	> Ensures the Group has adequate financial resources to meet business requirements > Responsible for financial planning and record-keeping, as well as financial reporting to the Board and shareholders > Ensures effective compliance and control and responds to ever increasing regulatory developments, including financial reporting and capital requirements > Management of the financial risks of the Group
Senior Independent Director **Tony Reading, MBE**	> An independent Non-Executive Director > Provides a sounding board for the Chairman > Serves as an intermediary for the other Directors when necessary > Is available to shareholders if they have concerns when contact through the normal channel of the Chief Executive Officer has failed to resolve them, or for which such contact is inappropriate
Independent Non-Executive Directors **Paul Hollingworth** **Amanda Mellor** **Claire Tiney**	> Provide constructive challenge to the Executive Team > Provide input on strategy > Scrutinise management's performance in meeting agreed goals and objectives > Monitor performance reports > Satisfy themselves on the integrity of financial information and that controls and risk management systems are robust and defensible > Determine appropriate levels of remuneration for Executive Directors, appointing and removing Executive Directors, and succession planning

Corporate Governance continued

Board responsibilities continued

Role	Main responsibilities
Company Secretary **Michael Anscombe**	> Plays a leading role in the good governance of the Company by supporting the Chairman and helping the Board and its Committees to function efficiently, ensuring governance processes remain fit for purpose and considering any improvements as appropriate > Ensures compliance with the rules and regulations required by a premium Main Market listing on the London Stock Exchange including the UK Corporate Governance Code > All Directors have access to the services of the Company Secretary, who may facilitate independent professional advice at the Company's expense at their request to fulfil their duties > Ensures good information flows within the Board and its Committees and between the Senior Management Team and the Non-Executive Directors, as well as facilitating induction and assisting with professional development as required > Acts as secretary to the Board and each of its Committees > The appointment or removal of the Company Secretary is a matter for the Board as a whole

The matters reserved for the Board include:

- agreeing the Group's strategy and objectives
- approving acquisitions and disposals
- changing the structure and capital of the Group
- approving the Annual Report and Accounts and Half-year Report
- approving the Group's dividend policy and declaration of dividends
- reviewing the effectiveness of risk identification and management and internal controls
- approving significant expenditure and material transactions and contracts
- ensuring a satisfactory dialogue with the Group's shareholders
- appointing and removing Directors
- determining the Remuneration Policy for the Executive and Non-Executive Directors
- reviewing the Company's overall corporate governance arrangements
- approving the Group's Treasury Policy
- reviewing the effectiveness of the Board
- delegating authority to the Chief Executive Officer
- each year, meeting to set an annual budget for the business in line with the current Group strategy. The Board monitors the achievement of the budget through Board reports which include updates from the Chief Executive Officer, the Chief Financial Officer and other functions
- a rolling agenda of items that regularly need to be considered by the Board. This agenda is updated to include any topical matters that arise.

Board activities and priorities during the year ended 31 July 2019

Board meetings consist of a mix of regular and standard items considered at each meeting and also special items which arise from time to time, either annually or as part of key project-related work. The table below shows the key agenda items discussed during the year:

Matters considered at regular Board meetings

- Management accounts including current trading and financial performance against budget and forecast
- Operations and new product development updates
- Merger and acquisition opportunities
- Health and safety, and environmental updates
- Customers and marketing
- Investor relations including market and sector updates
- People update
- IT and Enterprise Resource Planning system implementation
- Regulatory updates
- Company policies and future governance planning
- Minutes and actions from previous meetings

Other matters considered during the year

Area	Agenda items
Strategy	> Review and approval of Group strategy > Review and approval of acquisition of Ventair Pty Limited
Financial reporting	> Review and approval of Annual Report and Accounts, AGM Notice and associated documentation for the year ended 31 July 2018 > Review and approval of interim financial statements for the six months ended 31 January 2019 > Review and approval of Trading Update in August 2018 > Review and declaration of interim dividend and recommendation of final dividend
Budget	> Review and approval of budget for the year ended 31 July 2020
Operations	> Post-acquisition review of Simx Limited > Consideration of risk framework, significant risks and risk appetite (in conjunction with the Audit Committee) > Review and approval of Viability Statement > Bank facility agreement – extension of term > Property matters
Shareholder engagement	> Broker presentation on the Company's shareholder profile and market perception > Independent feedback from joint corporate brokers following full and half-year investor roadshows > AGM 2018 proxy results and review of shareholder voting
Governance	> Approval of the appointment of Andy O'Brien as Chief Financial Officer > Board composition and the re-appointment of Claire Tiney > Board visit to the new Reading facility in the UK > Presentation on the Group's new product development programme > Board performance evaluation results prepared by Lintstock > Governance, legislation and regulatory updates, in particular the 2018 UK Corporate Governance Code and secondary legislation on governance > Claire Tiney's report to the Board following her attendance at the Volution Employee Forum > Review and approval of the Group's Modern Slavery Act Statement > Updates from Board Committee chairmen as appropriate

Corporate Governance continued

Board meetings and attendance

The table below sets out the number of Board meetings held during the year and attendance by each Director. The Board normally meets seven times during the year and supplementary meetings of the Board are held when necessary.

Director	Number of meetings held	Attendance
Chairman		
Peter Hill	8	8
Executive Directors		
Ronnie George	8	8
Ian Dew[1]	8	8
Non-Executive Directors		
Paul Hollingworth	8	8
Amanda Mellor	8	8
Tony Reading	8	8
Claire Tiney	8	8

Note

1. Ian Dew retired as Chief Financial Officer and an Executive Director on 31 July 2019. Andy O'Brien was appointed as Chief Financial Officer and an Executive Director on 1 August 2019 and hence was not a Director during the financial year ended 31 July 2019.

Agendas for the Board meetings are set out at the beginning of the year and new items are added to this as and when appropriate. All Directors receive papers in advance of Board meetings. These include a business and market update report with updates from the Chief Executive Officer and the Chief Financial Officer. Members of the Group's Senior Management Team may also be invited to present at Board meetings as appropriate so that Non-Executive Directors keep abreast of developments in the Group. All Directors attended the Annual General Meeting in 2018.

Board balance and independence

The 2016 Code recommends that at least half the board of directors of a UK listed company, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement. The Company's board consists of a Non-Executive Chairman, four independent Non-Executive Directors and two Executive Directors. A list of the Directors is provided on pages 50 and 51. The composition of the Board has remained in compliance with the 2016 Code throughout the financial year ended 31 July 2019.

Appointment and tenure

The appointment dates of Directors are shown in their biographies on pages 50 and 51.

The Board believes that all Directors are effective and committed to their roles and have sufficient time available to perform their duties. Accordingly, all members of the Board will be offering themselves for election or re-election at the Company's Annual General Meeting to be held on 12 December 2019.

All of the Directors have service agreements or letters of appointment and the details of their terms are set out in the Directors' Remuneration Report on pages 72 to 90. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours. No other contract with the Company or any subsidiary undertaking of the Company in which any Director was materially interested subsisted during or at the end of the financial year.

Non-Executive Directors and independence

The independence of each Non-Executive Director is considered each year immediately prior to the signing of the Annual Report and Accounts. The Company's Non-Executive Directors provide a broad range of skills and experience to the Board which assists both in their roles in formulating the Company's strategy and in providing constructive challenge to the Executive Directors. All of the Non-Executive Directors are regarded by the Company as independent Non-Executive Directors within the meaning defined in the Code and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

During the year, in accordance with the Code, the Chairman held a meeting with the Non-Executive Directors without the Executive Directors being present.

Board performance evaluations and effectiveness

In the Annual Report 2018, the recommendations resulting from the performance evaluations were set out and can be seen in the table below. The progress made over the last year is set out opposite the recommendations.

Board performance evaluation 2018 – recommendations	Progress against the recommendations
The development of the next stage of the Group's strategy and organisational capability.	The Board held an away-day which included presentations from the Company's external advisers to review and discuss the Group's strategy. Organisational capability was discussed throughout the year.
The development of processes to enable the Board to have appropriate oversight of stakeholder engagement, in particular on employee culture and customers, to ensure the Board will be able to comply with the provisions set out in the new secondary legislation and new UK Corporate Governance Code.	The governance standards set out in the new version of the UK Corporate Governance Code published in July 2018 (which applied to Volution Group from 1 August 2019) were reviewed by the Board. Appropriate processes have been put in place to ensure compliance during the financial year ending 31 July 2020.
Succession planning, talent management and focus on the talent pipeline. Continuing to meet members of the Senior Management Team to assist with succession planning.	Progress was made with discussions on the talent pipeline and senior management succession planning. Andy O'Brien started as the new Chief Financial Officer on 1 August 2019. The Board also discussed Non-Executive Director succession planning and approved a plan. Claire Tiney was re-appointed as an independent Non-Executive Director on 3 August 2019.
Continuing to enhance Non-Executive Directors' knowledge and understanding of the Group's product portfolios, markets and competition.	The Board was updated on new product development and the Group's product portfolio, markets and competition during the year. The site visit to the new Reading facility enhanced Non-Executive Directors' knowledge and understanding of certain products and their manufacturing processes.

During the year an externally facilitated performance evaluation of the Board, Committees, Chairman and Directors took place. The aim of the external facilitation was to assist in the development of the Board and its culture as it matured as a listed company.

Process for the 2019 Board and Committee evaluation

Company Secretary, Chairman and Lintstock discussed actions identified from last year's evaluation and areas of focus for the 2019 review

All Directors completed a web-based questionnaire developed by Lintstock, the Company Secretary, the Chairman and each Committee chair

Reports produced by Lintstock and reviewed and discussed with the Chairman and each Committee chair

Reports discussed at the Board meeting

Action plans prepared

The process of evaluating the performance to identify areas for further development was undertaken by Lintstock Limited, under the direction of the Chairman. Lintstock is an independent specialist corporate governance consultancy which provides Board evaluation services and has no other connection with the Company.

The evaluation process involved Lintstock engaging with the Chairman and the Company Secretary to discuss and agree the scope and to develop a series of questionnaires tailored to the specific circumstances of the Company.

The evaluation took the form of web-based questionnaires addressing the composition and performance of the Board and its Committees, and the performance of the Chairman. Directors were required to score certain aspects of the Board's and Committees' performance, and to comment on the areas of focus, which included leadership and accountability, strategy and risk, Board culture, Board composition and roles and responsibilities. The anonymity of all respondents was ensured throughout the process in order to promote the open and frank exchange of views.

The responses to the evaluation of the Board and its Committees were collated and analysed by Lintstock and then reviewed by them with the Chairman and Company Secretary prior to being considered by the full Board. The Chairman also appraised the performance of individual Directors following feedback from Lintstock through the questionnaires.

Corporate Governance continued

Board performance evaluations and effectiveness continued

The results of the evaluation demonstrated that the composition and performance of the Board and its Committees (and the performance of the Chairman) were rated highly and continue to operate effectively. Whilst there are no significant concerns among the Directors about the Board's effectiveness, some detailed observations and recommendations were made which were considered by the Board. The key areas of recommendation set out in the report resulting in actions agreed by the Directors are set out below and will be monitored by the Board over the next year.

As a separate exercise the Senior Independent Director, together with the Non-Executive Directors, conducted the Chairman's performance evaluation. It was agreed that Peter Hill gave appropriate time and commitment to his role as Chairman of the Company and was effective in that role throughout the year. The Senior Independent Director then discussed the results with the Chairman.

Board performance evaluation: 2019 recommendations

> Continue the development of the Group's strategy

> Review in greater depth competition and the markets in which Volution operates, innovation and product development and stakeholder engagement, in particular engagement with customers and employees

> Implement the Non-Executive Director succession plan, Senior Management Team succession planning, talent management and focus on the talent pipeline. Continue to meet members of the Senior Management Team to assist with succession planning

Director induction

A formal induction programme has been developed in line with the Code, to ensure that any new Director receives an appropriate induction to the Group with the support of the Company Secretary. The programme covers, amongst other things, the operation and activities of the Group (including site visits and meeting members of the Senior Management Team); the Group's principal risks and uncertainties; the role of the Board and the decision-making matters reserved to it; the responsibilities of the Board Committees; the strategic challenges and opportunities facing the Group; and the opportunity to meet the Company's main advisers. Following the appointment to the Board of Andy O'Brien on 1 August 2019, a personalised formal induction programme was developed tailored to his experience and background and to his own requirements. Any newly appointed Non-Executive Director would also have a personalised formal induction programme created for them.

Directors' conflicts of interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Board. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles of Association allow the Board to authorise such potential conflicts, and there is in place a procedure to deal with any actual or potential conflict of interest. The Board deals with each appointment on its individual merit and takes into consideration all the circumstances. All potential conflicts approved by the Board are recorded in a conflicts of interest register, which is to be reviewed by the Board on a regular basis to ensure that the procedure is working effectively.

External directorships

The Board allows Executive Directors to accept one external commercial non-executive director appointment provided the commitment is compatible with their duties as an Executive Director. The Executive Director concerned may retain fees paid for these services which will be subject to approval by the Board. Currently, neither of the Executive Directors holds an external directorship. Details of all Directors' significant directorships can be found in their biographies on pages 50 and 51.

Where Non-Executive Directors have external directorships, the Board is comfortable that these do not impact on the time that any Director devotes to the Company and we believe that this experience only enhances the capability of the Board.

Information and support available to Directors

All Board Directors have access to the Company Secretary, who advises them on governance matters. The Chairman and the Company Secretary work together to ensure that Board papers are clear, accurate, delivered in a timely manner to Directors, and of sufficient quality to enable the Board to discharge its duties. Specific business-related presentations are given by senior management when appropriate. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary. Deloitte LLP advises on remuneration matters, Ernst & Young LLP on external audit matters and BDO LLP on internal audit matters.

Internal control and risk management

The Board acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control. The principal risks facing the Group are set out in the Strategic Report on pages 26 to 33, being those risks which could threaten our business model, future performance, solvency or liquidity and mitigation measures are detailed against each risk. The Audit Committee, on behalf of the Board, carried out a review of the effectiveness of the Group's risk management and system of internal control together with a robust assessment of the risks facing the Group. Details can be found on page 70.

The Audit Committee Report on pages 65 to 71 describes the system of internal control and how it is managed and monitored. The Board acknowledges that such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Whistleblowing

An external independent whistleblowing facility is available to enable employees to report any concerns which they feel need to be brought to the attention of management concerning any possible impropriety, financial or otherwise, and the appropriateness of the facility is reviewed by the Audit Committee. The Group believes that it is important to have a culture of openness and accountability in order to prevent such situations occurring or to address them when they do occur.

Stakeholder engagement

Our stakeholder engagement groups are varied as detailed below and we believe that good engagement is key to the long-term success of Volution. Stakeholder considerations do form part of the Board's discussions leading to decision making. We have invested in the development and involvement of our stakeholder groups as we believe it is in the long-term interests of the Group and the stakeholder groups themselves. Our business model on pages 18 and 19 outlines our engagement with stakeholders and the value the business creates for each of them.

Stakeholder group	Why it is important to engage	How does Volution engage?
Employees	Employee engagement is critical to our long-term success. Interaction between our employees and customers is also one of the main ways of experiencing our brands. We work to create a diverse and inclusive workplace where every employee can reach their full potential. This ensures we can retain and develop the best talent.	> Employee Representative Forum attended by an independent Non-Executive Director > Management Development Programme > Training and development > Individual performance reviews > Recognition and reward > Apprenticeships > Regular communications such as newsletters > Annual Report and Accounts
Customers	Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain customers and attract new ones and improve product performance. It also highlights opportunities for innovation and growth and challenges to be met.	> Management of ongoing customer relationships > Customer events and product launches > Participation in industry forums and events > Brand websites and social media > Annual Report and Accounts
Suppliers	Our suppliers make a vital contribution to our performance. Engaging with our supply chain means that we can ensure security of supply and speed to market. Carefully selected high-quality suppliers ensure our brands deliver market leading innovative products meeting our customer expectations and requirements.	> Through our China–Britain Business Council sourcing office in Hangzhou > Supplier audits and inspections > Ongoing supplier relationship meetings > Responsible, sustainable and ethical procurement > Engagement on our Code of Conduct and policies on the prevention of anti-bribery and corruption and modern slavery

Corporate Governance continued

Stakeholder engagement continued

Stakeholder group	Why it is important to engage	How does Volution engage?
Shareholders	Continued access to capital is vital to the long-term success of our business. We work to ensure that our investors and investment analysts have a strong understanding of our strategy, performance and ambition. As a company with shares listed on the Main Market of the London Stock Exchange, we must provide fair, balanced and understandable information about the business to enable informed investment decisions to be made.	> Annual Report and Accounts > Annual General Meeting > Corporate website including dedicated investor section > Results presentations and post-results engagement with major shareholders > Investor roadshows, site visits, face-to-face meetings and addressing regular investor and analyst enquiries > Regulatory announcements Further detail is set out on page 61.
Community	We aim to contribute positively to the communities and environment in which we operate. We focus on supporting communities and groups local to our operations.	> Community investment initiatives > Sponsorship and employee volunteering > Contributing to national initiatives in society such as Clean Air Day and Noise Action Week
Government/industry bodies	National governments set the regulatory framework within which we operate. We engage to ensure we can help in shaping new policies, regulations and standards, and ensure compliance with existing legislation.	> We continually innovate to ensure our products become more energy efficient > Participation in industry bodies and working groups > Engagement with tax authorities > Meetings and letters with local MPs > Attending All-Party Parliamentary Groups and Plenary sessions > Responding to industry and government consultations > Conferences and speaking opportunities
Media	The media is a vital channel for getting our message across to a wide variety of key stakeholders. Communication of brands, innovation and current national and international debates and thought leadership (e.g. indoor air quality) take place via this channel.	> Press releases, product launches and conferences > Brand websites and social media accounts > Press visits to our facilities > One-to-one meetings and briefings > Addressing regular press enquiries

Responsibility for shareholder relations rests with the Chairman, the Chief Executive Officer and the Chief Financial Officer. They ensure that there is effective communication with shareholders on matters such as governance and strategy, and are responsible for ensuring that the Board understands the views of major shareholders. The Board aims to present a balanced and clear view of the Group in communications with shareholders and believes that being transparent in describing how we see the market and the prospects for the business is extremely important.

We have communicated with existing and potential shareholders in a number of different ways during the year as follows:

August 2018	> Trading Update > Consultation on remuneration with major shareholders and principal investor advisory groups
October 2018	> Full Year Results Announcement and analyst presentation > Institutional broker sales desk briefings > UK shareholder roadshow > Annual Report and Accounts and Notice of AGM posted to shareholders and placed on website
December 2018	> Annual General Meeting
March 2019	> Half-year Results Announcement and analyst presentation > Institutional broker sales desk briefings > UK shareholder roadshow

In addition to the above, we communicate with existing and potential shareholders in a number of other ways, such as:

- face-to-face meetings and telephone briefings for analysts and investors; and
- periodic visits by analysts and major shareholders to the business sites to give a better understanding of how we manage our business. These visits and meetings are principally undertaken by the Chief Executive Officer, the Chief Financial Officer and other members of the Senior Management Team.

In situations where new material is presented, it is also uploaded to the Company's website so it is available to all shareholders.

The Board receives regular updates on the views of its shareholders from the Chief Executive Officer and Company brokers. This is a standing agenda item for all Board meetings. In addition, the Senior Independent Director is available to meet shareholders if they wish to raise issues separately from the arrangements as described above.

The Company's investor website is also regularly updated with news and information including this Annual Report and Accounts, which sets out our strategy and performance together with our plans for future growth.

Fair, balanced and understandable

The Board recognises its duty to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

The Board has placed reliance on the following to form this opinion:

- a verification process dealing with the factual content of the reports and to ensure consistency across the various sections;
- a review of the Annual Report and Accounts by senior management to ensure consistency and overall balance; and
- the Audit Committee reviewed the Annual Report and Accounts and its compliance with the requirements, concluded that they had been met and recommended its approval by the Board as fair, balanced and understandable.

Annual General Meeting

The Annual General Meeting (AGM) of the Company will take place at 12.00 noon on Thursday 12 December 2019 at the offices of Norton Rose Fulbright LLP, 3 More London Riverside, London SE1 2AQ, United Kingdom. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The Notice of AGM can be found in a circular which is being posted at the same time as this Annual Report and Accounts. The Notice of AGM sets out the business of the meeting and explanatory notes on all resolutions. Separate resolutions are proposed in respect of each substantive issue. The Chairman and all Directors will be present at the AGM and will be available to answer shareholders' questions.

Nomination Committee Report

Nomination Committee members

- Peter Hill (chairman)
- Paul Hollingworth
- Amanda Mellor
- Tony Reading
- Claire Tiney

Dear shareholder,

As chairman of the Nomination Committee, I present our report detailing the role and responsibilities of the Committee and its activities during the year.

"I would like to thank Ian Dew for his contribution to the growth of Volution since his appointment in 2012 and on behalf of the Board wish him a very happy, healthy and long retirement. The Board also extends a warm welcome to Andy O'Brien as our new CFO."

Peter Hill, CBE
Chairman of the Nomination Committee

Role and responsibilities

The key responsibilities of the Committee are:

- assessing whether the structure, size and composition (including the skills, knowledge, independence, experience and diversity) of the Board continue to meet the Group's business and strategic needs;
- considering succession planning and talent development for the Executive Directors and the Senior Management Team and, in particular, for the key roles of Chairman of the Board and Chief Executive Officer, taking into account the challenges and opportunities facing the Group and the future skills and expertise needed on the Board; and
- identifying and nominating, for approval by the Board, candidates to fill Board vacancies as and when they arise together with leading the process for such appointments.

The full terms of reference of the Committee are available on the Company's website at www.volutiongroupplc.com.

Membership and attendance

The 2016 UK Corporate Governance Code (the 2016 Code) recommends that a majority of the members of a nomination committee should be independent non-executive directors. As can be seen from the above list of members, the Committee complies with this 2016 Code recommendation, as I am the chairman and all other members are independent Non-Executive Directors. Biographies of all Committee members can be found on pages 50 and 51.

By invitation, the meetings of the Committee may be attended by the Chief Executive Officer and the Chief Financial Officer. The Chairman of the Board normally chairs the Committee except where it is dealing with his own re-appointment or replacement. The Company Secretary acts as the secretary to the Committee and minutes of each Committee meeting are provided to Board members.

The Company Secretary acts as the secretary to the Committee and minutes of each Committee meeting are provided to Board members.

The Committee met three times during the year with attendance disclosed below.

Member	Member since	Number of meetings held	Attendance
Peter Hill (chairman)	23 June 2014	3	3
Paul Hollingworth	23 June 2014	3	3
Amanda Mellor	18 March 2018	3	3
Tony Reading	23 June 2014	3	3
Claire Tiney	3 August 2016	3	3

Committee activities during the year

The following matters were considered at the Committee meetings held during the year:

> evaluated the size and composition of the Board including the balance of skills, knowledge, independence, experience and diversity

> commenced and concluded a process to find a new Chief Financial Officer, Andy O'Brien, and recommended his appointment to the Board

> considered and recommended to the Board the re-appointment of Claire Tiney as a Non-Executive Director

> reviewed succession planning and talent development for the Board and the Senior Management Team

> considered and approved a succession plan for Non-Executive Directors to ensure progressive refreshing of the Board

> reviewed and approved the recommendations to be made to shareholders for the election and re-election of Directors at the Annual General Meeting

> reviewed the results of the Committee performance evaluation.

After the year end, the Committee considered the outcome of the performance evaluations when discussing the effectiveness of the Non-Executive Directors seeking election and re-election at the Annual General Meeting 2019.

Board composition

On 21 January 2019, we announced that Ian Dew, our CFO, had informed the Board of his wish to retire from Volution Group during 2019. The Committee initiated a search for a Chief Financial Officer by engaging an independent external search firm, Russell Reynolds Associates Limited, to assist in identifying potential candidates. Russell Reynolds Associates Limited has no other connection to Volution Group. The search firm was given a role profile outlining the skills, attributes and experience sought and asked to produce a longlist of potential candidates from various backgrounds and industries for consideration. The longlist of potential candidates was reviewed and a number were then interviewed by the Chief Executive Officer. A shortlist of potential candidates was then agreed and met by the Chief Executive Officer and the chairman of the Audit Committee. Preferred candidates were selected and all the remaining Board Directors interviewed each candidate. Following the interviews, the potential candidates were discussed by the Committee resulting in a recommendation of the preferred candidate to the Board. On 10 April 2019 the appointment of Andy O'Brien was announced and he was appointed as Chief Financial Officer on 1 August 2019.

The Board was delighted to welcome Andy O'Brien to the Group. Andy joined Volution Group following nine years at Aggreko plc, a FTSE 250 global provider of temporary power, heating and cooling solutions, where he held numerous senior finance roles including most recently finance director, power solutions. Andy joined Volution Group at an exciting time in its development and we look forward to working with him as we continue our journey.

I would like to extend my thanks to Ian, who joined Volution Group in 2012 and was appointed as CFO in January 2014. Ian played an integral role in Volution Group's successful listing on the London Stock Exchange and subsequently played a key role in the completion of all acquisitions.

Succession planning

This year we have continued to review the Group's talent pipeline and senior management succession planning. During the year the Nomination Committee also discussed succession planning for the Non-Executive Directors to ensure progressive refreshing of the Board. As a result, a Non-Executive Director succession plan is now in place. I am also pleased to confirm that Claire Tiney was re-appointed as a Non-Executive Director on 3 August 2019 for a second three-year term following the end of her first three-year term on the Board.

Nomination Committee Report continued

Diversity

The Committee, the Board of Directors and Volution Group as a whole continue to pay full regard to the benefits of diversity, including gender diversity, both when searching for candidates for Board appointments and other appointments. We believe that better business decisions can be made by having representation from different genders and cultural backgrounds with differing skill sets, experience and knowledge, which reflects our customer base and the wider population in our markets.

Diversity of Board members is important to provide the necessary range of background, experience, values and diversity of thinking and perspectives to optimise the decision-making process. Gender and ethnicity are important aspects of diversity which the Chairman and the Committee will consider when deciding upon the most appropriate composition of the Board including Executive Director succession planning.

Appointments to the Board are always made on merit against objective criteria, having regard to the benefits of all forms of diversity and the current and future needs of the business. The Board has not set any specific gender or diversity targets. When identifying candidates for appointment to the Board, any search firm engaged will be instructed to include gender diversity, ethnicity and a range of diverse backgrounds and capabilities in formulating a longlist of candidates.

Election and re-election of Directors

On the recommendation of the Committee and in line with the 2016 Code and the Company's Articles of Association, all of the Company's Directors will stand for election or re-election at the Annual General Meeting 2019. The biographical details of the Directors can be found on pages 50 and 51. The Committee considers that the performance of each of the Directors standing for election or re-election at the Annual General Meeting continues to be effective and each demonstrates commitment to their role.

Committee performance evaluation

During the year, the Board appointed an independent specialist corporate governance consultancy, Lintstock, to conduct a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on pages 57 and 58. I am pleased to confirm that this process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Committee priorities for 2019/20

During the 2019/20 year the Committee will continue to evaluate the size and composition of the Board including the balance of skills, knowledge, independence, experience and diversity. There will also be continued focus on the talent pipeline and succession planning at Board and Senior Management level.

I look forward to meeting with shareholders at the Annual General Meeting in December to answer any questions on the work of the Committee.

Peter Hill, CBE
Chairman of the Nomination Committee
9 October 2019

Audit Committee Report

Audit Committee members

- Paul Hollingworth (chairman)
- Amanda Mellor
- Tony Reading
- Claire Tiney

Dear shareholder,

As chairman of the Audit Committee, I am pleased to present the Committee Report to shareholders detailing the activities during the financial year ended 31 July 2019.

The last year has been a year of continued uncertainty in the UK, due to Brexit. Against this background, the Committee continued to focus on the fundamentals of the Group's financial reporting, our system of internal controls and the performance of the internal and external auditors.

The Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Committee's duties and responsibilities and the Board considers the members' financial experience to be recent and relevant for the purposes of the 2016 UK Corporate Governance Code (the 2016 Code). Further, in accordance with the 2016 Code, the Board has determined that the current composition of the Committee as a whole has competence relevant to the sector in which the Group operates.

"The Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Committee's duties and responsibilities."

Paul Hollingworth
Chairman of the Audit Committee

BDO has continued to perform the internal audit function on behalf of the Group in accordance with an agreed internal audit plan. This plan continues to provide the Committee with a means of assessing the level and effectiveness of controls across the Group. In addition, the Committee reviews the results of a biannual internal assessment of internal controls carried out by management across all businesses. During the financial year ending 31 July 2020, the Committee will continue to look in detail at the Group's business operations, with a number of internal audits planned to take place during the period. These will cover internal control and compliance areas and be undertaken across functions in the businesses in the UK, Europe and Australasia. An internal audit is normally scheduled to take place within twelve months of the completion of an acquisition.

During the year I was involved in the selection and recruitment of a new Chief Financial Officer following the announcement in January 2019 that Ian Dew was to retire once his successor had been appointed and an orderly handover completed. I was pleased to welcome Andy O'Brien when he was appointed as Chief Financial Officer on 1 August 2019 and I am sure he will be an excellent leader of the finance function and I look forward to working with him to further enhance the internal control environment.

Volution Group's audit fee was increased substantially for the audit of the year ended 31 July 2019, by 20% to £560,000, and is likely to increase further for the audit of the financial year ending 31 July 2020 as EY responds to the changing regulatory regime. The Committee has been involved in these audit fee discussions and will continue to work with management and EY to try and mitigate the scale of the potential audit fee increase going forward.

As part of its process for monitoring the standards of audit work, the Audit Quality Review team of the Financial Reporting Council (FRC) reviewed EY's audit of the Group accounts for the year ended 31 July 2018, with the FRC report received in August 2019. The principal findings and recommendations for improvement related to the approach taken by the Group audit team in directing, reviewing and supervising the work of the component audit teams, in particular Simx in New Zealand, which Volution acquired in March 2018, and evidencing the approach taken in specific areas of the audit. EY has confirmed that it has amended its approach for the year ended 31 July 2019 to address these FRC review findings.

Audit Committee Report continued

On behalf of the Committee, I would like to thank everyone for their hard work over the past year, especially the finance teams across the businesses and in particular Ian Dew, who I worked with both prior to and following Volution's listing on the London Stock Exchange in June 2014. I greatly appreciated Ian's hard work on behalf of the Company and would like to wish him a long and active retirement.

I look forward to meeting with shareholders at the Annual General Meeting to answer any questions on the work of the Committee.

Paul Hollingworth
Chairman of the Audit Committee
9 October 2019

Role and responsibilities

The primary function of the Committee is to assist the Board in fulfilling its responsibilities with regard to the integrity of financial reporting, audit, risk management and internal controls.
This comprises:

> monitoring and reviewing the Group's accounting policies, practices and significant accounting judgements
> reviewing the annual and half-yearly financial statements and any public financial announcements and advising the Board on whether the Annual Report and Accounts is fair, balanced and understandable
> reviewing the Board's approach to assessing the Group's long-term viability
> approving the appointment and recommending the re-appointment of the external auditor and its terms of engagement and fees
> considering the scope of work to be undertaken by the external auditor and reviewing the results of that work
> reviewing and monitoring the independence of the external auditor and approving its provision of non-audit services
> monitoring and reviewing the effectiveness of the external auditor
> monitoring and reviewing the effectiveness of the Group's internal audit function, and resolution of its material findings, in the context of the Group's overall risk management systems
> overseeing the Group's procedures for its employees to raise concerns through its Whistleblowing Policy as set out in the Code of Conduct
> monitoring and reviewing the adequacy and effectiveness of the risk management systems and processes
> assessing and advising the Board on the internal financial, operational and compliance controls.

Membership and attendance

The 2016 Code recommends that all members of an audit committee be non-executive directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that one such member has recent and relevant financial experience.

Accordingly, the Committee comprises four members who are independent Non-Executive Directors, Paul Hollingworth as Committee chairman, considered by the Board to have recent and relevant financial and accounting experience, Tony Reading, Amanda Mellor and Claire Tiney. All members have a sufficiently wide range of business experience and expertise such that the Committee can fulfil its responsibilities. Biographies of all Committee members can be found on pages 50 and 51. As such, the Committee complies with the 2016 Code recommendations.

Regular Committee meetings are also normally attended by the Chairman, the Chief Executive Officer, the Chief Financial Officer, the external auditor, the internal auditor and the Company Secretary, who acts as secretary to the Committee. Other members of management are invited to attend depending on the matters under discussion. The Committee meets regularly with the external auditor with no members of management present. Meetings are scheduled in accordance with the financial and reporting cycles of the Company and generally take place prior to Board meetings to ensure effectiveness of the collaboration with the Board. Minutes of each Committee meeting are provided to Board members.

The Committee has independent access to BDO, the internal auditor, and to EY, the external auditor. BDO and EY have direct access to the chairman of the Committee outside formal Committee meetings.

The Committee met four times during the year with attendance disclosed below.

Member	Member since	Number of meetings held	Attendance
Paul Hollingworth (chairman)	23 June 2014	4	4
Amanda Mellor[1]	18 March 2018	4	3
Tony Reading	23 June 2014	4	4
Claire Tiney	3 August 2016	4	4

Note
1. Amanda Mellor was not able to attend the Audit Committee in October 2018 due to a prior commitment notified to the Board prior to her appointment. Amanda received a full set of papers for the meeting and had the opportunity to discuss issues arising directly with the Committee chairman prior to the meeting.

Committee activities during the year

During the year, the Committee dealt with the following matters:

Financial statements and reports

> Reviewed the Preliminary Results Announcement, the Annual Report and Accounts and the Half-year Results Announcement, received reports from the external auditor on the above, and reviewed the Trading Update

> Reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Accounts

> Reviewed management representation letters, going concern reviews, fair, balanced and understandable criteria and significant areas of accounting estimates and judgements

> Reported to the Board on the appropriateness of accounting policies and practice

> Reviewed the Viability Statement and associated stress testing

> Reviewed contingent consideration relating to acquisitions

Risk management

> Monitored and reviewed the risk management and internal control processes to ensure compliance with the 2016 Code for disclosure in the Annual Report and Accounts

> Considered the Group Risk Register, which identifies, evaluates and sets out mitigation of risks, and reviewed the principal risks and uncertainties disclosed in the Annual Report and Accounts

Internal audit

> Reviewed reports from BDO as Group internal auditor and reviewed its strategic internal audit plan

> Reviewed management responses and actions to address any recommendations resulting from BDO's internal audit reports issued during the year

> Monitored the Group's Code of Conduct and Anti-Bribery and Corruption Policy, which allows the receipt, in confidence, of any whistleblowing on accounting or risk issues, internal controls, auditing issues and non-financial-related matters

External auditor and non-audit work

> Noted the tendering and rotation provisions from the EU and the Competition and Markets Authority

> Reviewed the relationship with the external auditor including its independence, objectivity and effectiveness and, on the basis of that review, recommended to the Board its re-appointment at the Annual General Meeting

> Reviewed, considered and agreed the scope and methodology of the audit work to be undertaken by the external auditor

> Agreed the terms of engagement and fees to be paid to the external auditor

> Reviewed the FRC's Audit Quality Review Report arising from the review of the 31 July 2018 audit and discussed the findings and required actions with the FRC and EY

> Reviewed and approved the Group policy on non-audit services and reviewed any non-audit fees

Compliance

> Met with the external auditor without executive management being present

> Reviewed the Committee performance evaluation

Audit Committee Report continued

Significant accounting matters

In reviewing the financial statements with management and the external auditor, the Committee discussed and debated the critical accounting judgements and key sources of estimation uncertainty. As a result of its review, the Committee identified the following issues that required particular judgement or had significant impact on interpretation of this Annual Report and Accounts 2019:

Area of focus	Why was this significant?	How did the Committee address this area?
Impairment of goodwill and other intangible assets	The Group's policies on accounting for separately acquired intangible assets and goodwill on acquired businesses is set out in notes 13 and 14 to the consolidated financial statements. The Group concluded one acquisition during the year which generated goodwill of £4.2 million and other intangible assets of £5.0 million. At 31 July 2019 intangible assets relating to goodwill and other intangible assets amounted to £213.3 million. Goodwill on acquisitions and acquired intangible assets, which are judged to have indefinite lives, are initially recorded at fair value, and are subject to testing for impairment at each balance sheet date. For intangible assets amortised over finite lives the Group is required to determine whether indicators of impairment exist and, if so, perform a full impairment review. As is customary, such testing involves estimation of the future cash flows attributable to the asset, or cash generating unit of which it is part, and discounting these future cash flows to today's value.	The Committee has reviewed the key assumptions behind these valuations and impairment reviews, notably the expected development of future cash flows and the discount rates used, as well as considering reasonable sensitivities to these estimates and concluded that these support the carrying values set out in note 15 to the consolidated financial statements and no impairment provision is required. The Committee has also reviewed the allocation of goodwill and other intangible assets to the appropriate cash generating units (CGUs) and the level of CGUs at which the impairment testing is completed and considers it reasonable.
Liabilities arising from retrospective volume rebates	The Group has a number of customer rebate agreements that are considered to be variable consideration and are recognised as a reduction from sales. Rebates are based on an agreed percentage of revenue, which will increase with the level of revenue achieved. These agreements may run to a different reporting period to that of the Group with some of the amounts payable being subject to confirmation after the reporting date. At the reporting date, management makes estimates of the amount of rebate that will become payable by the Group under these agreements using a probability weighted average to arrive at an expected amount. The liability arising from retrospective volume rebates at 31 July 2019 included within trade and other payables is £6.5 million (2018: £5.8 million).	The Committee received a paper from management setting out the process for estimating the amount of rebates to be recognised and considered the operating effectiveness of controls surrounding revenue recognition and management's subjective assessment and recognition of rebates at the interim and year end. The Committee reviewed management's methodology and judgement in assessing the recognition of rebates. The Committee concurred with its approach.
Exceptional items	Exceptional items on a pre-tax basis of £1.8 million (2018: £4.9 million) represent a material item in the profit and loss account. Full details are set out in note 5 to the consolidated financial statements. Included in this year's results is a charge of £0.5 million relating to the costs associated with acquisitions (2018: £1.4 million) and UK re-organisation costs including the Reading factory relocation of £1.3 million (2018: £5.0 million). During FY2018, an amount of contingent consideration that was not paid was reversed and disclosed as an exceptional gain of £1.5 million. There were no exceptional gains in the year ended 31 July 2019.	The Committee reviewed the inclusion of costs shown as re-organisation and acquisition costs by virtue of their size, nature or occurrence, and received updates on the level and nature of these costs. In particular, exceptional costs relating to the re-organisation of the UK Ventilation business, including the consolidation of two UK production facilities in Reading and Slough into one new site in Reading, were reviewed. The Committee believes that the treatment of re-organisation costs and costs associated with acquisitions has been applied appropriately, and that separate disclosure enables the reader to more clearly understand the headline financial and operating performance of the Group.
Implementation of new accounting standards - IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers	IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were effective for the first time during the year ended 31 July 2019, having been adopted by the Group on 1 August 2018. Judgement is required in deciding how to implement these new standards and when assessing the resulting impact on the financial statements, including the additional disclosures required.	The Committee received a paper from management setting out the Groups chosen method of implementation for the new standards and the resulting impact on the financial statements. The Committee reviewed managements judgement and assumptions used when implementing the new standards and concurred with its approach and disclosure.
	In addition, the Committee reviewed policy and provisions with respect to warranty, doubtful debts and inventory and weighted average cost of capital rates.	

External audit

EY was appointed as external auditor for the financial year commencing 1 August 2012 following a competitive tendering process. There are no contractual obligations restricting the Committee's choice of external auditor.

The lead partner during the financial year ended 31 July 2019 was Andy Smyth. This was his second financial year spent auditing the Group and he had no previous involvement with the Group in any capacity prior to appointment.

The Committee assessed the effectiveness of EY and the external audit process using a checklist and questionnaire issued to senior financial management across the Group who had been involved in the audit process. A summary of the findings was prepared for consideration by the Committee at its October 2019 meeting. The Committee also noted the FRC Audit Quality Review Report relating to the EY audit of the Group's financial statements for the year ended 31 July 2018.

The Committee has noted the tendering and rotation provisions in the EU Audit Directive and Regulation and the Companies Act 2006, which state that there should be a public tender every ten years and a change of external auditor at least every 20 years. The Company is not obliged to tender for audit services until 2024 (ten years from listing). These provisions, together with the evaluation of EY and the external audit process, have led the Committee to conclude that there is no current intention of placing the external audit out to tender, subject to any other changes to the regulatory regime and satisfaction with the effectiveness of the auditor, which is evaluated annually. Accordingly, the Committee recommended to the Board that a resolution to re-appoint EY be proposed to shareholders at the Annual General Meeting in December 2019 and the Board accepted and endorsed this recommendation.

The Committee confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. In addition, the Committee confirms that, at the appropriate time, it will put the external audit out to tender to meet the requirements under this Order.

The Committee routinely meets EY without executive management present.

Non-audit services

The Group's external auditor may also be used to provide specialist advice where, as a result of its position as auditor, it is best placed to perform the work in question. The Committee agrees the fees paid to the external auditor for its services as auditor and a formal policy is in place in relation to the provision of non-audit services by the external auditor to ensure that there is adequate protection of its independence and objectivity. The policy is in line with the EU Audit Directive and Regulation which states that the total non-audit fees for any financial year should not exceed 70% of the average of the external audit fee over the last three financial years.

During the year, EY charged the Group £45,000 (2018: £26,000) for non-audit services relating to the half-year review, which represents 6.8% (2018: 6.6%) of the average of the external audit fee over the last three financial years, significantly below the 70% cap set by the EU Audit Directive and Regulation. A breakdown of the fees paid to EY during the year is set out in note 9 to the consolidated financial statements.

It is the Company's practice that for any new non-audit services it will seek quotes from other firms, and, if appropriate, from EY, before work on non-audit projects is awarded. Contracts are awarded to our suppliers based on individual merit.

The Committee is satisfied that the overall levels of audit-related and non-audit fees are not material relative to the income of the office of EY conducting the audit or EY as a whole and therefore the objectivity and independence of the external auditor was not compromised.

Internal control and risk management

The Board is responsible for the effectiveness of the Group's system of internal control, which has been designed and implemented to meet the particular requirements of the Group and the risks to which it is exposed. Details can be found below on the Group's internal control environment, how risk is managed and the Committee's review of the effectiveness of the risk management and internal control systems.

Internal control environment

The following key elements comprise the internal control environment which has been designed to identify, evaluate and manage, rather than eliminate, the risks faced by the Group in seeking to achieve its business objectives and ensure accurate and timely reporting of financial data for the Company and the Group:

> an appropriate organisational structure with clear lines of responsibility
> an experienced and qualified finance function which regularly assesses the possible financial impact of the risks facing the Group
> a comprehensive annual business planning process and strategy review
> systems of control procedures and delegated authorities which operate within defined guidelines, and approval limits for capital and operating expenditure and other key business transactions and decisions
> a robust financial control, budgeting and forecasting system, which includes regular monitoring, variance analysis, key performance indicator reviews and risk and opportunity assessments at Board level
> procedures by which the consolidated financial statements are prepared, which are monitored and maintained through the use of internal control frameworks addressing key financial reporting risks arising from changes in the business or accounting standards
> established policies and procedures setting out expected standards of integrity and ethical standards which reinforce the need for all employees to adhere to all legal and regulatory requirements
> an annual internal controls compliance checklist
> BDO acting as the internal auditor.

Audit Committee Report continued

Internal control environment continued

Following initial appointment during the financial year ended 31 July 2015, BDO has continued to act in the capacity of internal auditor. The Committee agreed the BDO internal audit plan prior to the commencement of the last financial year. The plan was approved to ensure that there was appropriate coverage of the internal control environment, strategic priorities and key risks identified by the Board. At each Committee meeting, BDO gives an update on the progress of the internal audit plan, which is reviewed to ensure that it is in line with the Committee's expectations.

During the year, the internal audit plan was amended so that additional areas were added to the plan based on the changes that gave rise to increased levels of risk. These changes to the agreed audit plan were approved by the Committee. Given the acquisition of Ventair completed during the year and the four acquisitions completed during the previous financial year together with the growth of the Group, the Committee spent time ensuring that an appropriate level of coverage was in place, including reviewing the control environment in recently acquired companies.

How we manage risk

As outlined on page 26, the Group has a risk management process that follows a sequence of risk identification, assessment of probability and impact, and assigns an owner to manage mitigation activities at the operational level. Each business unit operates a process to ensure that key risks are identified, evaluated, managed and reviewed appropriately. This process is also applied at Board level to major business decisions such as acquisitions. The business unit risk registers form the basis for the Group Risk Register, which is maintained for all corporate risks and is monitored by senior management and reviewed by the Committee. Throughout the year, the Group Risk Register and the methodology applied were the subject of review by senior management and updated to reflect new and developing areas which might impact business strategy. The Committee reviews the Group Risk Register at least twice a year and assesses the actions being taken by senior management to monitor and mitigate the risks.

The Group's principal risks and uncertainties, the areas which they impact and how they are mitigated are described on pages 26 to 33.

Review of effectiveness

Provision C.2.3 of the 2016 Code states that the Board should monitor the Company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness.

The Committee receives biannual reports on the performance of the system of internal control, and on its effectiveness in managing principal risks and in identifying control failings or weaknesses. In accordance with the requirements of the 2016 Code, the Financial Reporting Council (FRC) Guidance on Audit Committees, and the recommendations of the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the Committee reviews the Group's risk management process at least annually. This process was in place throughout the year and post year end up to the date of approval of this Annual Report and Accounts.

Code of Conduct, anti-bribery and whistleblowing

The Group is committed to providing a safe and confidential avenue for all employees across the Group to raise concerns about serious wrongdoings. The Group also acknowledges the requirements of the Code in this area, which states that the Committee should review arrangements by which employees across the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensuring that these concerns are investigated and escalated as appropriate.

The Company has a Group-wide Code of Conduct and Anti-Bribery and Corruption Policy. These policies set out clearly the Group's values and the importance that is placed on honest, ethical and lawful conduct in all business dealings. The Code of Conduct also sets out the Group's policy on anti-slavery and human trafficking, in accordance with the Modern Slavery Act 2015. Group employees, agents and suppliers are asked, where relevant, to confirm that they do and will continue to comply with these policies. A gifts and hospitality register is operated by each business unit to ensure transparency where items are over a certain monetary threshold. In addition, all employees who are considered the most likely to be exposed to bribery and corruption are given web-based anti-bribery and corruption training.

During the year, the Committee reviewed the arrangements by which employees are able to raise, in confidence, any concerns they may have about possible wrongdoing or dishonest or unethical behaviour, such as bribery, corruption, fraud, dishonesty and illegal practices. An external independent whistleblowing provider provides a confidential web-based and telephone facility which has been communicated across the Group, branded as "Speak Up", to ensure awareness. The Code of Conduct protects anyone who comes forward to make a disclosure under the Whistleblowing Policy. When a disclosure is made, the Company Secretary initiates an investigation to include all necessary parties to ensure the matter is appropriately resolved. A report on any investigations is submitted to the Committee to ensure it is satisfied that such matters have been resolved satisfactorily. The Committee also has the power to conduct further enquiries itself or any other additional actions it sees fit.

Committee performance evaluation

During the year, the Board appointed an independent specialist corporate governance consultancy, Lintstock, to conduct a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on pages 57 and 58. I am pleased to confirm that this process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Fair, balanced and understandable

The Board has responsibility under the Code for preparing the Company's Annual Report and Accounts, ensuring that it presents a fair, balanced and understandable (FBU) assessment of the Group's position and prospects and that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The review of the Annual Report and Accounts took the form of a detailed assessment of the collaborative drafting process, which involves the Board members, the Senior Management Team, Group Finance, the Company Secretary and Group Marketing, with guidance and input from external advisers. It ensured that there is a clear and unified link between this Annual Report and Accounts and the Group's other external reporting, and between the three main sections of the Annual Report and Accounts – the Strategic Report; the Governance Report; and the Financial Statements. In addition, the Committee receives a report from the Chief Accountant highlighting areas for FBU consideration to ensure compliance before approval of the Annual Report and Accounts.

In particular, the Committee:

- reviewed all material matters, as reported elsewhere in this Annual Report and Accounts
- ensured that it fairly reflected the Group's performance in the reporting year
- ensured that it reflected the Group's business model and strategy
- ensured that it presented a consistent message throughout
- considered whether it presented the information in a clear and concise manner, illustrated by appropriate KPIs, to facilitate shareholders' access to relevant information.

A summary of the process, and of the Committee's findings, was considered by the Board at its meeting in October 2019. The outcome of that review was that the Committee confirmed to the Board that the Annual Report and Accounts 2019 met the requirements of the Code and the Board's formal statement to that effect is set out on page 52.

Paul Hollingworth
Chairman of the Audit Committee
9 October 2019

Directors' Remuneration Report

Remuneration Committee members

- Tony Reading (chairman)
- Peter Hill
- Paul Hollingworth
- Amanda Mellor
- Claire Tiney

Dear shareholder,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2019.

"The Committee is pleased to report that Volution is already compliant in a number of areas with the remuneration provisions of the new UK Corporate Governance Code, applicable to Volution from 1 August 2019."

Anthony Reading, MBE
Chairman of the Remuneration Committee

Remuneration framework

At the Annual General Meeting in December 2018 (2018 AGM), the Annual Report on Remuneration received strong support from shareholders with just under 95% of the votes cast being in favour of the resolution.

Our Remuneration Policy was approved by shareholders at the Annual General Meeting in 2017 (2017 AGM) and we continued to operate under this during the year under review. The Committee considers that the Policy continues to appropriately support our remuneration principles, which are to:

- attract and retain the best talent
- drive behaviours that support the Group's strategy and business objectives which are developed in the long-term interests of the Company and its shareholders
- reward senior management appropriately for its personal and collective achievements
- provide incentives that help to maintain commitment over the longer term and align the interests of senior management with those of shareholders
- ensure that a significant percentage of the overall package of the Executive Directors and senior management remains at risk, dependent on performance, and that their pay and benefits adequately take account of reward versus risk.

In line with the required three-year cycle, we will be seeking approval to renew the Remuneration Policy at the Annual General Meeting in 2020 (2020 AGM). When developing this new Remuneration Policy the Committee will be mindful of recent developments in the market, including the publication of the new UK Corporate Governance Code. The Committee, however, is pleased to report that Volution is already compliant with the provisions of the new Code in a number of areas, including;

- the incorporation of an additional two-year holding period into the long-term incentive awards for Executive Directors extending the total time horizon to five years
- the introduction of new processes during the year to ensure the Committee has oversight of and considers remuneration arrangements for the wider workforce when setting executive pay
- upon appointment, our new Chief Financial Officer received a pension contribution, in line with the contribution rate offered to the wider workforce.

Performance in 2018/19 and remuneration outcomes

Volution Group made good progress during the year under review. Adjusted operating profit, adjusted EPS and working capital management were the key measures used by the Committee to measure performance towards achieving the Group's strategic objectives and, accordingly, were the performance measures used in the Annual Bonus Plan (ABP). Performance against these measures resulted in the Committee awarding an annual bonus of 55.9% of salary to Ronnie George and 55.9% of salary to Ian Dew. We have provided full retrospective disclosure of the ABP targets as well as the actual performance against them. In accordance with the Policy, one-third of the total annual bonus payment will be deferred into awards over the Company's shares which will vest after three years. Further details can be found on page 76.

The 2016 LTIP awards had a performance period ending on 31 July 2019 and are subject to a two-year holding period. Although total shareholder return performance over the period was at the lower end compared to the direct peer group, due to EPS growth and total shareholder return performance relative to companies of a similar size, the 2016 LTIP awards will vest at 40.5% of maximum for both Ronnie George and Ian Dew. Further details can be found on page 76.

When determining variable pay outcomes, the Committee also took account of wider Company performance and the shareholder experience. Overall, the Committee considered that remuneration outcomes were appropriate and as such determined that no discretion would be applied.

CFO succession

Ian Dew stepped down as Chief Financial Officer and as an Executive Director with effect from 31 July 2019 and was succeeded by Andy O'Brien. Remuneration arrangements in respect of Ian Dew's departure were in line with our Remuneration Policy and best practice. Further details can be found on page 79.

The Committee gave careful consideration to the remuneration package for Andy O'Brien. Upon appointment, he received a salary of £293,000 and, as noted above, a pension contribution of 5.5% of salary in line with the contribution rate for the wider workforce. Maximum incentive opportunities for the financial year ending 31 July 2020 will be in line with those previously awarded to Ian Dew, being 125% of salary for both the annual bonus and long-term incentive. Andy O'Brien will also receive additional awards to partially compensate him for remuneration forgone at his previous employer. Further details can be found on page 80.

Other remuneration decisions for 2019/20

During the year the Committee reviewed the Executive Director base salaries and as part of the review considered the remuneration arrangements of the wider workforce. It was determined that the Chief Executive Officer should be awarded an increase in base salary of 2.5%, in line with the wider workforce. This increase was effective from 1 August 2019.

No other changes are being proposed to the remuneration package of Ronnie George for 2019/20, details of which are set out on page 82. Variable incentive opportunity levels will remain at the same levels set in 2018/19.

The performance measures applicable to the ABP will remain unchanged and the Committee continues its policy of setting stretching annual bonus targets which take into account a number of internal and external factors.

While the performance measures for the LTIP remain unchanged, the Committee reviewed whether the performance targets remained appropriate in light of the Company's growth expectations. As a result of this review, the Committee has determined that the maximum EPS target should be revised from 15% to 12% growth per annum. The threshold target remains unchanged at 6% growth per annum. The Committee considers that this is still a very stretching target taking into account the growing nature of the Company and both internal and external expectations. Further details can be found on page 82.

We are committed to maintaining an open and transparent dialogue with our shareholders on executive pay and as such have communicated to our major shareholders the remuneration decisions for 2019/20 as set out above.

Annual General Meeting 2019

On behalf of the Board I would like to thank shareholders for their continued support and do hope that you will support the resolution requesting approval of the Annual Report on Remuneration at this year's Annual General Meeting on 12 December 2019.

Anthony Reading, MBE

Chairman of the Remuneration Committee

9 October 2019

Directors' Remuneration Report continued

Annual Report on Remuneration

This section provides details of how the Remuneration Policy (the Policy) was implemented during the year and how the Remuneration Committee (the Committee) intends to apply the Policy, approved by shareholders at the 2017 AGM, during the financial year ending 31 July 2020. Certain sections of this report are audited and indicated as such where applicable. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2019 AGM.

Role of the Committee

The role of the Committee is to recommend to the Board a strategy and framework for remuneration for Executive Directors and the Senior Management Team in order to attract and retain leaders who are focused and incentivised to deliver the Company's strategic business priorities, within a remuneration framework which is aligned with the interests of our shareholders and thus designed to promote the long-term success of the Company.

The Committee has clearly defined terms of reference which are available on the Company's website, www.volutiongroupplc.com. The Committee's main responsibilities are to:

> establish and maintain formal and transparent procedures for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors, and to monitor and report on them

> determine the remuneration, including pension arrangements, of the Executive Directors, taking into account pay and policies across the wider workforce

> monitor and make recommendations in respect of remuneration for the tier of senior management one level below that of the Board

> approve annual and long-term incentive arrangements together with their targets and levels of awards

> determine the level of fees for the Chairman of the Board

> select and appoint the external advisers to the Committee.

Membership

The Committee currently comprises four independent Non-Executive Directors, Tony Reading, Paul Hollingworth, Claire Tiney and Amanda Mellor, and the Chairman of the Board, Peter Hill.

Tony Reading is the Committee chairman and he has chaired the Committee from his appointment to the Board on 23 June 2014. The Chairman of the Board is a member of the Committee because the Board considers it essential that the Chairman is involved in setting remuneration policy (although he is not party to any discussion directly relating to his own remuneration).

During the year the Committee also consulted with the Chief Executive Officer, the Chief Financial Officer and the Company Secretary, but not on matters relating to their own remuneration.

Meeting attendance

The Committee met four times during the year and has had two meetings to date in 2019/20. Committee member attendance can be found in the table below.

Member	Member since	Number of meetings held	Attendance
Tony Reading (chairman)	23 June 2014	4	4
Peter Hill	23 June 2014	4	4
Paul Hollingworth	23 June 2014	4	4
Amanda Mellor	18 March 2018	4	4
Claire Tiney	3 August 2016	4	4

Committee activity and key decisions during the year ended 31 July 2019

Matters considered and decisions reached by the Committee during the year included:

> implemented the Policy approved by shareholders at the 2017 AGM

> considered and approved the Directors' Remuneration Report 2017/18

> considered and approved the remuneration package for the new Chief Financial Officer, Andy O'Brien

> reviewed outcomes and approved payments for Executive Director and Senior Management Team bonuses for 2017/18

> reviewed performance measurement outcomes and vesting of LTIP awards granted in 2015

> reviewed and approved the parameters of the ABP, including performance measures and targets for 2018/19 for the Executive Directors and Senior Management Team

> considered and approved the LTIP awards to the Executive Directors and Senior Management Team for 2018/19

> reviewed and approved the remuneration terms for the departure of the retiring Chief Financial Officer, Ian Dew

> reviewed market trends and developments in executive remuneration in advance of considering Executive Director and Senior Management Team remuneration proposals for 2019/20

> reviewed and approved the Executive Director and Senior Management Team salaries for 2019/20

> reviewed and approved the parameters of the ABP, including performance measures for 2019/20 for the Executive Directors and Senior Management Team

> reviewed and approved the performance measures and targets to be used for any LTIP awards made during 2019/20

> evaluated the performance of the Committee.

Committee performance evaluation

During the year, the Board appointed an independent specialist corporate governance consultancy, Lintstock, to conduct a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on pages 57 and 58. I am pleased to confirm that this process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Advice to the Committee

The Committee keeps itself fully informed on developments and best practice in the field of remuneration and it seeks advice from external advisers when appropriate.

The Committee appoints its own independent remuneration advisers and at the time of listing appointed Deloitte LLP to that role. Deloitte LLP has served as adviser to the Committee since listing and throughout the year. Total fees for advice provided to the Committee during the year by Deloitte LLP were £17,500 and were charged based on the time spent and seniority of the staff involved in providing the advice. Deloitte LLP also provided the Company with IFRS 2 valuation advice during the year.

Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the United Kingdom. The Committee requests Deloitte LLP to attend meetings periodically during the year.

Single total figure of remuneration (audited)

The audited table below sets out the total remuneration for the Directors in the years ended 31 July 2019 and 31 July 2018.

	Salary and fees		Benefits[1]		Pension[2]		Annual bonus[3]		Long-term incentives[4]		Other		Total	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Chairman														
Peter Hill	**143**	139	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**143**	139
Executive Directors														
Ronnie George	**409**	397	**22**	22	**54**	52	**228**	220	**172**	218	**–**	–	**885**	909
Ian Dew[5]	**279**	270	**18**	18	**37**	36	**156**	150	**117**	156	**–**	–	**607**	630
Non-Executive Directors														
Paul Hollingworth	**58**	56	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**58**	56
Amanda Mellor	**48**	15	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**48**	15
Tony Reading	**63**	61	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**63**	61
Claire Tiney	**48**	46	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**48**	46

Notes

1. Benefits: this includes an annual car allowance, life assurance equivalent to four times annual salary and private medical insurance.
2. Pension: a cash payment in lieu of employer's pension contribution, equivalent to 15% of base salary, was paid to each of the Executive Directors.
3. Annual bonus: the annual bonus for 2018/19 relates to annual incentive payments for performance in that financial year. The calculation of this amount is set out on page 76. One-third of the 2018/19 annual bonus is deferred into shares for three years. Ronnie George will be awarded shares equivalent to £76,158 and Ian Dew will be awarded shares equivalent to £51,921.
4. Long-term incentives: this column relates to the value of long-term awards whose performance period ends in the year under review. The third long-term incentive awards granted post-listing had a performance period that ended on 31 July 2019, and this has been included in the table above. This award is due to vest on 17 October 2019 and therefore the value included in the table above represents an estimated value using the average share price of £1.73 over the three months to 31 July 2019. In line with the remuneration reporting requirements, the 2018 long-term incentive amounts have been restated to reflect the actual share price (£1.76) on the date of vesting on 19 November 2018.
5. Ian Dew retired as Chief Financial Officer and as an Executive Director on 31 July 2019. Andy O'Brien was appointed as Chief Financial Officer and as an Executive Director on 1 August 2019. In line with the directors' remuneration reporting regulations, no disclosures relating to Andy O'Brien have been made in this table.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Annual Bonus Plan (ABP) (audited)

The operation of the ABP during the year ended 31 July 2019 was consistent with the framework set out in the Policy. The maximum annual bonus potential for the Executive Directors during the year was 125% of base salary, and bonus for on-target performance was 60% of the maximum opportunity. In line with last year's report, we have provided full retrospective disclosure of the targets and performance against those targets which are set out in the table below.

The performance measures and weightings for the year ended 31 July 2019 were the same as for the year ended 31 July 2018 as set out in the table below.

Measure	Strategic objective	Weighting	Threshold	Target	Maximum	Actual performance	Payment (% of maximum)	**Payment (% of base salary)**
Adjusted operating profit[1]	To increase profit	35%	£40.0m	£42.6m	£44.0m	£41.8m	52.7%	**18.4%**
Adjusted EPS[1]	Creation of shareholder value	50%	15.2p	16.0p	16.6p	16.0p	75.0%	**37.5%**
Working capital management	Delivering efficiency of working capital and cash generation	15%	£29.8m	£28.8m	£27.8m	£30.2m	0%	**0%**
						Total		**55.9%**

Note

1. Adjusted operating profit up to target level is purely organic. Between target and maximum, unbudgeted acquisitions will be taken into account. Adjusted EPS includes unbudgeted acquisitions.

Long Term Incentive Plan vesting of 2016 awards

The LTIP values included in the single total figure of remuneration table for 2019 relate to the 2016 LTIP award. Awards with a face value of 100% of salary were granted to the Executive Directors on 17 October 2016 and, following a three-year performance period ending on 31 July 2019, are due to vest on 17 October 2019. However, in accordance with the Remuneration Policy, the 2016 LTIP award to Executive Directors is subject to an additional two-year holding period following vesting. Therefore this award will not be available to exercise until 17 October 2021. Performance against the performance targets is set out below:

	Weighting (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting)[1]	Maximum (100% vesting)[1]	Actual performance outcome	**Vesting (% of maximum)**
TSR vs Direct Peer Group index[2]	25%	Below index	Equal to index	Index + 8% p.a.	Outperformed index	**29.6%**
TSR vs FTSE companies of a similar size[3]	25%	Less than median	Median	Upper quartile	Ranked between 19 and 20 out of 43 companies	**42.6%**
EPS growth	50%	Below 6% p.a.	6% p.a.	15% p.a.	8.40% p.a.	**45.0%**
Total vesting (% of maximum)						**40.5%**

Notes

1. Awards vest on a straight line basis between these points.
2. Direct Peer Group index is an index comprised of Polypipe, Tyman, Topps Tiles, Marshalls, Safestyle, Epwin Group and Norcros.
3. The companies of a similar size represent the group of 50 companies above and below the Company in terms of market capitalisation (excluding financial services and oil and gas companies). Since the start of the performance period, seven companies originally included in the peer group have delisted and subsequently been excluded from the group.

Share awards granted during the year (audited)

Long Term Incentive Plan (LTIP)

2018/19 awards

During the year the Committee made awards under the LTIP in accordance with the Policy. The LTIP awards were made in the form of nil-cost options which will vest following the Committee's determination of the extent to which performance conditions, measured over three financial years to 31 July 2021, have been met. Awards to the Executive Directors are subject to a two-year holding period.

The performance measures used for the LTIP awards give emphasis to EPS growth (75%) and used a single measure of total shareholder return, TSR vs Direct Peer Group (25%), as set out in the table below.

Performance measure	Weighting (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting)[1]	Maximum (100% vesting)[1]
EPS growth	75%	Below 6% p.a. (equivalent to 2020/21 EPS of 17.25 pence)	6% p.a. (equivalent to 2020/21 EPS of 17.25 pence)	15% p.a. (equivalent to 2020/21 EPS of 22.02 pence)
TSR vs Direct Peer Group[2]	25%	Below median	Median	Upper quartile

Notes

1. Awards will vest on a straight line basis between these points.
2. Direct Peer Group index is an unweighted index comprised of 16 companies.

In addition to the stretching performance conditions set out above, for awards to vest, the Committee must be satisfied with the overall financial performance of the Company over the performance period.

The LTIP awards made on 17 October 2018 were as follows:

Executive Director	Number of shares	Base price	Face value[1]	Face value % of base salary	Release date[2]	Expiry date
Ronnie George	328,552	£1.865	£612,750	150%	17 October 2023	18 October 2028
Ian Dew	186,662	£1.865	£348,125	125%	17 October 2023	18 October 2028

Notes

1. The price used to calculate the number of LTIP awards was the average of the mid-market closing price of a Volution Group plc share on the three consecutive business days immediately preceding the date of grant.
2. The LTIP awards were granted with a three-year performance period and an additional two-year holding period.

Deferred Share Bonus Plan (DSBP)

2018/19 awards

As set out in the Remuneration Policy approved by shareholders in 2017, under which the 2017/18 annual bonus was awarded, one-third of any bonus payment earned by the Executive Directors will be deferred into awards over the Company's shares.

On 17 October 2018, the Executive Directors received an award of shares under the Deferred Share Bonus Plan relating to the 2017/18 annual bonus, as follows:

Executive Director	Number of shares	Base price	Face value[1]	Release date
Ronnie George	39,248	£1.865	£73,199	17 October 2021
Ian Dew	26,759	£1.865	£49,906	17 October 2021

Note

1. The price used to calculate the number of DSBP awards was the average of the mid-market closing price of a Volution Group plc share on the three consecutive business days immediately preceding the date of grant.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Equity incentives (audited)

Details of the awards granted, outstanding and vested during the year to the Executive Directors under the LTIP and DSBP are as follows:

Name/Plan	Date of award	Number of share awards at 1 August 2018	Shares awarded during the year	Shares lapsed during the year	Shares vested during the year	**Number of share awards at 31 July 2019**	Face value at date of grant £[1]	Vesting date[2]	Expiry date
Ronnie George									
LTIP 2015/16[3]	19/11/2015	188,533	—	72,171	123,808	**—**	—	Vested	20/11/2025
LTIP 2016/17	17/10/2016	228,735	—	—	—	**228,735**	388,850	17/10/2019	18/10/2026
LTIP 2017/18	23/03/2018	295,970	—	—	—	**295,970**	594,900	23/03/2021	24/03/2028
LTIP 2018/19	17/10/2018	—	328,552	—	—	**328,552**	612,750	17/10/2021	18/10/2028
DSBP 2015/16[4]	19/11/2015	4,666	—	—	4,964	**—**	—	Vested	N/A
DSBP 2016/17	17/10/2016	4,106	—	—	—	**4,106**	6,981	17/10/2019	N/A
DSBP 2017/18	23/03/2018	26,880	—	—	—	**26,880**	54,030	23/03/2021	N/A
DSBP 2018/19	17/10/2018	—	39,248	—	—	**39,248**	73,199	17/10/2021	N/A
Ian Dew									
LTIP 2015/16[3]	19/11/2015	134,666	—	51,551	88,434	**—**	—	Vested	20/11/2025
LTIP 2016/17	17/10/2016	155,955	—	—	—	**155,955**	265,125	17/10/2019	18/10/2026
LTIP 2017/18	23/03/2018	168,159	—	—	—	**168,159**	338,000	23/03/2021	24/03/2028
LTIP 2018/19	17/10/2018	—	186,662	—	—	**186,662**	348,125	17/10/2021	18/10/2028
DSBP 2015/16[4]	19/11/2015	3,333	—	—	3,546	**—**	—	Vested	N/A
DSBP 2016/17	17/10/2016	2,933	—	—	—	**2,933**	4,987	17/10/2019	N/A
DSBP 2017/18	23/03/2018	18,327	—	—	—	**18,327**	36,839	23/03/2021	N/A
DSBP 2018/19	17/10/2018	—	26,759	—	—	**26,759**	49,906	17/10/2021	N/A

Notes

1. The price used to calculate the number of LTIP and DSBP awards was the average of the mid-market closing price of a Volution Group plc share on the three consecutive business days immediately preceding the date of grant, being £1.875 for the LTIP 2015/16 and DSBP 2015/16, £1.70 for the LTIP 2016/17 and DSBP 2016/17, £2.01 for the LTIP 2017/18 and DSBP 2017/18 and £1.865 for the LTIP 2018/19 and DSBP 2018/19.
2. LTIP awards granted from 2016/17 were granted with a three-year performance period and an additional two-year holding period.
3. LTIP 2015/16 awards had a performance period ending on 31 July 2018. 61.7% of the award vested in November 2018. Following performance testing, 72,171 awards lapsed for Ronnie George and 51,551 for Ian Dew. In accordance with the rules of the LTIP, 7,446 dividend equivalent shares were added to the vested awards for Ronnie George and 5,319 for Ian Dew.
4. DSBP 2015/16 awards vested in November 2018 and the shares were immediately transferred to each Executive Director, becoming part of their beneficial shareholdings. In accordance with the rues of the DSBP, 298 dividend equivalent shares were added to the vested awards for Ronnie George and 213 for Ian Dew.

Employee Benefit Trust

The Volution Employee Benefit Trust (EBT) currently holds 1,750,256 shares in the Company. It is the Company's intention to use shares currently held in the EBT to satisfy all awards made so far under the Long Term Incentive Plan, Deferred Share Bonus Plan and Sharesave Plan. Dividends arising on the shares held in the EBT are waived on the recommendation of the Company.

Funding of future awards under the share incentive plans

It is the Company's current intention to satisfy any future requirements of its share incentive plans in a method best suited to the interests of the Company, either by acquiring shares in the market, utilising shares held as treasury shares or issuing new shares. Where the awards are satisfied by newly issued shares or treasury shares, the Company will comply with Investment Association guidelines on shareholder dilution.

Statement of Directors' shareholdings and share interests (audited)

We believe that Executive Directors should have shareholdings in the Company to ensure that they are as closely aligned as possible with shareholder interests. As such, during the year the Company had share ownership guidelines in place which stated that Executive Directors were expected to achieve and retain a holding of the Company's shares equal to 200% of their base salary. It should be noted, as shown below, that both the Executive Directors had shareholdings well in excess of 200% of base salary. The Chairman and the Non-Executive Directors are also encouraged to hold shares in the Company in order to align their interests with those of shareholders. Directors' interests in ordinary shares held as at 31 July 2019 (together with the interests held by Persons Closely Associated with them) are set out below.

There were no changes in the Directors' shareholdings between 31 July 2019 and the date of this report.

	Shares held beneficially at 1 August 2018[1]	**Shares held beneficially at 31 July 2019[1]**	Beneficial shareholding at 31 July 2019 (% of salary)	Target shareholding achieved?[2]	LTIP awards (unvested awards subject to performance)[3]	LTIP awards vested but not exercised	DSBP awards (unvested awards, not subject to performance)
Chairman							
Peter Hill	35,333	**35,333**	N/A	N/A	—	—	—
Executive Directors							
Ronnie George	5,622,833	**5,642,797**	2,514%	Yes	853,257	308,244	70,234
Ian Dew[4]	855,327	**858,873**	561%	Yes	510,776	220,174	48,019
Non-Executive Directors							
Paul Hollingworth	19,333	**30,916**	N/A	N/A	—	—	—
Tony Reading	70,000	**90,000**	N/A	N/A	—	—	—
Amanda Mellor	—	**—**	N/A	N/A	—	—	—
Claire Tiney	2,869	**2,869**	N/A	N/A	—	—	—

Notes

1. Includes any shares held by Persons Closely Associated.
2. The target shareholding achieved has been calculated based on shares held beneficially as at 31 July 2019 using the share price on that date of 182 pence per share.
3. LTIP awards in this column consist of all awards granted as at the date of this report which are structured as nil-cost options. All awards are subject to performance conditions, with performance measured over three financial years.
4. Ian Dew retired as Chief Financial Officer and as an Executive Director on 31 July 2019. Andy O'Brien was appointed as Chief Financial Officer and as an Executive Director on 1 August 2019. In line with the directors' remuneration reporting regulations, no disclosures relating to Andy O'Brien have been made in this table.

Post-employment shareholding policy

The Committee is mindful that the new 2018 UK Corporate Governance Code, applicable to Volution Group from 1 August 2019, requires a formal policy for post-employment shareholding requirements to be developed. Under the current Remuneration Policy, if an Executive Director is awarded "good leaver" status they will retain an interest in shares post-employment as outstanding LTIP awards will normally continue to their original time horizons. The Committee, however, will review this area as part of the new Remuneration Policy, which will be subject to shareholder approval at next year's Annual General Meeting in December 2020.

CFO succession

As noted elsewhere in this Annual Report, Ian Dew stepped down as Chief Financial Officer and as an Executive Director with effect from 31 July 2019, and was succeeded by Andy O'Brien. Ian Dew will remain in employment with the Group until 31 October 2019 to effect an orderly handover.

Remuneration arrangements in respect of Ian Dew's departure were in line with our Remuneration Policy and best practice. These are as follows:

(i) during Ian Dew's remaining nine months' notice period to 31 July 2020, he will receive his normal remuneration payments in respect of salary and pension contributions (totalling £236,408) and continue to be entitled to his normal contractual benefits (totalling £12,925), in accordance with his service agreement;

(ii) he will not be eligible for any payment under the ABP during the year ending 31 July 2020; and

Directors' Remuneration Report continued

Annual Report on Remuneration continued

CFO succession continued

(iii) the Committee determined that Ian Dew was a "good leaver" for the purpose of awards or allocations made to him under the DSBP and LTIP. Vested share awards will be treated according to the rules of the relevant plan. In respect of unvested share awards, the following will apply:

> unvested DSBP awards will vest in accordance with their normal vesting schedule which is three years from grant; and

> unvested LTIP awards will remain subject to achievement of the original performance conditions and will vest on their normal vesting date, but will be reduced on a pro-rata basis to reflect Ian Dew's length of service up to 31 October 2019. Dividend accrual will be calculated on the final vesting amount. All unvested LTIP awards will remain subject to a two-year holding period following vesting. No share awards will be granted to Ian Dew under the LTIP for the financial year ending 31 July 2020.

The Committee gave careful consideration to the remuneration package for Andy O'Brien, taking into account his broad financial experience as well as recent changes in the corporate governance environment in the UK. Details of his ongoing package for the financial year ending 31 July 2020 can be found in the implementation section of this Directors' Remuneration Report on pages 82.

The Committee also determined that additional awards be granted to Andy O'Brien upon his appointment to partially compensate him for remuneration forgone at his previous employer. These awards consist of a one-off cash payment of £15,000 as well as an award of shares under the LTIP with a face value of £120,000. These shares will vest in two equal tranches on the first and second anniversary of appointment, and are not subject to any performance conditions. When determining these awards, the Committee took into account the form and time horizon of forfeited compensation. Full details of the awards will be provided in next year's Directors' Remuneration Report.

Payments to past Directors

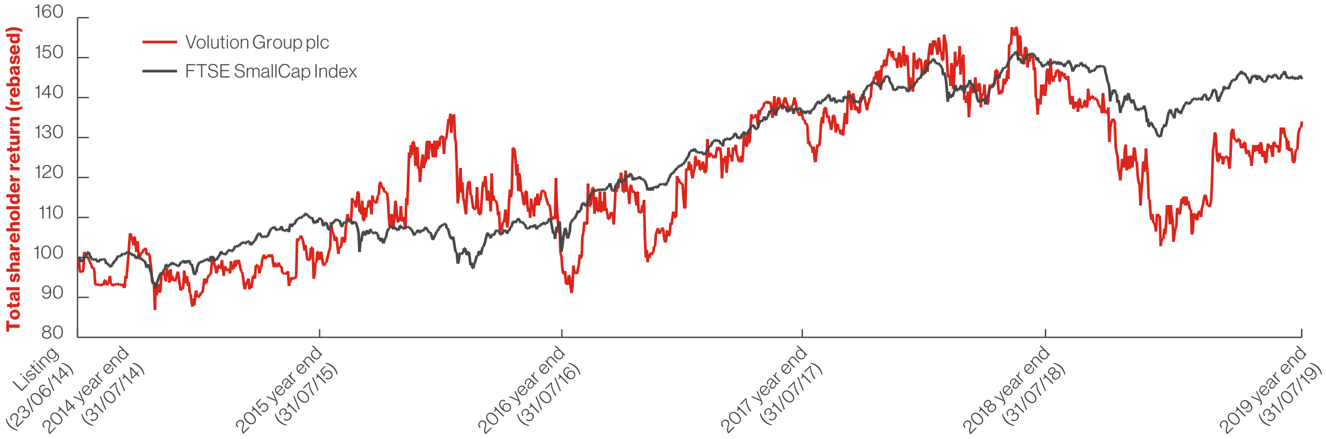
There were no payments to past Directors in the year.

Payments for loss of office

There were no payments for loss of office in the year.

Performance graph and Chief Executive Officer remuneration table (audited)

The chart below compares the total shareholder return performance of the Company against the performance of the FTSE SmallCap Index since listing on 23 June 2014. This index has been chosen because it is a recognised equity market index of which the Company is a member. The base point in the chart for the Company equates to the listing offer price of 150 pence per share.



The table below summarises the Chief Executive Officer's single figure for total remuneration, annual bonus payments and LTIP vesting levels as a percentage of maximum opportunity.

	2019	2018	2017	2016	2015	2014	2013
Chief Executive Officer's single total figure of remuneration (£000)	**885**	909	1,191	638	643	1,061	428
Annual bonus payout (as a % of maximum opportunity)	**44.7%**	44.3%	87.8%	64%	65%	100%	54.8%
LTIP vesting (as a % of maximum opportunity)	**40.5%**	61.7%	72.1%	N/A	N/A	N/A	N/A

Percentage change in remuneration of the Chief Executive Officer (audited)

The table below shows the movement in salary, benefits and bonus for the Chief Executive Officer between the current and prior years compared to the average remuneration for all Group employees.

% change	Chief Executive Officer	All employees[1]
Base salary	3.0%	1.5%
Benefits[2]	0%	3.3%
Total annual bonus	3.6%	2.9%

Notes

1. Also including Chief Executive Officer's remuneration.
2. Benefits include employer pension contributions, car allowance, health cover and life assurance.

Relative importance of the spend on pay (audited)

The following table shows the total expenditure on pay for all of the Company's employees compared to distributions to shareholders by way of dividend and share buyback. In order to provide context for these figures, adjusted operating profit is also shown.

	2019 £m	2018 £m	% change
Employee remuneration costs[1]	**61.2**	54.4	12.5%
Distributions to shareholders	**9.1**	8.5	7.2%
Adjusted operating profit	**42.1**	37.1	13.5%

Note

1. The increase in employee remuneration costs is mainly due to the increased employee population resulting from the acquisition made during the year.

Directors' Remuneration Report continued

Statement of implementation of Remuneration Policy for the financial year ending 31 July 2020

Executive Director base salaries

Ronnie George was awarded an increase in base salary of 2.5%, in line with the wider workforce. The increase took effect from 1 August 2019 increasing his base salary to £418,700. The base salary for Andy O'Brien as Chief Financial Officer was set on appointment on 1 August 2019 at £293,000 per annum.

Pension and other benefits

Ronnie George will continue to receive a cash payment in lieu of an employer's pension contribution, equivalent to 15% of base salary. Andy O'Brien will receive a cash payment in lieu of an employer's pension contribution equivalent to 5.5% of base salary, in line with the contribution rate for the wider workforce.

Other benefits received comprise an annual car allowance paid in cash of £20,910 per annum for the Chief Executive Officer and £15,300 per annum for the Chief Financial Officer, life assurance equivalent to four times annual salary and private medical insurance.

Annual Bonus Plan (ABP)

The maximum annual bonus opportunity for both the Chief Executive Officer and Chief Financial Officer will be 125% of salary, unchanged from the level set in 2018/19. One-third of the total bonus payable will be deferred into shares for three years.

Performance measures and weightings for the financial year ending 31 July 2020 will be the same as those for the year ended 31 July 2019. These are adjusted operating profit (35%), adjusted EPS (50%) and working capital management (15%). These measures reflect feedback received from shareholders during the consultation undertaken when the new Policy was being drafted, following which the ABP performance measures were simplified in order to further align the interests of the Executive Directors with shareholders. The targets set for the year ending 31 July 2020 will be disclosed in the next Annual Report on Remuneration, unless they remain commercially sensitive.

Long Term Incentive Plan (LTIP)

During 2019/20, the Committee intends to grant LTIP awards with a maximum opportunity of 150% of salary and 125% of salary for the Chief Executive Officer and Chief Financial Officer, respectively. These levels are unchanged from 2018/19.

Performance measures to be used for the LTIP awards in 2019/20 will remain the same as for the year ended 31 July 2019, being EPS growth (75%) and TSR vs Direct Peer Group (25%).

During the year, the Committee reviewed the specific performance targets under the LTIP and determined that the maximum EPS target should be revised downwards for the 2019/20 awards to more appropriately reflect the long-term budgeted performance of the Company. The threshold EPS target will remain unchanged. The Committee believes that this new target range, of 6% to 12% growth per annum, is still a very stretching target taking into account the Company's growing nature and both internal and external expectations. The annual EPS growth was strong over the past five years as the Company expanded its business not only through organic growth, but also with acquisitions. However, the Committee considered that the maximum target of 15% growth per annum was no longer a realistic objective, and therefore could become a negative aspect of the LTIP and encourage excessive risk taking, and considered that a maximum target of 12% growth per annum was more appropriate. In coming to this decision, the Committee considered a range of factors, including the Group's business plan and potential for future growth as well as external reference points such as consensus forecasts and market practice. A maximum target of 12% growth per annum remains stretching when compared to analyst forecasts over the three-year period. In terms of market practice, we are aware of other companies in our sector that have either reduced their EPS growth range in recent years or have less stretch built into the targets. The Committee decided that the threshold target should remain unchanged at 6% growth per annum (i.e. that no value should be delivered to participants for EPS growth less than this). However, taking into account all of the above, the Committee was of the view that the maximum level should be realistic and, although a stretch target, should be attainable and therefore motivation for Executive Directors to grow the business strongly and sustainably. This change to the maximum target has no impact on the Group's ongoing ambition or strategy to continue to grow organically and by acquisition.

The performance targets for the TSR measure remain unchanged from prior year.

A two-year holding period will apply following the end of the three-year vesting period.

Non-Executive Director fees

Fees of Non-Executive Directors are determined by the Board in their absence. The fees of the Chairman (whose fees are determined by the Committee in his absence) and the Non-Executive Directors were last reviewed in July 2018 and the next review is due in July 2020. Accordingly, they will remain unchanged for the year ended 31 July 2020.

The fees with effect from 1 August 2019 are summarised in the table below:

Chairman fee covering all Board duties	£143,220
Non-Executive Director basic fee	£47,740
Supplementary fees to Non-Executive Directors covering additional Board duties:	
– Senior Independent Director	£5,000
– Audit Committee chairman	£10,000
– Remuneration Committee chairman	£10,000

Statement on shareholder voting

The Company is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes in respect of the approval of the Directors' Remuneration Report and the Policy. In the event of a substantial vote against a resolution in relation to Directors' remuneration, the Company would seek to understand the reasons for any such vote and would set out in the following Annual Report and Accounts any actions in response to it.

The following table sets out the voting by shareholders at the Annual General Meeting in December 2018 in respect of our Annual Report on Remuneration and at the Annual General Meeting in December 2017 in respect of our Remuneration Policy.

Resolution	Votes cast for	% of votes cast	Votes cast against	% of votes cast	Votes withheld
Remuneration Report (2018 AGM)	165,154,273	94.74	9,166,492	5.26	0
Remuneration Policy (2017 AGM)	168,196,529	98.50	2,567,636	1.50	0

Directors' Remuneration Report continued

Directors' Remuneration Policy Report

This section of the Directors' Remuneration Report sets out the Remuneration Policy (the Policy) for Executive and Non-Executive Directors, which shareholders approved at the 2017 Annual General Meeting and became effective on 13 December 2017. In practice the Policy has been applied since the beginning of the financial year on 1 August 2017.

Remuneration Policy table

Operation	Maximum opportunity	Performance metrics
Base salary		
Purpose and link to strategy: Core element of remuneration set at a level to attract, retain and reward Executive Directors of the required calibre to successfully deliver Company strategy.		
Fixed annual sum, normally reviewed annually. In determining base salaries, the Committee considers: > Company performance and external market conditions; > pay and conditions elsewhere in the Group; > role, experience and personal performance; and > salary levels at companies of a similar size and complexity. There is no automatic entitlement to an increase each year.	The current salaries for the Executive Directors are set out in the Annual Report on Remuneration. While the Committee does not consider it appropriate to set a maximum salary, annual increases will generally be in line with those of the wider workforce. Increases beyond those awarded to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances such as progression in the role, where there is a change in responsibility or experience, or a significant increase in the scale of the role and/or size, value and/or complexity of the Group.	Company and individual performance are factors considered when reviewing salaries.
Pension		
Purpose and link to strategy: The Company aims to provide competitive retirement benefits for the role to attract, retain and reward Executive Directors of the required calibre to successfully deliver Company strategy.		
Executive Directors may receive an employer's pension contribution to a personal or Group pension scheme and/or any other arrangement the Committee considers has the same economic benefit (including a cash allowance).	15% of base salary.	N/A

Operation	Maximum opportunity	Performance metrics
Annual Bonus Plan (ABP)		
Purpose and link to strategy: To incentivise Executive Directors to achieve specific, pre-determined goals during a one-year period. Rewards achievement of objectives linked to the Company's strategy.		
Annual bonus payment is determined by the Committee after the financial year end, based on annual performance against targets set at the start of the year. Normally, one-third of any annual bonus payment earned by the Executive Directors will be deferred into awards over the Company's shares under the Company's Deferred Share Bonus Plan (DSBP) which normally vest after at least two years.	150% of base salary (subject to a combined Annual Bonus Plan opportunity and Long Term Incentive Plan award cap of 275% of salary in respect of any financial year).	Performance measures are determined with reference to the Company's key strategic business objectives for the year. No less than 50% of the bonus will be dependent on financial measures and the remainder will be based on non-financial measures that are aligned to the strategic priorities of the business. At threshold performance up to 25% of the maximum pays out. Below this level of performance, no bonus pays out. On-target bonus is set at 60% of the maximum opportunity. The Committee retains the discretion to vary the level of bonus paid away from the formulaic outcome to reflect overall Company and individual performance.
Long Term Incentive Plan (LTIP)		
Purpose and link to strategy: To incentivise the delivery of key strategic objectives over the longer term and align the interests of Executive Directors with those of our shareholders.		
Vesting of the awards is dependent on the achievement of performance targets set by the Committee, measured over a period of at least three years. Shares will then normally be subject to an additional two-year holding period. During this holding period, no further performance measures will apply.	175% of base salary as permitted by the plan rules (subject to a combined Annual Bonus Plan opportunity and Long Term Incentive Plan award cap of 275% of salary in respect of any financial year).	Awards vest based on challenging financial, operational or share price targets. At least 50% will be based on financial and/or share price-based measures. No more than 25% vests at threshold with 100% of awards vesting at maximum performance.
Other benefits		
Purpose and link to strategy: To provide a market-competitive package of benefits consistent with the role to attract, retain and reward Executive Directors of the required calibre to successfully deliver Company strategy.		
Various cash/non-cash benefits are provided to Executive Directors which may include (but are not limited to) a company car (or cash equivalent), life assurance, expatriate benefits, private medical insurance (for the Executive Director and their immediate family) and relocation benefits. Executive Directors are also eligible to participate in any all-employee share plans on the same basis as other eligible employees.	Although the Committee does not consider it appropriate to set a maximum benefits level, they are set at an appropriate level for the specific nature of the role and the individual's personal circumstances.	N/A

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Remuneration Policy table continued

Operation	Maximum opportunity	Performance metrics
Share ownership guidelines		
Purpose and link to strategy: To provide close alignment between the longer-term interests of Executive Directors and shareholders.		
Executive Directors are expected to achieve and retain a holding of the Company's shares worth 200% of their base salary. It is expected that Executive Directors will retain at least 50% of any shares delivered under the DSBP and LTIP, after the deduction of applicable taxes, until the guideline is met.	200% of base salary.	N/A
Chairman and Non-Executive Director fees		
Purpose and link to strategy: To enable the Company to attract and retain Non-Executive Directors of the required calibre by offering market-competitive fees.		
Fees are determined by the Board. The Chairman is paid an all-inclusive fee for all Board responsibilities. Non-Executive Directors receive a basic Board fee. Neither the Chairman nor Non-Executive Directors are eligible to participate in any of the Company's incentive arrangements or receive any pension provision. Additional fees may be payable for additional Board responsibilities such as chairmanship or membership of a committee or performing the Senior Independent Director role or for an increased time commitment. The Committee reviews the fees paid to the Chairman and the Board reviews the fees paid to the Non-Executive Directors, periodically, with reference to the time commitment of the role and market levels in companies of comparable size and complexity. Non-Executive Directors shall be entitled to have reimbursed all expenses (such as their travel to Board meetings), and any associated tax, that they reasonably incur in the performance of their duties.	Fees are set within the aggregate limits set out in the Company's Articles of Association. Non-Executive Directors are eligible for fee increases during the three-year period that the Policy operates to ensure they continue to appropriately recognise the time commitment of the role and fee levels in companies of a similar size and complexity.	N/A

Choice of performance measures and approach to setting

The performance metrics and targets that will be set for the Executive Directors for the ABP and LTIP will be carefully selected to align closely with the Company's strategic plan and key performance indicators.

Awards under the ABP will be determined by a combination of financial and strategic objectives appropriate to an individual's role.

The long-term performance metrics relating to the LTIP awards will be set at the time of each grant but will normally include at least 50% based on financial and/or share price performance in line with the Company's key strategic objectives.

Challenging targets for both plans will be set each year based on a number of internal and external reference points.

The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each grant under the LTIP and will consult with major shareholders in the event of any significant proposed change.

Legacy arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed:

(i) before the 2014 AGM (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect);

(ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or

(iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Common award terms

The Committee will operate the LTIP and DSBP in accordance with the respective rules, the Policy set out above and the Listing Rules where relevant. Awards under the LTIP and DSBP may:

> be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect

> have any performance conditions applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy

> incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vests up to the time of vesting (or where the award is subject to a holding period, release). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis

> be settled in cash at the Committee's discretion

> be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Malus and clawback

Malus and clawback provisions (as relevant) may be operated at the discretion of the Committee in respect of any awards granted under the ABP, DSBP and LTIP in certain circumstances including, but not limited to, a material misstatement of the Company's financial results, a material failure of risk management by any member of the Group or a relevant business unit, material reputational damage to any member of the Group or relevant business unit, or if the participant is summarily dismissed. Clawback may be applied at the discretion of the Committee up to: the third anniversary of payment of the cash bonus, and the earlier of the sixth anniversary of grant and the third anniversary of satisfying awards for DSBP and LTIP awards.

Takeover or other corporate event

In the event of a change of control, outstanding DSBP awards will normally vest in full as soon as practicable after the date of the event.

For outstanding LTIP awards, generally the performance period and holding period applicable to them will end on the date of the event. The Committee will determine the level of vesting of unvested awards taking into account the extent to which performance conditions have been achieved at this point. Unless the Committee determines otherwise, unvested awards will generally vest on a time pro-rata basis taking into account the period of time between grant and the relevant event as a proportion of the vesting period.

Alternatively, the Committee may permit a participant to exchange his awards for equivalent awards which relate to shares in a different company. If the change of control is an internal re-organisation of the Group, or if the Committee so decides, participants will be required to exchange their awards (rather than awards vesting).

If other corporate events occur, such as a winding-up of the Company, demerger, delisting, special dividend or other event which, in the opinion of the Committee, may affect the current or future value of the Company's shares, the Committee may determine that awards will vest on the same basis as set out above for a takeover.

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

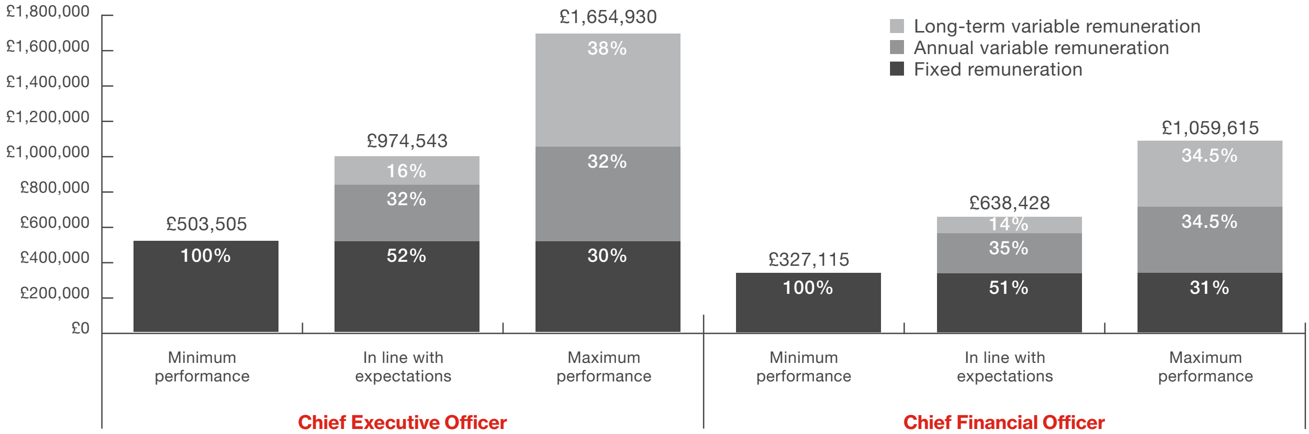
Minor changes

The Committee may make minor amendments to the Policy set out in this report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for the amendment.

Illustrations of the application of the Remuneration Policy

The Company's remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short-term and long-term performance targets.

The charts below provide illustrative values of the remuneration package for Executive Directors under three assumed performance scenarios. The charts are for illustrative purposes only and actual outcomes may differ from that shown.



The assumptions used for these charts are as follows:

Levels of performance		Assumptions
Fixed pay	All scenarios	> Total fixed pay comprises base salary, benefits and pension > Base salary – effective as at 1 August 2019 > Benefits – as set out in the single figure table for the 2018/19 year > 15% and 5.5% of base salary pension contributions for CEO and CFO respectively
Variable pay	Below threshold performance	> No payout under the ABP > No vesting under the LTIP
	In line with expectations	> 60% of the maximum potential payout under the ABP > 25% vesting under the LTIP, assuming awards equivalent to 150% and 125% of base salary are granted to the CEO and the CFO, respectively
	Maximum performance	> 100% of the maximum potential payout under the ABP (i.e. 125% of base salary) > 100% vesting under the LTIP, assuming awards equivalent to 150% and 125% of base salary are granted to the CEO and the CFO, respectively

Note
LTIP awards have been shown at face value with no share price growth, dividends or discount rate assumptions.

External appointments of Executive Directors

The Board allows Executive Directors to accept one external commercial non-executive director appointment provided the commitment is compatible with their duties as an Executive Director. The Executive Director concerned may retain fees paid for these services which will be subject to approval by the Board. Currently, neither of the Executive Directors holds an external directorship.

Approach to recruitment

The Committee will aim to set a new Executive Director's remuneration package in line with the Policy approved by shareholders.

In arriving at a total package and in considering value for each element of the package, the Committee will take into account the skills and experience of a candidate and the market rate for a candidate of that experience, as well as the importance of securing the preferred candidate.

The maximum level of variable remuneration (excluding any buy-outs) in respect of an appointment will be in line with the maximum Policy set out above (i.e. 275% of base salary). The Committee retains discretion to flex the balance of the annual bonus and LTIP and the measures used to assess performance.

The Committee may make additional cash and/or share-based awards as it deems appropriate and if the circumstances so demand to replace remuneration arrangements forfeited by an Executive Director on leaving a previous employer. This may include the use of the relevant provisions in the Financial Conduct Authority's Listing Rules allowing for exceptional awards to be made without shareholder approval.

Awards to replace forfeited remuneration would, where possible, be consistent with the awards forfeited in terms of delivery mechanism (cash or shares), time horizons, attributed expected value and whether or not they were subject to performance conditions.

Other payments may be made in relation to relocation expenses and support as appropriate.

In the case of an internal appointment, any element of remuneration in respect of the prior role would be allowed to continue according to its original terms, or adjusted if appropriate to take into account the appointment.

For the appointment of a new Chairman or Non-Executive Director, the fee would be set in accordance with the approved Policy. The length of service and notice periods will be set at the discretion of the Committee taking into account market practice, corporate governance considerations and the particular candidate at that time.

The Committee retains discretion to make appropriate remuneration decisions outside the Policy to meet the individual circumstances of recruitment when:

> an interim appointment is made to fill an Executive Director role on a short-term basis
> exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis.

Service agreements and letters of appointment

Each of the Executive Directors' service agreements is for a rolling term and may be terminated by the Company or the Executive Director by giving not less than twelve months' prior written notice and nine months' prior written notice for the Chief Executive Officer and Chief Financial Officer respectively.

The Chairman and each of the Non-Executive Directors of the Company do not have service contracts. Each of these Directors has a letter of appointment which has a three-year term which is renewable and is terminable by the Company or the individual on one month's written notice.

The terms of the Non-Executive Directors' positions are subject to their election by the Company's shareholders at the 2019 AGM. No contractual payments would become due on termination.

Non-Executive Directors are not eligible to participate in cash or share incentive arrangements and their service does not qualify for pension or other benefits. No element of their fee is performance related.

A Non-Executive Director's appointment may be terminated with immediate effect if such Director has:

> materially breached a term of their letter of appointment
> committed a serious or repeated breach of his duties to the Company
> been found guilty of fraud, dishonesty or certain criminal offences
> acted in a way likely to bring the Company into disrepute or which is materially adverse to the Company
> been declared bankrupt or
> been disqualified from acting as a Director.

The Executive Directors' service agreements and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office and will be available at the 2019 AGM.

Policy on Directors leaving the Group

The Committee must satisfy any contractual obligations agreed with the Executive Director. This is dependent on the contractual obligations not being in contradiction with the Policy set out in this report.

If an Executive Director's employment is terminated, in the absence of a breach of service agreement by the Director, the Company may, although it is not obliged to, terminate the Director's employment immediately by payment of an amount equal to base salary and benefits (including pension scheme contribution) in lieu of the whole or the remaining part of the notice period. Payments in lieu of notice will be paid in monthly instalments over the length of the notice period. Payments are subject to mitigation in the event alternative employment is taken up during the notice period.

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Policy on Directors leaving the Group continued

Discretionary bonus payments will not form part of any payments made in lieu of notice. Annual bonus may be payable, at the Committee's discretion, with respect to the period of the financial year served although it would be normally paid in cash, pro-rated for time and paid at the normal payment date.

Any share-based entitlements granted to an Executive Director under the Company's share plans will be determined based on the relevant plan rules.

The default treatment under the LTIP is that any outstanding awards lapse when the individual leaves the Group. However, in certain prescribed circumstances, such as death, ill health, injury or disability, transfer of the employing entity outside of the Group or in other circumstances at the discretion of the Committee (except where the Director is summarily dismissed), "good leaver" status may be applied.

For good leavers, LTIP awards will normally continue until the normal vesting date, or when awards are subject to a holding period, to the end of the holding period, although the Committee may allow awards to vest (and be released from any holding periods) as soon as reasonably practicable after leaving in the case of death or such other circumstances the Committee considers appropriate. When a good leaver leaves holding unvested LTIP awards, the award will vest taking into account the extent to which the performance condition has been satisfied and, unless the Committee determines otherwise, the period of time that has elapsed between grant and the date of leaving as a proportion of the vesting period.

If a participant of the DSBP leaves the Group for any reason, the award will usually vest in full at the date of cessation, unless the Committee determines otherwise.

In the event that a buy-out award is made on recruitment, the leaver provisions would be determined at the time of the award.

Differences in Policy for Executive Directors compared to other employees

The Committee has regard to pay structures across the wider Group when setting the Policy for Executive Directors. The Committee considers the general basic salary increase for the broader workforce when determining the annual salary review for the Executive Directors.

Overall, the Policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees.

The level of performance-related pay varies within the Group by grade of employee and is calculated by reference to the specific responsibilities of each role as appropriate.

Statement of consideration of employment conditions elsewhere in the Group

Although pay and employment conditions elsewhere in the Group are taken into account to ensure the relationship between the pay of Executive Directors and employees remains appropriate, the Committee does not consult with employees when formulating the Policy.

Consideration of shareholder views

We take an active interest in shareholder views on our executive remuneration policy. The Committee is also committed to maintaining an ongoing dialogue with major shareholders and shareholder representative bodies whenever material changes are under consideration. The Committee consulted with shareholders and proxy voting agencies when formulating this Policy.

Approval

This Directors' Remuneration Report was approved by the Board of Directors on 9 October 2019 and signed on its behalf by the Remuneration Committee chairman.

Anthony Reading, MBE
Chairman of the Remuneration Committee
9 October 2019

Directors' Report

Introduction

The Directors present their Annual Report and the audited financial statements of the Company for the year ended 31 July 2019.

This Directors' Report includes additional information required to be disclosed under the Companies Act 2006, the Code, the Disclosure, Guidance and Transparency Rules (DTRs) and the Listing Rules of the Financial Conduct Authority.

Certain information required to be included in the Directors' Report is included in other sections of this Annual Report as follows, which is incorporated by reference into this Directors' Report:

- the Strategic Report on pages 2 to 47
- the Governance Report on pages 48 to 94
- information relating to financial instruments, as set out in note 23 to the consolidated financial statements
- related party transactions as set out in note 29 to the consolidated financial statements.

This Directors' Report also represents the Management Report for the purpose of compliance with the DTRs.

Corporate structure

Volution Group plc is a public company limited by shares, incorporated in England and Wales, and its shares are traded on the premium segment of the Main Market of the London Stock Exchange (LSE: FAN).

Results and dividend

The Group's results for the year are shown in the statement of comprehensive income on page 102.

An interim dividend of 1.60 pence per share was paid to shareholders on 3 May 2019 and the Directors are recommending a final dividend in respect of the financial year ended 31 July 2019 of 3.30 pence per share. If approved, the final dividend will be paid on 18 December 2019 to shareholders on the register on 22 November 2019. The total dividend paid and proposed for the year amounts to 4.90 pence per share.

Share capital and related matters

The Company has only one class of share and the rights attached to each share are identical. Details of the rights and obligations attaching to the shares are set out in the Company's Articles of Association which are available from the Company Secretary. The Company may refuse to register any transfer of any share which is not a fully paid share. At a general meeting of the Company, every member has one vote on a show of hands and on a poll one vote for each share held. Details of the voting procedure, including deadlines for exercising voting rights, are set out in the Notice of Annual General Meeting 2019.

As at 31 July 2019 the issued share capital of the Company was 200,000,000 ordinary shares of 1 pence each. Details of the share capital as at 31 July 2019 are shown in note 25 to the consolidated financial statements.

Powers of the Directors

The Directors may exercise all the powers of the Company including, subject to obtaining the required authority from the shareholders in general meeting, the power to authorise the issue of new shares and the purchase of the Company's shares. At the AGM in 2018, the Company was authorised by members to purchase up to a maximum of 19,887,014 of its own shares. During the financial year ended 31 July 2019, the Directors did not exercise any of the powers to issue or purchase shares in the Company.

Restrictions on transfer and voting rights

There are no general restrictions on the transfer of ordinary shares in the Company other than in relation to certain restrictions that are imposed from time to time by laws and regulations (for example insider trading laws). Pursuant to the Market Abuse Regulation, Directors and certain officers and employees of the Group require the approval of the Company to deal in the ordinary shares of the Company.

Each ordinary share in the capital of the Company ranks equally in all respects. No shareholder holds shares carrying special rights relating to the control of the Company.

The Company has in place certain share incentive plans and details can be found on pages 76 to 79. Awards under the Company's Long Term Incentive Plan and Deferred Share Bonus Plan are normally made on an annual basis and details can be found in the Directors' Remuneration Report on pages 72 to 90. The Company launched its first invitation under its all-employee Sharesave Scheme in 2018.

The Company also has an Employee Benefit Trust (EBT) in which to hold ordinary shares to satisfy awards under the share incentive plans. As at the financial year end on 31 July 2019 and as at the date of this report, there were 1,750,256 ordinary shares held in the EBT. The trustee of the EBT has the power to exercise the rights and powers incidental to, and to act in relation to, the ordinary shares subject to the EBT in such manner as the trustee in its absolute discretion thinks fit.

The trustee of the EBT has waived the right to receive dividends on any ordinary shares held, except for a nominal amount of 1 pence, other than for those ordinary shares held in the EBT which are the beneficial property of an employee or shareholder. For further details on the EBT please see note 25 to the consolidated financial statements. The trustee does not vote ordinary shares held in the EBT, except for those ordinary shares which are the beneficial property of an employee or shareholder, which the trustee will vote in accordance with the instructions received from the beneficial owner.

Directors' Report continued

Substantial shareholdings

As at the date of this report, the Company had been notified, in accordance with the DTRs, of the following interests representing 3% or more of the voting rights in the issued share capital of the Company:

Name of holder	Total holding of shares	% of total voting rights
PrimeStone Capital LLP	26,130,940	13.18%
Standard Life Aberdeen plc	13,496,183	6.81%
FMR LLC	12,731,662	6.42%
Baillie Gifford & Co	11,343,105	5.72%
Artemis Investment Management LLP	10,087,413	5.09%
UBS Global Asset Management	6,413,511	3.24%

Directors

The Directors of the Company and their biographies are set out on pages 50 and 51. Their interests in the ordinary shares of the Company are shown in the Directors' Remuneration Report on page 79. Ian Dew retired as Chief Financial Officer and an Executive Director on 31 July 2019. Andy O'Brien was appointed as Chief Financial Officer and as an Executive Director on 1 August 2019 and his biography is set out on page 50.

Appointment and removal of Directors

Directors may be appointed by ordinary resolution of the Company or by the Board.

All Directors will stand for election or re-election on an annual basis, in line with the recommendations of the Code.

In addition to any powers of removal conferred by the Companies Act 2006, the Company may by special resolution remove any Director before the expiration of his period of office.

Directors' indemnities and insurance

The Articles of Association of the Company permit it to indemnify the Directors of the Company against liabilities arising from or in connection with the execution of their duties or powers to the extent permitted by law.

The Company has directors' and officers' indemnity insurance in place in respect of each of the Directors. The Company has entered into a qualifying third party indemnity (the terms of which are in accordance with the Companies Act 2006) with each of the Directors. Neither the indemnity nor insurance provide cover in the event that a Director or officer is proved to have acted fraudulently.

Transactions with related parties

Details of the transactions entered into by the Company with parties who are related to it are set out in note 29 to the consolidated financial statements.

Change of control

There is one significant agreement to which the Company is a party that is affected by a change of control as follows:

> the Facilities Agreement dated 15 December 2017 contains provisions to enter into negotiations with the lenders to continue with the facilities set out in the agreement upon notification that there will be a change of control. Further details of the Group's banking facilities are shown in note 23 to the consolidated financial statements.

The provisions of the Company's share incentive plans may cause options and awards granted to employees under such plans to vest on takeover.

The Company does not have agreements with any Director that would provide compensation for loss of office or employment resulting from a change of control.

Amendments to the Company's Articles of Association

The Company may alter its Articles of Association by special resolution passed at a general meeting of shareholders.

Political donations

The Group has not made in the past, nor does it intend to make in the future, any political donations.

Post-balance sheet events

There are no post-balance sheet events.

Going concern

The Company's statement on going concern can be found on page 29.

Viability Statement

In accordance with the UK Corporate Governance Code 2016 (provision C.2.2), the Board assessed the prospects of the Group over a longer period than the twelve months required by the going concern provision and the statement is set out on page 29.

Annual General Meeting

The Annual General Meeting will be held at 12.00 noon on Thursday 12 December 2019 at the offices of Norton Rose Fulbright LLP, 3 More London Riverside, London SE1 2AQ. The Notice of Annual General Meeting and an explanation of the items of non-routine business are set out in the explanatory circular that accompanies this Annual Report and Accounts.

Auditor and disclosure of information to auditor

Each of the Directors in office at the date when this Annual Report and Accounts was approved confirms that:

> so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware

> the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Ernst & Young LLP has expressed its willingness to be re-appointed as auditor of the Company. A resolution to re-appoint Ernst & Young LLP as the Company's independent auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Michael Anscombe
Company Secretary
9 October 2019

Volution Group plc
Registered office: Fleming Way, Crawley, West Sussex RH10 9YX
Company number: 09041571

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with IFRS as adopted by the EU.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

> select suitable accounting policies and then apply them consistently
> make judgements and estimates that are reasonable and prudent
> state whether the Group and parent company financial statements have been prepared in accordance with IFRS as adopted by the EU
> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, a directors' report, a directors' remuneration report and a corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of Directors in respect of the Annual Report and the financial statements

We confirm that to the best of our knowledge:

> the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole
> the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
> the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Ronnie George
Chief Executive Officer
9 October 2019

Andy O'Brien
Chief Financial Officer
9 October 2019

Independent Auditor's Report
To the members of Volution Group plc

Opinion
In our opinion:

> Volution Group plc's Group financial statements and parent company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2019 and of the Group's profit for the year then ended;

> the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

> the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Volution Group plc which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 July 2019	Statement of financial position as at 31 July 2019
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of cash flows for the year then ended	Related notes 1 to 14 to the financial statements including a summary of significant accounting policies
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

> the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

> the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	> The risk of improper revenue recognition through inappropriate manual journal entries and/or customer rebates > The risk of management override resulting from inappropriate identification presentation and disclosure of exceptional items and/or unauthorised non-standard manual journal entries
Audit scope	> We performed an audit of the complete financial information of five components and audit procedures on specific balances for a further fourteen components > The components where we performed full or specific audit procedures accounted for 94% of Profit before tax and exceptional items, 93% of Revenue and 98% of Total Assets
Materiality	> Overall Group materiality of £1,247k which represents 5% of Group profit before tax and exceptional items

Independent Auditor's Report continued

To the members of Volution Group plc

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Improper revenue recognition through inappropriate manual journal entries and/or customer rebates	**Our judgement on the risk profile of the Group:**
During the year the Group recognised revenue of £235.7 million (FY2018: £205.7 million).	The risk profile has remained stable.

We determined that there is risk of material misstatement associated with revenue recognition as revenue is the most significant item in the consolidated statement of comprehensive income and impacts the majority of the key performance indicators of the Group.

Risk	**Our response to the risk**	**Key observations communicated to the Audit Committee**
The risk of inappropriate revenue recognition arises from the following: > inappropriate recognition of sales due to inappropriate manual journal entries; and > judgemental customer rebate provisions.	We tested the appropriate application of revenue recognition through substantively testing a sample of revenue transactions during, before and after the period end to identify that revenue was recognised appropriately. For all entities except Simx, Ventair and Oy Pamon we used data analytics, to identify recorded transactions that did not align with our expectation of the transaction flow. This involved performing three-way correlations between revenue, debtors and cash. We tested customer rebate liabilities through obtaining direct confirmation of the sales rebate terms from certain customers and reviewing formal agreements with customers where such confirmations were not received. We recalculated the expected sales rebates for customers and compared these to actual amounts recorded by management. We also evaluated whether a consistent methodology was applied with the prior year. We also performed the following: > obtained an understanding of the significant classes of transactions impacting revenue and performed walkthroughs to confirm our understanding of these transactions and controls in place; > evaluated the adequacy of the design of the controls on the significant classes of transactions impacting revenue; > performed analytical procedures, including a comparison of actual revenue against budget and prior year; > tested the application of cutoff by obtaining the incoterms, supporting sales orders, proof of dispatch and proof of payment for a sample of sales transactions across all trading companies in scope; and > performed journal entry testing using selected risk-based criteria for entries made to revenue. Instructions to perform the above procedures were issued to all full and specific scope locations, which covered 93% of consolidated revenue.	We concluded that: > revenue has been recognised in accordance with IFRS; > the occurrence of revenue was found to be appropriate; > the customer rebate liabilities recognised by the Group were appropriate; and > appropriate disclosure of the nature of customer rebates is included in the financial statements.
Supporting references in the Annual Report and Accounts: The Audit Committee Report (page 65).		Accounting policies (pages 106 to 109 and page 111); and note 3 and note 21 to the consolidated financial statements (pages 111 and 112 and page 135).

Key audit matters continued

Management override arising from inappropriate presentation of exceptional items and/or unauthorised non-standard journal entries	Our judgement on the risk profile of the Group
The Group reported exceptional operating costs of £1.8 million (2018: £6.4 million).	The risk profile has remained stable.

We determined that exceptional items contain a risk of material misstatement as adjusted performance measures are regularly referred to by management in describing the Group's performance and form the basis of bonuses payable to Executive Directors. The principal areas of judgement relates to the identification and disclosure of exceptional operating costs.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of management override arises as follows: > the presentation of items as exceptional when in practice the items in question may relate to underlying trading activities and/or recur from period to period; and > the posting of unauthorised non-standard journal entries (including manual journal entries).	Exceptional items: > We obtained and reviewed management's paper which included the assumptions and judgements used for classification of items as exceptional. > We identified the key judgements and estimates inherent in management's analysis to determine whether the items presented as exceptional meet the criteria defined by management as "material" and "non-recurring" and whether they are consistent with the Group's accounting policy. We paid particular focus to management's quantification of costs incurred in relation to the factory relocation. > We determined whether the disclosure of exceptional items is consistent with the tone suggested by the FRC's thematic review on exceptional items which was concluded in November 2017. > We considered whether the nature and amounts of the exceptional operating costs were disclosed transparently to allow the reader to understand the performance of the business. Unauthorised non-standard journal entries: > We made enquiries of management regarding the risks of fraud and the controls put in place to address management override. > We identified unusual journal entries that exceeded our testing thresholds and validated their appropriateness. The audit of judgements made in classifying items as exceptional was performed by the UK team. Instructions to perform the above procedures for unauthorised non-standard journal entries were issued to all full and specific scope locations.	We concluded that the presentation of the reported items as exceptional is supportable. We considered whether the nature and amount of the costs were disclosed transparently to allow the reader to understand the performance of the business and concluded that the disclosures were sufficient. Our testing of non-standard journal entries raised at subsidiary and Group levels did not provide evidence of any unauthorised or inappropriate journal entries.
Supporting references in the Annual Report and Accounts: The Audit Committee Report (page 65).		Accounting policies (page 106); and note 5 to the consolidated financial statements (pages 115 and 116).

In the prior year, our Auditor's Report included a key audit matter in relation to accounting for acquisitions. In the current year, we have reassessed this risk. On 1 March 2019, the Group acquired Ventair Pty Limited ("Ventair") in Australia for an initial cash consideration of approximately £8.7 million; revenue of Ventair included in the consolidated statement of comprehensive income amounted to £4.0 million which is 1.7% of total Group revenue. This is not considered significant compared to the four acquisitions made by the Group in the prior year. Due to the smaller scale of the acquisition activity in the current year, we do not present a separate key audit matter related to the accounting for acquisitions.

Independent Auditor's Report continued

To the members of Volution Group plc

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 26 reporting components of the Group, we selected 19 components covering entities in New Zealand, Australia, Germany, Belgium, Sweden, Finland and the UK, which represent the principal business units within the Group.

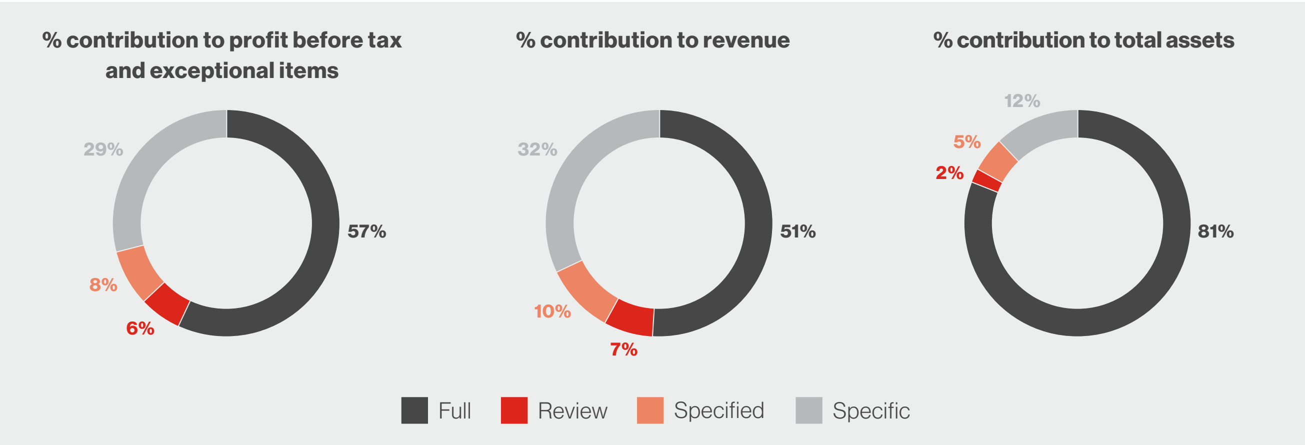
Of the 19 components selected, we performed an audit of the complete financial information of five components (full scope components) which were selected based on their size or risk characteristics. For the remaining 14 components (specific scope components), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

We set out below details relating to the coverage of our audit procedures. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

	% of Group profit before tax and exceptional items		% of Group revenue		% of Group total assets	
	2019	2018	**2019**	2018	**2019**	2018
Reporting components where we performed audit procedures	**94%**	93%	**93%**	94%	**98%**	94%
Full scope	**57%**	57%	**51%**	53%	**81%**	57%
Specific scope or specified procedures	**37%**	36%	**42%**	41%	**17%**	36%

Of the remaining seven components that together represent 6% of Group's Profit Before Tax and exceptional items, none are individually greater than 2% of this adjusted Profit Before Tax measure. For these components ("review scope" components), we performed other procedures including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



Changes from the prior year

The Group acquired Ventair Pty Limited in the current financial year. We have performed specific scope audit procedures on this entity for the purposes of our Group audit.

The only other change to the scope adopted in the previous year is for Oy Pamon Ab, where in the current financial year we are performing specified procedures, whereas the scope for the previous year was review scope.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the five full scope components, audit procedures were performed on four of these directly by the primary audit team and one by the component audit team. For the 14 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit engagement partner participated in the closing meetings for all in scope UK and overseas components. For all UK components, a senior member of the team also visited the client site. The visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with the local management, attending closing meetings in person and reviewing key audit working papers in risk areas. For overseas entities which were not physically visited, the primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1,247k (2018: £1,083k), which is 5% (2018: 5%) of Profit Before Tax and exceptional items.

We determined materiality for the parent company to be £1,475k (2018: £1,471k), which is 0.5% (2018: 0.5%) of total assets. The materiality determined for the standalone parent company financial statements exceeds the Group materiality as it is determined on a different basis given the nature of the operations. For the purposes of the audit of the Group financial statements, our procedures, including those on balances in the parent company, are undertaken with reference to the Group materiality and performance materiality set out in this report.

Group materiality:

Starting basis
> Pre-tax earnings of £23,140k

Adjustments
> Add back exceptional costs of £1,801k

Materiality
> Totals £24,941k
> Materiality of £1,247k (5% of materiality basis)

During the course of our audit, we reassessed initial materiality and made changes to the above calculation to align with the Group's actual reported results.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £935k (2018: £812k). We have set performance materiality at this percentage due to the active implementation of controls and procedures to address comments raised in the internal auditor's reports and our internal control observations. We also gave consideration to our low expectation of audit differences based on recent experience.

Independent Auditor's Report continued

To the members of Volution Group plc

Our application of materiality continued

Performance materiality continued

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £160k to £588k (2018: £256k to £470k).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £62k (2018: £54k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

> the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

> the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

> In the light of the knowledge and understanding of the Group and the parent company and its environment obtained during the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 94, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

> We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. There are no significant industry specific laws or regulations that we considered in determining our approach.

> We understood how Volution Group plc is complying with those frameworks by making enquiries with management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes and papers provided to the Audit Committee. Our assessment included the tone from the top and the emphasis on a culture of honest and ethical behaviour.

> We assessed the susceptibility of the Group’s financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programmes and the controls which the Group has established to address risks identified or that otherwise prevent, deter and detect fraud and how senior management monitors these programmes and controls.

> Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures were focused on revenue recognition, which is discussed in our key audit matters, and journal entry testing.

> Our procedures were communicated to and performed by our component teams.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor’s Report.

Other matters we are required to address

> Following the recommendation of the Audit Committee, we were appointed as auditor by the Board of Directors and signed an engagement letter on 3 September 2019. We were appointed by the company at the AGM on 12 December 2018 to audit the financial statements for the year ended 31 July 2019 and subsequent financial periods.

> The period of total uninterrupted engagement including previous renewals and re-appointments is six years, covering the years ending 31 July 2014 to 31 July 2019.

> The non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.

> The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Andy Smyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

9 October 2019

Notes:

1. The maintenance and integrity of the Volution Group plc website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2019

	Notes	2019 £000	2018 £000
Revenue from contracts with customers	3	**235,698**	205,676
Cost of sales		**(124,619)**	(109,053)
Gross profit		**111,079**	96,623
Administrative and distribution expenses		**(84,616)**	(74,193)
Operating profit before exceptional items		**26,463**	22,430
Exceptional operating costs	5	**(1,801)**	(6,417)
Release of contingent consideration	5	**—**	1,502
Operating profit		**24,662**	17,515
Finance revenue	6	**621**	852
Finance costs	6	**(2,143)**	(1,630)
Profit before tax		**23,140**	16,737
Income tax	10	**(4,913)**	(3,414)
Profit for the year		**18,227**	13,323
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**2,303**	(2,075)
(Loss)/gain on hedge of net investment in foreign operations		**(303)**	1,691
Other comprehensive income/(expense) for the year		**2,000**	(384)
Total comprehensive income for the year		**20,227**	12,939
Earnings per share			
Basic earnings per share	11	**9.2p**	6.7p
Diluted earnings per share	11	**9.2p**	6.7p

Consolidated Statement of Financial Position

At 31 July 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	12	**23,758**	22,611
Intangible assets – goodwill	13	**118,183**	112,682
Intangible assets – others	14	**95,126**	104,124
		237,067	239,417
Current assets			
Inventories	17	**35,585**	30,136
Right of return assets	3	**430**	—
Trade and other receivables	18	**42,199**	38,873
Other financial assets	19	**907**	302
Cash and short-term deposits	20	**11,547**	18,221
		90,668	87,532
Total assets		**327,735**	326,949
Current liabilities			
Trade and other payables	21	**(38,807)**	(45,689)
Refund liabilities	3	**(7,529)**	—
Income tax		**(279)**	(1,410)
Other financial liabilities	22	**(318)**	—
Provisions	24	**(1,398)**	(1,004)
		(48,331)	(48,103)
Non-current liabilities			
Interest-bearing loans and borrowings	23	**(85,391)**	(94,605)
Other financial liabilities	22	**(1,501)**	(1,144)
Provisions	24	**(384)**	(384)
Deferred tax liabilities	26	**(16,019)**	(17,500)
		(103,295)	(113,633)
Total liabilities		**(151,626)**	(161,736)
Net assets		**176,109**	165,213
Capital and reserves			
Share capital	25	**2,000**	2,000
Share premium	25	**11,527**	11,527
Treasury shares		**(2,030)**	(1,962)
Capital reserve		**93,855**	93,855
Share-based payment reserve		**1,745**	1,836
Foreign currency translation reserve		**3,507**	1,507
Retained earnings		**65,505**	56,450
Total equity		**176,109**	165,213

The consolidated financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 9 October 2019.

On behalf of the Board

Ronnie George
Chief Executive Officer

Andy O'Brien
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 July 2019

	Share capital £000	Share premium £000	Treasury shares £000	Capital reserve £000	Share-based payment reserve £000	Foreign currency translation reserve £000	Retained earnings £000	Total £000
At 1 August 2017	2,000	11,527	(2,027)	93,855	1,289	1,891	51,598	160,133
Profit for the year	—	—	—	—	—	—	13,323	13,323
Other comprehensive expense	—	—	—	—	—	(384)	—	(384)
Total comprehensive income	—	—	—	—	—	(384)	13,323	12,939
Share-based payment including tax	—	—	65	—	547	—	—	612
Dividends paid	—	—	—	—	—	—	(8,471)	(8,471)
At 31 July 2018	2,000	11,527	(1,962)	93,855	1,836	1,507	56,450	165,213
Profit for the year	—	—	—	—	—	—	18,227	18,227
Other comprehensive expense	—	—	—	—	—	2,000	—	2,000
Total comprehensive income	—	—	—	—	—	2,000	18,227	20,227
Purchase of own shares	—	—	(1,199)	—	—	—	—	(1,199)
Vesting of shares	—	—	1,131	—	(1,043)	—	(88)	—
Share-based payment including tax	—	—	—	—	952	—	—	952
Dividends paid	—	—	—	—	—	—	(9,084)	(9,084)
At 31 July 2019	**2,000**	**11,527**	**(2,030)**	**93,855**	**1,745**	**3,507**	**65,505**	**176,109**

Treasury shares

The treasury shares reserve represents the cost of shares in Volution Group plc purchased in the market and held by the Volution Employee Benefit Trust to satisfy obligations under the Group's share incentive schemes.

Capital reserve

The capital reserve is the difference in share capital and reserves arising from the use of the pooling of interest method for preparation of the financial statements in 2014. This is a non-distributable reserve.

Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to key management personnel, as part of their remuneration. Refer to note 32 for further detail of these plans.

Foreign currency translation reserve

Exchange differences arising on translation of the Group's foreign subsidiaries into GBP are included in the foreign currency translation reserve. The Group hedges some of its exposure to its net investment in foreign operations; foreign exchange gains and losses relating to the effective portion of the net investment hedge are accounted for by entries made to other comprehensive income. No hedge ineffectiveness has been recognised in the statement of comprehensive income for any of the periods presented.

Retained earnings

The parent company of the Group, Volution Group plc, had distributable retained earnings at 31 July 2019 of £82,335,000 (2018: £72,214,000).

Consolidated Statement of Cash Flows

For the year ended 31 July 2019

	Notes	2019 £000	2018 £000
Operating activities			
Profit for the year after tax		**18,227**	13,323
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax		**4,913**	3,414
(Gain)/loss on disposal of property, plant and equipment		**(76)**	218
Exceptional items	5	**1,801**	6,417
Release of contingent consideration		**—**	(1,502)
Cash flows relating to exceptional items		**(1,486)**	(5,368)
Finance revenue	6	**(621)**	(852)
Finance costs	6	**2,143**	1,310
Exceptional write off of unamortised loan issue costs upon refinancing	6	**—**	320
Share-based payment expense		**895**	475
Depreciation of property, plant and equipment	12	**3,272**	3,031
Amortisation of intangible assets	14	**16,594**	15,605
Working capital adjustments:			
Decrease in trade receivables and other assets		**10**	1,104
Increase in inventories		**(2,756)**	(2,193)
Exceptional items: fair value of inventories		**—**	(616)
(Decrease)/increase in trade and other payables		**(1,955)**	887
Movement in provisions		**221**	(905)
Cash generated by operations		**41,182**	34,668
UK income tax paid		**(3,900)**	(4,952)
Overseas income tax paid		**(5,422)**	(3,956)
Net cash flow generated from operating activities		**31,860**	25,760
Investing activities			
Payments to acquire intangible assets	14	**(1,836)**	(1,898)
Purchase of property, plant and equipment	12	**(4,180)**	(4,635)
Proceeds from disposal of property, plant and equipment		**218**	256
Acquisition of subsidiaries, net of cash acquired	16	**(8,417)**	(40,985)
Interest received		**16**	14
Net cash flow used in investing activities		**(14,199)**	(47,248)
Financing activities			
Repayment of interest-bearing loans and borrowings		**(29,609)**	(67,869)
Proceeds from new borrowings		**17,500**	103,474
Issue costs of new borrowings		**(180)**	(954)
Interest paid		**(1,913)**	(843)
Dividends paid		**(9,084)**	(8,471)
Purchase of own shares		**(1,199)**	—
Net cash flow (used in)/generated from financing activities		**(24,485)**	25,337
Net (decrease)/increase in cash and cash equivalents		**(6,824)**	3,849
Cash and cash equivalents at the start of the year		**18,221**	14,499
Effect of exchange rates on cash and cash equivalents		**150**	(127)
Cash and cash equivalents at the end of the year	20	**11,547**	18,221

Volution Group plc (the Company) is a public limited company and is incorporated and domiciled in the UK (registered number: 09041571). The share capital of the Company is listed on the London Stock Exchange. The address of its registered office is Fleming Way, Crawley, West Sussex RH10 9YX.

Notes to the Consolidated Financial Statements
For the year ended 31 July 2019

1. Basis of preparation
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies under the relevant notes.

The preparation of the consolidated financial information in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise judgement in the process of applying the Group's accounting policies. Accounting policies, including critical accounting judgements and estimates used in the preparation of the financial statements, are described in the specific note to which they relate.

The consolidated financial statements are presented in GBP and all values are rounded to the nearest thousand (£000), except as otherwise indicated.

The financial information includes all subsidiaries. The results of subsidiaries are included from the date on which effective control is acquired up to the date control ceases to exist.

Subsidiaries are controlled by the parent (in each relevant period) regardless of the amount of shares owned. Control exists when the parent has the power, either directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting periods using consistent accounting policies. All intercompany transactions and balances, including unrealised profits arising from intra-group transactions, have been eliminated on consolidation.

Going concern
The Group's Strategic Report on page 29 shows the Directors' assessment of the Group's ability to continue as a going concern. The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future, for the period not less than twelve months from the date of this report.

In December 2018, the Group exercised the option to extend its multicurrency revolving credit facility by a period of twelve months at a cost of £0.2 million; the maturity date is now 15 December 2022.

Foreign currencies
The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of each entity are expressed in GBP (£000), which is the functional currency of the Company and the presentational currency of the Group.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rate prevailing at the end of the reporting period.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date the fair value was determined.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are expressed in GBP using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rate for the period. Exchange differences arising are classified as other comprehensive income and are transferred to the foreign currency translation reserve. All other translation differences are taken to profit and loss with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign operations, in which case they are taken to other comprehensive income together with the exchange difference on the net investment in these operations.

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The significant judgements, estimates and assumptions made in these financial statements relate to: Exceptional items (note 5), Intangible assets – goodwill (note 13), Intangible assets – other (note 14), Impairment assessment of goodwill (note 15) and Refund liabilities arising from retrospective volume rebates (note 3).

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are described under the relevant notes.

The Group based its assumptions and estimates on parameters available when these financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

1. Basis of preparation continued

New standards and interpretations

The following standards and interpretations are new or amended and have been effective for the first time in the year ended 31 July 2019.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 and replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group applied IFRS 9 prospectively, with an initial application date of 1 August 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 were not material therefore no adjustment has been made to opening retained earnings or other components of equity.

IFRS 9 has introduced changes to the accounting for impairment of financial assets, which has resulted in the Group moving away from an incurred loss model to an expected credit loss (ECL) model. The revised standard has impacted the way in which the Group calculates the ECL, however the impact is not material, detailed information can be found in note 18, Trade and other receivables.

IFRS 9 has also impacted the classification of the Group's Trade receivables. Trade receivables classified as loans and receivables as at 31 July 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 August 2018.

The adoption of IFRS 9 has not had a material impact on the Group's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 August 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard only to contracts that are not completed as at 1 August 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings, however as the effect was not material no adjustment has been made. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related Interpretations.

The effect of adopting IFRS 15 as at 1 August 2018 was as follows:

	Reference	Increase/ (decrease)
Assets		
Right of return assets	a)	430
Trade and other receivables	a)	660
Total		1,090
Liabilities		
Refund liabilities	a)	6,854
Trade and other payables	a)	(5,764)
Total		1,090
Total adjustments on equity		
Retained earnings	a)	—

Set out below are the amounts by which each financial statement line item is affected as at and for the year ended 31 July 2019 as a result of the adoption of IFRS 15. The adoption of IFRS 15 did not have any impact on OCI or the Group's operating, investing and financing cash flows. The first column shows amounts prepared under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

1. Basis of preparation continued

New standards and interpretations continued

IFRS 15 Revenue from Contracts with Customers continued

	Reference	Amounts prepared under IFRS 15 £000	Previous IFRS £000	Increase/ (decrease) £000
Sale of goods	b)	**233,612**	231,332	2,280
Installation services	b)	**2,086**	4,366	(2,280)
Total revenue from contracts with customers		**235,698**	235,698	—

Consolidated statement of financial position as at 31 July 2019:

	Reference	Amounts prepared under IFRS 15 £000	Previous IFRS £000	Increase/ (decrease) £000
Current assets				
Right of return assets	a)	**430**	—	430
Trade and other receivables	a)	**42,199**	41,582	617
Total current assets		**90,668**	89,621	1,047
Current liabilities				
Refund liabilities	a)	**7,529**	—	7,529
Trade and other payables	a)	**38,807**	45,289	(6,482)
Total current liabilities		**48,331**	47,284	1,047
Net assets		**176,109**	176,109	—
Total equity		**176,109**	176,109	—

(a) Sale of equipment with variable consideration

Some contracts for the sale of equipment provide customers with a right of return and volume rebates. Before adopting IFRS 15, the Group recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable net of volume rebates. If revenue could not be reliably measured, the Group deferred recognition of revenue until the uncertainty was resolved. Under IFRS 15, rights of return and volume rebates give rise to variable consideration.

Rights of return

When a contract provides a customer with a right to return the goods within a specified period, the Group previously estimated expected returns using a probability-weighted average amount approach similar to the expected value method under IFRS 15. Before the adoption of IFRS 15, the gross margin impact related to the expected returns was deferred and recognised in the statement of financial position within trade and other payables with a corresponding adjustment to cost of sales. No adjustment was made to inventories to account for the potential return assets. Under IFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Group used the expected value method to estimate the goods that will not be returned. For goods expected to be returned, the Group presented revenue net of the expected returns with a corresponding adjustment to cost of sales, a refund liability and an asset for the right to recover products from a customer separately in the statement of financial position.

Upon adoption of IFRS 15, the Group reclassified provisions of £660,000, which were previously offset against trade and other receivables to refund liabilities as at 1 August 2018. In addition, the remeasurement resulted in additional refund liabilities of £430,000 and right of return assets of £430,000 as at 1 August 2019.

As at 31 July 2019, IFRS 15 increased right of return assets, trade and other receivables and refund liabilities by £430,000, £617,000 and £1,047,000 respectively.

Volume rebates

Before adoption of IFRS 15, the Group estimated the expected volume rebates using the probability-weighted average amount of rebates approach and included an allowance for rebates in trade and other payables.

Under IFRS 15, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group applied the "expected value method" for contracts with more than one volume threshold. Upon adoption of IFRS 15, the Group recognised refund liabilities of £5,764,000 for the expected future rebates payable as at 1 August 2018 and removed the corresponding provision previously included in trade and other payables.

As at 31 July 2019, IFRS 15 increased refund liabilities by £6,482,000 and decreased trade and other payables by a corresponding amount.

1. Basis of preparation continued

New standards and interpretations continued

IFRS 15 Revenue from Contracts with Customers continued

(b) Bundled sales of equipment and installation services

Before the adoption of IFRS 15, the Group accounted for the equipment and installation service as non-separable deliverables within bundled sales and disclosed the total revenue generated as revenue from rendering of services.

Under IFRS 15, the Group assessed that there were two performance obligations in a contract for bundled sales of equipment and installation services and performed a re-allocation of the transaction price based on their relative stand-alone selling prices for the equipment and the cost plus margin approach for the installation services, which decreased the amount allocated to installation services.

For the year ended 31 July 2019 the adoption of IFRS 15 increased revenue from the sale of goods by £2,280,000 and decreased revenue from installation services by a corresponding amount.

The following standards and interpretations have an effective date after the date of these financial statements.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2017 to replace IAS 17 Leases. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 August 2019.

IFRS 16 will result in almost all leases being recognised on the balance sheet as the distinction between operating leases and finance leases is removed. Under the new standard, a right-of-use asset and a financial liability for the future lease payments are recognised.

The Group will apply the standard from 1 August 2019 and will apply the modified retrospective transition approach. We will adopt some of the available practical expedients which are:

- "grandfather", our previous assessment of which existing contracts are, or contain, leases; and
- not applying the new lessee accounting model to short-term or low-value leases, for which we will continue to recognise the related lease payments as an expense on a straight line basis over the lease.

When applying IFRS 16 using the modified retrospective approach, we will not restate comparative information. Instead, we will recognise the cumulative effect of initially applying the standard as an adjustment to equity at the date of initial application, 1 August 2019. Under the modified retrospective approach we will recognise the right-of-use (ROU) asset and the lease liability as follows:

- For leases currently classified as operating leases:
  - ROU asset – as if IFRS 16 had always been applied (but using the incremental borrowing rate, applicable to the lease, at the date of initial application).
  - Lease liability – present value of remaining lease payments using the incremental borrowing rate, applicable to the lease, at the date of initial application.

Impact of adoption of IFRS 16 Leases

Statement of financial position

Upon transition on 1 August 2019, the Group will recognise a right-of-use lease asset in the range of £17.6 million to £22.9 million and lease liabilities in the range of £19.1 million (non-current £17.2 million; current £1.9 million) to £23.7 million (non-current £21.2 million; current £2.5 million), there is an impact on deferred tax due to the temporary difference arising, although this is not expected to be material. A transition adjustment in the range of £1.5 million to £0.8 million will be recognised as a debit to retained earnings. The Group will not capitalise low-value leases on transition, or those which expire before 31 July 2020. The right-of-use asset principally consists of property.

Statement of comprehensive income

Under IFRS 16 the Group will see a different pattern of expense within the statement of comprehensive income, as the IAS 17 operating lease expense is replaced by depreciation and interest charges. In the financial year to 31 July 2020 the Group's EBITDA will improve by an estimated £2.9 million. However, the new finance costs together with the depreciation expense have a negative impact on the Group's profit before tax such that the underlying earnings are in the range of £0.3 million to £0.1 million lower.

Statement of cash flows

The change in presentation as a result of the adoption of IFRS 16 will see an improvement in cash flows generated from operating activities, offset by a corresponding decline in cash flow generated from financing activities. There is no overall cash flow impact from the adoption of the new standard.

Other new standards or interpretations in issue, but not yet effective, are not expected to have a material impact on the Group's net assets or results.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

2. Adjusted earnings

The Board and key management personnel use some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit and adjusted profit before tax. These measures are deemed more appropriate as they remove income and expenditure which is not directly related to the ongoing trading of the business. Such alternative performance measures are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies. Likewise, these measures are not a substitute for IFRS measures of profit. A reconciliation of these measures of performance to the corresponding reported figure is shown below.

	2019 £000	2018 £000
Profit after tax	**18,227**	13,323
Add back:		
Exceptional operating costs (note 5)	**1,801**	6,417
CFO succession costs	**150**	—
Reversal of contingent consideration (note 5)	**—**	(1,502)
Net gain on financial instruments at fair value	**(605)**	(838)
Exceptional write off of unamortised loan issue costs upon refinance (note 6)	**—**	320
Amortisation and impairment of intangible assets acquired through business combinations	**15,439**	14,670
Tax effect of the above	**(3,354)**	(3,598)
Adjusted profit after tax	**31,658**	28,792
Add back:		
Adjusted tax charge	**8,267**	7,012
Adjusted profit before tax	**39,925**	35,804
Add back:		
Interest payable on bank loans and amortisation of financing costs	**2,143**	1,310
Finance revenue	**(16)**	(14)
Adjusted operating profit	**42,052**	37,100
Add back:		
Depreciation of property, plant and equipment	**3,272**	3,031
Amortisation of development costs, software and patents	**1,155**	935
Adjusted EBITDA	**46,479**	41,066

For definitions of terms referred to above see note 34, Glossary of terms.

3. Revenue from contracts with customers

Accounting policy

Revenue from contracts with customers is recognised when the control of goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services.

Sale of ventilation products

Revenue from the sale of ventilation products is recognised at the point in time when control of the asset is transferred to the buyer, usually on the delivery of the goods.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties and volume rebates). In determining the transaction price for the sale of ventilation products, the Group considers the effects of variable consideration (if any).

Volume rebates

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. To estimate the variable consideration for the expected future rebates, the Group applies the expected value method for contracts with more than one volume threshold. The Group then applies the requirements on constraining estimates of variable consideration and recognises a liability for the expected future rebates.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained, other than with respect to volume rebates, based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short timeframe.

Warranty obligations

The Group typically provides warranties for general repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Refer to the accounting policy on warranty provisions in note 24, Provisions.

Installation services

The Group provides installation services that are bundled together with the sale of equipment to a customer.

Contracts for bundled sales of equipment and installation services are comprised of two performance obligations because the promises to transfer equipment and provide installation services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the equipment and the cost plus margin approach for installation services.

The Group recognises revenue from installation services at a point in time after the service has been performed; this is because installation of the ventilation equipment is generally over a small timeframe. Revenue from the sale of the ventilation equipment is recognised at a point in time, generally upon delivery of the equipment.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. A contract asset is recognised when the Group transfers goods or services to the customer before the customer pays consideration. There is no contract asset included within the statement of financial position as revenue is recognised at a point in time, after installation. Consideration is recognised immediately as a receivable and is unconditional (only the passage of time is required before payment of consideration is due). The Group's accounting policy on trade receivables is detailed in note 18.

Contract liabilities

There are no contract liabilities recognised in the comparative period or in the financial year ending 31 July 2019.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

3. Revenue from contracts with customers continued

Revenue recognised in the statement of comprehensive income is analysed below:

	2019 £000	2018 £000
Sale of goods	**233,612**	200,665
Installation services	**2,086**	5,011
Total revenue from contracts with customers	**235,698**	205,676

Market sectors	2019 £000	2018 £000
Ventilation Group		
UK Residential RMI	**39,356**	38,166
UK New Build Residential Systems	**27,795**	25,604
UK Commercial	**34,856**	33,474
UK Export	**9,924**	12,510
Nordics	**46,995**	36,692
Central Europe	**30,990**	28,466
Australasia	**22,176**	8,182
Total Ventilation Group	**212,092**	183,094
Original Equipment Manufacturer (Torin-Sifan)		
OEM (Torin-Sifan)	**23,606**	22,582
Total revenue from contracts with customers	**235,698**	205,676

Right of return assets and refund liabilities	2019 £000	2018 £000
Right of return assets	**430**	—
Refund liabilities		
Arising from retrospective volume rebates	**6,482**	—
Arising from rights of return	**1,047**	—
	7,529	—

4. Segmental analysis

Accounting policy

The method of identifying reporting segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker, which is considered to be the Chief Executive Officer of the Group.

In identifying its operating segments, management follows the Group's market sectors. These are Ventilation UK, Ventilation Nordics, Ventilation Central Europe, Ventilation Australasia and OEM (Torin-Sifan). Operating segments that provide ventilation services have been aggregated as they have similar economic characteristics, assessed by reference to the gross margins of the segments. In addition, the segments are similar in relation to the nature of products, services and production processes, type of customer, method for distribution and regulatory environment. The Group is considered to have two reportable segments: Ventilation Group and OEM (Torin-Sifan).

The measure of revenue reported to the chief operating decision maker to assess performance is total revenue for each operating segment. The measure of profit reported to the chief operating decision maker to assess performance is adjusted operating profit (see note 34 for definition) for each operating segment. Gross profit and the analysis below segment profit is additional voluntary information and not "segment information" prepared in accordance with IFRS 8.

Finance revenue and costs are not allocated to individual operating segments as the underlying instruments are managed on a Group basis.

Total assets and liabilities are not disclosed as this information is not provided by operating segment to the chief operating decision maker on a regular basis.

Transfer prices between operating segments are on an arm's length basis on terms similar to transactions with third parties.

Year ended 31 July 2019	Ventilation Group £000	OEM £000	Unallocated £000	Total £000	Eliminations £000	Consolidated £000
Revenue from contracts with customers						
External customers	212,092	23,606	—	235,698	—	235,698
Inter-segment	22,282	1,625	—	23,907	(23,907)	—
Total revenue from contracts with customers	234,374	25,231	—	259,605	(23,907)	235,698
Gross profit	104,991	6,088	—	111,079	—	111,079
Results						
Adjusted segment EBITDA	44,661	3,871	(2,053)	46,479	—	46,479
Depreciation and amortisation of development costs, software and patents	(3,168)	(662)	(597)	(4,427)	—	(4,427)
Adjusted operating profit/(loss)	41,493	3,209	(2,650)	42,052	—	42,052
Amortisation of intangible assets acquired through business combinations	(14,081)	(1,358)	—	(15,439)	—	(15,439)
Exceptional items	(1,801)	—	—	(1,801)	—	(1,801)
CFO succession costs	—	—	(150)	(150)	—	(150)
Operating profit/(loss)	25,611	1,851	(2,800)	24,662	—	24,662
Unallocated expenses						
Net finance cost	—	—	(1,522)	(1,522)	—	(1,522)
Profit/(loss) before tax	25,611	1,851	(4,322)	23,140	—	23,140

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

4. Segmental analysis continued

Year ended 31 July 2018	Ventilation Group £000	OEM £000	Unallocated £000	Total £000	Eliminations £000	Consolidated £000
Revenue						
External customers	183,094	22,582	—	205,676	—	205,676
Inter-segment	19,332	1,403	—	20,735	(20,735)	—
Total revenue	202,426	23,985	—	226,411	(20,735)	205,676
Gross profit	89,741	6,882	—	96,623	—	96,623
Results						
Adjusted segment EBITDA	38,168	4,454	(1,556)	41,066	—	41,066
Depreciation and amortisation of development costs, software and patents	(2,814)	(607)	(545)	(3,966)	—	(3,966)
Adjusted operating profit/(loss)	35,354	3,847	(2,101)	37,100	—	37,100
Amortisation of intangible assets acquired through business combinations	(13,312)	(1,358)	—	(14,670)	—	(14,670)
Exceptional items	(4,915)	—	—	(4,915)	—	(4,915)
Operating profit/(loss)	17,127	2,489	(2,101)	17,515	—	17,515
Unallocated expenses						
Net finance cost	—	—	(458)	(458)	—	(458)
Exceptional write off of unamortised loan issue costs upon refinancing of our bank facility	—	—	(320)	(320)	—	(320)
Profit/(loss) before tax	17,127	2,489	(2,879)	16,737	—	16,737

Geographic information

Revenue from external customers by customer destination	**2019 £000**	2018 £000
United Kingdom	**114,017**	108,133
Europe (excluding United Kingdom and Sweden)	**71,912**	59,239
Sweden	**22,929**	26,003
Australasia	**22,375**	8,906
Rest of the world	**4,465**	3,395
Total revenue from contracts with customers	**235,698**	205,676

Non-current assets excluding deferred tax	**2019 £000**	2018 £000
United Kingdom	**158,611**	142,859
Europe (excluding United Kingdom and Nordics)	**13,578**	26,698
Nordics	**26,028**	33,227
Australasia	**38,850**	36,633
Total	**237,067**	239,417

Information about major customers

Annual revenue from no individual customer accounts for more than 10% of Group revenue in either the current or prior year.

5. Exceptional items

Accounting policy

The Group discloses exceptional items by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group. Exceptional items include, but are not limited to, significant restructuring costs, acquisition and related integration and earn-out costs, fair value adjustments as a result of acquisitions and material gains or losses on disposal of property, plant and equipment.

Critical accounting judgements and key sources of estimation uncertainty

The Group identifies an item of expense or income as exceptional when, in management's judgement, the underlying event giving rise to the exceptional item is deemed to be non-recurring in its nature, size or incidence such that Group results would be distorted without specific reference to the event in question. To enable the full impact of an exceptional item to be understood, the tax impact is disclosed and it is presented separately in the statement of cash flows.

Exceptional items	2019 £000	2018 £000
Acquisition-related costs, including inventory fair value adjustments	**546**	1,451
UK Ventilation re-organisation including factory relocation costs	**1,255**	4,966
Exceptional operating costs	**1,801**	6,417
Reversal of contingent consideration	**—**	(1,502)
	1,801	4,915
Total tax relating to exceptional items for the year	**(375)**	(832)
	1,426	4,083

Acquisition-related costs, including inventory fair value adjustments

Professional fees incurred in respect of acquisitions totalled £230,000 and £316,000 contingent consideration for the acquisition of Oy Pamon Ab. Professional fees incurred in respect of acquisitions in the prior year totalled £835,000; other fees incurred in respect of acquisitions in the prior year totalled £616,000.

UK Ventilation re-organisation including factory relocation costs

We have previously reported the cost of a factory relocation project, which related to the rationalising of some of our manufacturing capacity in the UK and commenced in 2017, as exceptional. The affected UK manufacturing locations are Reading, Slough and Lasham. During FY2018 we extended the factory relocation project to be a wider re-organisation and management rationalisation of our UK Ventilation business.

A breakdown of the costs is as follows:

	2019 £000	2018 £000
Legal and professional fees	**301**	359
Project manager	**45**	153
Redundancy-related costs	**—**	121
Stock write off	**—**	76
Fixed asset write off	**—**	85
Site clearance and closure	**—**	627
Dual running costs	**89**	1,015
Start-up costs	**820**	2,530
Total	**1,255**	4,966

Start-up costs include costs and production variances incurred as a result of the disruption during the transition period when machinery, inventory and people were in the process of relocating to the new factory and were therefore not operating efficiently.

Legal and professional fees include fees paid to consultants to minimise disruption during the transition period and fees payable for professional advice in relation to the wider re-organisation and management rationalisation.

Dual running costs include the duplicate costs as a result of operating three factories and a temporary warehousing facility whilst machinery, inventories and people were moving from the two existing facilities to the single new factory.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

5. Exceptional items continued

Reversal of contingent consideration

During the year reversal of contingent consideration was £nil (2018: £1.5 million).

It was deemed that the items allowable for or chargeable to tax were approximately £1,729,000 (2018: £4,378,000), with a tax benefit of £375,000 (2018: £832,000).

6. Finance revenue and costs

Accounting policy

Finance revenue

Finance revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Net financing costs

Net financing costs comprise interest income on funds invested, gains/losses on the disposal of financial instruments, changes in the fair value of financial instruments, interest expense on borrowings and foreign exchange gains/losses. Interest income and expense is recognised as it accrues in the statement of comprehensive income using the effective interest method.

	2019 £000	2018 £000
Finance revenue		
Net gain on financial instruments at fair value	**605**	838
Interest receivable	**16**	14
Total finance revenue	**621**	852
Finance costs		
Interest payable on bank loans	**(1,875)**	(1,017)
Amortisation of finance costs	**(230)**	(236)
Exceptional write off of unamortised loan issue costs upon refinancing of our bank facility	**—**	(320)
Other interest	**(38)**	(57)
Total interest expense	**(2,143)**	(1,630)
Total finance costs	**(2,143)**	(1,630)
Net finance costs	**(1,522)**	(778)

The net loss or gain on financial instruments at each year-end date relates to the measurement of fair value of the financial derivatives and the Group recognises any finance losses or gains immediately within net finance costs. The fair value of the Group's financial derivatives can be found in note 19.

7. Staff costs

Accounting policy

Pensions

Contributions to defined contribution schemes are recognised in the statement of comprehensive income in the period they become payable. The cost charged to the statement of comprehensive income of providing retirement pensions for employees represents the amounts paid by the Group to various defined contribution pension schemes operated by the Group in the financial period.

Staff costs	2019 £000	2018 £000
Wages and salaries	**52,191**	46,260
Social security costs	**5,820**	5,846
Other pension costs	**2,302**	1,810
Share-based payment charge (see note 32)	**895**	475
	61,208	54,391

Other pension costs relate to the Group's contribution to defined contribution pension plans. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2018/19 but based on actual salary levels in 2019/20.

Average monthly number of employees in the year

	2019 Number	2018 Number
Production	**793**	754
Sales and administration	**886**	863
	1,679	1,617

Directors' remuneration

	2019 £000	2018 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' remuneration	**1,561**	1,423
Aggregate Directors' pension scheme contributions	**91**	87
In respect of the highest paid Director		
Aggregate Director's remuneration	**939**	845
Aggregate Director's pension scheme contributions	**54**	52

The number of Directors accruing benefits under Group money purchase pension arrangements was nil (2018: nil).

The Group also incurred fees and expenses of £359,000 (2018: £336,000) in respect of Peter Hill, Tony Reading, Paul Hollingworth, Claire Tiney and Amanda Mellor for their services as Non-Executive Directors.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

8. Other operating expenses

Accounting policy

The Group's research and development concentrates on the development of new products. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are disclosed in the table below.

Cost of sales, distribution costs and administrative expenses include the following:

	2019 £000	2018 £000
Cost of sales		
Costs of inventories recognised as expenses	**121,050**	106,449
Operating lease expense	**2,094**	1,371
Depreciation of property, plant and equipment	**1,475**	1,233
Administrative and distribution expenses		
Research and development costs	**3,904**	3,404
Depreciation of property, plant and equipment	**1,797**	1,798
Amortisation and impairment of intangible assets	**16,594**	15,605
Operating lease expense	**1,909**	1,786
Net foreign exchange differences	**(107)**	(102)
(Gain)/loss on disposal of property, plant and equipment	**(76)**	218

9. Auditor's remuneration

The Group paid the following amounts to its auditor, Ernst & Young LLP, and its member firms in respect of the audit of the financial statements and for other services provided to the Group:

	2019 £000	2018 £000
Audit services		
Fees for the audit of the parent and Group financial statements	**196**	162
Fees for local statutory audits of subsidiaries	**319**	300
Non-audit services		
Fees payable for interim review	**45**	26
	560	488

10. Income tax

Accounting policy

Current income tax assets and liabilities are measured at the amount expected to be recovered from, or payable to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the reporting date.

The Group's deferred tax policy can be found in note 26.

(a) Income tax charges against profit for the year

	2019 £000	2018 £000
Current income tax		
Current UK income tax expense	**3,286**	2,948
Current foreign income tax expense	**4,605**	3,605
Tax credit relating to the prior year	**(153)**	(26)
Total current tax	**7,738**	6,527
Deferred tax		
Origination and reversal of temporary differences	**(2,770)**	(3,031)
Effect of changes in the tax rate	**(115)**	(108)
Tax charge relating to the prior year	**60**	26
Total deferred tax	**(2,825)**	(3,113)
Net tax charge reported in the consolidated statement of comprehensive income	**4,913**	3,414

(b) Income tax recognised in equity for the year

	2019 £000	2018 £000
Increase in deferred tax asset on share-based payments	**(57)**	(162)
Net tax credit reported in equity	**(57)**	(162)

(c) Reconciliation of total tax

	2019 £000	2018 £000
Profit before tax	**23,140**	16,737
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**4,396**	3,180
Adjustment in respect of previous years	**(93)**	1
Expenses not deductible for tax purposes	**309**	380
Effect of changes in the tax rate (see explanation below)	**(115)**	(108)
Non-taxable income	**(244)**	(357)
Higher overseas tax rate	**892**	588
Patent box	**(230)**	(205)
Other	**(2)**	(65)
Net tax charge reported in the consolidated statement of comprehensive income	**4,913**	3,414

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes in respect of UK taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The higher overseas tax rates relate to the Group's profits from subsidiaries which are subject to tax jurisdictions with a higher rate of tax compared to the standard rate of corporation tax in the UK (see note 30 for subsidiary locations).

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

11. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 551,467 dilutive potential ordinary shares at 31 July 2019 (2018: 413,555).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

Year ended 31 July	**2019 £000**	2018 £000
Profit attributable to ordinary equity holders	**18,227**	13,323
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**198,386,893**	198,847,087
Weighted average number of ordinary shares for diluted earnings per share	**198,938,360**	199,144,705
Earnings per share		
Basic	**9.2p**	6.7p
Diluted	**9.2p**	6.7p

Year ended 31 July	**2019 £000**	2018 £000
Adjusted profit attributable to ordinary equity holders	**31,658**	28,792
	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share	**198,386,893**	198,847,087
Weighted average number of ordinary shares for adjusted diluted earnings per share	**198,938,360**	199,144,705
Adjusted earnings per share		
Basic	**16.0p**	14.5p
Diluted	**15.9p**	14.5p

The weighted average number of ordinary shares has declined as a result of treasury shares held by the Volution Employee Benefit Trust (EBT) during the year (see note 25 for details). The shares are excluded when calculating the reported and adjusted EPS.

Adjusted profit attributable to ordinary equity holders has been reconciled in note 2, Adjusted earnings.

See note 34, Glossary of terms, for an explanation of the adjusted basic and diluted earnings per share calculation.

12. Property, plant and equipment

Accounting policy

Property, plant and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment; when significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, except freehold land, over their estimated useful lives using the straight line method. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

Buildings	–	30–50 years
Plant and machinery	–	5–10 years
Fixtures, fittings, tools, equipment and vehicles	–	4–10 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income as part of administrative expenses, or if the amount is deemed significant within exceptional items, as set out in note 5.

The Group's impairment policy can be found in note 15.

2019	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost				
At 1 August 2018	**13,640**	**9,990**	**9,803**	**33,433**
On acquisition	**—**	**122**	**421**	**543**
Additions	**198**	**1,481**	**2,501**	**4,180**
Disposals	**—**	**(144)**	**(894)**	**(1,038)**
Transfer to intangible assets	**—**	**—**	**(517)**	**(517)**
Net foreign currency exchange differences	**(47)**	**164**	**520**	**637**
At 31 July 2019	**13,791**	**11,613**	**11,834**	**37,238**
Depreciation				
At 1 August 2018	**3,213**	**3,478**	**4,131**	**10,822**
Charge for the year	**480**	**968**	**1,824**	**3,272**
Disposals	**—**	**(141)**	**(755)**	**(896)**
Transfer to intangible assets	**—**	**—**	**(214)**	**(214)**
Net foreign currency exchange differences	**5**	**73**	**418**	**496**
At 31 July 2019	**3,698**	**4,378**	**5,404**	**13,480**
Net book value				
At 31 July 2019	**10,093**	**7,235**	**6,430**	**23,758**

Notes to the Consolidated Financial Statements continued
For the year ended 31 July 2018

12. Property, plant and equipment continued

2018	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost				
At 1 August 2017	13,764	8,377	7,579	29,720
On acquisition	—	513	1,579	2,092
Additions	560	1,533	2,542	4,635
Disposals	(561)	(212)	(1,589)	(2,362)
Net foreign currency exchange differences	(123)	(221)	(308)	(652)
At 31 July 2018	13,640	9,990	9,803	33,433
Depreciation				
At 1 August 2017	3,156	3,067	3,907	10,130
Charge for the year	503	784	1,744	3,031
Disposals	(399)	(193)	(1,296)	(1,888)
Net foreign currency exchange differences	(47)	(180)	(224)	(451)
At 31 July 2018	3,213	3,478	4,131	10,822
Net book value				
At 31 July 2018	10,427	6,512	5,672	22,611

13. Intangible assets – goodwill

Accounting policy

Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Goodwill is reviewed for impairment annually or more frequently if there is an indication of impairment. Impairment of goodwill is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying value of the cash generating unit to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill	£000
Cost and net book value	
At 1 August 2017	81,584
On acquisition of Simx Limited	23,457
On acquisition of AirFan B.V.	289
On acquisition of Oy Pamon Ab	6,418
On acquisition of Air Connection ApS	1,956
Net foreign currency exchange differences	(1,022)
At 31 July 2018	112,682
On acquisition of Ventair Pty Limited	4,230
Net foreign currency exchange differences	1,271
At 31 July 2019	**118,183**

14. Intangible assets – other

Accounting policy

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

The fair value of patents, trademarks and customer base acquired and recognised as part of a business combination is determined using the relief-from-royalty method or multi-period excess earnings method.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Research and development

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the availability of resources to complete the asset; and the ability to reliably measure the expenditure during development.

Subsequent measurement of intangible assets

Intangible assets with a finite life are amortised on a straight line basis over their estimated useful lives as follows:

Development costs	–	10 years
Software costs	–	5–10 years
Customer base	–	5–15 years
Trademarks	–	15–25 years
Patents/technology	–	5–25 years
Other	–	5 years

The estimated useful life and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised in the statement of comprehensive income.

Impairment of other intangible assets

The Group's accounting policy for impairment of other intangible assets is set out above. The Group records all assets and liabilities acquired in business combinations at fair value. Intangible assets are reviewed for impairment annually if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Notes to the Consolidated Financial Statements continued

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14. Intangible assets – other continued

2019	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2018	3,472	7,729	128,932	44,238	3,520	1,118	189,009
Additions	1,189	630	—	—	17	—	1,836
On acquisitions	—	80	2,872	2,032	—	—	4,984
Disposals	—	—	—	—	—	—	—
Transfer from tangible assets	180	337	—	—	—	—	517
Net foreign currency exchange differences	(30)	81	646	111	8	45	861
At 31 July 2019	4,811	8,857	132,450	46,381	3,545	1,163	197,207
Amortisation							
At 1 August 2018	630	2,820	69,286	10,615	627	907	84,885
Charge for the year	381	772	12,789	2,048	356	248	16,594
Disposals	—	—	—	—	—	—	—
Transfer from tangible assets	9	205	—	—	—	—	214
Net foreign currency exchange differences	1	83	269	19	8	8	388
At 31 July 2019	1,021	3,880	82,344	12,682	991	1,163	102,081
Net book value							
At 31 July 2019	3,790	4,977	50,106	33,699	2,554	—	95,126

Computer software assets and developments costs in relation to computer software have been transferred from tangible fixed assets and are now included within intangible fixed assets.

Included in software costs are assets under construction of £105,000 (2018: £nil), which are not amortised. Included in development costs are assets under construction of £1,235,000 (2018: £420,000), which are not amortised.

2018	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2017	2,626	6,985	116,117	42,168	2,291	896	171,083
Additions	925	949	—	3	21	—	1,898
On acquisitions	—	59	13,525	2,422	1,222	249	17,477
Disposals	—	(281)	—	—	—	—	(281)
Net foreign currency exchange differences	(79)	17	(710)	(355)	(14)	(27)	(1,168)
At 31 July 2018	3,472	7,729	128,932	44,238	3,520	1,118	189,009
Amortisation							
At 1 August 2017	379	2,424	57,697	8,806	258	513	70,077
Charge for the year	264	647	12,021	1,897	371	405	15,605
Disposal	—	(281)	—	—	—	—	(281)
Net foreign currency exchange differences	(13)	30	(432)	(88)	(2)	(11)	(516)
At 31 July 2018	630	2,820	69,286	10,615	627	907	84,885
Net book value							
At 31 July 2018	2,842	4,909	59,646	33,623	2,893	211	104,124

14. Intangible assets – other continued

The remaining amortisation periods for acquired intangible assets at 31 July 2019 are as follows:

	Customer base	Trademark	Patent/ technology
Volution Holdings Limited and its subsidiaries	3 years	18 years	—
Fresh AB and its subsidiaries	—	13 years	—
PAX AB and PAX Norge AS	2 years	14 years	—
inVENTer GmbH	4 years	15 years	15 years
Brüggemann Energiekonzepte GmbH	1 year	—	—
Ventilair Group International BVBA and its subsidiaries	4 years	6 years	—
Energy Technique Limited and its subsidiaries	5 years	17 years	—
Weland Luftbehandling AB	1 year	—	—
NVA Services Limited and its subsidiaries	7 years	12 years	—
Breathing Buildings Limited	7 years	12 years	2 years
VoltAir System AB	13 years	13 years	3 years
Simx Limited	14 years	24 years	—
Oy Pamon Ab	9 years	19 years	9 years
Air Connection ApS	9 years	—	—
Ventair Pty Limited	10 years	20 years	—

15. Impairment assessment of goodwill

Accounting policy

Intangible assets, including goodwill, that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, where the recoverable amount is the higher of the asset's fair value less costs of disposal and value in use.

Goodwill acquired through business combinations has been allocated, for impairment testing purposes, to a group of cash generating units (CGUs). These grouped CGUs are: UK Ventilation, Central Europe, Nordics, Australasia and OEM. This is also the level at which management is monitoring the value of goodwill for internal management purposes.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of goodwill

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The test aims to ensure that goodwill is not carried at a value greater than the recoverable amount, which is considered to be the higher of fair value less costs of disposal and value in use.

The cash flows are derived from the business plan for the following three years. The recoverable amount is very sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The identification of the Group's cash generating units (CGUs) used for impairment testing involves a degree of judgement. Management has reviewed the Group's assets and cash inflows and identified the lowest aggregation of assets that generate largely independent cash inflows.

Notes to the Consolidated Financial Statements continued
For the year ended 31 July 2019

15. Impairment assessment of goodwill continued

31 July 2019	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	**55,899**	**5,101**	**16,586**	**12,273**	**28,324**
CGU value in use headroom[1]	**126,585**	**20,937**	**70,070**	**31,000**	**13,199**

As at 31 July 2018 calculated headroom was:

31 July 2018	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	55,899	5,101	16,577	12,041	23,064
CGU value in use headroom[1]	135,759	32,165	66,844	25,529	3,649

Note
1. Headroom is calculated by comparing the value in use (VIU) of a group of CGUs to the carrying amount of its asset, which includes the net book value of fixed assets (tangible and intangible), goodwill and operating working capital (current assets and liabilities).

Impairment review
Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 12.1% to 14.0% over that period. In all CGUs it was concluded that the carrying amount was in excess of the value in use and all CGUs had positive headroom.

Key assumptions in the value in use calculation
The calculation of value in use for all CGUs is most sensitive to the following assumptions:

> specific growth rates have been used for each of the CGUs for the five-year forecast period based on historical growth rates and market expectations;

> long-term growth rates of 2% (2018: 2%) for all CGUs have been applied to the period beyond which budgets and forecasts do not exist, based on historical macroeconomic performance and projections for the geographies in which the CGUs operate; and

> discount rates reflect the current market assessment of the risks specific to each operation. The pre-tax discount rates used for each CGU are: UK Ventilation: 12.1% (2018: 11.4%); OEM (Torin-Sifan): 13.2% (2018: 12.3%); Nordics: 12.5% (2018: 12.5%); Central Europe: 14.0% (2018: 13.1%); and Australasia: 13.5% (2018: 13.5%).

The value in use headroom for each CGU has been set out above. We have tested the sensitivity of our headroom calculations in relation to the above key assumptions and in all cases an adverse movement of more than 10% would be required to cause the carrying value of the CGUs to materially exceed their recoverable value.

16. Business combinations

Accounting policy
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value on the date of acquisition. There have been no non-controlling interests in the business combinations to date. Acquisition costs incurred are expensed and included in exceptional items.

When the Group acquires a business it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

Contingent consideration resulting from business combinations is accounted for at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date, with changes in fair value recognised either in profit or loss or as a change in other comprehensive income (OCI). The determination of fair value is based on discounted cash flows. The key assumptions used in determining the discounted cash flows take into consideration the probability of meeting each performance target and a discount factor.

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) that are expected to benefit from the combination, irrespective of whether assets or liabilities of the acquisition are assigned to those units.

16. Business combinations continued

Acquisitions in the year ended 31 July 2019

Ventair Pty Limited

On 1 March 2019, Volution Group plc, through one of its wholly owned subsidiaries, Woomera Pty Limited, acquired the entire issued share capital of Ventair Pty Limited, a company based in Australia. The acquisition was on a debt-free basis, funded from the Group's existing cash and banking facilities. The acquisition of Ventair is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies, across the residential ventilation market and, where appropriate, in the commercial ventilation market. The integration of Ventair into the Volution Group will provide an opportunity for further growth in the Australasian region and the combination of its product portfolio with that of Simx (New Zealand) will enable us to enhance our offer in both the Australian and New Zealand markets.

Total consideration for the transaction was AUD17,895,000 (£9,713,000), comprised of cash consideration of AUD16,138,000 (£8,761,000) and contingent consideration with a fair value of AUD1,757,000 (£952,000). The contingent consideration is based on the level of EBITDA achieved during the twelve months to 31 July 2020. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable; the maximum amount of contingent consideration payable is AUD7,700,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the 2020 budget. The contingent consideration has not been discounted as the impact is considered to be immaterial.

Transaction costs associated with the acquisition on the year ended 31 July 2019 were £173,000 and have been expensed.

The provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	161	4,823	4,984
Deferred tax asset	—	218	218
Property, plant and equipment	543	—	543
Inventory	3,077	(250)	2,827
Trade and other receivables	2,649	—	2,649
Trade and other payables	(2,355)	(324)	(2,679)
Bank debt	(2,542)	—	(2,542)
Deferred tax liabilities	—	(1,447)	(1,447)
Cash and cash equivalents	930	—	930
Total identifiable net assets	2,463	3,020	5,483
Goodwill on acquisition			4,230
			9,713
Discharged by:			
Consideration satisfied in cash			8,761
Contingent consideration			952
Total consideration			9,713

Goodwill of £4,230,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £2,770,000. The amounts for trade and other receivables not expected to be collected are £121,000.

Ventair Pty Limited generated revenue of £4,043,000 and generated a profit after tax of £170,000 in the period from acquisition to 31 July 2019 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2018, the Group's revenue would have been £243,483,000 and the profit before tax from continuing operations would have been £23,891,000.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

16. Business combinations continued

Acquisitions in the year ended 31 July 2018

Simx Limited

On 19 March 2018, Volution Group plc, through one of its wholly owned subsidiaries, Chinook Limited, acquired the entire issued share capital of Simx Limited, a company based in New Zealand. The transaction was funded from the Group's existing revolving credit facility. The acquisition of Simx is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was cash consideration of NZD54,508,000 (£28,651,000).

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £332,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	3,849	8,246	12,095
Deferred tax asset	111	377	488
Property, plant and equipment	1,777	(63)	1,714
Inventory	4,136	(282)	3,854
Trade and other receivables	2,702	—	2,702
Trade and other payables	(2,443)	(456)	(2,899)
Bank debt	(9,806)	—	(9,806)
Deferred tax liabilities	—	(3,370)	(3,370)
Cash and cash equivalents	416	—	416
Total identifiable net assets	742	4,452	5,194
Goodwill on acquisition			23,457
			28,651
Discharged by:			
Consideration satisfied in cash			28,651

Goodwill of £23,457,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £2,702,000. The amounts for trade and other receivables not expected to be collected are £nil.

Simx Limited generated revenue of £8,182,000 and generated a profit after tax of £1,384,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £216,339,000 and the profit before tax from continuing operations would have been £18,161,000.

16. Business combinations continued

Acquisitions in the year ended 31 July 2018 continued

AirFan B.V.

On 1 May 2018, Volution Group plc, through one of its wholly owned subsidiaries, Ventilair Group Netherlands B.V., acquired the entire issued share capital of AirFan B.V. The transaction was funded from the Group's cash reserves.

Total consideration for the transaction was cash consideration of €300,000 (£264,000).

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £29,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Property, plant and equipment	16	—	16
Inventory	124	(22)	102
Trade and other receivables	162	—	162
Trade and other payables	(305)	—	(305)
Total identifiable net assets	(3)	(22)	(25)
Goodwill on acquisition			289
			264
Discharged by:			
Consideration satisfied in cash			264

Goodwill of £289,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce.

The gross amount of trade and other receivables is £162,000. The amounts for trade and other receivables not expected to be collected are £nil.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

16. Business combinations continued

Acquisitions in the year ended 31 July 2018 continued

Oy Pamon Ab

On 5 July 2018, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of Oy Pamon Ab. The transaction was funded from the Group's existing revolving credit facility. The acquisition of Oy Pamon Ab is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was €12,908,000 (£11,429,000), comprised of consideration of €12,258,000 (£10,854,000) and contingent consideration with a fair value of €650,000 (£575,000). The contingent consideration is based on the level of EBITDA achieved during the two years to 30 November 2018 and 2019. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable; the maximum amount of contingent consideration payable is €2,000,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the 2018 budget and 2019 forecast. The contingent consideration has not been discounted as the impact is considered to be immaterial. Contingent consideration relating to the year ended 30 November 2018 was finalised and paid during FY2019 with further consideration yet to be determined relating to the year ended 30 November 2019.

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £290,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	64	4,514	4,578
Deferred tax asset	—	91	91
Property, plant and equipment	130	—	130
Inventory	935	(307)	628
Trade and other receivables	604	(107)	497
Trade and other payables	(1,209)	(44)	(1,253)
Deferred tax liabilities	—	(903)	(903)
Cash and cash equivalents	1,243	—	1,243
Total identifiable net assets	1,767	3,244	5,011
Goodwill on acquisition			6,418
			11,429
Discharged by:			
Consideration satisfied in cash			10,854
Contingent consideration			575
Total consideration			11,429

Goodwill of £6,418,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename, customer base, technology and order book was identified and included in intangible assets.

The gross amount of trade and other receivables is £604,000. The amounts for trade and other receivables not expected to be collected are £107,000.

Oy Pamon Ab generated revenue of £703,000 and generated a profit after tax of £160,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £213,607,000 and the profit before tax from continuing operations would have been £17,613,000.

16. Business combinations continued

Acquisitions in the year ended 31 July 2018 continued

Air Connection ApS

On 16 July 2018, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of Air Connection ApS. The transaction was funded from the Group's existing revolving credit facility. The Group's acquisition of Air Connection ApS is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was DKK30,000,000 (£3,572,000), comprised of cash consideration of DKK25,800,000 (£3,072,000) and contingent consideration with a fair value of DKK4,200,000 (£500,000). The contingent consideration is based on the level of EBITDA achieved during the twelve months to 31 July 2021. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable; the maximum amount of contingent consideration payable is DKK4,200,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the forecast for the year to 31 July 2021. The contingent consideration has not been discounted as the impact is considered to be immaterial. The contingent consideration is expected to be finalised and paid during FY2022.

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £41,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	—	804	804
Property, plant and equipment	197	—	197
Inventory	833	—	833
Trade and other receivables	648	—	648
Trade and other payables	(868)	—	(868)
Deferred tax liabilities	(18)	(177)	(195)
Cash and cash equivalents	197	—	197
Total identifiable net assets	989	627	1,616
Goodwill on acquisition			1,956
			3,572
Discharged by:			
Consideration satisfied in cash			3,072
Contingent consideration			500
Total consideration			3,572

Goodwill of £1,956,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £648,000.

Air Connection ApS generated revenue of £94,000 and generated a profit after tax of £20,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £209,819,000 and the profit before tax from continuing operations would have been £17,040,000.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

16. Business combinations continued

Acquisitions in the year ended 31 July 2018 continued

Air Connection ApS continued

Cash outflows arising from business combinations are as follows:

	2019 £000	2018 £000
Ventair Pty Limited		
Cash consideration	**8,761**	—
Less: cash acquired with the business	**(930)**	—
Simx Limited		
Cash consideration	**—**	28,651
Less: cash acquired with the business	**—**	(416)
AirFan B.V.		
Cash consideration	**—**	264
Less: cash acquired with the business	**—**	—
Oy Pamon Ab		
Cash consideration	**586**	10,854
Less: cash acquired with the business	**—**	(1,243)
Air Connection ApS		
Cash consideration	**—**	3,072
Less: cash acquired with the business	**—**	(197)
	8,417	40,985

17. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials is purchase cost on a first in, first out basis. The cost of work in progress and finished goods includes: cost of direct materials and labour and an appropriate portion of fixed and variable overhead expenses based on normal operating capacity, but excludes borrowing costs.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs to sell.

	2019 £000	2018 £000
Raw materials and consumables	**13,524**	13,860
Work in progress	**1,784**	1,371
Finished goods and goods for resale	**20,277**	14,905
	35,585	30,136

During 2019, £638,000 (2018: £833,000) was recognised as cost of sales for inventories written off in the year.

Inventories are stated net of an allowance for excess, obsolete or slow-moving items which totalled £4,200,000 (2018: £4,083,000). This provision was split amongst the three categories: £1,650,000 (2018: £1,679,000) for raw materials and consumables; £178,000 (2018: £238,000) for work in progress; and £2,372,000 (2018: £2,166,000) for finished goods and goods for resale.

18. Trade and other receivables

Accounting policy

Trade and other receivables are recognised when it is probable that a future economic benefit will flow to the Group. Trade and other receivables are carried at original invoice or contract amount less any provisions for discounts and doubtful debts. Provisions are made where there is evidence of a risk of non-payment taking into account ageing, previous experience and general economic conditions.

Provisions for expected credit losses

IFRS 9 replaces existing guidance in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement. It replaces the incurred loss model with the expected loss model for assessing impairment of trade receivables and other financial assets.

Provisions for expected credit losses are measured at an amount equal to lifetime expected credit losses (ECL). For trade receivables the Group applies a simplified approach in calculating ECLs. Trade receivables have been grouped based on historical credit risk characteristics and the number of days from date of invoice. The expected loss rates are calculated using the provision matrix approach.

Trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

Rebates receivable

The Group has a number of supplier rebate agreements that are recognised as a reduction of cost of sales (collectively referred to as rebates). Rebates are based on an agreed percentage of purchases, which will increase with the level of purchases made. These agreements typically are not coterminous with the Group's year end and some of the amounts payable are subject to confirmation after the reporting date.

	2019 £000	2018 £000
Trade receivables	**38,955**	35,964
Allowance for doubtful debts	**(606)**	(1,204)
	38,349	34,760
Other debtors	**1,275**	1,490
Prepayments	**2,575**	2,623
	42,199	38,873

Movement in the allowance for expected credit losses is set out below:

	2019 £000	2018 £000
At the start of the year	**(544)**	(967)
Charge for the year	**(355)**	(398)
Amounts utilised	**296**	225
Foreign currency adjustment	**(3)**	(64)
At the end of the year	**(606)**	(1,204)

As a result of the adoption of IFRS 15 at 1 August 2018 the allowance for credit notes previously included within the allowance for doubtful debts is now included within refund liabilities (see note 1 for details).

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18. Trade and other receivables continued
Gross trade receivables are denominated in the following currencies:

	2019 £000	2018 £000
Sterling	**23,332**	23,336
US Dollar	**351**	49
Euro	**5,864**	4,881
Swedish Krona	**2,693**	3,242
New Zealand Dollar	**3,152**	3,086
Australian Dollar	**2,162**	—
Other	**1,401**	1,370
	38,955	35,964

Net trade receivables are aged as follows:

	2019 £000	2018 £000
Neither past due nor impaired	**32,231**	28,897
Past due but not impaired		
Overdue 0–30 days	**4,643**	4,353
Overdue 31–60 days	**921**	1,179
Overdue 61–90 days	**251**	217
Overdue more than 90 days	**303**	114
	38,349	34,760

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available; otherwise, historical information relating to counterparty default rates is used. The Group continually assesses the recoverability of trade receivables and the level of provisioning required.

19. Other financial assets

	2019 Current £000	2018 Current £000
Financial assets		
Foreign exchange forward contracts	**907**	302
	907	302

The foreign exchange forward contracts are carried at their fair value with the gain or loss being recognised in the Group's consolidated statement of comprehensive income. Refer to note 28 for the fair value hierarchy the Group uses to determine the fair value of financial instruments.

20. Cash and cash equivalents

Accounting policy

Cash and short-term deposits comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks. Cash and cash equivalents as shown in the statement of cash flows is equal to that in the statement of financial position as follows:

	2019 £000	2018 £000
Cash and short-term deposits	**11,547**	18,221

Cash and cash equivalents are denominated in the following currencies:

	2019 £000	2018 £000
Sterling	**4,371**	8,089
Euro	**3,633**	5,374
US Dollar	**253**	1,456
Swedish Krona	**604**	783
New Zealand Dollar	**1,367**	2,084
Australian Dollar	**667**	—
Other	**652**	435
	11,547	18,221

21. Trade and other payables

Critical accounting judgements and key sources of estimation uncertainty

Liabilities arising from retrospective volume rebates

The Group has a number of customer rebate agreements that are recognised as a reduction from sales (collectively referred to as rebates). Rebates are based on an agreed percentage of revenue, which increases with the level of revenue achieved. These agreements typically are not coterminous with the Group's year end and some of the amounts payable are subject to confirmation after the reporting date.

At the reporting date, the Directors make estimates of the amount of rebate that will become payable by the Group under these agreements, using a probability weighted average approach to arrive at an expected amount. Where the respective customer has been engaged with the Group for a number of years, historical settlement trends are also used to assist in ensuring an appropriate estimate is recorded at the reporting date and that appropriate internal approvals and reviews take place before rebates are recorded.

Given that the rebate provision represents an estimate within the financial statements, there is a risk that the Directors' estimate of the potential liability may be incorrect.

	2019 £000	2018 £000
Trade payables	**15,165**	21,973
Social security and staff welfare costs	**1,544**	1,533
Accrued expenses	**22,098**	22,183
	38,807	45,689

As a result of the adoption of IFRS 15 at 1 August 2018 liabilities arising from retrospective volume rebates are now shown within refund liabilities previously within trade payables (see note 1 for further details).

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

22. Other financial liabilities

	Oy Pamon Ab £000	Air Connection ApS £000	Ventair Pty Limited £000	Total £000
Contingent consideration				
At 1 August 2018	**580**	**564**	**—**	**1,144**
Consideration paid during the year	**(586)**	**—**	**—**	**(586)**
Further consideration recognised	**318**	**—**	**—**	**318**
Consideration recognised on acquisition	**—**	**—**	**989**	**989**
Foreign exchange	**6**	**(52)**	**—**	**(46)**
At 31 July 2019	**318**	**512**	**989**	**1,819**
Analysis				
Current	**318**	**—**	**—**	**318**
Non-current	**—**	**512**	**989**	**1,501**
	318	**512**	**989**	**1,819**

	Foreign exchange forward contracts £000	VoltAir System AB £000	Oy Pamon Ab £000	Air Connection ApS £000	Total £000
Contingent consideration					
At 1 August 2017	536	1,588	—	—	2,124
Consideration released	—	(1,502)	—	—	(1,502)
Exchange contracts utilised	(536)	—	—	—	(536)
Consideration recognised on acquisition	—	—	580	564	1,144
Foreign exchange	—	(86)	—	—	(86)
At 31 July 2018	—	—	580	564	1,144
Analysis					
Current	—	—	—	—	—
Non-current	—	—	580	564	1,144
	—	—	580	564	1,144

The contingent consideration payable in relation to Oy Pamon Ab is based on its anticipated EBITDA performance during the year to 30 November 2019. Additional contingent consideration relating to Oy Pamon Ab has been recognised in the year as its performance for the year ending 30 November 2019 is now expected to exceed the previous estimate.

The contingent consideration payable in relation to Air Connection ApS is based on its expected EBITDA performance achieved during the twelve months ending on 31 July 2021. See note 16 for further details.

Fair value changes of the contingent consideration are recognised either when future estimates of performance are changed or when consideration is paid. The increase in contingent consideration in the year of £318,000, payable to Oy Pamon Ab, has been recognised within exceptional costs in the year.

Changes to the value of contingent consideration resulting from movements in exchange rates are taken to other comprehensive income.

23. Interest-bearing loans and borrowings

Accounting policy

Borrowings and other financial liabilities, including loans, are initially measured at fair value, net of transaction costs.

Borrowings and other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

	2019		2018	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2022)	**—**	**86,146**	—	95,410
Cost of arranging bank loan	**—**	**(755)**	—	(805)
	—	**85,391**	—	94,605

In December 2018, the Group exercised the option to extend its multicurrency revolving credit facility by a period of twelve months at a cost of £0.2 million; the maturity date is now 15 December 2022.

Bank loans at 31 July 2019 comprised a revolving credit facility from Danske Bank A/S, HSBC and the Royal Bank of Scotland with HSBC acting as agent and are governed by a facilities agreement. The outstanding loans are set out in the table below. No security was provided under the facility.

Revolving credit facility – at 31 July 2019

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	21,500	15 December 2022	One payment	Libor + margin%
Euro	40,640	15 December 2022	One payment	Euribor + margin%
Swedish Krona	24,006	15 December 2022	One payment	Stibor + margin%
Total	**86,146**			

Revolving credit facility – at 31 July 2018

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	31,000	15 December 2021	One payment	Libor + margin%
Euro	39,943	15 December 2021	One payment	Euribor + margin%
Swedish Krona	24,467	15 December 2021	One payment	Stibor + margin%
Total	**95,410**			

The consolidated leverage level fell below 1.0:1 for the year ended 31 July 2017 and therefore the margin for the first half of the year ended 31 July 2018 was 1.00%. On refinancing in December 2017, the margin was reduced to 0.9%, the consolidated leverage continued to be below 1.0:1 and therefore the margin continued to be 0.9% under the new facility. For the second half of the year ended 31 July 2018 the margin increased to 1.40% due to the acquisition of Simx Limited which increased leverage to 1.7:1; this rate has continued throughout the year ended 31 July 2019.

At 31 July 2019, the Group had £33,854,000 (2018: £24,590,000) of its multicurrency revolving credit facility unutilised.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

23. Interest-bearing loans and borrowings continued

Reconciliation of movement in financial liabilities

	2019 £000	2018 £000
At 1 August	**95,410**	51,490
Additional loans	**17,500**	103,474
Loans acquired on acquisition	**2,542**	10,007
Repayment of loans	**(29,609)**	(67,869)
Interest charge	**1,913**	1,017
Interest paid	**(1,913)**	(1,017)
Foreign exchange	**303**	(1,692)
At 31 July	**86,146**	95,410

24. Provisions

Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for the expected costs of maintenance guarantees are charged against profits when products have been invoiced.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation taking into account the risks and uncertainties surrounding the obligation. The timings of cash outflows are by their nature uncertain and are therefore best estimates. Provisions are not discounted as the time value of money is not considered material.

Provisions for warranties and property dilapidations

Provisions for warranties are made with reference to recent trading history and historical warranty claim information, and the view of management as to whether warranty claims are expected.

Warranty provisions are determined with consideration given to recent customer trading and management experience.

Dilapidation provisions relate to dilapidation charges relating to leasehold properties. The timing of cash flows associated with the dilapidation provision is dependent on the timing of the lease agreement termination.

2019	Product warranties £000	Property dilapidations £000	Total £000
At 1 August 2018	1,004	384	1,388
Arising during the year	1,304	—	1,304
Utilised	(922)	—	(922)
Foreign currency adjustment	12	—	12
At 31 July 2019	1,398	384	1,782
Analysis			
Current	1,398	—	1,398
Non-current	—	384	384
	1,398	384	1,782

24. Provisions continued

2018	Product warranties £000	Property dilapidations £000	Total £000
At 1 August 2017	1,291	684	1,975
Arising during the year	903	250	1,153
Utilised	(1,201)	(550)	(1,751)
Foreign currency adjustment	11	—	11
At 31 July 2018	1,004	384	1,388
Analysis			
Current	1,004	—	1,004
Non-current	—	384	384
	1,004	384	1,388

Product warranties

A provision is recognised for warranty costs expected to be incurred in the following twelve months on products sold during the year and in prior years. Product warranties are typically one to two years; however, based on management's knowledge of the products, claims in relation to warranties after more than twelve months are rare and highly immaterial.

Property dilapidations

A provision has been recognised for dilapidations relating to obligations under leases for leasehold buildings and will be payable at the end of the lease term.

25. Authorised and issued share capital and reserves

Accounting policy

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Share options exercised during the period are satisfied with treasury shares.

	Number of ordinary shares	**Ordinary shares £000**	**Share premium £000**
At 31 July 2018 and 31 July 2019	**200,000,000**	**2,000**	**11,527**

At 31 July 2019, a total of 1,759,884 (2018: 1,129,865) ordinary shares in the Company were held by the Volution EBT, all of which were unallocated and available for transfer to participants of the Long Term Incentive Plan, Deferred Share Bonus Plan and Sharesave Plan on exercise. During the year 650,000 ordinary shares in the Company were purchased by the trustees (2018: nil), and 19,981 (2018: 37,013) were released by the trustees at £36,000 (2018: £65,000). The market value of the shares at 31 July 2019 was £3,202,989 (2018: £2,293,626).

The Volution EBT has agreed to waive its rights to dividends.

Notes to the Consolidated Financial Statements continued

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26. Deferred tax

Accounting policy

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

> where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

> in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that the Directors consider it is probable that there will be taxable profits from which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates enacted or substantively enacted by 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 tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Deferred tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity.

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

At 31 July 2019, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2018: £5,195,000) relating to management expenses, capital losses of £3,975,000 (2018: £3,975,000) arising in UK subsidiaries and gross tax losses of £407,000 (2018: £407,000) arising in overseas entities as there is insufficient evidence that the losses will be utilised. These losses are available to be carried indefinitely.

At 31 July 2019, the Group had no deferred tax liability (2018: £nil) to recognise for taxes that would be payable on the remittance of certain of the Group's overseas subsidiaries' unremitted earnings. Deferred tax liabilities have not been recognised as the Group has determined that there are no undistributed profits in overseas subsidiaries where an additional tax charge would arise on distribution.

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

2019	1 August 2018 £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2019 £000
Temporary differences						
Depreciation in advance of capital allowances	(798)	(245)	—	—	—	(1,043)
Fair value movements of derivative financial instruments	(3)	(112)	—	—	—	(115)
Customer base, trademark and patent	(18,089)	3,094	—	(227)	(1,447)	(16,669)
Losses	285	—	—	—	—	285
Untaxed reserves	507	(13)	—	56	218	768
Other temporary differences	598	101	57	(1)	—	755
Deferred tax liability	(17,500)	2,825	57	(172)	(1,229)	(16,019)

26. Deferred tax continued

2018	1 August 2017 £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2018 £000
Temporary differences						
Depreciation in advance of capital allowances	(745)	(53)	—	—	—	(798)
Fair value movements of derivative financial instruments	146	(149)	—	—	—	(3)
Customer base, trademark and patent	(16,673)	2,915	—	137	(4,468)	(18,089)
Losses	298	(12)	—	(1)	—	285
Untaxed reserves	(447)	447	—	32	475	507
Other temporary differences	475	(37)	160	—	—	598
	(16,946)	3,111	160	168	(3,993)	(17,500)
Deferred tax asset	810	(810)	—	—	—	—
Deferred tax liability	(17,756)	3,921	160	168	(3,993)	(17,500)
	(16,946)	3,111	160	168	(3,993)	(17,500)

27. Dividends paid and proposed

Accounting policy

Dividends are recognised when they meet the criteria for recognition as a liability. In relation to final dividends, this is when the dividend is approved by the Directors in the general meeting, and in relation to interim dividends, when paid.

	2019 £000	2018 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2019: 1.60 pence per share (2018: 1.46 pence)	**3,172**	2,903
Proposed dividends on ordinary shares		
Final dividend for 2019: 3.30 pence per share (2018: 2.98 pence)	**6,541**	5,926

The interim dividend payment of £3,172,000 is included in the consolidated statement of cash flows.

The proposed final dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2019.

28. Risk management

Accounting policy

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk. Instruments used are principally foreign exchange forward contracts. Further details of derivative financial instruments are included in note 19.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the reporting date. The resulting gain or loss is immediately recognised in the statement of comprehensive income. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the relationship is more than twelve months and as a current asset or a current liability if the remaining maturity of the relationship is less than twelve months.

No derivative contracts have been designated as hedges for accounting purposes.

Hedge of net investments

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for as follows: gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in OCI while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is reclassified to profit or loss.

The Group uses borrowings in local currencies as a hedge of its exposure to foreign exchange risk on its investments in foreign operations.

Notes to the Consolidated Financial Statements continued

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28. Risk management continued

As a result of entering into financial instruments, the Group is exposed to market risk, credit risk, foreign exchange risk and liquidity risk. The Group's principal financial instruments are:

> interest-bearing loans and borrowings;

> trade and other receivables, trade and other payables, cash and short-term deposits; and

> foreign exchange forward contracts.

This note provides further detail on financial risk management and includes quantitative information on the specific risks the Group is exposed to.

Derivative financial instruments

The Group uses forward foreign currency contracts to reduce exposure to foreign exchange risk.

Forward foreign currency contracts

The Group's purchases in foreign currencies, net of Group sales in those currencies, represent less than 8% (2018: less than 1%) of total material and component purchases. This has increased due to the diversification of the Group to more overseas regions. Each quarter the Group enters into forward exchange contracts for the purchase of the budgeted monthly net expenditure in US Dollars for the following rolling 12–15 months. Hedge accounting is not applied for these derivatives.

The Group's criteria for entering into a forward foreign currency contract would require that the instrument must:

> be related to anticipated foreign currency commitment;

> involve the same currency as the foreign currency commitment; and

> reduce the risk of foreign currency exchange movements on the Group's operations.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risks, such as equity price risk and commodity risk.

The Group's exposure is primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into derivative financial instruments to manage its exposure to these risks when appropriate.

At 31 July 2019, the Group had commitments under forward foreign exchange contracts with varying settlement dates to 2 July 2020 (2018: 4 June 2019). See note 19 for fair values.

Sensitivity analysis

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might affect the value of its derivatives and also the amounts recorded in its equity in the overseas entities and its statement of comprehensive income for the period. Therefore the Group has assessed:

> what would be reasonably possible changes in the risk variables at the end of the reporting period; and

> the effects on profit or loss and equity if such changes in the risk variables were to occur.

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Group's floating rate loans and borrowings which at the relevant reporting dates are not hedged. With all other variables being constant the Group's profit before tax is affected through the impact on floating rate borrowings as follows. There is only an immaterial impact on the Group's equity.

	Increase in basis points	Effect on profit before tax £000
31 July 2019		
Sterling	**+25**	**(54)**
Swedish Krona	**+25**	**(60)**
Euro	**+25**	**(102)**
31 July 2018		
Sterling	+25	(78)
Swedish Krona	+25	(61)
Euro	+25	(100)

28. Risk management continued

Interest rate risk continued

The assigned movement in basis points for interest rate sensitivity analysis is based upon the currently observable market environment.

The Group cash balances are held in bank current accounts and earn immaterial levels of interest. Management has concluded that any changes in the Libor and SEK Libor rates will have an immaterial impact on interest income earned on the Group cash balances. No interest rate sensitivity has been included in relation to the Group's cash balances.

Foreign currency risk

The Group's exposure to foreign exchange risk primarily arises when revenue and expenses are denominated in a different currency from the Group's presentational currency and translated into GBP for consolidation into the Group's results. Foreign exchange risk also arises when the individual entities enter into transactions that are not denominated in their functional currency.

The following tables illustrate the impact of several changes to the spot GBP/USD, GBP/EUR, GBP/SEK, GBP/NZD and GBP/AUD exchange rates of +5% weakening of GBP. The tables below reflect the impact on profit before tax and equity if those changes were to occur. Only the impact of changes in the SEK, USD, Euro, NZD and Australian Dollar-denominated balances have been considered as these are the most significant non-GBP denominations used by the Group.

	Change in GBP vs USD/ SEK/EUR/NZD/ AUD rate	Effect on profit before tax	
		2019 £000	2018 £000
Swedish Krona	5%	**405**	446
US Dollar	5%	**(87)**	(76)
Euro	5%	**722**	353
New Zealand Dollar	5%	**198**	106
Australian Dollar	5%	**12**	—

	Change in GBP vs SEK/EUR/NZD/ AUD rate	Effect on equity	
		2019 £000	2018 £000
Swedish Krona	5%	**(96)**	91
Euro	5%	**249**	(110)
New Zealand Dollar	5%	**60**	22
Australian Dollar	5%	**(6)**	—

Liquidity risk

Liquidity risk for the Group arises from the management of working capital commitments and meeting its financial obligations as they fall due. The Group's policy is to regularly review cash flow forecasts/projections as well as information regarding cash balances to ensure that it has significant cash to allow it to meet its liabilities when they become due. The Group reviews its long-term funding requirements in parallel with its long-term strategy, with an objective of aligning both in a timely manner. At the reporting date, forecasts indicate that the Group is expected to have sufficient liquidity to meet its financial obligations for at least the next three years.

The tables below summarise the maturity profile of the Group's significant undiscounted financial liabilities at 31 July 2019 and 2018.

At 31 July 2019	**Less than one year £000**	**Between one and five years £000**	**More than five years £000**	**Total £000**
Financial liabilities				
Interest-bearing loans and borrowings (excluding interest)	**—**	**86,146**	**—**	**86,146**
Forward foreign currency exchange outflow	**15,337**	**—**	**—**	**15,337**
Forward foreign currency exchange inflow	**(16,245)**	**—**	**—**	**(16,245)**
Contingent consideration – Oy Pamon Ab	**318**	**—**	**—**	**318**
Contingent consideration – Air Connection ApS	**—**	**512**	**—**	**512**
Contingent consideration – Ventair pty Limited	**—**	**989**	**—**	**989**
Trade payables and other accrued expenses	**37,263**	**—**	**—**	**37,263**
	36,673	**87,647**	**—**	**124,320**

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28. Risk management continued

Liquidity risk continued

At 31 July 2018	Less than one year £000	Between one and five years £000	More than five years £000	Total £000
Financial liabilities				
Interest-bearing loans and borrowings (excluding interest)	—	95,410	—	95,410
Forward foreign currency exchange outflow	11,059	—	—	11,059
Forward foreign currency exchange inflow	(11,361)	—	—	(11,361)
Contingent consideration – Oy Pamon Ab	—	580	—	580
Contingent consideration – Air Connection ApS	—	564	—	564
Trade payables and other accrued expenses	44,156	—	—	44,156
	43,854	96,554	—	140,408

The multicurrency revolving credit facility which was signed on 15 December 2017 was for a term of four years; the option to extend the termination of the facility by a period of twelve months was taken on 15 December 2018. The facility is fully flexible, with the amount borrowed being reset within one to three months. No interest has been included in the above table. For further details see note 23.

Fair values of financial assets and financial liabilities

There are no material differences between the book values and fair values for any of the Group's financial instruments carried at amortised cost. Derivative financial instruments have all been valued using other techniques, for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The Group is mainly exposed to credit risk from its operating activities (primarily for trade receivables – credit sales) and from cash and cash equivalents and deposits with banks and financial institutions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by credit insurance obtained from reputable banks and other financial institutions.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating, and coverage by credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 18. The Group does not hold collateral as security. The credit insurance is considered an integral part of trade receivables and considered in the calculation of impairment.

Set out below is the information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix:

	Trade receivables					
31 July 2019	**Current £000**	**<30 days £000**	**30-60 days £000**	**61-90 days £000**	**>91 days £000**	**Total £000**
Expected credit loss rate	0.1%	0.4%	3.0%	21.8%	69.0%	
Estimated total gross carrying amount at default	32,341	4,660	950	321	683	38,955
Expected credit loss	18	18	28	70	472	606

28. Risk management continued

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. The Group deposits cash with reputable financial institutions, from which management believes the possibilities of loss to be remote. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 July 2019 and 2018 is the carrying amount. The Group's maximum exposure to derivative financial instruments is noted in either note 19 or in the liquidity table on the previous page.

Capital risk management

The primary objective of the Group's capital management policy is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs. The Group defines its capital as its share capital (excluding treasury shares), share premium account, foreign currency translation reserves and retained earnings. In addition, the Directors consider the management of debt to be an important element in controlling the capital structure of the Group. The Group may carry significant levels of long-term structural and subordinated debt to fund investments and acquisitions and has arranged debt facilities to allow for fluctuations in working capital requirements. There have been no changes to the capital management policy in the current period. Management manages capital on an ongoing basis to ensure that covenant requirements on third party debt are met.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

> Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities;

> Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and

> Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments carried at fair value comprise the derivative financial instruments in note 19 and the contingent consideration in notes 16 and 22. For hierarchy purposes derivative financial instruments are deemed to be Level 2 as external valuers are involved in the valuation of these contracts. Their fair value is measured using valuation techniques including the DCF model. Inputs to this calculation include the expected cash flows in relation to these derivative contracts and relevant discount rates. Contingent consideration is deemed to be Level 3; see note 16 for details on the valuation techniques used to measure the fair value.

29. Related party transactions

Transactions between Volution Group plc and its subsidiaries, and transactions between subsidiaries, are eliminated on consolidation and are not disclosed in this note. A breakdown of transactions between the Group and its related parties is disclosed below.

No related party loan note balances exist at 31 July 2019 or 31 July 2018.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the period, key management personnel did not owe the Company any amounts.

The Companies Act 2006 and the Directors' Remuneration Report Regulations 2013 require certain disclosures of Directors' remuneration. The details of the Directors' total remuneration are provided in the Directors' Remuneration Report (see pages 72 to 90).

Compensation of key management personnel

	2019 £000	2018 £000
Short-term employee benefits	**2,816**	2,806
Share-based payment change (see note 32)	**834**	461
Total	**3,650**	3,267

Key management personnel is defined as the CEO, the CFO and the ten (2018: ten) individuals who report directly to the CEO.

Notes to the Consolidated Financial Statements continued
For the year ended 31 July 2019

30. Group structure details
At 31 July 2019, Volution Group plc held 100% of the voting shares of the following subsidiaries:

Group company	Principal activity	Country of incorporation
Direct		
Windmill Topco Limited[1]	Intermediate holding company	England
Volution Holdings Limited[1]	Intermediate holding company	England
Energy Technique Limited[1]	Intermediate holding company	England
Indirect		
Windmill Midco Limited[1]	Intermediate holding company	England
Windmill Cleanco Limited[1]	Intermediate holding company	England
Windmill Bidco Limited[1]	Intermediate holding company	England
Manrose Manufacturing Limited[1]	Non-trading	England
Volution Ventilation Group Limited[1]	Intermediate holding company	England
Torin-Sifan Limited[1]	Original equipment manufacturer	England
Anda Products Limited[1]	Non-trading	England
Axia Fans Limited[1]	Non-trading	England
Roof Units Limited[1]	Non-trading	England
Torin Limited[1]	Non-trading	England
Vent-Axia Limited[1]	Non-trading	England
Vent-Axia Clean Air Systems Limited[1]	Non-trading	England
Vent-Axia Group Limited[1]	HR services to Group	England
ET Environmental Limited[1]	Non-trading	England
Diffusion Environmental Systems Limited[1]	Non-trading	England
NVA Services Limited[1]	Non-trading	England
SW National Ventilation Limited[1]	Non-trading	England
Airtech Humidity Controls Limited[1]	Non-trading	England
Sens-Air Limited[1]	Non-trading	England
Breathing Buildings Limited[1]	Non-trading	England
Volution Ventilation UK Limited[1]	Ventilation products	England
Volution Holdings Sweden AB[2]	Intermediate holding company	Sweden
Fresh AB[2]	Ventilation products	Sweden
Welair AB[3]	Ventilation products	Sweden

30. Group structure details continued

Group company	Principal activity	Country of incorporation
VoltAir System AB[4]	Ventilation products	Sweden
PAX AB[5]	Ventilation products	Sweden
Volution Norge AS (formerly Fresh Norge AS)[6]	Ventilation products	Norway
Fresh Shanghai Limited[7]	Ventilation products	China
inVENTer GmbH[8]	Ventilation products	Germany
Volution Management Holdings GmbH[8]	Intermediate holding company	Germany
Volution Deutschland Real Estate GmbH[8]	Property holding company	Germany
Brüggemann Energiekonzepte GmbH[9]	Ventilation products	Germany
Ventilair Group International BVBA[10]	Intermediate holding company	Belgium
Ventilair Group Belgium BVBA[10]	Ventilation products	Belgium
Ventilair Group Netherlands B.V.[11]	Ventilation products	Netherlands
Ventilair France SARL[12]	Ventilation products	France
Volution Ventilation New Zealand Limited (formerly known as Chinook Limited)[13]	Intermediate holding company	New Zealand
Simx Limited[13]	Ventilation products	New Zealand
Vent-Axia B.V. (formerly known as AirFan B.V.)	Ventilation products	Netherlands
Oy Pamon Ab[14]	Ventilation products	Finland
Air Connection ApS[15]	Ventilation products	Denmark
Woomera Pty Limited[16]	Intermediate holding company	Australia
Ventair Pty Limited[16]	Ventilation products	Australia

Registered offices

1. Fleming Way, Crawley, West Sussex RH10 9YX.
2. Gransholmsvägen 136, 35599 Gemla, Sweden.
3. Strandvägen 65, 87052 Nyland, Sweden.
4. Box 7033, 12107 Stockholm-Globen, Sweden.
5. Kattkärrsvägen 4, 64831 Hälleforsnäs, Sweden.
6. Professor Birkelands vei 24B, 1081 Oslo, Norway.
7. No. 272–3 Julu Road, Shanghai, China.
8. Ortsstraße 4a 07751 Löberschütz, Germany.
9. Uhlenhorst 149A, 21435 Stelle, Germany.
10. Pieter Verhaeghestraat 8, 8520 Kuurne, Belgium.
11. Kerver 16, 5521 DB Eersel, Netherlands.
12. Boulevard de la Liberté 130, FR-59000 Lille, France.
13. 1 Haliday Place, East Tamaki, Auckland, 2013, New Zealand.
14. Keskikankaantie 17, 15680 Hollola, Finland.
15. Rude Havvej 17B, DK-8300 Odder, Denmark.
16. 4 Capital Pl, Carrum Downs VIC 3201, Australia.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2019

31. Commitments and contingencies

Accounting policy

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Payments under operating leases are charged to the statement of comprehensive income on a straight line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Operating lease commitments

The Group has entered into commercial leases on certain items of land and building and others. These leases have an average life of between five and fifteen years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these contracts.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Within one year	**3,364**	1,729	**449**	281
After one year but not more than five years	**10,014**	7,260	**544**	350
More than five years	**16,954**	9,831	**—**	—
	30,332	18,820	**993**	631

Commitments

Commitments for the acquisition of property, plant and equipment as of 31 July 2019 are £469,000 (2018: £158,000).

32. Share-based payments

The Company operates a share-based incentive scheme for Directors and key employees, known as the Volution Long Term Incentive Plan (LTIP). Share options were granted in October 2016, March 2018 and October 2018; these nil-cost options normally vest after three years assuming continuing employment with the Company. The extent to which the options will vest is dependent upon the Company's performance over a three-year period set at the date of grant. The vesting of the awards will be determined by the Company's relative total shareholder return (TSR) performance and EPS growth. The TSR element of the options granted has been valued using the Group's share price volatility, the correlation between the share price movements of TSR comparators and the relevant vesting schedule.

	2019 Number	2018 Number
Outstanding at 1 August	**2,010,811**	1,624,828
Granted during the year	**937,026**	745,479
Dividend equivalent added on vesting	**15,461**	19,894
Exercised during the year	**(21,099)**	(37,013)
Lapsed during the year	**(260,910)**	(342,377)
Outstanding at 31 July	**2,681,289**	2,010,811

The weighted average exercise price for all options is £nil.

Of the total number of options outstanding at 31 July 2019 612,783 had vested and were exercisable.

The weighted average fair value of each option granted during the year was £1.87 (2018: £2.01).

The following information is relevant in the determination of the fair value of options granted during the year under the LTIP:

32. Share-based payments continued

	2019
Option pricing model used	**Monte Carlo**
Weighted average share price at grant date (£)	**1.87**
Exercise price (£)	**Nil**
Expected life (years)	**3**
Expected volatility	**33.3%**
Risk-free interest rate	**0.91%**

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of share prices over a period commensurate with the expected life of the option.

The share-based remuneration expense comprises:

	2019 £000	2018 £000
Equity-settled schemes	**895**	475
	895	475

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous periods.

33. Events after the reporting period

There have been no material events between 31 July 2019 and the date of authorisation of the consolidated financial statements that would require adjustments of the consolidated financial statements or disclosure.

Notes to the Consolidated Financial Statements continued
For the year ended 31 July 2019

34. Glossary of terms

Adjusted basic and diluted EPS: calculated by dividing the adjusted profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 551,467 dilutive potential ordinary shares at 31 July 2019 (2018: 413,555).

Adjusted EBITDA: adjusted operating profit before depreciation and amortisation.

Adjusted finance costs: finance costs before net gains or losses on financial instruments at fair value and the exceptional write off of unamortised loan issue costs upon refinancing.

Adjusted operating cash flow: adjusted EBITDA plus or minus movements in operating working capital, less net investments in property, plant and equipment and intangible assets.

Adjusted operating profit: operating profit before exceptional operating costs, release of contingent consideration and amortisation of assets acquired through business combinations.

Adjusted profit after tax: profit after tax before exceptional operating costs, release of contingent consideration, exceptional write off of unamortised loan issue costs upon refinancing, net gains or losses on financial instruments at fair value, amortisation of assets acquired through business combinations and the tax effect on these items.

Adjusted profit before tax: profit before tax before exceptional operating costs, release of contingent consideration, exceptional write off of unamortised loan issue costs upon refinancing, net gains or losses on financial instruments at fair value and amortisation of assets acquired through business combinations.

Adjusted tax charge: the reported tax charge less the tax effect on the adjusted items.

CAGR: compound annual growth rate.

Cash conversion: is calculated by dividing adjusted operating cash flow by adjusted EBITA.

Constant currency: to determine values expressed as being at constant currency we have converted the income statement of our foreign operating companies for the year ended 31 July 2019 at the average exchange rate for the period ended 31 July 2018. In addition, we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2019, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2018.

EBITDA: profit before net finance costs, tax, depreciation and amortisation.

Net debt: bank borrowings less cash and cash equivalents.

Operating cash flow: EBITDA plus or minus movements in operating working capital, less share-based payment expense, less net investments in property, plant and equipment and intangible assets.

Parent Company Statement of Financial Position

At 31 July 2019

	Notes	**2019 £000**	2018 £000
Non-current assets			
Property, plant and equipment	4	**157**	174
Investments	5	**199,322**	199,322
Deferred tax asset	6	**598**	542
		200,077	200,038
Current assets			
Other receivables and prepayments	7	**94,165**	93,349
Other current financial assets	8	**907**	297
Cash and short-term deposits		**39**	603
		95,111	94,249
Total assets		**295,188**	294,287
Current liabilities			
Trade and other payables	9	**(19,943)**	(19,699)
		(19,943)	(19,699)
Non-current liabilities			
Interest-bearing loans and borrowings	10	**(85,391)**	(94,605)
		(85,391)	(94,605)
Total liabilities		**(105,334)**	(114,304)
Net assets		**189,854**	179,983
Capital and reserves			
Share capital	11	**2,000**	2,000
Share premium		**11,527**	11,527
Treasury shares		**(2,030)**	(1,962)
Share-based payment reserve		**1,599**	1,690
Capital reserve		**(273)**	(273)
Retained earnings		**177,031**	167,001
Total equity		**189,854**	179,983

As permitted by Section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements.

The Company's profit for the year ended 31 July 2019 was £19.2 million (2018: £7.9 million).

The financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 9 October 2019.

On behalf of the Board

Ronnie George
Chief Executive Officer

Andy O'Brien
Chief Financial Officer

Parent Company Statement of Changes in Equity

For the year ended 31 July 2019

	Share capital £000	Share premium £000	Treasury shares £000	Share-based payment reserve £000	Capital reserve £000	Retained earnings £000	Total £000
At 1 August 2017	2,000	11,527	(2,027)	1,289	(273)	165,673	178,189
Profit for the year	—	—	—	—	—	7,904	7,904
Total comprehensive income	—	—	—	—	—	7,904	7,904
Share-based payment	—	—	65	401	—	—	466
Dividends paid	—	—	—	—	—	(8,471)	(8,471)
Waiver of inter-group loan payable	—	—	—	—	—	1,895	1,895
At 1 August 2018	2,000	11,527	(1,962)	1,690	(273)	167,001	179,983
Profit for the year	—	—	—	—	—	19,202	19,202
Total comprehensive income	—	—	—	—	—	19,202	19,202
Share-based payment	—	—	—	952	—	—	952
Purchase of own shares	—	—	(1,199)	—	—	—	(1,199)
Vesting of shares	—	—	1,131	(1,043)	—	(88)	—
Dividends paid	—	—	—	—	—	(9,084)	(9,084)
At 31 July 2019	**2,000**	**11,527**	**(2,030)**	**1,599**	**(273)**	**177,031**	**189,854**

Treasury shares

The treasury shares reserve represents the cost of shares in Volution Group plc purchased in the market and held by the Volution Employee Benefit Trust to satisfy obligations under the Group's share option schemes.

Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to key management personnel, as part of their remuneration. Refer to note 32 of the Group financial statements for further details.

Capital reserve

The capital reserve is the difference in share capital and reserves arising from the use of the pooling of interest method for preparation of the financial statements in 2014. This is a non-distributable reserve.

Retained earnings

£82,335,000 of the retained earnings balance at 31 July 2019 is available for distribution (2018: £72,214,000).

Parent Company Statement of Cash Flows

For the year ended 31 July 2019

	Note	2019 £000	2018 £000
Operating activities			
Profit for the year after tax		**19,202**	7,904
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax for the year		**(745)**	(796)
Exceptional costs		**490**	557
Cash flows relating to exceptional costs		**(490)**	(684)
Finance revenue		**(753)**	(891)
Finance costs		**2,243**	1,284
Share-based payment expense		**895**	239
Effect of exchange rates on foreign-denominated loans		**303**	(779)
Depreciation of property, plant and equipment	4	**26**	18
Working capital adjustments:			
Increase in other receivables and prepayments		**(73)**	(40,907)
Increase/(decrease) in trade and other payables		**247**	(572)
Net cash flow generated from/(used in) operating activities		**21,345**	(34,627)
Investing activities			
Purchase of property, plant and equipment	4	**(9)**	(128)
Interest received		**143**	63
Net cash flow generated from/(used in) investing activities		**134**	(65)
Financing activities			
Interest paid		**(2,013)**	(1,049)
Repayment of interest-bearing loans and borrowings		**(27,067)**	(57,862)
Proceeds from new borrowings		**17,500**	103,474
Issue costs of new borrowings		**(180)**	(954)
Dividend paid to equity holders		**(9,084)**	(8,471)
Purchase of own shares		**(1,199)**	—
Net cash flow (used in)/generated from financing activities		**(22,043)**	35,138
Net (decrease)/increase in cash and cash equivalents		**(564)**	446
Cash and cash equivalents at the start of the year		**603**	157
Cash and cash equivalents at the end of the year		**39**	603

Notes to the Parent Company Financial Statements
For the year ended 31 July 2019

1. General information
These financial statements were approved and authorised for issue by the Board of Directors of Volution Group plc (the Company) on 9 October 2019.

The Company is a public limited company and is incorporated and domiciled in the UK (registered number: 09041571). The share capital of the Company is listed on the London Stock Exchange. The address of its registered office is Fleming Way, Crawley, West Sussex RH10 9YX.

2. Basis of preparation
The financial statements of Volution Group plc (the Company) are presented as required by the Companies Act 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

The financial statements are presented in Sterling (£), rounded to the nearest thousand (£000) unless otherwise stated. They have been prepared under the historical cost convention.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented an income statement or a statement of comprehensive income for the Company. The profit for the year is disclosed in the statement of changes in equity.

The policies applied by the Company are consistent with those set out in the notes to the consolidated financial statements. The following additional policies are also relevant to the Company financial statements.

Investments
Investments in subsidiary undertakings are valued at cost, being the fair value of the consideration given and including directly attributable transaction costs. The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Dividends received
Revenue is recognised when the Company's right to receive the payment is established, which is generally when the shareholders approve the dividend.

Financial instruments
For detailed disclosures of financial instruments refer to note 28 of the Group financial statements.

New standards and interpretations
The following standards and interpretations are new or amended and have been effective for the first time in 2019.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments was issued in July 2014 and replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Company applied IFRS 9 prospectively, with an initial application date of 1 August 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 were not material therefore no adjustment has been made to opening retained earnings or other components of equity.

IFRS 9 has introduced changes to the accounting for impairment of financial assets, which has resulted in the Company moving away from an incurred loss model to an expected credit loss (ECL) model. The revised standard has impacted the way in which the Company calculates the ECL, however the impact is not material.

IFRS 9 has also impacted the classification of the Company's Other receivables. Other receivables classified as loans and receivables as at 31 July 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 August 2018.

The adoption of IFRS 9 has not had a material impact on the Company's financial statements.

IFRS 16 Leases
IFRS 16 Leases was issued in January 2017 to replace IAS 17 Leases. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Company on 1 August 2019.

The Directors do not consider IFRS 16 to have a significant impact on the Company.

Other new standards or interpretations in issue, but not yet effective, are not expected to have a material impact on the Company's net assets or results.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of the Company financial statements requires the use of certain judgements, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions relevant to the financial statements are embedded with the relevant notes to the consolidated financial statements.

2. Basis of preparation continued

Carrying value of investments

The key source of estimation uncertainty at the reporting date that has a significant risk of causing a material adjustment to the parent company financial statements is the recoverability of the investments set out in note 5.

The recoverability is estimated based on the expected performance and value of the investments, factoring in potential expected future net cash flow to be generated from the investments. The Company based its estimation on information available when these financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected when they occur.

3. Staff costs

	2019 £000	2018 £000
Wages and salaries	2,957	2,407
Social security costs	209	90
Share-based payment charge	895	239
Other pension costs	29	30
	4,090	2,766

Other pension costs relate to the Company's contribution to defined contribution pension plans. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2018/19 but based on actual salary levels in 2019/20.

Average monthly number of employees in the year

	2019 Number	2018 Number
Administration	13	13

Directors' remuneration

	2019 £000	2018 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' remuneration	1,561	1,423
Aggregate Directors' pension scheme contributions	91	87
In respect of the highest paid Director		
Aggregate Director's remuneration	939	845
Aggregate Director's pension scheme contributions	54	52

The number of Directors accruing benefits under Company money purchase pension arrangements was nil (2018: nil).

The Company also incurred fees and expenses of £359,000 (2018: £336,000) in respect of Peter Hill, Tony Reading, Paul Hollingworth, Claire Tiney and Amanda Mellor for their services as Non-Executive Directors.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2019

4. Property, plant and equipment

2019	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost		
At 1 August 2018	**198**	**198**
Additions	**9**	**9**
At 31 July 2019	**207**	**207**
Depreciation		
At 1 August 2018	**24**	**24**
Charge for the year	**26**	**26**
At 31 July 2019	**50**	**50**
Net book value		
At 31 July 2019	**157**	**157**

2018	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost		
At 1 August 2017	70	70
Additions	128	128
At 31 July 2018	198	198
Depreciation		
At 1 August 2017	6	6
Charge for the year	18	18
At 31 July 2018	24	24
Net book value		
At 31 July 2018	174	174

5. Investments

	£000
Cost	
At 31 July 2018 and 31 July 2019	**199,322**

For a list of the subsidiaries in which Volution Group plc held 100% of the voting shares as at 31 July 2019, see note 30 of the Group financial statements.

6. Deferred tax balances

Deferred tax assets and liabilities arise from the following:

	1 August 2018 £000	Charged to income £000	Charged to equity £000	**31 July 2019 £000**
Deferred tax asset				
Temporary differences	542	(1)	57	**598**

7. Other receivables and prepayments

	2019 £000	2018 £000
Amounts owed by Group undertakings	**93,775**	92,845
Prepayments	**390**	504
	94,165	93,349

8. Other financial assets

	2019 Current £000	2018 Current £000
Financial assets		
Foreign exchange forward contracts	**907**	297
	907	297

The foreign exchange forward contracts are carried at their fair value with the gain or loss being recognised in the Company's consolidated statement of comprehensive income. Refer to note 28 within the Group's financial statements for the fair value hierarchy the Group uses to determine the fair value of financial instruments.

9. Trade and other payables

	2019 £000	2018 £000
Trade payables	**123**	311
Accruals	**1,834**	1,223
Amounts owed to Group undertakings	**17,986**	18,165
	19,943	19,699

10. Interest-bearing loans and borrowings

	2019		2018	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2022)	**–**	**86,146**	–	95,410
Cost of arranging bank loan	**–**	**(755)**	–	(805)
	–	**85,391**	–	94,605

In December 2018, the Group exercised the option to extend its multicurrency revolving credit facility by a period of twelve months at a cost of £0.2 million; the maturity date is now 15 December 2022.

Bank loans at 31 July 2019 comprised a revolving credit facility from Danske Bank A/S, HSBC and the Royal Bank of Scotland with HSBC acting as agent and are governed by a facilities agreement. The outstanding loans are set out in the table below. No security was provided under the facility.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2019

10. Interest-bearing loans and borrowings continued

Revolving credit facility – at 31 July 2019

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	21,500	15 December 2022	One payment	Libor + margin%
Euro	40,640	15 December 2022	One payment	Euribor + margin%
Swedish Krona	24,006	15 December 2022	One payment	Stibor + margin%
Total	**86,146**			

Revolving credit facility – at 31 July 2018

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	31,000	15 December 2021	One payment	Libor + margin%
Euro	39,943	15 December 2021	One payment	Euribor + margin%
Swedish Krona	24,467	15 December 2021	One payment	Stibor + margin%
Total	**95,410**			

The consolidated leverage level fell below 1.0:1 for the year ended 31 July 2017 and therefore the margin for the first half of the year ended 31 July 2018 was 1.00%. On refinancing the margin was reduced to 0.9%. At the half year, the consolidated leverage was below 1.0:1 and therefore the margin continued to be 0.9% under the new facility. For the second half of the year ended 31 July 2018 the margin increased to 1.40% due to the acquisition of Simx Limited which increased leverage to 1.7:1; this rate has continued throughout the year ended 31 July 2019.

At 31 July 2019, the Group had £33,854,000 (2018: £24,590,000) of its multicurrency revolving credit facility unutilised.

Reconciliation of movement in financial liabilities

Reconciliation of movement of financial liabilities	2019 £000	2018 £000
At 1 August	**95,410**	51,490
Additional loans	**17,500**	103,474
Repayment of loans	**(27,067)**	(57,862)
Interest charge	**1,913**	1,017
Interest paid	**(1,913)**	(1,017)
Foreign exchange	**303**	(1,692)
At 31 July	**86,146**	95,410

11. Share capital and share premium

The movement in called-up share capital and share premium accounts is set out below:

	Number of ordinary shares	Share capital £000	Share premium £000
At 31 July 2018 and 31 July 2019	**200,000,000**	**2,000**	**11,527**

12. Dividends paid and proposed

	2019 £000	2018 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2019: 1.60 pence per share (2018: 1.46 pence)	**3,172**	2,903
Proposed dividends on ordinary shares		
Final dividend for 2019: 3.30 pence per share (2018: 2.98 pence)	**6,541**	5,926

The interim dividend payment of £3,172,000 is included in the consolidated statement of cash flows.

The proposed dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2019.

13. Related party transactions

The following table provides the total amount of transactions that have been entered into with subsidiary undertakings for the relevant financial period.

	2019		2018	
Related parties	**Amounts owed by related parties £000**	**Amounts owed to related parties £000**	Amounts owed by related parties £000	Amounts owed to related parties £000
Volution Ventilation Group Limited	**93,030**	**17,986**	91,943	18,165
Volution Holdings Limited	**745**	**—**	902	—
	93,775	**17,986**	92,845	18,165

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Compensation of key management personnel

The Executive and Non-Executive Directors are deemed to be key management personnel of Volution Group plc. It is the Board that has responsibility for planning, directing and controlling the activities of the Group. Please refer to note 3 for details of the Executive and Non-Executive Directors' remuneration.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the year, key management personnel did not owe the Company any amounts.

14. Share-based payments

For detailed disclosures of share-based payments granted to employees refer to note 32 of the Group financial statements.

Glossary of Technical Terms

Alternating current or AC	the flow of electric current which reverses direction periodically, typically at 50Hz in the UK and Europe. This is the standard type of electricity supply to domestic and commercial properties
AC blowers	a low-pressure fan with an AC motor
AC motor	an alternating current motor
AHU	air handling unit: a ventilation device which usually integrates air, heating and filtration into one combined unit. May also include cooling and heat recovery
Decentralised heat recovery	a system of ventilation that collects heat from exhaust air that would otherwise be lost and reuses such heat by transferring it to the incoming fresh air. Decentralised heat recovery consists of multiple units supplying and extracting from around the home
EC/DC	electronically commutated direct current
Electronically commutated or EC	a type of motor which historically used a mechanical means of reversing the current flow but which now uses an electronic device to do the same, which is more reliable and more efficient
Fan coil	a device used to heat or cool a space which includes a water coil and fan for connection to the wider HVAC package within a building
HVAC	heating, ventilation and air conditioning
Hybrid ventilation	a method that combines both passive and mechanical means to form a mixed mode ventilation system
IAQ	indoor air quality
Lo-Carbon products	a trademark used to represent our low-energy range of products
MEV	Mechanical Extract Ventilation: a system of ventilation operated by a power-driven mechanism which extracts air from a room and discharges it only to the external air
Motorised impellers	a motor that is supplied complete with an impeller attached to it
MVHR	Mechanical Ventilation with Heat Recovery: a centralised system of ventilation that collects heat from exhaust air that would otherwise be lost and reuses such heat by transferring it to the incoming fresh air
NVHR	Natural Ventilation with Heat Recycling
OEM	original equipment manufacturer
PIV	Positive Input Ventilation: this is an energy-efficient method of pushing out and replacing stale, unhealthy air by gently pressurising the home with fresh, filtered air to increase the overall circulation of air in the dwelling
RMI	repair, maintenance and improvement
Rotary heat exchanger	a type of heat exchanger consisting of a circular honeycomb matrix which rotates in the air stream of a heat recovery device
Plate heat exchanger	a type of heat exchanger consisting of a series of plates which transfer the heat from one airstream to another
Specifiers	persons who may specify certain characteristics of products

Shareholder Information

Shareholder services

For any enquiries concerning your shareholding please contact our registrar:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
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Equiniti has a shareholder portal offering access to services and information to help manage your shareholdings and inform your important investment decisions. Please visit www.shareview.co.uk.

Shareholder helpline: 0371 384 2030* from the UK
or +44 (0) 121 415 7047 from overseas.

* Lines are open 8.30 am to 5.30 pm, Monday to Friday (excluding public holidays in England and Wales).

You can access our Annual Report and Accounts and other shareholder communications through our website, www.volutiongroupplc.com.

Company advisers

External independent auditor
Ernst & Young LLP

Joint corporate brokers
Liberum Capital Limited
Canaccord Genuity Limited

Legal adviser
Norton Rose Fulbright LLP

Financial PR adviser
Tulchan Communications LLP

Company Secretary and registered office

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Forward-looking statements
The Annual Report and Accounts contains certain statements, statistics and projections that are or may be forward looking. The accuracy and completeness of all such statements including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Volution Group plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as "intends", "expects", "anticipates" and "estimates" and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Volution Group plc believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors, which may be beyond the control of Volution Group plc, that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Other than as required by applicable law or the applicable rules of any exchange on which our securities may be listed, Volution Group plc has no intention or obligation to update forward-looking statements contained herein.

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