Embargoed until 07:00 on:
Monday 16 March 2020

VOLUTION GROUP PLC
INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2020

Results in line with expectations, good progress on margin expansion and cash conversion

Volution Group plc ("Volution" or "the Group" or "the Company", LSE: FAN), a leading supplier of ventilation products to the residential and commercial construction markets, today announces its unaudited interim financial results for the 6 months ended 31 January 2020.

RESULTS SUMMARY

	6 months to 31 January 2020	**6 months to 31 January 2019**	**Movement**	**Movement (constant currency)**
Revenue (£m)	**118.8**	114.8	3.4%	5.0%
Adjusted operating profit (£m)	**21.8**	20.2	7.6%	9.1%
Adjusted profit before tax (£m)	**20.5**	19.1	7.2%	
Adjusted EPS (pence)	**8.2**	7.7	6.5%	
Reported operating profit (£m)	**14.0**	11.3	24.4%	
Reported profit before tax (£m)	**11.9**	10.2	16.7%	
Reported basic EPS (pence)	**4.7**	4.1	14.6%	
Adjusted operating cash flow (£m)	**22.3**	15.5	43.5%	
Reported net debt (£m)	**80.9**	74.4	6.5	
Like-for-like net debt (IAS 17 basis) (£m)	**60.5**	74.4	(13.9)	
Interim dividend per share (p)	**1.71**	1.60	6.9%	

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 18. A reconciliation to reported measures is set out in note 2. The results for the six months to 31 January 2020 are presented on an IFRS 16 basis, the prior period has not been restated. The impact of applying IFRS 16 can be seen in note 1 of the interim financial statements.

FINANCIAL HIGHLIGHTS

- Revenue growth of 3.4% (5.0% at constant currency):
  - organic revenue decline of 2.8% (1.4% at constant currency) mainly due to UK Commercial and Nordics markets; and
  - inorganic revenue growth of 6.2% (6.4% at constant currency) as a result of the acquisition of Ventair Pty Limited in Australia in March 2019.
- Adjusted operating profit increased by 7.6% to £21.8 million (9.1% at constant currency) due to revenue growth and margin expansion.
- Adjusted operating profit margin improvement of 0.7pp (1.3pp organic) to 18.3% (H1 2019: 17.6%) assisted by Reading improvement and a range of initiatives.
- Reported profit before tax increased by 16.7% to £11.9 million (H1 2019: £10.2 million) with no exceptional costs in the period (H1 2019: £1.2 million).
- Adjusted operating cash inflow of £22.3 million (H1 2019: £15.5 million) with strong cash conversion of 99.5% (H1 2019: 74.5%).
- Net debt restated for IFRS 16 of £80.9 million:
  - Like-for-like reduction of £13.9 million due to strong cash conversion;
  - Leverage on a like-for-like basis under IAS 17 reduced to 1.3x (H1 2019: 1.7x); and
  - £20.4 million increase as a result of adopting IFRS 16 in the period.
- Interim dividend of 1.71 pence per share, up 6.9% (H1 2019: 1.60 pence), reflecting strong profitability and free cash generation.

STRATEGICAL AND OPERATIONAL HIGHLIGHTS

- The integration of Ventair in Australia is progressing well. The planned extension of their product range is taking shape and will introduce a significant range of new products in to the Australian market.
- The new products launched in to the UK Residential Public refurbishment market are being well received by customers and assisting with gaining new accounts.
- The Xenion range of upgraded decentralised heat recovery products in Germany has performed strongly in the period with further enhancements to the range launching in the second half of this financial year.
- The Operational Excellence programme is progressing well with wide ranging initiatives being implemented to expand operating margins.
- Our injection-moulding, extrusion and fan assembly facility in Reading, UK is underpinning our ambitious plans to introduce additional refurbishment products in a number of our markets.

Commenting on the Group's performance, Ronnie George, Chief Executive Officer, said:

"Volution has again delivered a good overall performance with continued strong cash conversion and an increase in the operating margin despite challenges in the UK Commercial and Nordic Projects markets. Aside from these areas we are pleased with how our revenue developed and the focus on our Operational Excellence programme has delivered organic margin expansion in all three geographic regions. The regulatory and consumer demands for ventilation are becoming more stringent and we continue to innovate bringing new products to market to take advantage of these exciting trends.

Our highest priority at Volution is for the safety and wellbeing of our employees. We are carefully and continually monitoring guidance relating to COVID-19 from the authorities in the countries in which we operate, implementing any necessary steps, and ensuring that we communicate clearly and frequently with our employees. On behalf of the Board I would like to thank all of our teams for the way they have responded and for their continuing hard work and dedication throughout the first half-year."

Outlook

The rapidly evolving Coronavirus pandemic and measures taken by governments to control the virus is creating significant uncertainty and is very likely to have a material impact on the global economy. Whilst it is hard to forecast the direct impact on our business at this point there is clearly potential for adverse impacts on both supply and demand. However we continue to take actions to monitor and secure our supply chain and have limited sales exposure to some of the most affected countries to date (China, Italy and South Korea). As at the date of this report trading in the second half of the financial year has continued on a similar basis to the first half performance. We continue to focus on cash generation and on Operational Excellence to underpin the expansion in our adjusted operating profit margin. We also have a number of new product launches planned in the coming months. Medium term we continue to see favourable regulatory drivers as increasingly supportive of energy-efficient ventilation solutions.

-Ends-

For further information:

	Enquiries:
Volution Group plc	
Ronnie George, Chief Executive Officer	+44 (0) 1293 441501
Andy O'Brien, Chief Financial Officer	+44 (0) 1293 441536
Tulchan Communications	+44 (0) 207 353 4200
James Macey White	
David Allchurch	
Giles Kernick	

A conference call for analysts will be held at 9.30am today, Monday 16 March. Please contact volutiongroup@tulchangroup.com to register and for instructions on how to connect to the conference facility.

A copy of this announcement and the presentation given to analysts will be available on our website www.volutiongroupplc.com from 7.00 am on Monday 16 March.

Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) prior to its release as part of this announcement.

Volution Group plc Legal Entity Identifier: 213800EPT84EQCDHO768.

Note to Editors:

Volution Group plc (LSE: FAN) is a leading supplier of ventilation systems and products to both the residential and commercial construction markets in the UK, Continental Europe and Australasia.

Volution Group comprises 16 key brands across the three regions:

UK: Vent-Axia, Manrose, Diffusion, National Ventilation, Airtech, Breathing Buildings & Torin-Sifan;
Continental Europe: Fresh, PAX, VoltAir, Kair, Air Connection, inVENTer, & Ventilair; and
Australasia: Simx & Ventair.

For more information, please go to: www.volutiongroupplc.com

Cautionary statement regarding forward-looking statements

This document may contain forward-looking statements which are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. You can sometimes, but not always, identify these statements by the use of a date in the future or such words as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "should", "may", "assume" and other similar words. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause our actual results to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise.

CHIEF EXECUTIVE OFFICER'S REVIEW

Volution continued to make good progress with its strategy in the first half of the financial year. The renewed focus on Operational Excellence has delivered good results in the period. Adjusted operating profit margin increased to 18.3% versus 17.6% in the prior year, with an organic margin improvement of 1.3pp. Revenue grew by 3.4%, 5.0% at constant currency. Organic revenue declined by 1.4% on a constant currency basis reflecting the short-term difficult conditions in our project markets in the Nordics as well as the expected softer demand in the UK Commercial market, we had good organic revenue growth in almost all other areas.

The benefits from our operational excellence initiatives assisted our increased adjusted operating margin with adjusted operating profit of £21.8 million up from £20.2 million in the prior year (7.6% growth, 9.1% growth at constant currency). The focus on operational excellence also underpinned a strong cash generation in the period, with adjusted operating cash inflows of £22.3 million (H1 2019: £15.5 million) and a cash conversion rate of 99.5% (H1 2019: 74.5%).

REGIONAL PERFORMANCE REVIEW

Change of reported Operating Segments

On listing in June 2014, Volution was present in three countries (UK, Sweden and Germany) and generated 77% of its revenue from the UK. Our subsequent growth strategy has seen us acquire ten market leading brands across eight countries since listing, providing greater geographic diversity and moving the Group to one which now generates 54% of its revenue outside of the UK (see Geographic information within note 4).

We have therefore decided to move to a reporting structure based around our three core geographies of the UK, Continental Europe and Australasia, commencing with these interim results.

We believe this new segmental reporting provides improved performance visibility across the Group, as we continue to focus on delivering our strategy. An analysis of results by segment can be found in note 4 'Segmental analysis' to the interim financial statements.

Group Results by Operating Segment

United Kingdom

Market sector revenue	**6 months to 31 January 2020 £m**	Constant currency **6 months to 31 January 2020 £m**	Constant currency 6 months to 31 January 2019 £m	Growth %
UK				
Residential RMI	**20.0**	**20.0**	19.7	1.4
New Build Residential Systems	**13.1**	**13.1**	13.1	0.0
Commercial	**15.3**	**15.3**	17.3	(11.6)
Export	**4.8**	**4.9**	4.5	7.4
OEM	**11.3**	**11.4**	12.0	(5.2)
Total UK Revenue	**64.5**	**64.7**	66.6	(3.0)
Adjusted operating profit	**12.2**	**12.2**	11.6	5.0
Adjusted operating profit margin (%)	**18.9**	**18.9**	17.4	1.5pp

The UK's revenue declined by 3.3% (3.0% at constant currency) mainly as a result of the anticipated weaker sales in our Commercial projects market. Adjusted operating profit was £12.2 million an increase of 5.0%. Adjusted operating profit margin increased to 18.9% compared to a prior period of 17.4% assisted by the operational and efficiency improvements in our Reading facility, upselling to higher value product ranges in our RMI market as well as other initiatives to improve both our product cost and indirect cost efficiency.

Sales in our UK New Build Residential Systems sector were flat on the prior period at £13.1 million (H1 2019: £13.1 million), with a noticeable slowdown in activity leading up to the UK General Election in December 2019. The medium and longer term outlook for our New Build Residential Systems market remains very positive, driven by demand for more energy efficient and airtight homes. During the period there was also a noticeable increase in public awareness of the effects on health and wellbeing resulting from poor indoor air quality. We continue to innovate to bring market leading heat recovery and system ventilation products to this market and our decentralised mechanical ventilation product range has been further upgraded in the period. 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 well in the period with total revenue of £7.8 million, up 4.5% compared to the prior period. Over the last two years we have completely refreshed and improved the performance, quietness and aesthetics of the product range sold in this market. We are particularly pleased to deliver 4.5% organic growth in the period and there are further new product range extensions planned during this financial year. In particular we have improved our range of Positive Input Ventilation (PIV) products and a new "PIV Compact" unit has delivered significant new sales in the first half of the year.

The UK Residential Private RMI market revenue of £12.2 million represented a decrease of 0.5% compared to the previous period. Whilst revenue was broadly flat we have been successful in enhancing our sales mix with considerable emphasis on upselling to more “higher value” and “silent” ventilation ranges. This initiative will continue to underpin a further improvement in gross margin and during the latter part of the period there have been several new product ranges launched that will increase the functionality and performance of our offer, all of which attract a higher price point and deliver increased margin. Our understanding from the Construction Products Association statistics as well as the considerable market intelligence at our disposal is that this market suffered a small volume decline in the period and we are confident that our comprehensive and market leading range of products, sold by our three proprietary distribution brands, continue to gain share.

UK Commercial market revenue declined by 11.6% in the period to £15.3 million (H1 2019: £17.3 million). Our revenue decline was exclusively in the new commercial build market for fan coils and in the new school build market. This trend has been evident since the latter part of the second half of FY19 and we have seen a flattening out of revenues over the last few months. Market sentiment has improved since the UK General Election in December 2019 and we are working on a number of new projects expected to materialise in the second half of our financial year. We have mitigated the impact of the revenue shortfall via a number of efficiency improvements and a reorganisation at our West Molesey facility.

UK Export market sales were £4.8 million, growth of 5.4% (7.4% at constant currency) as we introduce a number of new products to our export customers, and continue to benefit from favourable regulations in the new build residential market in Eire.

OEM revenue was £11.3 million, a decline of 6.0% largely as a result of the mild, wet winter in the UK reducing demand for our higher margin boiler spares. This is a continuation of a trend that was exhibited in FY19 and information from our key boiler spares customers, coupled with our contractual supply agreements, suggest that customer stock levels are now generally much lower and we expect a higher volume of supply in the second half of this financial year. Sales of our EC3 motor are growing well both with external customers and also included inside our own mechanical ventilation and mechanical ventilation with heat recovery product ranges.

Continental Europe

Market sector revenue	**6 months to 31 January 2020 £m**	**6 months to 31 January 2020 £m** (Constant currency)	6 months to 31 January 2019 £m (Constant currency)	Growth %
Nordics	**21.4**	**22.3**	25.4	(12.0)
Central Europe	**17.0**	**17.4**	14.6	19.3
Total Continental Europe revenue	**38.4**	**39.7**	40.0	(0.5)
Adjusted operating profit	**8.4**	**8.7**	8.4	3.6
Adjusted operating profit margin (%)	**22.0**	**21.9**	21.1	0.8pp

Revenue in Continental Europe was £38.4 million, £39.7 million on a constant currency basis, a decline of £0.3 million (0.5% constant currency decline) whilst adjusted operating profit was flat at £8.4 million with an underlying improvement in profit on a constant currency basis. Adjusted operating profit margins increased from 21.1% to 22.0% as a result of an improved mix of sales and ongoing operational excellence initiatives reducing product costs.

Sales in the Nordics were £21.4 million (H1 2019: £25.4 million), a decrease of 15.5% (12.0% at constant currency) due to contraction in both the Swedish and Finnish new build market. In the case of Sweden the market backdrop for new commercial buildings and our customisable heat recovery ventilation system has been weaker for some time. We experienced weaker revenues in this market during FY19 and a very weak period during the first half of the year. The project order book in Sweden for the second half of the year is significantly better than the first half and revenues are expected to be stronger in the coming months. Further upgrades are planned to improve our product selection tools which will enable consultants to more easily specify our solutions in new projects. In Finland, our Kair brand performed very well in FY19 with significant revenue growth over the prior period. In the first half of the year the new build project market has been quite weak coupled with a strong comparator period throughout FY19. Since the start of the calendar year we have introduced an extended range of heat recovery solutions in Finland as well as improving the internal systems to facilitate the movement of products from our various Nordic heat recovery production units in to the different geographies.

Our Nordic trade and DIY distribution revenues were broadly flat with stronger performance in Norway and Finland and slightly weaker in Sweden. The trend improved slightly through the first half. Sales of the Intellivent Sky, the leading, silent, app controlled premium fan continue to develop very well and there has been a good response to the introduction of higher added value “kitting” solutions where we are providing the DIY customer with a ventilation pack providing all of the ventilation products and accessories required for a standard refurbishment. Organisational changes in the Nordics with a further strengthening of our product management teams will enable us to take advantage of the considerable pipeline of new innovation. Product launches of a wirelessly controlled de-centralised heat recovery range and an extended range of products for residential refurbishment are scheduled to take place in the second half of the financial year.

We continue to make strong progress with our strategy in Central Europe, delivering sales of £17.0 million, growth of 16.6% (19.3% at constant currency) compared to the previous period, with Germany the standout performer. Our inVENTer brand in Germany has made significant share gains in the period capitalising on the previous launch of our Xenion product range. Continuing innovation and new product development is an essential ingredient in all of our markets and we have been particularly successful in Germany. Following on from this we have a full wireless and improved functionality solution to be launched in the second half of the financial year as well as a super quiet extension to the range utilising noise cancelling technology to provide an enhanced solution for consumers. Once successfully launched in Germany these products will be rolled out in the Nordics and also other areas of the Group.

In both Belgium and the Netherlands our ongoing strategy to increase coverage of the wholesaler and distributor market is working well. In 2018 we launched a range of residential refurbishment products in the Netherlands utilising the Vent-Axia brand selling to distributors and electrical wholesalers. This range has been further enhanced and additional products will be added later this year. Our share gains have been considerable and we will continue to focus on improving our market coverage in this key market. In Belgium we are consolidating our position as one of the leading residential and commercial heat recovery ventilation providers. The market in Belgium is predominantly a system ventilation market and coupled with our proprietary Uniflex plus ducting and accessories we have seen good growth in the period.

Australasia

Market sector revenue	**6 months to 31 January 2020 £m**	**6 months to 31 January 2020 £m**	Constant currency 6 months to 31 January 2019 £m	Growth %
Total Australasia revenue	**15.9**	**16.2**	8.2	97.6
Adjusted operating profit	**2.3**	**2.4**	1.3	84.7
Adjusted operating profit margin (%)	**14.9**	**14.9**	15.9	(1.0)pp

Sales in Australasia were £15.9 million, growing by 92.7% (97.6% at constant currency) driven by the acquisition of Ventair in Australia in March 2019. Organic revenue grew by 6.1% (7.4% at constant currency) with a particularly strong finish to the period. Adjusted operating profit increased to £2.3 million from £1.3 million in the prior period, assisted by both the acquisition of Ventair in Australia and the organic growth and margin expansion in New Zealand. Whilst our adjusted operating margin reduced from 15.9% in the first half of FY19 to 14.9% in the first half of FY20 this was solely as a result of the acquisition, with our organic margin increasing from 15.9% in the prior period to 19.0% (18.0% on a like-for-like IAS 17 basis) in the period.

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 Australia and New Zealand. With the acquisition of Ventair it is our ambition to become one of the leading providers of residential ventilation to the Australian market, complementing our position as the market leader in the residential refurbishment trade supply market in New Zealand. Since acquiring Simx in New Zealand in March 2018 we have introduced many new products to the market. That pace of new introduction has stepped up in the last six months and coupled with the forthcoming change in regulations for ventilation in rental properties, we believe our enlarged and more sophisticated product portfolio will enable us to make further gains and upsell advantages in the future.

In Australia the revenue has grown since the prior period, a period in which we did not own the business and therefore not classified as organic growth. As with Simx, in New Zealand, our objective is to widen the product portfolio taking us from one of the leading providers of ventilation sweep fans to also cover the residential exhaust fan market. We are expecting to gain further momentum over the coming months as we introduce new products from across the Group.

Focus on sustainability

Since reporting our results for the financial year 2019 we have renewed our focus on long term sustainability. We continue to focus on reducing our carbon emissions and waste and have instigated an internal review of our production processes to help reduce our impact on the environment. We have new initiatives maximising the use of recycled materials and lower impact packaging with the aim of reducing single use plastic within our supply chains.

Regulatory Drivers and indoor air quality

Particularly in our UK and Continental European markets, but also beginning to emerge in Australasia, the regulatory pathway to carbon reduction for new buildings continues. Improvements to thermal efficiency and reduced heating load requirements mean further tightening of air permeability in new buildings which increases the importance of energy efficient and healthy ventilation. Whilst the large majority of carbon emissions from the built environment come from existing buildings, we are seeing an increasing emphasis on new building regulations in all of our markets. These changes in regulations over the next five to ten years will increase demand for more sophisticated, more energy efficient, better controlled and quieter ventilation systems. However, if we are to deliver sustainable buildings over time, we believe that a more fundamental approach will be necessary for the existing housing and commercial building stock.

We are deeply committed to continuing our innovation and new product development to meet the changing needs of our markets. Over time we believe that a more fundamental approach will be necessary for the existing housing and commercial building stock, if we are to see the individual and collective targets for carbon reduction being achieved. As well as the carbon reduction agenda consumers are becoming more aware of the need to have good indoor air quality for both health and wellbeing. These regulatory and consumer trends are driving and will drive more demand for our solutions.

Risks and Uncertainties

The Group's activities are affected by a number of risks and uncertainties including; economic conditions, ability to identify and complete acquisitions, foreign exchange volatility, customer relationships and reputation, legal and regulatory changes, recruitment and retention of key personnel, supply chain risk and cyber security.

We continue to carefully monitor the potential impacts of the UK's departure from the European Union as negotiations continue regarding the shape of relations post the end of the transition period on 31 December 2020. Potential risks and our mitigating actions were set out in pages 26 to 33 of our 2019 Annual Report and Accounts.

Coronavirus risk

The Coronavirus pandemic is a specific and rapidly developing risk that we are monitoring on a daily basis. Our three principal areas of focus are: ensuring the safety and wellbeing of our employees, ensuring the continuity of our supply chain and manufacturing processes, and monitoring and responding to any changes in demand patterns from our customers.

As regards our staff, we are carefully and continually following guidance from the authorities in the countries in which we operate, implementing any necessary steps, and ensuring that we communicate clearly and frequently with our employees. We have mapped out our key concentrations of staff and the protocols that would be followed in the event of anyone being diagnosed with the virus. We have curtailed international and inter-location travel and will make increased use of remote working where appropriate.

We have been working closely with our Chinese supply chain partners over the past two months to ensure continuity of supply (predominantly small motors and PCBs). Through a combination of standard holdings of buffer stock, deliveries in transit prior to the Chinese New Year, and the subsequent return to work and production of our key suppliers post Chinese New Year, we have been able to maintain continuity of supply with no significant impacts to date.

As regards demand risk, second half trading has started in a similar basis to that observed during the first half. Government measures and guidelines to date would not appear to have any direct bearing on demand, but there is clearly potential for adverse impacts as this escalates.

Interim dividend

The Board has declared an interim dividend of 1.71 pence per share, which represents growth of 6.9% compared to H1 2019 demonstrating the Board's continuing confidence in the performance of the Group. The interim dividend will be paid on 5 May 2020 to shareholders on the register at the close of business on 27 March 2020.

Board

As announced on 20 January 2020, after completing almost six years as Non-Executive Chairman, Peter Hill retired on 31 January 2020 and was succeeded on 1 February 2020 by Paul Hollingworth who also stepped down as Chairman of the Audit Committee. On behalf of the Board, I would like to thank Peter for his leadership and the contribution he made as Chairman. Tony Reading, Senior Independent Director, was appointed as Interim Chairman of the Audit Committee with effect from 1 February 2020, to serve until a permanent successor is appointed. A search for a new Non-Executive Director to Chair the Audit Committee is progressing and an update will be provided in due course.

Ronnie George
Chief Executive Officer
16 March 2020

FINANCIAL REVIEW

Trading performance summary

	6 months to 31 January 2020[2]	6 months to 31 January 2019	Movement	Adjusted[1,2] 6 months to 31 January 2020	Adjusted[1,2] 6 months to 31 January 2019	Movement
Revenue (£m)	**118.8**	114.8	3.4%	**118.8**	114.8	3.4%
EBITDA (£m)	**25.4**	21.2	19.7%	**25.6**	22.4	14.0%
Operating profit (£m)	**14.0**	11.3	24.4%	**21.8**	20.2	7.6%
Finance costs (£m)	**2.1**	1.1	100.5%	**1.3**	1.1	18.0%
Profit before tax (£m)	**11.9**	10.2	16.7%	**20.5**	19.1	7.2%
Basic EPS (p)	**4.7**	4.1	14.6%	**8.2**	7.7	6.5%
Interim dividend per share (p)	**1.71**	1.60	6.9%	**1.71**	1.60	6.9%
Operating cash flow (£m)	**22.1**	14.3	54.4%	**22.3**	15.5	43.5%
Net debt (£m)	**80.9**	74.4	6.5	**80.9**	74.4	6.5
Like-for-like net debt (£m)	**60.5**	74.4	(13.9)	**60.5**	74.4	(13.9)

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, 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 18. A reconciliation to reported measures is set out in note 2.

2. The results for the 6 months to 31 January 2020 are prepared on an IFRS 16 basis. The 6 months to January 2019 have not been restated and continue to be presented on an IAS 17 basis. The impact of adopting IFRS 16 can be seen in note 1 of the interim financial statements.

Group Results

Group revenue for the 6 months ended 31 January 2020 was £118.8 million (H1 2019: £114.8 million), an increase of 3.4% (5.0% at constant currency). Challenging conditions in our UK Commercial markets and our Swedish and Finnish new build and project businesses were offset by particularly strong progress in Central Europe and good growth in UK Public RMI.

Inorganic growth of 6.2% (6.4% at constant currency) was as a result of the acquisition of Ventair Pty Limited in Australia in March 2019, which will become part of our "organic" result during the second half.

Group adjusted operating profit, increased by 7.6% (9.1% at constant currency) to £21.8 million (H1 2019: £20.2 million). Adjusted operating margins expanded to 18.3% (H1 2019: 17.6%) despite the dilutive impact of the Ventair acquisition. On an organic basis excluding Ventair, we delivered an expansion of 1.3pp underpinned by Reading facility performance improvements, with all of our three geographical segments recording expanded organic operating margins.

Reported profit before tax increased by £1.7 million to £11.9 million (H1 2019: £10.2 million). There were no exceptional costs recorded in the period (H1 2019: £1.2 million), though we did incur a loss of £0.8 million (H1 2019: £nil) on the measurement of fair value of financial derivatives.

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.

	6 months ended 31 January 2020			6 months ended 31 January 2019		
	Reported £m	**Adjustments £m**	**Adjusted results £m**	Reported £m	Adjustments £m	Adjusted results £m
Revenue	**118.8**	**—**	**118.8**	114.8	—	114.8
Gross profit	**56.8**	**—**	**56.8**	53.3	—	53.3
Administration and distribution costs excluding the costs listed below	**(35.0)**	**—**	**(35.0)**	(33.1)	—	(33.1)
Amortisation of intangible assets acquired through business combinations	**(7.6)**	**7.6**	**—**	(7.7)	7.7	—
CFO succession costs	**(0.2)**	**0.2**	**—**	—	—	—
Exceptional operating costs	**—**	**—**	**—**	(1.2)	1.2	—
Operating profit	**14.0**	**7.8**	**21.8**	11.3	8.9	20.2
Net loss on financial instruments at fair value	**(0.8)**	**0.8**	**—**	—	—	—
Other net finance costs	**(1.3)**	**—**	**(1.3)**	(1.1)	—	(1.1)
Profit before tax	**11.9**	**8.6**	**20.5**	10.2	8.9	19.1
Income tax	**(2.6)**	**(1.7)**	**(4.3)**	(2.1)	(1.8)	(3.9)
Profit after tax	**9.3**	**6.9**	**16.2**	8.1	7.1	15.2

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 period the amortisation charge of these intangible assets reduced to £7.6 million (H1 2019: £7.7 million). 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 period, exceptional operating costs were £nil (H1 2019: £1.2 million) which included costs relating to acquisitions of £nil (H1 2019: £0.1 million) and the UK Ventilation re-organisation including factory relocation of £nil (H1 2019: £1.1 million).

- **CFO succession costs**
  These costs relate to the costs incurred during the period for the outgoing CFO and amounted to £0.2 million (H1 2019: £nil).

- **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 period, we recognised a loss of £0.8 million (H1 2019: £nil). 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.

Finance costs

Reported net finance costs were £2.1 million (H1 2019: £1.1 million) including £0.8 million of net loss on the revaluation of financial instruments (H1 2019: £nil). Adjusted finance costs were £1.3 million (H1 2019: £1.1 million), with a like-for-like reduction of £0.1 million offset by an adjustment of £0.3 million relating to the interest expense arising from the transition to IFRS 16.

Taxation

Our underlying effective tax rate, on adjusted profit before tax, was 20.8% (H1 2019: 20.5%). The increase of 0.3 percentage points in our adjusted effective tax rate, over the prior period, was as a result of higher tax rates applicable to profits in recently acquired businesses in Australasia. Our reported effective tax rate for the period was 21.5% (H1 2019: 21.1%).

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.

Whilst the March 2020 Budget confirmed the planned UK corporation tax reduction from 19% to 17% will not go ahead, this amended legislation has yet to be ‘substantively enacted’, therefore the impact of the reduction has not been reflected in the effective tax rate for the 6 months ended 31 January 2020.

The Group’s medium-term adjusted effective tax rate is expected to be approximately 21% of the Group’s adjusted profit before tax, as a result of the full year effect of profits from recently acquired businesses in countries with higher tax rates.

Operating cash flow

The Group continues to be highly cash generative, and delivered a strong cash performance in the first half with adjusted operating cash inflows of £22.3 million (H1 2019: £15.5 million) at a cash conversion rate of 99.5% (H1 2019: 74.5%). Net Group operating working capital stood at £28.5 million at 31 January 2020, compared with £31.9 million at the prior period end and £27.0 million at the prior half year date. Excluding our Ventair business, organic net working capital was £26.6 million (H1 2019: £27.0 million). Our focus on inventory optimisation across the Group manifested in a reduction of £1.5 million in inventory levels during the first half with continued improvements anticipated in the second half. Capital expenditure of £2.4 million (H1 2019: £3.4 million) included further new product development and enhancements to IT systems.

See the glossary of terms in note 18 to the consolidated financial statements for a definition of adjusted operating cash flow and cash conversion.

Reconciliation of adjusted operating cash flow

	6 months to 31 January 2020 £m	6 months to 31 January 2019 £m
Net cash flow generated from operating activities	**21.7**	13.4
Net capital expenditure	**(2.4)**	(3.4)
UK and overseas tax paid	**4.5**	4.5
Income tax refund	**(1.7)**	–
CFO succession costs	**0.2**	–
Cash flow relating to exceptional items	–	1.0
Adjusted operating cash flow	**22.3**	15.5

Impact of IFRS 16

IFRS 16 results 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 adopted the new standard from 1 August 2019, applying the modified retrospective transition approach and not restating comparative amounts for the year ended 31 July 2019. On adoption the Group recognised right-of-use assets of £24.3 million, a deferred tax asset of £0.2 million and lease liabilities of £25.4 million, with the cumulative effect arising from the new leasing standard of £0.9 million recognised within retained earnings.

Within the Income Statement, the application of IFRS 16 resulted in a decrease in other operating expenses of £1.7 million and an increase in depreciation of £1.5 million for the 6 months ended 31 January 2020. The interest expense increased by £0.3 million due to additional lease interest. An analysis of results by segment can be found in note 4 'Segmental analysis' to the interim financial statements.

Net debt

Net debt at 31 January 2020 was £80.9 million (H1 2019: £74.4 million), comprised of bank borrowings of £74.8 million (H1 2019: £83.7 million), offset by cash and cash equivalents of £14.3 million (H1 2019: £9.3 million) and a long term liability adjustment for recognition of IFRS 16 of £20.4 million. The net debt of £80.9 million represents leverage of 1.6x adjusted EBITDA. Like-for-like net debt under IAS17 of £60.5 million represents leverage of 1.3x adjusted EBITDA (H1 2019: 1.7x).

Movements in net debt position for the 6 months period ended 31 January 2020

	6 months to 31 January 2020 £m	6 months to 31 January 2019 £m
Opening net debt at 1 August	**(74.6)**	(77.2)
Movements from normal business operations:		
Adjusted EBITDA	**25.6**	22.4
Movement in working capital	**(1.1)**	(4.0)
Share-based payments	**0.2**	0.5
Capital expenditure	**(2.4)**	(3.4)
Adjusted operating cash flow:	**22.3**	15.5
– Interest paid net of interest received	**(1.1)**	(0.9)
– Income tax paid	**(4.5)**	(4.5)
– Income tax refund	**1.7**	–
– Exceptional operating costs	–	(1.0)
– CFO succession costs	**(0.2)**	–
– Dividend paid	**(6.5)**	(5.9)
– Purchase of own shares	**(0.8)**	(1.2)
– FX on foreign currency loans/cash	**4.6**	1.6
– Issue costs of new borrowings	–	(0.2)
– IFRS 16 long term lease liabilities adjustment	**(20.4)**	–
– IFRS 16 payments of lease liabilities	**(1.4)**	–
Movements from acquisitions:		
– Acquisition consideration net of cash acquired and debt repaid	–	(0.6)
Closing net debt at 31 January	**(80.9)**	(74.4)

Employee Benefit Trust

During the period £0.8 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 (H1 2019: £1.2 million). The Volution Employee Benefit Trust acquired 400,000 shares at an average price of £2.00 per share in the period (2018: 650,000) and 265,900 shares (H1 2019: 19,981) were exercised and released by the trustees with a value of £643,478 (H1 2019: £36,000). At 31 January 2020, a total of 1,876,796 (31 July 2019: 1,759,884) ordinary shares in the Company were held by the Volution Employee Benefit Trust. 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.

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 mostly balanced by euro expenditure in the UK. We have little US dollar income but significant US dollar expenditure. In advance of the 2020 financial year we limited our transactional foreign exchange risk by purchasing the majority of our forecast US dollar requirements for 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 sterling, the Group's reporting currency. We hedge the translation risk of the net assets denominated in Swedish krona with £22.2 million of borrowings denominated in Swedish krona (31 July 2019: £24.0 million). We have partially hedged our risk of translation of the net assets denominated in euros by having euro-denominated bank borrowings in the amount of £37.6 million as at 31 January 2020 (31 July 2019: £40.6 million). The sterling value of our foreign currency-denominated loans, net of cash, decreased by £4.6 million (H1 2019: decreased by £1.6 million) as a consequence of exchange rate movements. We do not hedge the translational exchange rate risk relating to the results of overseas subsidiaries.

During the six months, 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 H1 2020 performance of the Group at our 2019 exchange rates, the reported revenue would have been £120.6 million, £1.8 million higher, and adjusted operating profit would have been £22.1 million, £0.3 million higher.

At the end of the half year, the weakening of sterling increased the value of foreign currency-denominated working capital by £1.1 million compared to the foreign exchange rates applying at the beginning of the half year.

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 with a maturity date of 15 December 2022.

As at 31 January 2020, we had £45.2 million of undrawn, committed bank facilities and £14.3 million of cash and cash equivalents on the consolidated statement of financial position.

Earnings per share

Our reported basic earnings per share grew by 14.6% to 4.7 pence (H1 2019: 4.1 pence).
Our adjusted basic earnings per share grew by 6.5% to 8.2 pence (H1 2019: 7.7 pence).

Andy O'Brien
Chief Financial Officer
16 March 2020

PRINCIPAL RISKS AND UNCERTANTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The principal and evolving change since the publication of the Annual Report for the year ended 31 July 2019 has been the emergence of risks associated with the Coronavirus (COVID-19) pandemic. These risks are summarised below, and how the Group seeks to mitigate these risks is set out on pages 26 to 33 of the Annual Report 2019 which can be found at www.volutiongroupplc.com.

A summary of the nature of the risks currently faced by the Group is as follows:

Economic risk including the UK trade negotiations with the EU and impacts of Coronavirus

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 and negotiating a trade deal with the European Union, could result in a decline in demand for our products serving the residential and commercial construction markets. This would result in a reduction in revenue and profitability. Please refer to page 7 for specific reference to Coronavirus risk.

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.

Acquisitions

We may fail to identify suitable acquisition targets at an acceptable price or we may fail to complete or properly integrate the acquisition. The impact could include: revenue and profitability which may not grow in line with management's ambitions and investor expectations or a failure to properly integrate a business may distract senior management from other priorities and adversely affect revenue and profitability.

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.

Supply chain and raw materials including potential impacts of Coronavirus

Raw materials or components may become difficult to source because of material scarcity or disruption of supply. Sales and profitability may be reduced during the period of constraint. Prices for the input material may increase and our costs may increase. The Coronavirus (COVID-19) pandemic and the associated potential for disruption to supply chains, especially relating to products and materials sourced from China, is a specific risk that we are monitoring very closely. Potential impacts could include inability to service customer demand due to non-availability of products, as well as input cost increases due principally to expediting and potential need to air freight. Please refer to page 7 for specific reference to Coronavirus 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.

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 a significant adverse effect on our revenue from that customer.

Legal and regulatory environment

Changes in laws or regulation relating to the carbon efficiency of buildings or the efficiency of electrical products 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.

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. The Coronavirus (COVID-19) pandemic has increased the risk to the health and wellbeing of our employees and we have taken appropriate steps across our business to minimise this risk. Please refer to page 7 for specific reference to Coronavirus risk.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that to the best of their knowledge:

The condensed consolidated set of financial statements has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union and that the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period; and any changes in the related party transactions described in the Annual Report 2019 that could do so.

The full list of current Directors can be found on the Company's website at www.volutiongroupplc.com.

By order of the Board

Ronnie George
Chief Executive Officer
16 March 2020

Andy O'Brien
Chief Financial Officer
16 March 2020

INDEPENDENT REVIEW REPORT TO VOLUTION GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2020 which comprises the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of changes in equity, the interim condensed consolidated statement of cash flows and the related explanatory notes 1 to 18. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
16 March 2020

Interim Condensed Consolidated Statement of Comprehensive Income

For the period ended 31 January 2020

	Notes	**2020 Unaudited £000**	2019 Unaudited £000
Revenue from contracts with customers	3	**118,750**	114,847
Cost of sales		**(61,993)**	(61,507)
Gross profit		**56,757**	53,340
Administrative and distribution expenses		**(42,717)**	(40,838)
Operating profit before exceptional items		**14,040**	12,502
Exceptional operating costs	5	**—**	(1,216)
Operating profit		**14,040**	11,286
Finance revenue		**40**	8
Finance costs	6	**(2,137)**	(1,066)
Profit before tax		**11,943**	10,228
Income tax	7	**(2,568)**	(2,155)
Profit for the period		**9,375**	8,073
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(9,070)**	(1,021)
Gain on hedge of net investment in foreign operations		**4,890**	1,640
Other comprehensive income/(expense) for the period		**(4,180)**	619
Total comprehensive income for the period		**5,195**	8,692
Earnings per share			
Basic earnings per share	8	**4.7**	4.1
Diluted earnings per share	8	**4.7**	4.1

Interim Condensed Consolidated Statement of Financial Position

At 31 January 2020

	Notes	**31 January 2020 Unaudited £000**	31 July 2019 Audited £000
Non-current assets			
Property, plant and equipment	11	**44,688**	23,758
Intangible assets – goodwill	9	**113,418**	118,183
Intangible assets – others	10	**86,049**	95,126
		244,155	237,067
Current assets			
Inventories		**34,187**	35,585
Right of return assets	3	**284**	430
Trade and other receivables		**38,316**	42,199
Other financial assets	12	**22**	907
Cash and short-term deposits		**14,303**	11,547
		87,112	90,668
Total assets		**331,267**	327,735
Current liabilities			
Trade and other payables		**(36,440)**	(38,807)
Refund liabilities	3	**(7,817)**	(7,529)
Income tax		**(1,864)**	(279)
Other financial liabilities	12	**(893)**	(318)
Provisions		**(1,340)**	(1,398)
		(48,354)	(48,331)
Non-current liabilities			
Interest-bearing loans and borrowings	13	**(94,522)**	(85,391)
Other financial liabilities	12	**(472)**	(1,501)
Provisions		**(375)**	(384)
Deferred tax liabilities		**(14,041)**	(16,019)
		(109,410)	(103,295)
Total liabilities		**(157,764)**	(151,626)
Net assets		**173,503**	176,109
Capital and reserves			
Share capital		**2,000**	2,000
Share premium		**11,527**	11,527
Treasury shares		**(2,404)**	(2,030)
Capital reserve		**93,855**	93,855
Share-based payment reserve		**1,581**	1,745
Foreign currency translation reserve		**(673)**	3,507
Retained earnings		**67,617**	65,505
Total equity		**173,503**	176,109

The consolidated financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 16 March 2020.

On behalf of the Board

Ronnie George — ***Chief Executive Officer***

Andy O'Brien — ***Chief Financial Officer***

Interim Condensed Consolidated Statement of Changes in Equity

For the period ended 31 January 2020

	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 2018 (Audited)	**2,000**	**11,527**	**(1,962)**	**93,855**	**1,836**	**1,507**	**56,450**	**165,213**
Profit for the period	—	—	—	—	—	—	8,073	8,073
Other comprehensive expense	—	—	—	—	—	619	—	619
Total comprehensive income	—	—	—	—	—	619	8,073	8,692
Purchase of own shares	—	—	(1,199)	—	—	—	—	(1,199)
Vesting of shares	—	—	1,131	—	(1,043)	—	(88)	—
Share-based payment including tax	—	—	—	—	459	—	—	459
Dividends paid	—	—	—	—	—	—	(5,912)	(5,912)
At 31 January 2019 (Unaudited)	**2,000**	**11,527**	**(2,030)**	**93,855**	**1,252**	**2,126**	**58,523**	**167,253**
Profit for the period	—	—	—	—	—	—	10,154	10,154
Other comprehensive expense	—	—	—	—	—	1,381	—	1,381
Total comprehensive income	—	—	—	—	—	1,381	10,154	11,535
Purchase of own shares	—	—	—	—	—	—	—	—
Vesting of shares	—	—	—	—	—	—	—	—
Share-based payment including tax	—	—	—	—	493	—	—	493
Dividends paid	—	—	—	—	—	—	(3,172)	(3,172)
At 31 July 2019 (Audited)	**2,000**	**11,527**	**(2,030)**	**93,855**	**1,745**	**3,507**	**65,505**	**176,109**
Adjustment on initial application of IFRS 16	—	—	—	—	—	—	**(869)**	**(869)**
At 01 August 2019	**2,000**	**11,527**	**(2,030)**	**93,855**	**1,745**	**3,507**	**64,636**	**175,240**
Profit for the period	—	—	—	—	—	—	**9,375**	**9,375**
Other comprehensive expense	—	—	—	—	—	**(4,180)**	—	**(4,180)**
Total comprehensive income	—	—	—	—	—	**(4,180)**	**9,375**	**5,195**
Purchase of own shares	—	—	**(801)**	—	—	—	—	**(801)**
Vesting of shares	—	—	**427**	—	**(563)**	—	**136**	—
Share-based payment including tax	—	—	—	—	**399**	—	—	**399**
Dividends paid	—	—	—	—	—	—	**(6,530)**	**(6,530)**
At 31 January 2020 (Unaudited)	**2,000**	**11,527**	**(2,404)**	**93,855**	**1,581**	**(673)**	**67,617**	**173,503**

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.

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 January 2020 of £84,425,000.

Interim Condensed Consolidated Statement of Cash Flows

For the period ended 31 January 2020

	Notes	**2020 Unaudited £000**	2019 Unaudited £000
Operating activities			
Profit for the period after tax		**9,375**	8,073
Adjustments to reconcile profit for the period to net cash flow from operating activities:			
Income tax		**2,568**	2,155
Gain on disposal of property, plant and equipment		**(47)**	(20)
Exceptional operating costs	5	**—**	1,216
Cash flows relating to exceptional items		**—**	(1,003)
Finance revenue		**(40)**	(8)
Finance costs	6	**2,137**	1,066
Share-based payment expense		**270**	459
Depreciation of property, plant and equipment	11	**3,182**	1,615
Amortisation of intangible assets	10	**8,144**	8,300
Working capital adjustments:			
Decrease/(increase) in trade receivables and other assets		**2,248**	(298)
Decrease/(increase) in inventories		**194**	(60)
Decrease in trade and other payables		**(3,578)**	(3,885)
Movement in provisions		**17**	253
Cash generated by operations		**24,470**	17,863
UK income tax paid		**(1,450)**	(2,050)
UK income tax refund		**1,657**	—
Overseas income tax paid		**(3,000)**	(2,410)
Net cash flow generated from operating activities		**21,677**	13,403
Investing activities			
Payments to acquire intangible assets	10	**(930)**	(886)
Purchase of property, plant and equipment	11	**(1,619)**	(2,593)
Proceeds from disposal of property, plant and equipment		**161**	102
Acquisition of subsidiaries, net of cash acquired		**—**	(586)
Interest received		**40**	8
Net cash flow used in investing activities		**(2,348)**	(3,955)
Financing activities			
Repayment of interest-bearing loans and borrowings		**(11,000)**	(13,067)
Proceeds from new borrowings		**4,500**	3,000
Issue costs of new borrowings		**—**	(180)
Interest paid		**(1,132)**	(942)
Payments of lease liabilities		**(1,384)**	—
Dividends paid		**(6,530)**	(5,912)
Purchase of own shares		**(801)**	(1,199)
Net cash flow used in financing activities		**(16,347)**	(18,300)
Net increase/(decrease) in cash and cash equivalents		**2,982**	(8,852)
Cash and cash equivalents at the start of the year		**11,547**	18,221
Effect of exchange rates on cash and cash equivalents		**(226)**	(65)
Cash and cash equivalents at the end of the period		**14,303**	9,304

Notes to the Interim Condensed Consolidated Financial Statements

For the period ended 31 January 2020

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.

The preliminary results were authorised for issue by the Board of Directors on 16 March 2020. The financial information set out herein does not constitute the Group's statutory consolidated financial statements for the 6 months ended 31 January 2020 and is unaudited.

1. Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Annual Report 2019. The financial information for the half years ended 31 January 2020 and 31 January 2019 do not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act 2006 and is unaudited.

The annual financial statements of Volution Group plc are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The comparative financial information for the year ended 31 July 2019 included within this report does not constitute the full statutory accounts for that period. The Annual Report 2019 has been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report 2019 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under section 498(2) and 498(3) of the Companies Act 2006.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

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.

Employee Benefit Trust

The Company has an Employee Benefit Trust (EBT) which is used in connection with the operation of the Company's Long Term Incentive Plan (LTIP), Deferred Share Bonus Plan and Sharesave Plan. The Company's own shares held by the Volution EBT are treated as treasury shares and deducted from shareholders' funds until they vest unconditionally with employees.

At 31 January 2020, a total of 1,876,796 (31 July 2019: 1,759,884) ordinary shares in the Company were held by the Volution EBT, all of which were under option to employees. During the period 400,000 ordinary shares in the Company were purchased by the trustees (H1 2019: 650,000), and 239,378 shares (H1 2019: 642,392 shares) vested and became exercisable. The market value of the shares at 31 January 2020 was £4,541,846 (31 July 2019: £3,202,989).

The Volution EBT has agreed to waive its rights to dividends.

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 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.

Critical accounting judgements and key sources of estimation uncertainty

The following are the critical judgements (apart from those involving estimations), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Exceptional items

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. The Group identifies an item of expense or income as exceptional, when in management's judgment, the underlying event giving rise to the exceptional item is deemed to be non-recurring in its nature, materiality or incidence such that the 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 they are presented separately in the statement of cash flows. The following categories are deemed to be exceptional in the current or comparative period: acquisition costs; restructuring and factory consolidation, release of contingent consideration and write off of unamortised loan issue costs upon refinancing. See note 5 for details of the amounts included in the above categories.

Development costs

Development costs that are directly attributable to the development of a product are capitalised using management's assessment of the likelihood of a successful outcome for each product being released to market, this is based on management's judgement that the product is technologically, commercially and economically feasible in accordance with IAS 38 'Intangible assets'.

We have technical departments which are involved in activities such as operational support, marketing support, research and new product development. Management exercise judgement to determine whether the expenditure during the development phase of an internal project satisfies the recognition criteria set out in IAS 38.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the period ended 31 January 2020

1. Basis of preparation (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Development costs (continued)

During H1 2020 there were a number of projects of sufficient size and importance to the business which, in management's judgement, satisfied the recognition criteria set out in IAS 38 to be capitalised. The total cost of the Group's technical departments in the period was £2,591,000, of which £630,000 was capitalised (H1 2019: £2,785,000, of which £658,000 was capitalised).

Estimates and assumptions

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 below. The Group has 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.

Impairment of goodwill and other intangible assets

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The cash flows are derived from the budget for the following five years. The recoverable amount is most 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 Group records all assets and liabilities acquired in business acquisitions, 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.

Details of the impairment review process are described more fully in the Annual Report 2019.

See notes 9 and 10 for details of the carrying values of goodwill and other intangible assets.

Refund liabilities arising from retrospective 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 time frame.

Provisions for warranties and inventory obsolescence

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.

Provisions for inventory obsolescence are made with reference to the ageing of inventory balances and the view of management as to whether amounts are recoverable. Warranty provisions will be determined with consideration to recent customer trading and management experience, and provision for inventory obsolescence to sales and usage history and to latest sales forecasts.

The total warranty provision at 31 January 2020 is £1,340,000 (31 July 2019: £1,398,000). The total provision for inventory obsolescence at 31 January 2020 is £3,947,000 (31 July 2019: £4,200,000).

New standards and interpretations

The following standards and interpretations are new or amended and have been effective for the first time in the half year ended 31 January 2020.

IFRS 16 Leases

IFRS 16, Leases, issued in January 2016 by the IASB replaces IAS 17, Leases, and related interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

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 has adopted IFRS 16 using the modified retrospective approach, with the date of initial application of 1 August 2019. Under this method, the impact of the standard is calculated retrospectively, however, the cumulative effect arising from the new leasing rules is recognised in the opening balance sheet at the date of initial application. Accordingly, the comparative information presented for 2019 has not been restated.

1. Basis of preparation (continued)

New standards and interpretations (continued)

The Group have adopted the following available practical expedients:

- To “grandfather” the Group’s assessment of contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application.
- To not apply the new lessee accounting model to short-term (lease ending within 12 months of the reporting date) 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.
- To exclude initial direct costs from the measurement of the right-of-use asset.
- Used hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a range of assets including property, plant and equipment and vehicles.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Under IFRS 16, the Group applies a single recognition and measurement approach for all leases, except for short-term and low-value assets, and recognises right-of-use assets and lease liabilities.

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the lessee’s incremental borrowing rate as at 1 August 2019. Right-of-use assets were measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee’s incremental borrowing rate at the date of initial application.

The Group’s weighted average incremental borrowing rate applied was 2.13%.

For leases previously classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 August 2019 were determined as the carrying amount of lease asset and lease liability under IAS 17 immediately before that date.

The effect of adopting IFRS 16 is as follows:
Impact on the consolidated statement of financial position as at 1 August 2019:

	31 July 2019 audited £000s	IFRS 16 adjustments £000s	1 August 2019 £000s
Non-current assets			
Property, plant and equipment (right-of-use assets)	23,758	24,307	48,065
Deferred tax assets	—	211	211
Total assets	**327,735**	**24,518**	**352,253**
Liabilities			
Long-term lease liabilities	(85,391)	(22,534)	(107,925)
Trade and other payables (short-term lease liabilities)	(38,807)	(2,853)	(41,660)
Total liabilities	**(151,626)**	**(25,387)**	**(177,013)**
Equity			
Retained earnings	65,505	(869)	64,636
Total equity	**176,109**	**(869)**	**175,240**

Impact on the consolidated statement of profit or loss as for the six months ending 31 January 2020:

	31 January 2020 Unaudited £000s	IFRS 16 adjustments £000s	31 January 2020 Unaudited (revised) £000s
Depreciation expense (included in Cost of sales)	(739)	(957)	(1,696)
Depreciation expense (included in Administrative expenses)	(983)	(531)	(1,514)
Operating profit	13,844	196	14,040
Net finance costs	(1,828)	(269)	(2,097)
Profit for the period	9,448	(73)	9,375

Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the period ended 31 January 2020

1. Basis of preparation (continued)

New standards and interpretations (continued)

Impact on the consolidated statement of cash flows for the six months ending 31 January 2020:

	31 January 2020 Unaudited £000s	IFRS 16 adjustments £000s	31 January 2020 Unaudited (revised) £000s
Net cash flows from operating activities	20,031	1,646	21,677
Net cash flows from financing activities	(14,701)	(1,646)	(16,347)

The lease liabilities as at 1 August 2019 can be reconciled to the operating lease commitments as at 31 July 2019 as follows:

	£000's
Operating lease commitments at 31 July 2019	**31,325**
Discounted using the incremental borrowing rate	25,673
Add: Finance lease liabilities recognised as at 31 July 2019	612
Less: Adjustments as a result of treatment of termination options	(185)
Less: Short-term leases recognised on a straight-line basis as an expense	(67)
Less: Low value leases recognised on a straight-line basis as an expense	(34)
Lease liability recognised at 1 August 2019	**25,999**
Analysis	
Current	3,465
Non-current	22,534
Lease liability recognised at 1 August 2019	**25,999**

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease liability. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, restoration costs and lease payments made at or before the commencement date less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

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.

	6 months to 31 January 2020 IFRS 16 £000	6 months to 31 January 2019 £000
Profit after tax	**9,375**	8,073
Add back:		
Exceptional operating costs (note 5)	—	1,216
CFO succession costs	**198**	—
Net loss on financial instruments at fair value	**885**	5
Amortisation and impairment of intangible assets acquired through business combinations	**7,540**	7,732
Tax effect of the above	**(1,725)**	(1,777)
Adjusted profit after tax	**16,273**	15,249
Add back:		
Adjusted tax charge	**4,293**	3,932
Adjusted profit before tax	**20,566**	19,181
Add back:		
Interest payable on bank loans, lease liabilities and amortisation of financing costs	**1,252**	1,061
Finance revenue	**(40)**	(8)
Adjusted operating profit	**21,778**	20,234
Add back:		
Depreciation of property, plant and equipment	**3,182**	1,615
Amortisation of development costs, software and patents	**604**	568
Adjusted EBITDA	**25,564**	22,417

For definitions of terms referred to above see note 18, 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 are 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 time frame.

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

Installation services

The Group provides two performance obligations, installation services together with the sale of equipment to a customer.

Contracts for the installation services and sale of equipment to a customer 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the period ended 31 January 2020

3. Revenue from contracts with customers (continued)

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).

Contract liabilities

There are no contract liabilities recognised in the comparative period or in the financial period ending 31 January 2020.

Revenue recognised in the statement of comprehensive income is analysed below:

	6 months to 31 January 2020 £000	6 months to 31 January 2019 £000
Sale of goods	**115,470**	111,087
Installation services	**3,280**	3,760
Total revenue from contracts with customers	**118,750**	114,847

Market sectors	**6 months to 31 January 2020 £000**	6 months to 31 January 2019 £000
UK		
Residential RMI	**19,959**	19,691
Residential New Build	**13,086**	13,088
Commercial	**15,283**	17,285
Export	**4,792**	4,546
OEM	**11,324**	12,049
Total UK	**64,444**	66,659
Nordics	**21,419**	25,357
Central Europe	**17,027**	14,599
Total Continental Europe	**38,446**	39,956
Total Australasia	**15,860**	8,232
Total revenue from contracts with customers	**118,750**	114,847

Right of return assets and refund liabilities	**6 months to 31 January 2020 £000**	31 July 2019 £000
Right of return assets	**284**	**430**
Refund liabilities		
Arising from retrospective volume rebates	**7,220**	**6,482**
Arising from rights of return	**597**	**1,047**
	7,817	**7,529**

4. Segmental analysis

Volution Group plc has made consistent operating segment disclosures in its past six annual and interim reports, from 31 July 2014 to 2019. The Group has grown significantly during that period, both organically and by acquisition, and as a result management have conducted a process to assess whether the level of operating segments disclosure currently provided remains appropriate.

We have considered both the requirements of IFRS 8 and the desire to provide the users with more useful information.

We previously reported under two operating segments:

- Ventilation Group
- OEM (Torin-Sifan)

From the 31 January 2020 interim reporting onwards, we will report these operating segments:

- UK
- Continental Europe
- Australasia

The previously reported Ventilation Group has been split in to three regional segments, with OEM (Torin-Sifan) included within the UK segment.

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 including OEM (Torin-Sifan), Ventilation Europe and Ventilation Australasia. 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 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 18 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.

6 months ended 31 January 2020	UK £000	Continental Europe £000	Australasia £000	Central / Eliminations £000	Consolidated £000
Revenue					
External customers	**64,444**	**38,446**	**15,860**	**—**	**118,750**
Inter-segment	**8,139**	**5,298**	**43**	**(13,480)**	**—**
Total revenue	**72,583**	**43,744**	**15,903**	**(13,480)**	**118,750**
Gross profit	**28,682**	**20,739**	**7,336**	**—**	**56,757**
Results					
Adjusted segment EBITDA	**13,996**	**9,588**	**2,895**	**(915)**	**25,564**
Depreciation and amortisation of development costs, software and patents	**(1,798)**	**(1,146)**	**(527)**	**(315)**	**(3,786)**
Adjusted operating profit/(loss)	**12,198**	**8,442**	**2,368**	**(1,230)**	**21,778**
Amortisation of intangible assets acquired through business combinations	**(5,378)**	**(1,595)**	**(567)**	**—**	**(7,540)**
CFO succession costs	**—**	**—**	**—**	**(198)**	**(198)**
Operating profit/(loss)	**6,820**	**6,847**	**1,801**	**(1,428)**	**14,040**
Unallocated expenses					
Net finance cost	**—**	**—**	**—**	**(2,097)**	**(2,097)**
Profit/(loss) before tax	**6,820**	**6,847**	**1,801**	**(3,525)**	**11,943**

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the period ended 31 January 2020

4. Segmental analysis (continued)

6 months ended 31 January 2019 (restated)	UK £000	Continental Europe £000	Australasia £000	Central / Eliminations £000	Consolidated £000
Revenue					
External customers	66,659	39,956	8,232	—	114,847
Inter-segment	6,225	5,085	—	(11,310)	—
Total revenue	72,884	45,041	8,232	(11,310)	114,847
Gross profit	28,632	20,136	4,572	—	53,340
Results					
Adjusted segment EBITDA	12,732	9,108	1,376	(799)	22,417
Depreciation and amortisation of development costs, software and patents	(1,120)	(685)	(67)	(311)	(2,183)
Adjusted operating profit/(loss)	11,612	8,423	1,309	(1,110)	20,234
Amortisation of intangible assets acquired through business combinations	(5,379)	(1,971)	(382)	—	(7,732)
Exceptional items	—	—	—	(1,216)	(1,216)
Operating profit/(loss)	6,233	6,452	927	(2,326)	11,286
Unallocated expenses					
Net finance cost	—	—	—	(1,058)	(1,058)
Profit/(loss) before tax	6,233	6,452	927	(3,384)	10,228

Geographic information

Revenue from external customers by customer destination	**6 months ended 31 January 2020 £000**	6 months ended 31 January 2019 £000
United Kingdom	**54,455**	56,550
Europe (excluding United Kingdom and Sweden)	**35,878**	35,230
Sweden	**10,569**	13,063
Australasia	**15,948**	8,298
Rest of the world	**1,900**	1,706
Total revenue from contracts with customers	**118,750**	114,847

Non-current assets excluding deferred tax	**6 months ended 31 January 2020 £000**	6 months ended 31 January 2019 £000
United Kingdom	**139,999**	138,007
Europe (excluding United Kingdom and Nordics)	**25,427**	25,961
Nordics	**28,495**	31,042
Australasia	**50,234**	37,010
Total	**244,155**	232,020

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.

Exceptional items	**6 months ended 31 January 2020 £000**	6 months ended 31 January 2019 £000
Acquisition-related costs, including inventory fair value adjustments	–	149
UK Ventilation re-organisation including factory relocation costs	–	1,067
Exceptional operating costs	–	1,216
Total tax relating to exceptional items for the period	–	(199)
	–	1,017

UK Ventilation re-organisation including factory relocation costs

We have previously reported the cost of a factory relocation project, which related to 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:

	6 months ended 31 January 2020 £000	6 months ended 31 January 2019 £000
Legal and professional fees	–	290
Project manager	–	43
Dual running costs	–	89
Start-up costs	–	645
Total	–	1,067

6. Finance costs

	6 months ended 31 January 2020 £000	6 months ended 31 January 2019 £000
Finance costs		
Interest payable on bank loans	**965**	1,037
Revaluation of financial instruments	**885**	5
IFRS 16 related interest	**269**	–
Other interest	**18**	24
Total finance expense	**2,137**	1,066

The net loss or gain on financial instruments at each period-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.

7. Income tax

The reported effective tax rate for the six months was 21.5% (H1 2019: 21.1%). Our adjusted effective tax rate, on adjusted profit before tax, was 20.8% (H1 2019: 20.5%). The increase of 0.3 percentage points in our adjusted effective tax rate was partly due to the greater impact of higher rates in overseas regions.

8. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the profit 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 net profit 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 791,195 dilutive potential ordinary shares at 31 January 2020 (H1 2019: 257,340).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

6 months ended 31 January	**6 months ended 31 January 2020 £000**	6 months ended 31 January 2019 £000
Profit attributable to ordinary equity holders	**9,375**	8,073
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**198,136,601**	198,699,637
Weighted average number of ordinary shares for diluted earnings per share	**198,816,260**	199,133,077
Earnings per share		
Basic	**4.7p**	4.1p
Diluted	**4.7p**	4.1p

6 months ended 31 January	**6 months ended 31 January 2020 £000**	6 months ended 31 January 2019 £000
Adjusted profit attributable to ordinary equity holders	**16,273**	15,249
	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share	**198,136,601**	198,699,637
Weighted average number of ordinary shares for adjusted diluted earnings per share	**198,816,260**	199,133,077
Adjusted earnings per share		
Basic	**8.2p**	7.7p
Diluted	**8.2p**	7.7p

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 period. 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 18, Glossary of terms, for an explanation of the adjusted basic and diluted earnings per share calculation.

9. Intangible assets – goodwill

Goodwill	Total £000
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
Net foreign currency exchange differences	(4,765)
At 31 January 2020	**113,418**

10. Intangible assets – other

2019	Total £000
Cost	
At 1 August 2019	197,207
Additions	930
Disposals	(1)
Net foreign currency exchange differences	(4,780)
At 31 January 2020	**193,356**
Amortisation	
At 1 August 2019	102,081
Charge for the period	8,144
Disposals	—
Net foreign currency exchange differences	(2,918)
At 31 January 2020	**107,307**
Net book value	
At 31 January 2020	**86,049**

11. Property, plant and equipment

Property, plant and equipment excluding right-of-use assets 2019	Land and buildings £000	Plant and Machinery £000	Fixtures, fittings, tools, equipment and vehicles £000s	Total £000
Cost				
At 1 August 2019	13,791	11,613	11,834	37,238
Additions	143	272	1,204	1,619
Disposals	—	(38)	(331)	(369)
Net foreign currency exchange differences	(523)	(243)	(760)	(1,526)
At 31 January 2020	**13,411**	**11,604**	**11,947**	**36,962**
Depreciation				
At 1 August 2019	3,698	4,378	5,404	13,480
Charge for the period	248	463	983	1,694
Disposals	—	(27)	(235)	(262)
Net foreign currency exchange differences	(102)	(148)	(421)	(671)
At 31 January 2020	**3,844**	**4,666**	**5,731**	**14,241**
Net book value				
At 31 January 2020	**9,567**	**6,938**	**6,216**	**22,721**

Right-of-use assets 2019	Land and buildings £000	Plant and Machinery £000	Fixtures, fittings, tools, equipment and vehicles £000s	Total £000
Cost				
IFRS 16 leases at transition	23,885	193	229	24,307
Additions	42	10	84	136
Net foreign currency exchange differences	(1,011)	(7)	(7)	(1,025)
At 31 January 2020	**22,916**	**196**	**306**	**23,418**
Depreciation				
Charge for the period	1,395	35	58	1,488
Net foreign currency exchange differences	(32)	(1)	(4)	(37)
At 31 January 2020	**1,363**	**34**	**54**	**1,451**
Net book value				
At 31 January 2020	**21,553**	**162**	**252**	**21,967**
Total net book value				
At 31 January 2020	**31,120**	**7,100**	**6,468**	**44,688**

12. Other financial assets and liabilities

	Current 31 January 2020 £000	**Non-current 31 January 2020 £000**	Current 31 July 2019 £000	Non-current 31 July 2019 £000
Financial assets				
FX forward contracts	**22**	**—**	907	-
Financial liabilities				
Contingent consideration	**893**	**472**	318	1,501

The non-current contingent consideration of £472,000 relates to the contingent consideration payable in relation to Air Connection ApS which is based on its EBITDA performance achieved during the twelve months to 31 July 2021. The current contingent consideration of £893,000 relates to the contingent consideration payable to Ventair Pty Limited based on its EBITDA performance achieved during the twelve months to 31 July 2020. £318,000 of contingent consideration was paid in the period in relation to the acquisition of Oy Pamon Ab.

13. Interest-bearing loans and borrowings

	31 January 2020		31 July 2019	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2022)	**—**	**74,756**	—	86,146
Cost of arranging bank loan	**—**	**(642)**	—	(755)
	—	**74,114**	—	85,391
IFRS 16 long term lease liabilities	**—**	**20,408**	—	—
Interest-bearing loans and borrowings under IFRS 16	**—**	**94,522**	—	85,391

Bank loans at 31 January 2020 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 January 2020

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	**15,000**	15 December 2022	One payment	Libor + margin%
Euro	**37,572**	15 December 2022	One payment	Euribor + margin%
Swedish Krona	**22,184**	15 December 2022	One payment	Stibor + margin%
Total	**74,756**			

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**			

As at 31 July 2018 the margin was 1.40% due to the acquisition of Simx Limited which increased leverage to 1.7:1; this rate continued throughout the year ended 31 July 2019 and H1 2020. At 31 January 2020 like-for-like leverage decreased to 1.3:1 which will reduce the margin to 1.15% in H2 2020.

At 31 January 2020, the Group had £45,244,000 (31 July 2019: £33,854,000) of its multicurrency revolving credit facility unutilised.

14. Fair values of financial assets and financial liabilities

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 and the contingent consideration in note 12. 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 a 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. Contingent consideration is based on the level of EBITDA achieved during the earn-out period. 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 available budget and forecasts. The contingent consideration has not been discounted as the impact is considered to be immaterial.

15. Dividends paid and proposed

The Group paid a final dividend of 3.30 pence per ordinary share during the period in respect of the year ended 31 July 2019. The Board has declared an interim dividend of 1.71 pence per ordinary share in respect of the half year ended 31 January 2020 (6 months to 31 January 2019: 1.60 pence per ordinary share) which will be paid on 5 May 2020 to shareholders on the register at the close of business on 27 March 2020. The total dividend payable has not been recognised as a liability in these accounts. The Volution EBT has agreed to waive its rights to all dividends.

16. 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.

No related third party loan note balances exist at 31 January 2020 or 31 January 2019.

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.

17. Events after the reporting period

There have been no material events between 31 January 2020 and the date of authorisation of the consolidated financial statements that would require adjustments of the consolidated financial statements or disclosure.

18. 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 791,195 dilutive potential ordinary shares at 31 January 2020 (H1 2019: 257,340).

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 net debt: bank borrowings plus long term lease liabilities less cash and cash equivalents.

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 6 months ended 31 January 2020 at the average exchange rate for the period ended 31 January 2019. In addition, we have converted the UK operating companies' sale and purchase transactions in the period ended 31 January 2020, which were denominated in foreign currencies, at the average exchange rates for the period ended 31 January 2019.

EBITDA: profit before net finance costs, tax, depreciation and amortisation.

Like-for-like net debt: bank borrowings less cash and cash equivalents

Like-for-like leverage: like-for-like net debt divided by adjusted EBITDA for the relevant 12 month period

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.