

Excellence in ventilation



Excellence in ventilation

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

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



Xenion fan



Find out more online

www.volutiongroupplc.com

Front cover:

Lo-Carbon PoziDry Pro™, a positive input ventilation (PIV) system which improves indoor air quality and quickly eradicates conditions that lead to mould growth, reducing the risk of health issues in the home.

Our recent history

Volution Group was formed in December 2002 through the buy-out from Smiths Group plc of its air movement and cable management divisions.

2006

AAC Capital and Management Team acquires Volution Holdings

2007

Cable Management division sold
Manrose Manufacturing acquired

2008

Ronnie George joins Volution Holdings as Managing Director

2012

TowerBrook acquires Volution Holdings
Fresh AB acquired

2013

PAX AB acquired

Strategic Report

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Our Simx acquisition
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People in Action
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2014

Assets and business of Öko-Haustechnik inVENTer GmbH acquired

Volusion Group plc is formed and listed on the London Stock Exchange

Torin-Sifan opens new Manufacturing and Technology Centre in Swindon, UK

2015

Brüggemann Energiekonzepte GmbH acquired

Ventilair Group International BVBA acquired

Weland Luftbehandlung AB (renamed Welair AB) acquired

Energy Technique plc (trading as Diffusion) acquired

2016

NVA Services Limited (trading as National Ventilation and Airtech) acquired

Breathing Buildings Limited acquired

2017

VoltAir System AB acquired

2018

Simx Limited acquired

Oy Pamon Ab acquired

Air Connection ApS acquired

AirFan B.V. acquired

Volusion Ventilation UK opens new facility in Reading, UK

Highlights

Revenue growth of 11.1% and adjusted EPS up 6.6%

Financial

- > Revenue growth of 11.1% (11.1% at constant currency):
 - > organic revenue growth of 2.8% (2.4% at constant currency); and
 - > inorganic revenue growth of 8.3% (8.7% at constant currency).
- > Adjusted operating profit increased by 4.1% to £37.1 million (4.1% at constant currency) driven by acquisitions.
- > Adjusted operating profit margin declined by 1.3 percentage points as anticipated due to, the acquisition of businesses with lower margins than the Group, foreign exchange driven input cost inflation and a decline in higher margin UK RMI (public) sector revenue.
- > Exceptional costs associated with the reorganisation of our Ventilation business in the UK, including the relocation of our facility in Reading, were significantly higher than anticipated at £5.0 million (2017: £0.6 million).
- > Reported profit before tax of £16.7 million (2017: £17.9 million) down on prior year mainly as a result of higher exceptional costs.
- > Adjusted operating cash inflow was good at £34.4 million (2017: £35.9 million).
- > Refinancing of banking facilities. The Group now has in place a £120 million multicurrency revolving credit facility and in addition an accordion facility of up to £30 million, maturing December 2021.
- > Full year dividend of 4.44 pence per share, up 7.0% (2017: 4.15 pence).
- > Simx Limited acquired in March 2018; the market leading residential ventilation products supplier in New Zealand for both new and refurbishment applications with channel access enabling us to place many of our existing Group products into this market.
- > AirFan B.V. acquired in May 2018; a small distributor, based in the Netherlands, of primarily residential ventilation products, providing the Group with additional access to the Dutch heating, ventilation and air conditioning market.
- > Oy Pamon Ab acquired in July 2018; a leading designer, manufacturer and supplier of Mechanical Ventilation with Heat Recovery products primarily for the Finnish new build and refurbishment construction markets, further strengthening our leading position in the Nordics.
- > Air Connection ApS acquired in July 2018; a leading supplier of branded ventilation products to the Danish market, increasing our exposure to the Danish ventilation market and enabling us to introduce other Group products.
- > Our acquisitions have continued to increase our geographic diversity. On a pro-forma basis, revenue from UK customers is now 47.4% of total Group revenue.

Organic growth

- > Consolidation of our Slough and Reading facilities into a single new, purpose built injection moulding and fan assembly facility at Suttons Business Park in Reading, UK, is nearly complete despite operational disruption during the transition. The consolidation increases our capacity headroom in RMI and Residential New Build sectors.
- > Good progress in our German business with the launch of our new Xenion decentralised heat recovery ventilation system.
- > Further extension of our public housing range of ventilation equipment for the refurbishment market in the UK, helping us to gain new customers in spite of the current funding cutbacks in this sector.

OEM (Torin-Sifan)

- > OEM (Torin-Sifan) has seen a good take up of its new high-efficiency Revolution 360 range of EC fans (EC3), with further capacity investment underway to support the growth in sales.

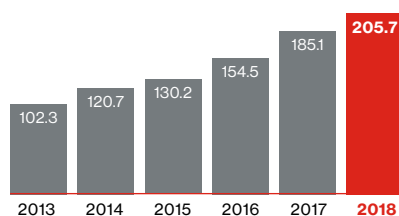
Strategic and operational

Acquisitions

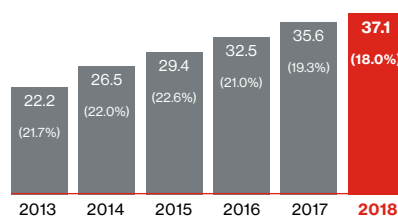
- > Four acquisitions completed during the year, strengthening our position in existing regions and broadening our reach into new geographies, with all integration activity progressing well.

Revenue £m

£205.7m

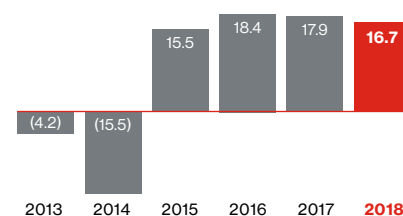
Adjusted operating profit and adjusted operating profit margin
£m (% of revenue)

£37.1m (18.0%)



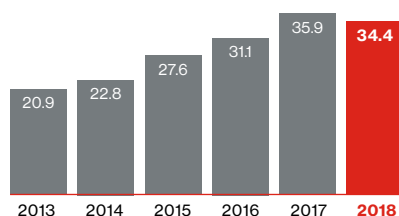
Reported profit before tax £m

£16.7m



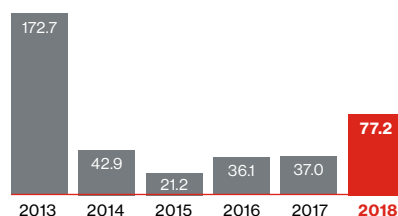
Adjusted operating cash flow £m

£34.4m



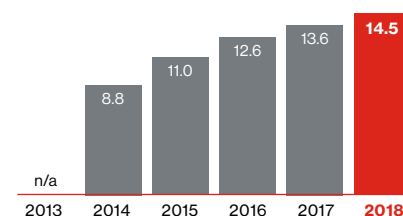
Net debt £m

£77.2m



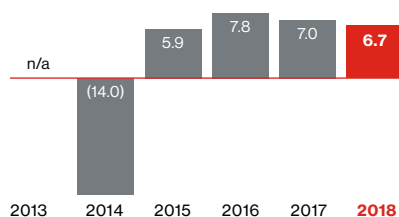
Adjusted EPS (basic and diluted) p

14.5p



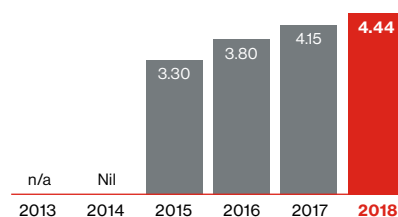
Reported EPS (basic and diluted) p

6.7p



Dividend per share p

4.44p



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 basic and diluted EPS and adjusted operating cash flow. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 34. A reconciliation to reported measures is set out in note 2.



Key Performance Indicators
> page 28

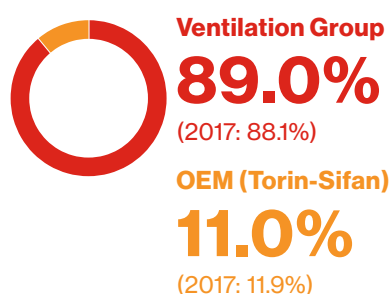
At a Glance

Leading in residential and commercial markets across two business segments

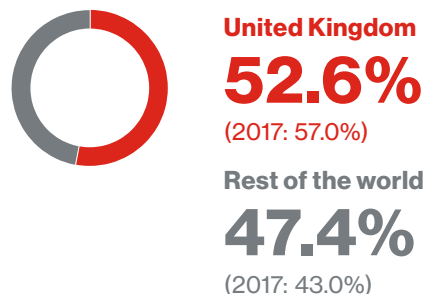
We aim for our products to enhance our customers' experience of ventilation by reducing energy consumption, improving indoor air quality and design and making them easier to use.

Our acquisition strategy over the last year has increased the number of our key brands to 16.

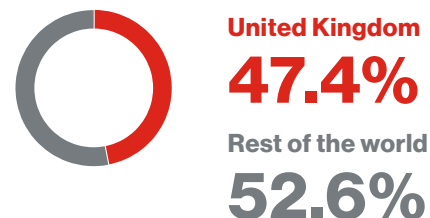
% of Volution Group revenue
by segment



% of Volution Group revenue
by region



% of Volution Group revenue
by region on a proforma basis



UK



Vent-Axia

MANROSE

DIFFUSION

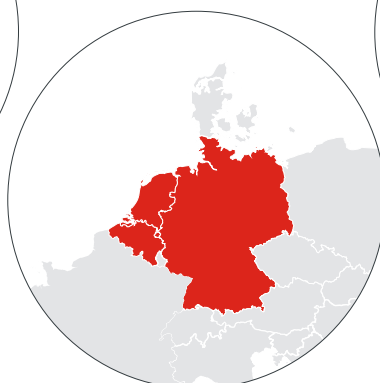
AIRTECH

NATIONAL VENTILATION

Breathing Buildings

torin-sifan

Central Europe

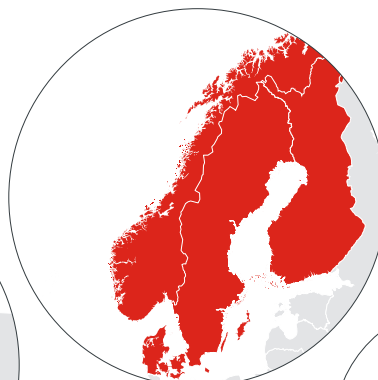


inVENTer

Ventilair GROUP

Vent-Axia

Nordics



Fresh

PAX

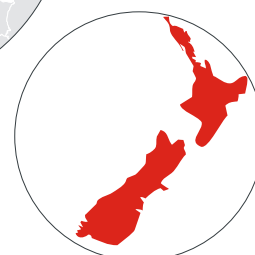
welair

VoltAir®

AIR CONNECTION

TKAR

Australasia



Simx *

* New acquisitions this year

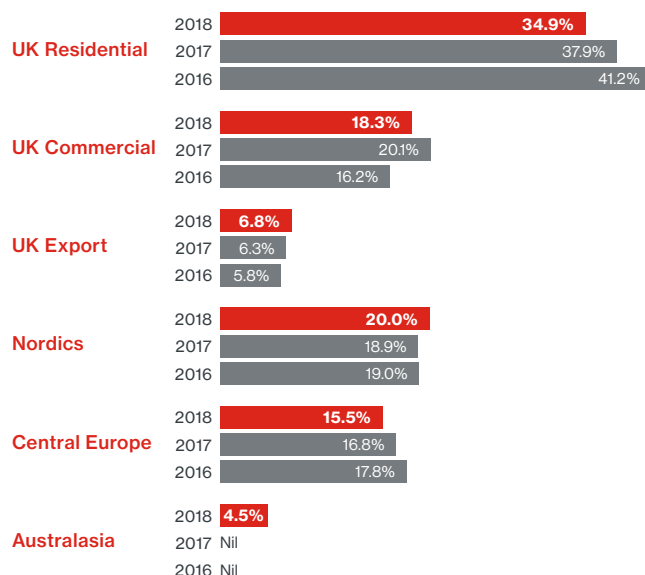
Ventilation Group: primarily supplies ventilation products for residential and commercial construction applications in the UK, the Nordics, Central Europe and Australasia.

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

During the year, we completed the following acquisitions, enhancing and widening the Group's capability:

- > Simx (March 2018), the market leading residential ventilation products supplier in New Zealand for both new and refurbishment applications with channel access enabling us to place many of our existing Group products in this market.
- > AirFan (May 2018 renamed Vent-Axia), a small distributor, based in the Netherlands, of primarily residential ventilation products to the Dutch heating, ventilation and air conditioning market.
- > Oy Pamon (July 2018), a leading designer, manufacturer and supplier of Mechanical Ventilation with Heat Recovery (MVHR) products primarily for the Finnish new build and refurbishment construction markets.
- > Air Connection (July 2018), a leading supplier of branded ventilation products to the Danish market.

% of Ventilation Group revenue by sector



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

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

Why invest in Volution Group

We have four key differentiators that are our pivotal focus: Innovation, Scale, People and Brands.



Innovation



Scale



People



Brands



Our Business Model
> page 18

Our strategy

Our strategy continues to focus on three key pillars:



Organic growth in our core markets



Growth through a disciplined and value-adding acquisition strategy



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



Our Strategy
> page 16

Chairman's Statement

Continuing progress against our strategy



Dear shareholder,

I am pleased to present our Annual Report and Accounts for the year ended 31 July 2018, a year in which we have continued to make good progress on our strategic objectives. The financial year delivered some challenges for the business but I am pleased to report that Volution responded well. We delivered a number of important strategic initiatives which included the acquisition of Simx, a market leading residential ventilation products supplier in New Zealand adding further geographic diversity to the business, and the consolidation of our old Slough and Reading facilities in the UK into a new single facility based in Reading in the UK, albeit the move has cost more than expected.

Trading conditions in the UK continued to be challenging in some of our market sectors, against a backdrop of political and economic volatility. Encouragingly, UK economic growth has remained relatively resilient, albeit at levels lower than other major economies. However, Volution continued to feel the effects of the devaluation of Sterling against the US Dollar on its input costs. Volution has developed into a geographically diverse business with over 47% of its revenue during the year coming from outside the UK, and over 52% on a pro-forma basis if the revenues of our recent acquisitions are annualised. While we expect further uncertainty ahead as the UK negotiates the terms of its exit from the European Union, we remain confident in the long-term prospects for the Group based on our clear strategy of building our brand portfolio and continuing to diversify our markets and geographies.

Summary

- > A further set of good results in line with our expectations
- > Completed four value-adding acquisitions, enhancing our strategic positioning
- > Full year dividend increased by 7.0%

Performance and results

The business recorded the seventh consecutive year of revenue, adjusted operating profit, and adjusted earnings per share growth. This good set of results reflects the growth achieved, both organically and through acquisitions, with the Group's revenue increasing in the year by 11.1% to £205.7 million. Adjusted operating profit was £37.1 million, representing 18.0% of revenue and a £1.5 million improvement compared to the prior year. Reported profit before tax declined by 6.5% to £16.7 million (2017: £17.9 million), driven by the high exceptional operating costs this year, mainly being costs directly associated

with the relocation and associated operational disruption caused by the move to the new production facility in Reading, UK, together with increased amortisation of acquired intangible assets.

The basic and diluted earnings per share for the year was 6.7 pence (2017: 7.0 pence). Our adjusted earnings per share was 14.5 pence, representing a 6.6% increase over the adjusted earnings per share for the prior year (2017: 13.6 pence). The compound annual growth rate since 2014 has been 13.3% per year.

Revenue from the Ventilation segment grew in the year by 12.3% (12.3% at constant currency) to £183.1 million. Good organic growth in the Nordics and the UK Residential New Build sector was partly offset by commercial and the continued challenging performance in the UK Residential Repair, Maintenance and Improvement (RMI) sector. Our revenue growth was adversely affected by service disruption resulting from the move to our new facility in Reading, UK. Costs directly associated with the relocation and associated operational disruption were significantly higher than anticipated and have been disclosed separately as exceptional operating costs of £5.0 million (2017: £0.6 million). Revenue from the OEM (Torin-Sifan) segment grew by 2.8% (1.8% at constant currency) to £22.6 million. The Group's inorganic revenue growth of 8.3% benefited from the full year effect of the prior year acquisitions and primarily the acquisition of Simx in New Zealand during the year.

Cash generation was good with adjusted operating cash flow of £34.4 million (2017: £35.9 million). Net debt at the year end was £77.2 million (2017: £37.0 million), £40.2 million higher than last year, having completed four acquisitions incurring a net cash outflow of £41.0 million.

Acquisitions

The largest acquisition completed in March 2018 was Simx in New Zealand which widens Volution Group's capability in new geographically distinct markets with a leading residential ventilation products supplier in the region.

In the Nordics we have made two important acquisitions, Oy Pamon in Finland and Air Connection in Denmark. The acquisition of Oy Pamon, which has a strong presence in the Finnish new build ventilation market, will be highly complementary to our position in the Nordics providing us with an enlarged presence in the new build sector in Finland and the Nordics, specialising in the growing and regulatory driven market for MVHR units. The acquisition of Air Connection provides us with an opportunity to enlarge our presence in the Danish market by introducing additional Volution Group product ranges via an established route to market.

The development of our Nordics business commenced with the acquisitions of Fresh and then Pax in 2012 and 2013 respectively, which when combined had total revenue

of £23.7 million as at 31 July 2013. The combined Nordics revenue as at 31 July 2018, on a pro-forma basis, including the annualised revenue of the acquisitions completed in FY2018, would be £49.1 million, equating to a compound annual growth rate of 15.7% over the five years. This has been a combination of organic and acquired growth, and provides an excellent case study of Volution's successful geographic expansion.

The acquisition of AirFan, which has had a relationship as a key customer in our Central Europe region for a number of years, extends our existing route to market in the Netherlands for Volution Group products.

All acquisitions were funded from the Group's existing cash and banking facilities. As a Board, we evaluate each acquisition opportunity very carefully to ensure that it meets our strategic objectives as well as the financial hurdles set for investment. More details can be found in the Chief Executive Officer's Review and in the Financial Review. We very much welcome the employees of all these companies to the Volution Group.

Dividends

We aim to deliver shareholder value through organic and inorganic growth and a sustainable dividend policy. We paid an interim dividend of 1.46 pence per share in May 2018. On the basis of our results and financial position, the Board has recommended a final dividend of 2.98 pence per share, giving a total dividend for the financial year of 4.44 pence per share (2017: 4.15 pence per share), an increase of 7.0% on the previous year. As a consequence of this recommendation, the resulting adjusted earnings dividend cover for the year was 3.3x (2017: 3.3x). Subject to approval by shareholders at the Annual General Meeting on 12 December 2018, the final dividend will be paid on 18 December 2018 to shareholders on the register at 23 November 2018.

Governance

The Group continues to be committed to high levels of corporate governance, in line with its status as a company with a premium listing on the Main Market of the London Stock Exchange. During the year, a formal performance evaluation of the Board and Committees took place to assist in their development. The results of the evaluations confirmed that the Board and Committees continue to function effectively and that there are no significant concerns among the Directors about their effectiveness. The Board members were seen as engaged and committed while the Board's culture remains open, respectful and constructive. Details of our processes and approach, including those relating to the role and effectiveness of the Board, and compliance with the UK Corporate Governance Code, are set out in the Governance Report on pages 50 to 92.

Chairman's Statement continued

Board

On 10 October 2017, it was announced that Adrian Barden, an independent Non-Executive Director, would be retiring from the Board at the conclusion of the Annual General Meeting on 13 December 2017. The Nomination Committee initiated a search for an independent Non-Executive Director and on 19 March 2018 the appointment of Amanda Mellor was announced. Amanda brings to the Board a broad range of experience in mergers and acquisitions, retail, shareholder relations, strategy, governance and investment banking and as a non-executive director on the board of a construction company. Combined with the deep knowledge and experience of our existing Non-Executive Directors, Amanda's experience ensures that the Board has a well-balanced array of skills and is well attuned to the Group's requirements.

I would like to extend my thanks to Adrian Barden, who retired after serving for nearly six years in office on the current and pre-IPO Board. Adrian provided important continuity on the Board whilst the business moved from private equity ownership to a listed company and I would like to thank him for his contributions during his tenure.

Further information can be found in the Nomination Committee Report on pages 64 to 65.

People

It has been another year of growth for the Group with the addition and integration of our new acquisitions and their employees. The whole Volution team performed well against this continuing backdrop of change.

As part of the Board's ongoing remit to set the right tone from the top and build its understanding of Volution's business, during the year the Board visited

the Hälleforsnäs facility in Sweden and, following the year end, the new Reading facility in the UK. The Board met and talked to a number of our employees at the facilities and as with other visits to our facilities across the Group, the Board has been impressed by the knowledge, enthusiasm and commitment of our employees. It is clear that our people are the enduring strength of the business.

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

During the year Volution launched its first invitation under the Sharesave Scheme enabling employees across the Group to share in its success. The Board was very pleased with the success of the launch and the employee engagement it created; average take-up across the Group was 26% of eligible employees.

On behalf of the Board, I would like to thank all our employees for their hard work, commitment and contribution towards the Group's performance, making this another successful year.



Peter Hill, CBE

Chairman

11 October 2018

Continuing to consolidate the ventilation space



Overview

In our fourth full financial year since listing in June 2014, we have delivered another year of growth and continue to make good progress on our strategy. We completed four acquisitions in the year, in line with our strategy of making selective value-adding acquisitions, and we also continued to integrate the acquisitions made in the prior year. We have now completed 14 acquisitions since October 2012, when we started to expand geographically, and the Group has moved from being primarily a UK ventilation provider to becoming one of the leading ventilation suppliers in Europe and, with the recent acquisition of Simx in March 2018, Australasia.

European and international ventilation remains fragmented and our ambition is to become one of the larger ventilation suppliers across a number of markets. Our strategy of acquiring leading brands will continue and during the year we made good progress in enhancing our functional support for the Group in the areas of innovation and procurement.

Revenue for the Group exceeded the £200 million threshold having exceeded the £100 million threshold in 2013, a doubling in five years. Each year since 2013 we have made good progress in growing the business both organically and inorganically.

During the year, the Group delivered organic revenue growth of 2.4% on a constant currency basis, with the majority of our market sectors delivering organic growth in the financial year. The Residential Repair, Maintenance and Improvement (RMI) market for public housing continued to decline, depressing the otherwise growing RMI Private sector in the UK. The UK Commercial sector grew in the year supported by acquisitions, despite a small organic decline.

Input cost inflation has been rising, mainly as a result of higher plastics and electronics costs due to the weakness of Sterling. In mitigation a number of selling price initiatives were put in place during the year.

Torin-Sifan delivered organic revenue growth of 1.8% on a constant currency basis, assisted by the sales of the new, more energy-efficient and quieter electronically commutated (EC), three-phase motorised impeller range and, as expected, commenced supply of the new motor to other Group companies.

Summary

- > Revenue of £205.7 million achieved by both organic and inorganic growth totalling 11.1%
- > Adjusted operating profit of £37.1 million, an increase of 4.1% over the prior year driven by acquisitions
- > Completed four acquisitions in the year extending our reach to the Australasian ventilation market as well as further increasing our position in the Nordics
- > Significant investment in new product development
- > Several infrastructure upgrades including increased capacity from our new purpose built residential products manufacturing facility in Reading, UK, and ERP implementations in the UK and the Nordics
- > Move to new production facility in Reading, UK was completed within the timescale although revenue growth was adversely affected by disruption to production and sales
- > Commenced our third Management Development Programme, developing our managers and leaders of tomorrow

Chief Executive Officer's Review continued

Ventilation Group segment

The Ventilation Group's revenue grew by 12.3% compared to the prior year (12.3% at constant currency). Organic growth was 2.9% (2.5% at constant currency) despite the organic decline in UK Residential Public RMI and UK Commercial markets.

United Kingdom

Sales in our UK Residential New Build sector were £25.6 million (2017: £22.6 million), a strong organic growth of 13.1%, continuing an unbroken growth trend going back to 2010. Our ongoing investment in the product range, innovative new features such as application software controls and next day delivery to construction sites for most of the products in the range have enabled us to grow ahead of the New Build Residential construction market.

The UK Residential Public RMI market remained challenging with total revenue of £14.8 million down 10.6% compared to the prior year. Despite the difficult market and the disappointing revenue decline, we continue to invest in this important market sector to best position us for a market recovery and to grow share. During the year we improved the quality and skill base of our sales teams and increased the breadth of our offer and our new product ranges started to gain good traction in the second half of the financial year. Whilst we did not expect the decline in this market sector to be as protracted as it has been, we are confident that our initiatives will enable us to gain the market share necessary to return to growth.

The UK Private RMI market performed well in the year with revenue of £23.4 million, an increase of 3.3% supported by an increasing share of sales of "high end", more quiet, more silent ventilation devices with more sophisticated controls. Our revenue growth was adversely affected by the service disruption that resulted from the move to our new facility in Reading, UK. Normal service and output levels are expected to be in effect by the end of the 2018 calendar year. Whilst the UK Private RMI market remains subdued we are gaining share through our three UK proprietary brands.

UK Commercial revenue grew by 2.1% in the year to £33.5 million (2017: £32.8 million) assisted by the acquisition of Breathing Buildings in December 2016. Organic revenue declined by 3.6% in the year primarily due to weaker refurbishment market demand but finished the financial year with a strong order book for fan coil systems. During the second half of the year we increased our manufacturing capacity for fan coil production, and investment has been initiated to further increase our laser metal cutting capabilities in early 2019 to underpin the growth in this sector. Within our natural and hybrid ventilation product range, a number of new product developments are in progress to capture a larger share of the growing opportunity in the education sector.

UK Export sales were £12.5 million (2017: £10.2 million); the strong growth of 22.6% (20.9% at constant currency) benefited from the previously reported large, one-off order for spares from Japan, without which our growth in this sector would still have been strong at 14.8%. We enjoyed good growth in UK Export for our ventilation systems for new energy-efficient homes in Ireland and gained a number of new accounts elsewhere.

During the year we completed the move from our previous manufacturing facilities in Slough and Reading into a new purpose built injection moulding, ducting extrusion and unitary fan assembly plant in a new location in Reading, UK. This was the culmination of an expansion project that we had planned since 2016 and will underpin the expected organic and inorganic revenue growth in this product category.

Whilst the move was completed within the timescale there was considerably more disruption to production and sales during the execution phase than expected. This disruption resulted in increased costs and impacted sales and resulted in a higher backlog of orders than normal.

All of the plant and equipment moves were completed by the end of our financial year and normal service and output levels are expected to be in place by the end of the 2018 calendar year.

Costs directly associated with the relocation and operational disruption were significantly higher than anticipated and have been disclosed separately as exceptional operating costs of £5.0 million (2017: £0.6 million).

Following the decision to rationalise the Reading and Slough operations into one site and given the large number of acquisitions we have made in the UK over the past few years, we reorganised our legal structure which became operational on 1 August 2018. We will continue to review, and if appropriate integrate, our UK Ventilation support functions in FY 2019, and any further costs directly associated with this reorganisation that may arise will similarly be disclosed as an exceptional charge.

Nordics

Sales in the Nordics sector were £36.7 million (2017: £30.8 million), an increase of 19.0% (20.2% at constant currency) with organic revenue growth of 2.9% at constant currency. With the acquisition of VoltAir System in May 2017 we now have a larger exposure to the new projects market in Sweden. Our organic growth in the Nordics was hampered by weaker demand from the Swedish trade channel in the period from April to June 2018, with July a more normal month.

Sales of the recently introduced Calima fan (sold under our Pax brand) rose during the year. We delayed the launch of the upgrade to the Intellivent range of fans (sold under our Fresh brand) until the autumn of 2018. This may have had some impact on the trade channel sales being weaker in the second half of the financial year where customers may have postponed increasing stocks until the launch of the new, more sophisticated range.

The two acquisitions completed in July 2018, Oy Pamon in Finland and Air Connection in Denmark provide us with greater exposure to the new construction sector in these geographical areas as well as a better platform for the cross selling of the entire Ventilation Group range of products.

Central Europe

Sales in Central Europe were £28.5 million, a growth of 3.7% (1.0% at constant currency). In Belgium and the Netherlands we continued to re-profile our ranges, de-emphasising sales of outsourced products coupled with greater focus on the professional trade channel as an important route to market. This exercise will continue in 2019, underpinned by several new residential product range launches offering solutions for both refurbishment and new build applications.

Germany was a highlight as we launched the new range of Xenion decentralised heat recovery products. These products are significantly quieter and better performing and have been very well received by the market. Development of bespoke local market product solutions (using a Xenion-based platform) was also completed for Japan and South Korea where our exports are increasing. During the year we also improved the sales processes in Germany and our "pre-seller" team is helping us to capture opportunities earlier in the cycle and increase our hit rate on projects. Having launched the Xenion range of products in 2018 there are several extensions to this range due for launch during 2019.

Australasia

Sales in Australasia were £8.2 million since the acquisition of Simx, which was completed on 19 March 2018. Simx is the market leader for residential refurbishment ventilation in New Zealand and provides access to an attractive market in which to launch additional products from the Volution Group portfolio, including our application software controlled unitary ventilation product. Integration of Simx into Volution Group is going well.

OEM (Torin-Sifan) segment

Our OEM (Torin-Sifan) segment's revenue in the year was £22.6 million (2017: £22.0 million), an increase of 2.8% (1.8% at constant currency). Whilst the UK experienced a colder than normal end to the winter, the impact on the demand for boiler spares was minimal, with the distribution supply chain able to support the increased demand from existing inventories. We do, however, anticipate that demand in 2019 may be stronger as these stock levels were run down at the end of the last winter period.

Sales of our new EC3 motor gained traction in the second half of the financial year. New customers were added to our portfolio and supplies to other parts of the Volution Group are now increasing. We expect 2019 to see growth in sales of this new motorised impeller and the required investment in the necessary equipment to support this growth is already in place.

Three strategic pillars

Our strategy continues to focus on three key pillars:

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

We made good progress with the strategy in the 2018 financial year, with the completion of four acquisitions. Volution Group has grown from a leading UK-centric ventilation provider to a more diverse, pan-European and Australasian supplier of primarily residential and also commercial ventilation equipment.

These new markets, as well as the original core markets for Volution Group, continue to benefit from the favourable regulatory backdrop that focuses on reducing carbon emissions from buildings (in particular new buildings) and there is a notable increase in local market trends with greater focus on improving air quality, as well as the need to improve energy efficiency.

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

We will continue to provide strong central leadership in research and development to facilitate the Group's growth. During the 2018 financial year we made good progress with the leadership and co-ordination of our technical teams across the Group and the teams are now handling more innovation and development projects than at any time in our history.

The relocation of some of our UK Ventilation manufacturing capacity to our new site in Reading gives us sufficient headroom to continue with our organic growth strategy.

In Torin-Sifan, whilst later than originally anticipated, we are now seeing the benefits of our investment in the new EC3 motorised impeller range. This motor, one of the most efficient solutions for use in central ventilation systems, is becoming one of the preferred solutions in customers' new product developments and demand within the rest of the Group is also expected to grow significantly during 2019.

People

Our Group has changed markedly in recent years and it is essential to our future success that we develop and hire the best people to underpin our plans. Our third Management Development Programme commenced in early 2018 and, as with previous programmes, has been a big success. The Senior Management Team continues to be strengthened ensuring we have the capability and resource to drive the business forward as Volution Group continues to expand. We are conducting a search process for a new Managing Director and Operations Director for the UK Ventilation business and have recently appointed a new Finance Director for that part of the business.

During the 2018 financial year we completed four new acquisitions in existing and new geographies. I am delighted to welcome these new employees to our Group and, as reported previously, we are finding that as our experience of acquiring new companies increases each year, we become more sensitive and aware of the cultural and local market differences.

Outlook

The new financial year has started as expected and we will continue to focus on optimising the performance at our new factory in Reading, UK, continue the integration of the four acquisitions completed in the financial year and launch several innovative new products.

Whilst being mindful of various market challenges that we continue to face, and with the uncertainty in the UK with regard to the UK leaving the European Union, we remain confident in making further good progress with our strategy in the year.



Ronnie George
Chief Executive Officer
11 October 2018

Excellence in Ventilation



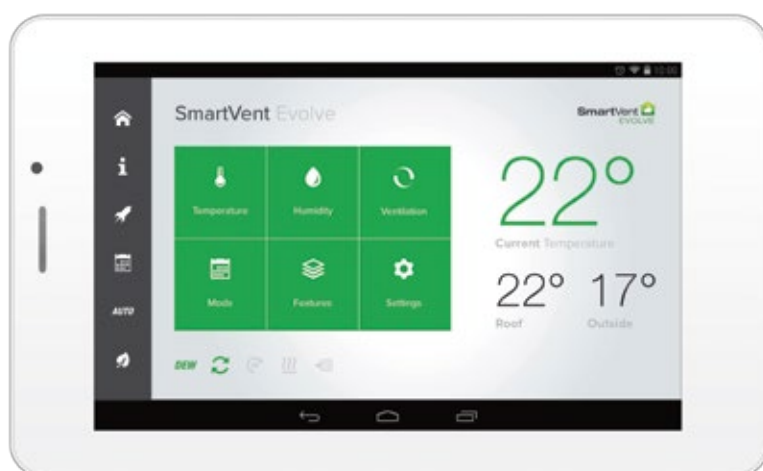
Expanding our market opportunity with Simx

“The acquisition of Simx was consistent with our stated strategy of making selective value-enhancing acquisitions in new markets where a business has a leading market position. We are excited about further developing Simx, in particular by introducing more energy-efficient and more aesthetically pleasing products to its portfolio, and we believe the acquisition will deliver an attractive return for our shareholders.”

Ronnie George
Chief Executive Officer



↑
Manrose LED heat fan light



← SmartVent positive input ventilation system controller



The acquisition of Simx provides Volution Group with its first trading organisation outside of Europe, and a platform for further growth into the Australasian market. It is headquartered in Auckland, New Zealand, with an additional distribution centre in Christchurch, New Zealand.

Simx was established in 1983 and has developed into the leading residential ventilation product provider to both trade and retail in the New Zealand market. In addition to residential ventilation, Simx also provides commercial ventilation and lighting solutions. It has been distributing Volution Group products for over 20 years and a significant part of Simx's revenue is derived from fans sold under the Group's Manrose brand. In addition, it also sells products under several of its own brands including SmartVent for whole house ventilation, HeatTrans for heat transfer systems, Alaskon for commercial ventilation and Simx for security lighting.

Lee Nurse, who has been with Volution for nine years and has a good understanding of the Group and its products, having been Group Product & Marketing Director, is currently in New Zealand assisting with the integration of Simx into the Group.

Working with the local teams we have already identified several initiatives where the Group can provide new and value-adding products to enhance the New Zealand product portfolio. In line with the Group's marketing model, we have started to introduce ranges of higher value extract fans. The first to be launched will be the Calima platform, already sold across Europe under our Pax, Vent-Axia and inVENTer brands. This platform will be launched by Simx in New Zealand under the Manrose brand. This launch will also introduce the Group's app platform to New Zealand enabling further product developments in the future.

At the same time as launching new Group products, Simx has recently launched its new whole house, positive input ventilation system, SmartVent Evolve 2. This unique system monitors temperature and humidity optimising the use of fresh filtered air from outside, or in the roof space, to ventilate the home. This system forms the basis of a new product range, with further enhancements for indoor air quality (IAQ) sensors under development.

Extensions of the Simx heating range are also planned utilising the Group's experience and supply chains.



→ Manrose Genius fan

Our Markets

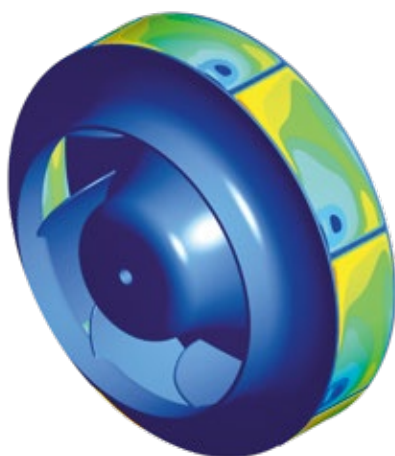
Key trends impacting our markets

As leaders in many of our markets we strive to continuously innovate to provide our customers with the best solutions available. As a supplier of products into commercial buildings and people's homes, there are some key trends that continue to shape our thinking and define our product developments.



Connectivity

Globally, intelligent building management systems and smart homes are growth areas. Our products play an important part of life in buildings and ensuring that our customers can connect and use our products as they require, drives new product ideas.



Energy efficiency

The focus on energy efficiency within many of our building regulations and national codes continues to provide growth. In addition, consumers' desire to reduce energy use provides further emphasis on improving the efficiency of our products by design. This impacts not only our Ventilation division but drives our innovation in Torin-Sifan.



Style as well as substance

Improvements in aesthetics and reduction in noise can help provide clear differentiators for our brands. Making products more discreet, whilst maintaining their performance, helps ensure higher adoption of our premium solutions every year.

The Group is well placed to meet demand across our key markets

As a market leader and consolidator of the ventilation space, Volution Group is in prime position to extend its reach to the wider marketplace. One current trend that will enhance growth is the increasing concern over indoor air quality.

With the political and social drive to become more energy efficient, our homes have become increasingly air tight and the problem of poor indoor air quality (IAQ) has become harder to ignore and strengthens the vital role ventilation products have to play. Without good ventilation, air quality can deteriorate leading to condensation, mould and a build-up of toxic chemicals.

In the UK alone, a staggering 65% of homes suffer from poor IAQ as a result of inadequate ventilation. This is also a problem across Europe and is having a significant negative impact on the health of people in their homes with poor IAQ contributing towards many serious health problems such as asthma, lung cancer, strokes and cardiovascular disease.

Volution Group is taking up the challenge, with influence in trade and lobbying groups and with access to policy makers; we can drive investment in new technologies such as demand control ventilation, asset protection tools and other ventilation products that can address the growing market to improve IAQ.

Volution Group is also well placed to capture growth in this market by delivering new and innovative solutions to customers, reducing their energy costs whilst preventing the build-up of airborne pollutants and delivering healthy, comfortable and fresh living spaces.

Indeed, Volution Group already offers solutions such as the innovative Vent-Axia Pure Air filtration system, designed to target pollutants generated outside of the building by traffic and industrial processes, filtering the air before supplying it to the inside of the building. The award winning Vent-Axia Pure Air sets the benchmark for high level filtration.

Developed by inVENTer in Germany, the iV Smart+ single room heat recovery unit combines sophisticated ceramic heat cell technology alongside a choice of effective filters resulting in a unit that provides fresh, filtered air while providing up to 87% heat recovery.

The air in your home could cause...



81% Respiratory conditions¹

81% of people are at risk of suffering from a respiratory or dermatological condition because of poor air quality inside their home.



58% Mould or damp¹

58% of people have experienced mould or condensation in their home.



65% Toxic Home Syndrome²

15.3 million homes in the UK are at risk of "Toxic Home Syndrome".

900+ air chemicals³

Indoor air may contain over 900 chemicals, particles and biological materials with potentially harmful health effects.

Source

1. British Electrotechnical and Allied Manufacturers Association.
2. UK Office for National Statistics.
3. European Commission.



The result of poor indoor air quality

Our Strategy

The three strategic pillars

We will continue to build on our core strengths and strong industry track record to gain further market share in each of our preferred markets. We intend to achieve our goals through a combination of organic growth and selective acquisitions. To achieve this, we have identified three key strategic pillars.



Organic growth in our core markets

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

Actions

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



Growth through a disciplined and value-adding acquisition strategy

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

Actions

- > Make acquisitions to establish leading positions in new markets and expand our presence in existing markets
- > Deliver revenue and cost synergies from acquisitions
- > Increase cross-selling and export growth



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

In the context of a favourable legislation-led shift towards more technologically advanced, more energy-efficient and quieter EC/DC motorised impellers, we will develop our product range and enhance our customer offer.

Actions

- > Expand the range of our technically superior residential motorised impeller products
- > Expand the new product development function and enhance responsiveness to customers

Achievements during the year

- > Continued growth in our value-added product lines including silent app-controlled fans and Lo-Carbon PoziDry Pro™
- > Further roll-out of the Calima platform through Group channels
- > Development of the Vent-Axia brand in the Netherlands and Germany
- > New site in Reading, UK gives us sufficient capacity headroom to continue to grow organically

Future focus

- > Range development, maximising the opportunities arising from our expanding geographic and market sector range
- > Expand the range of centralised heat recovery systems
- > Development of more sophisticated wireless control networks for ventilation systems
- > Optimise the new Reading facility

Achievements during the year

- > Completion of the acquisitions of Simx, Oy Pamon, Air Connection and AirFan
- > Continued the active integration of recent acquisitions into the Group
- > Expansion of the Vent-Axia and Manrose brands internationally through newly acquired businesses

Future focus

- > Continue the integration of the new acquisitions into the Group
- > Continue to search and pursue new acquisition opportunities
- > Maximise synergies available through our growing scale advantage
- > Further grow intercompany sales to widen product categories served internationally
- > Focused new product development to expand our offer in acquired channels

Achievements during the year

- > Launched several derivatives and customised versions of the EC3 90W motor platform
- > Launched the high powered EC3 backward curved centrifugal plug fan range
- > Launched the high pressure EC3 forward curved centrifugal fan range

Future focus

- > Continue to develop the EC3 range with further ancillary options and a 170W motor platform
- > Continue to apply the EC3 motor platform to more of our traditional product ranges
- > Further develop EC3 sales in overseas markets

Our Business Model

Creating sustainable value

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

Our businesses manufacture and distribute products to our customers across multiple channels. Our key differentiators are pivotal to our business model and provide us with our competitive advantage.

Our key differentiators



Innovation

- > Invest in new products to improve our customer proposition
- > Future proofing our product range in a changing world

10

new products launched during the year



Innovation in Action
> page 20



Scale

- > Optimise our investments by creating new products that can be sold through multiple geographies
- > Make value-adding acquisitions
- > Use Group procurement to leverage scale

20

production and distribution facilities across the UK, Europe and Australasia



Scale in Action
> page 22



People

- > Continue to identify and invest in talent
- > Develop and nurture our teams to drive value

1,634

employees across the UK, Europe and Australasia



People in Action
> page 24



Brands

- > Maximise sales by focused customer-centric brands
- > Create differentiated sales propositions serving segmented markets

16

key brands across the UK, Europe and Australasia



Brands in Action
> page 26

Our Company values

GROWTH

INNOVATION

SERVICE

RELIABILITY

Putting our business model at the core of our organisation

Linking our key differentiators to our structure to continually improve the value we provide to our customers and to leverage our competitive advantage.

Product development

Centralised new product development co-ordinates our localised product management team requirements into harmonised product development plans ensuring we maximise the value of our investment.

Related challenges

- > Ensuring common platforms retain local relevance
- > Focusing on maximising returns from our ideas
- > Maintaining our agility as we grow

Procurement

Our centralised Group procurement strategy maximises leverage of our scale within our supply chain. We have cost reduction initiatives identified with all of our regions and clear work plans to deliver them.

Related challenges

- > Connecting international teams and requirements effectively
- > Finding procurement solutions that add value to the organisation
- > Keeping up with our growing number of product categories

Sales and marketing

Localised marketing teams identify local requirements to add value to our customers. We work to segment, target and position our products and brands ensuring we maximise our sales returns.

Related challenges

- > Driving differentiated product portfolios across multiple brands
- > Positioning of products across geographies and multiple channels
- > Brand management within geographies

Customers

We supply our products through multiple channels for both trade and retail customers for use by installers, private individuals and specifiers. We support private residential, public residential and commercial applications. We aim to continually identify and support our different customer groups with exciting and relevant ventilation solutions for their specific needs.

Related challenges

- > Effective customer segmentation and delivering our products and services
- > Changing communication methods and retaining relevance
- > Preventing channel conflicts through differentiated product propositions



Our Markets
> page 14



Our Strategy
> page 16



Key Performance Indicators
> page 28

INTEGRITY

COMMITMENT

FUN

PROFESSIONALISM

Innovation in Action



Innovation

Investment in new products

We continue to invest in new products to ensure that we deliver industry leading solutions to our markets. During the year we continued to launch new products, improve and expand existing product ranges and expand the use of product, control and communication system developments across a broader product range. Technology transfer across the Group has increased resulting in the improvement of the “intelligence” of products providing more effective ventilation solutions which improve indoor air quality (IAQ).

NVHR 1.5 controller



Highlights

- > Upgrade of the Breathing Buildings NVHR platform
- > Positive input ventilation unit launched in UK
- > Towel warmer range extension in the Nordics
- > Extension of the Torin-Sifan Revolution 360 product range

Upgrade of Breathing Buildings NVHR platform

New for 2018, NVHR 1.5 (Natural Ventilation with Heat Recycling) is the latest update to the Breathing Buildings façade-based air mixing ventilation system. Targeted at schools this is a mixed mode ventilation unit providing enhanced natural ventilation. By automatically operating in different modes depending on demand and operating conditions, the product already provides the industry standard for classroom ventilation. Together with migration to metal construction we have added further efficiency and control upgrades to improve overall performance. Airflow levels have been increased and the product has been redesigned to fulfil the requirements of the new BB101 Guidelines for ventilation and indoor air quality in schools. In addition, new system controls have been designed utilising the existing Volution Group control platform developed for the Kinetic Advance MVHR (Mechanical Ventilation with Heat Recovery) unit for residential use, providing greater flexibility for customers.

“In addition to their ability to connect and work together with the Calima extract fan, we now provide customisable colour options on our range of towel warmers. This means our customers can complement their interior design preferences without compromising on the intelligence of our solution.”

Eva Thunholm

Managing Director, Volution Nordics

Positive input ventilation (PIV) unit launched in the UK

The new PIV unit (Lo-Carbon PoziDry Pro™) has been specifically developed to solve indoor air quality issues in existing homes with fast and simple installation. The product is fitted with intelligent controls which include a commissioning mode and an automatic operation mode allowing the product to be installed and set up for five year's maintenance-free operation. Designed with public housing landlords in mind as the primary customers, we have integrated data logging systems developed for our extract ventilation products to provide landlords with information on usage patterns, helping with conflict resolution in disputes with tenants. At the same time as the introduction of the new PIV unit we have designed a new ceiling diffuser which is anti-tamper, easy to fit and incorporates improved deflection and air paths, delivering higher airflows and lower noise than previous designs. All of these elements, together with a discreet low profile design, help minimise the impact on tenants. The new PIV platform provides solutions for both Vent-Axia and Airtach brands and is a good example of how we can use common platforms whilst retaining local relevance.



Positive input ventilation units



App control of Calima fan and Limbo towel warmer

Towel warmer range extension in the Nordics

With the successful launch of the app-controlled Momento II timer control last year, we have extended our range of towel warmers to include some new innovative ideas. The app allows customisation of the Calima fan and towel warmer settings in tandem so providing the home owner with complete freedom to set up and use both their towel warmer and their fan as desired. Enabling both to work together in a co-ordinated manner to establish the perfect indoor environment has provided a platform on which to build other customisation options. In 2018 we developed a method by which we enable our customers' greater freedom of expression through the use of colour. It is now possible to order many of the Pax range of towel warmers in any colour, chosen from the Natural Colour System™ colour palette. Customers can now use our connected products to complement their own interior design preferences providing a unique and intelligent way to add luxury and comfort to a bathroom.



Torin-Sifan Revolution 360 product range



Extension of the Torin-Sifan Revolution 360 product range

Following on from last year's range extension, the newly expanded Revolution 360 range of motorised impellers now caters for motor powers of up to 1 kW and impeller diameters of 400 mm and is also available in a plug fan mounting configuration. The new additions to the range are suitable for heating, ventilation and cooling applications for use within commercial installations. This builds on the strong position the Revolution 360 range enjoys within the residential sector. The highly intelligent EC motor ensures that an optimal mix of air performance, noise and efficiency is delivered.

Scale in Action



Scale

Strategic value-adding acquisitions and continuous expansion

With Simx joining Volution Group during the year, we now have more opportunity to introduce Group product developments into the Australasian market. During the year we continued to grow our position in the Nordics. With the acquisition of Oy Pamon we now have new channels in to the regulatory driven new build sector in the Finnish market. The acquisition of Air Connection introduces further opportunities to place additional Volution Group product ranges into the Danish market as well as providing access to a well-established route to market in the region.

Oy Pamon in Finland



Highlights

- > Acquisition of Oy Pamon in Finland
- > Acquisition of Simx in New Zealand, leveraging our technological developments into Australasia
- > Acquisition of Air Connection in Denmark
- > Small bolt-on acquisition of AirFan in the Netherlands

Acquisition of Oy Pamon in Finland

The acquisition of Oy Pamon in Finland has given the Group access to a well-established, regulatory driven market for Mechanical Ventilation with Heat Recovery (MVHR). The local climactic conditions and nuances of the Finnish market ensure that domestic manufacturers dominate the space and sales channels. The product range in Oy Pamon has been developed to specifically meet the particular needs of this demanding market providing new levels of technical understanding to the Group. With a wide range of application solutions for residential and commercial applications, Oy Pamon complements our recent acquisitions of the Welair and VoltAir businesses in the Nordics. This extension of our product portfolio managed by the Nordics team provides the opportunity for it to offer to customers a growing number of product categories within the region.

Intelligent humidity control



Acquisition of Simx in New Zealand: development of controls for high ambient humidity

The acquisition of Simx in New Zealand is our largest acquisition since our IPO, substantially adding to our scale. A profile of the company can be found on pages 12 to 13.

Simx has established itself as New Zealand's market leading supplier in the residential ventilation market through the Manrose brand. However, conditions in a sub-tropical humid climate means that, historically, automatic operation of extract fans through humidity control has largely been avoided due to the risk of nuisance running at high ambient humidity levels. However, the Group has previously developed intelligent humidity controls for use across our various geographies and climates. These intelligent controls will be introduced into products in the Australasian market as they are capable of working effectively under conditions of high ambient humidity. This type of synergy in the development programme means that we are able to take Group control platforms and bring them to markets in a way that is suitable for the local conditions. The benefit that such scale brings ensures that we can improve the agility of acquired companies through investments in technology that would have previously been prohibitively costly.

Acquisition of Air Connection in Denmark

Air Connection is a ventilation and indoor climate specialist wholesaler supplying equipment to installers and electrical wholesalers across Denmark. The focus is on providing excellent technical support and customer service, ensuring that the business remains its customers' supplier of choice. With the combined knowledge of our commercial and design teams, we can configure many of the Group's product ranges for sale into the Danish market. This ensures that we can quickly maximise the Group opportunity in the newly acquired channels.



Air Connection in Denmark

People in Action



People

Engaging and developing our employees

Volution Group is committed to developing and retaining talent across the Group and it does this in many ways. We are particularly proud of our Management Development Programme (MDP) having now run three of these over the last few years. The current MDP concludes in November 2018 and has had representation from across the UK and Europe.

The MDP is intended to prepare candidates for career progression by developing the skills they need in order to succeed in complex roles in our rapidly growing Group. Through real-world Volution Group case studies, small group discussions, interactive presentations and small learning groups, the candidates learn to think beyond their own functional area and lead in ways that support larger strategic business objectives.

A hallmark of the MDP is the diverse and dynamic groups of participants who form strong networks across the organisation and gain a better understanding of our diverse business.

In the most recent MDP, 18 participants from across the Group came together to start their journey to develop, both professionally and personally. The MDP takes place over a period of eleven months where the participants work together in teams to tackle real life business cases with their final recommendations being presented to the Senior Management Team.

Four MDP participants have shared their experiences below.

Anders Nilsson

Sales Manager,
Volution Nordics

Anders is a Sales Manager for Volution Nordics. He lives in the south of Sweden with his family and loves spending time with his wife and two daughters. He likes to run both half and full marathons and also enjoys mountain biking!



How have you developed whilst a participant of the MDP?

"During my time as a participant of the MDP, I have developed both personally and as an employee. I have also gained a much better understanding of Volution Group as a whole and the importance of working together for the success of Volution. I have become more structured in my work; I believe I am better at delegating and allowing others to develop by coaching my staff and my colleagues."

What were the main positives of the MDP for you?

"The MDP has demonstrated that Volution really believes in its employees and is happy to invest in developing the managers of tomorrow. The programme gives you the opportunity to progress in your career within the Group. To meet and get to know new colleagues who are part of Volution and share ideas and experiences is a real positive."

Ida Helin

Export Co-ordinator,
Volution Nordics

Ida currently works as an Export Co-ordinator for Volution Nordics, although she will soon be taking on a more strategic role as a Sales Co-ordinator. Ida lives in the south of Sweden with her fiancé and two children and enjoys travelling with her family and her favourite destination is Australia. She also enjoys running, biking and kayaking!

**How have you developed whilst a participant of the MDP and what were the main positives for you?**

"The MDP has not only been a great opportunity for me as a person, but also, I believe, a benefit for the part of the business I work for and for the Group. I have grown as a person, both in confidence and also, I believe, in effectiveness. I feel more comfortable presenting in front of colleagues, and the language challenge puts an extra dimension on my development. What I appreciated the most with the MDP is the network you become a part of, by getting to know people from different companies across Volution Group."

Jenny Smith

Head of Marketing,
Volution Ventilation UK

Jenny heads up the Marketing Communication team and manages all public relations and communications across the six UK Ventilation brands. She lives with her fiancé, Justin, and has three horses that take up most of her spare time, but when she is not busy with the horses she can be found swimming or eating out.

**How did you develop whilst a participant of the MDP?**

"I completed the first MDP in 2013. Throughout the year I was exposed to a variety of challenges related to the development of the business as well as my own personal development. The course gave me an insight into financial and strategic decision making, which was something I had not previously had experience of. Working across matrix project teams allowed me to understand other areas of the business and the specific challenges they faced, helping me to frame my decision making."

What were the main positives of the MDP for you?

"Without doubt, the benefits of growing my network across the business was the most positive outcome of completing the MDP. Those relationships are still of benefit to me today, five years later. In addition the course gave me the confidence to make decisions. I believe I have progressed within the Group as a direct result of having the confidence to make decisions that drive the business forward. The MDP is invaluable for anyone wanting to gain a better understanding of the Group and who wants to progress their career. Even though it was taxing at times, I thoroughly enjoyed the process and am grateful for having been selected for the MDP."

William Kremlitschka

Head of Marketing,
inVENTer, Germany

William is Head of Marketing for inVENTer in Germany. He is interested in music and politics and plays the guitar to help relax and be inspired with new ideas. He believes playing the guitar influences his creativity and helps him "reset" after a hard day whilst also assisting in finding solutions to new challenges.

**How have you developed whilst a participant of the MDP?**

"It has been inspiring to be part of an international group, sharing experiences and skills and developing within a familiar and friendly atmosphere. For me, it was personal development on several levels. Shared experiences with the others have expanded my point of view dealing with daily business. The management training itself has provided new ways and strategies to help my development and to deal with challenges more effectively. Working through the business case together has also made me feel much more confident and stronger, assisting me with my daily business in Germany."

What were the main positives of the MDP for you?

"For me, the participants were the main positive of the MDP. With all the new input we now have several tools to do our daily business more efficiently and competently. On a management level, it's fundamental to have a clear vision and strategy for your business. You also need to stay reflective and aware of opportunities so you can adjust your business plan according to what happens in reality.

Vision, concepts and leadership all start with the individual. So I'm thankful to have had the chance to develop myself and expand my knowledge, skills, and mindset. I believe this is how creativity and new solutions are born leading to any return on investment. For me, it became important to be aware of this and has underlined the importance of people within the Volution Group."

Brands in Action



Brands

Growth opportunities for our brands

We have continued to strengthen our proposition in the Nordics with the acquisitions of Oy Pamon and Air Connection along with the further integration of the teams at recently acquired Welair and VoltAir. In addition, the acquisition of Simx has opened up new channels into the Australasian market and extended our Manrose branded product range into new categories.

Welair Air Handling Unit



Highlights

- > Integration of the Welair and VoltAir teams and product ranges to extend the reach of the combined proposition
- > Continued expansion of the Vent-Axia brand in the Netherlands
- > Launching a wider range of Group products into the Australasian market through Simx

Integration of the Welair and VoltAir teams

Following the acquisition of VoltAir System in May 2017 and Oy Pamon in July 2018, we have continued to strengthen our routes to the commercial market in the Nordics. One key initiative has been to ensure that the wider product portfolio can be used through the newly acquired sales channels. Part of this process was the merger of the Welair and VoltAir teams. By bringing together all of the technical expertise, customers and product ranges, we can strengthen our ability to meet the demands of air handling projects within the Nordic markets whilst retaining both brands.



VoltAir Air Handling Unit

“The acquisition of AirFan offers the Group an expansion of our sales channels in the Netherlands, which is in line with our growth strategy. With AirFan’s existing, exclusive distribution agreements, we can extend the offer with the Vent-Axia product range.”

Francois Chermin

Managing Director, Ventilair Netherlands

Continued expansion of the Vent-Axia brand in the Netherlands

With the small acquisition of specialist distributor AirFan, we have gained a new sales channel for the wider Group product portfolio in the Netherlands. AirFan offers a unique channel to the Dutch ventilation market with focus on selling ventilation solutions using products from selected suppliers. By providing a one-stop-shop where customers can get advice on product selection as well as placing orders for the equipment required for their projects, AirFan aims to be its customers’ partner of choice. AirFan, alongside our existing business in the Netherlands, provides an excellent channel to extend the sales reach of our brands.



↑
Manrose Genius fan

Launching a wider range of Group products into the Australasian market through Simx

Simx has been a customer of Manrose since 1986. That long-term relationship has ensured that there has been a somewhat parallel development of both the New Zealand and UK ventilation markets with many similarities in the product solutions. This means that installers in both markets are familiar with the same product ranges which have developed in a directionally similar way to the UK. As a result we are able to utilise many of the existing Group products and development programmes as a platform for range extension in Simx. This will start with the launch of the Group Calima platform in New Zealand. As detailed in previous annual reports, Calima was developed as an international product and is already sold in Germany under the inVENTer brand, in the UK, Belgium and the Netherlands under the Vent-Axia brand and in Sweden under the Pax brand. Although this fan will be the first to be introduced to New Zealand following acquisition, we have now integrated Simx into the Group product development plan, establishing a pipeline of new product launches. This utilisation of a wider platform of products across our brands ensures that we maximise returns from our ideas.






↑
Manrose Classic fan kit, currently New Zealand's bestselling extract fan

Key Performance Indicators

How we performed over the past year against our strategy

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

The three strategic pillars

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



We discuss the KPI performance in the Financial Review
> pages 45 to 49

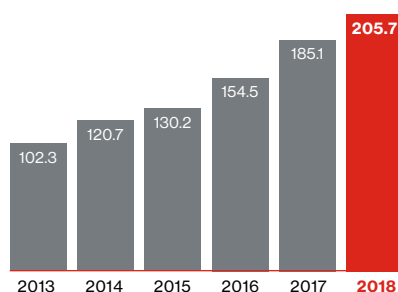
Note

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 basic and diluted EPS and adjusted operating cash flow. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 34. A reconciliation to reported measures is set out in note 2.

Financial performance

Revenue £m

£205.7m



Strategic pillars measured by this KPI



Tracks our performance against our strategic aim to grow the business

Comments

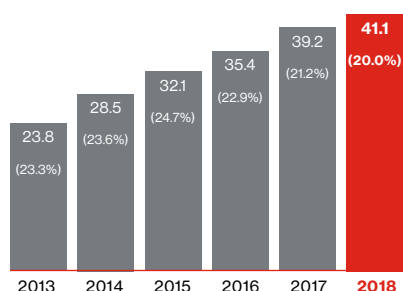
- > Good revenue development in the year with growth of 11.1% (11.1% on a constant currency basis)
- > The acquisitions of Simx, Oy Pamon, Air Connection and AirFan, in addition to a full year of acquisitions completed in the prior year, contributed significantly to our growth: 8.3% (8.7% on a constant currency basis)
- > Organic growth of 2.8% (2.4% on a constant currency basis)

Link to Directors' remuneration

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

Adjusted EBITDA and adjusted EBITDA margin¹ £m (% of revenue)

£41.1m (20.0%)

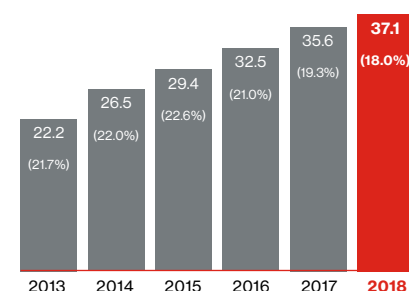


Strategic pillars measured by this KPI



Adjusted operating profit and adjusted operating profit margin¹ £m (% of revenue)

£37.1m (18.0%)

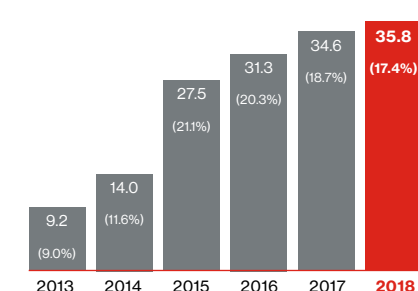


Strategic pillars measured by this KPI



Adjusted profit before tax and adjusted profit before tax margin¹ £m (% of revenue)

£35.8m (17.4%)



Strategic pillars measured by this KPI



These adjusted measures track the underlying financial performance of the Group

Comments

- > Good growth in underlying profitability
- > Low depreciation charges as the business is not capital intensive
- > Margins reduced in the year:
 - > Lower margin businesses acquired
 - > Decline in organic revenue in our UK Residential Public RMI sector
 - > Currency inflationary pressure on imported materials
 - > Investment for future growth

Link to Directors' remuneration

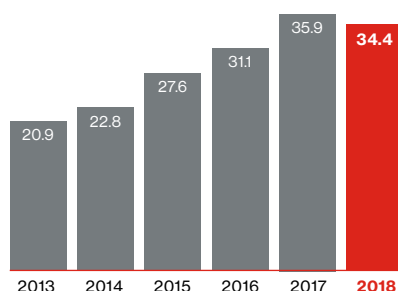
- > ABP awards are linked directly to adjusted operating profit and adjusted EPS and LTIP awards are linked directly to EPS growth and TSR, all of which correlate with adjusted EBITDA, adjusted operating profit and adjusted profit before tax

Key Performance Indicators continued

Financial performance continued

Adjusted operating cash flow¹ £m

£34.4m



Strategic pillars measured by this KPI



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

Comments

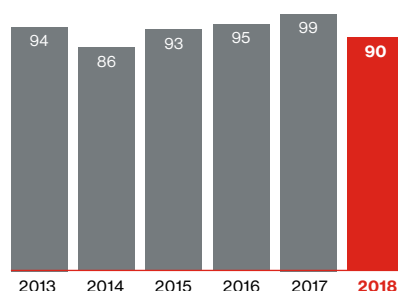
- > Adjusted operating cash flow in 2018 remained good despite increased capital investment of £6.3 million (2017: £3.9 million) and an increase in working capital of £0.4 million
- > Working capital remained under control at 11.3% of revenues (2017: 10.5%)

Link to Directors' remuneration

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

Adjusted operating cash flow conversion¹ %

90%



Strategic pillars measured by this KPI



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

Comments

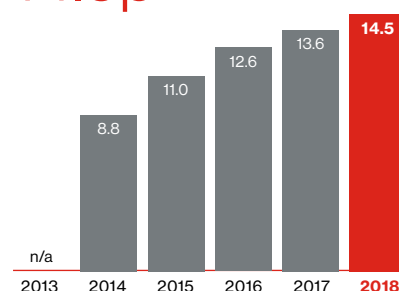
- > Reduced cash conversion due to higher levels of capital expenditure and increased working capital

Link to Directors' remuneration

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

Adjusted earnings per share (basic and diluted)¹ p

14.5p



Strategic pillars measured by this KPI



To provide a measure of shareholder value

Comments

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

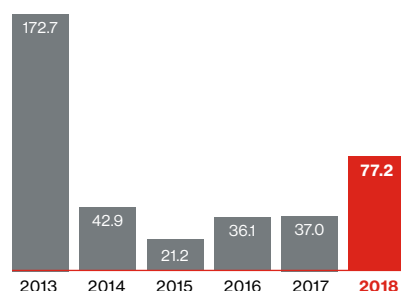
Link to Directors' remuneration

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

Non-financial performance

Net debt¹ £m

£77.2m



Strategic pillars measured by this KPI



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

Comments

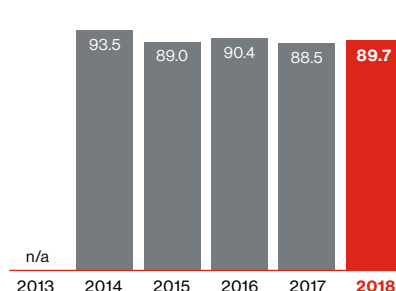
- > Good cash generation from operations
- > Increase in debt of £40.2 million mainly to fund acquisitions costing £41.0 million
- > Leverage (expressed as a ratio of net debt to adjusted EBITDA) was 1.9x (2017: 0.9x)

Link to Directors' remuneration

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

Employee retention %

89.7%



Strategic pillars measured by this KPI



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

Comments

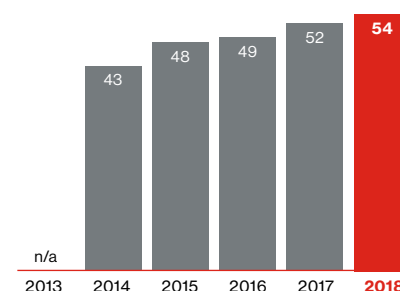
- > The high level of staff retention continued in 2018

Link to Directors' remuneration

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

Sales of low-carbon products %

54%



Strategic pillars measured by this KPI



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

Comments

- > The trend towards higher value-added low-carbon products continues, supported by our acquisitions

Link to Directors' remuneration

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

Risk Management and Principal Risks

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

The Board is committed to protecting and enhancing the Group's reputation and assets, while safeguarding the interests of shareholders. It has overall responsibility for the Group's system of risk management and internal control.

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

The risks and uncertainties facing the Group have also been considered in the context of the UK leaving the European Union. Whilst negotiations continue between the UK and the European Union and there is continuing uncertainty in the UK economy, our increasing market and geographical diversity provide some level of risk mitigation and the Board considers the nature of the principal risks to be largely unchanged. However, given the current state of the negotiations between the UK and the European Union, the Board will continue to closely monitor market conditions and will react accordingly.

Our approach

Risk management and maintenance of appropriate systems of control to manage risk are the responsibilities of the Board and are integral to the ability of the Group to deliver on its strategic priorities. The Board has developed a framework of risk management which is used to establish the culture of effective risk management throughout the business by identifying and monitoring the material risks, setting risk appetite and determining the overall risk tolerance of the Group. To enhance risk awareness, embed risk management and gain greater participation in managing risk across the Group, a programme of employee communication commenced in 2017 and all new employees receive a brochure on joining Volution Group.

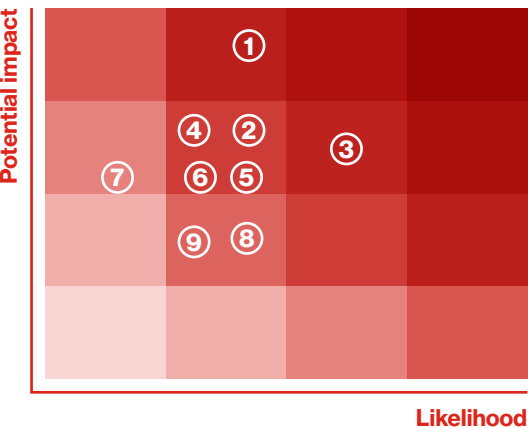
The Group's risk management systems are monitored by the Audit Committee, under delegation from the Board. The Audit Committee is responsible for overseeing the effectiveness of the internal control environment of the Group.

BDO LLP (BDO) continued to act in the capacity of internal auditor and provide independent assurance that the Group's risk management, governance and internal control processes are operating effectively. BDO continued to act in this capacity throughout the financial year ended 31 July 2018.



Risk heatmap

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



Identifying and monitoring material risks

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

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

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

Our principal risks and uncertainties

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

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

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the next three-year period, taking into account the Group's current position and the potential impact of the principal risks documented on pages 34 to 37 of the Annual Report and Accounts. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 July 2021.

The Directors have determined that a three-year period to 31 July 2021 is an appropriate period over which to provide its viability statement given the dynamic nature of the sector and as it is in line with our business planning cycle.

In making this statement, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Principal risks are identified through our risk management process and are set out on pages 34 to 37. They are recorded in a Group Risk Register which is reviewed and discussed by the Board at least twice a year. These risks have also been considered in the context of the UK leaving the European Union and, whilst it is too early to judge the longer-term impact on the UK market, we consider the principal risks affecting the Group to be largely unchanged over the medium term.

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

Whilst the review has considered all the principal risks identified by the Group, the following were focused on for enhanced stress testing: economic slowdown which has been considered in the context of the UK leaving the European Union, increased debt from acquisitions, supply chain risk affecting gross margins and combinations of the above scenarios. Stress tests using more significant sensitivities than that seen during the most recent global financial crisis in 2008/9 have been applied. None of the individual sensitivities applied impact the Directors' assessment of viability. The geographical and sector diversification of the Group's operations helps minimise the risk of serious business interruption or catastrophic damage to our reputation. Furthermore, our business model is structured so that the Group is not reliant on one particular group of customers or sector. In addition, our ability to flex our cost base protects our viability in the face of adverse economic conditions and/or other political or regulatory uncertainties.










Going concern

The financial position of the Group, its cash flows and liquidity position are set out in the Financial Statements section. Furthermore, note 28 on page 138 to the consolidated financial statements includes the Group's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit and liquidity risk.

The Directors believe the Group is in a strong financial position due to its profitable operations and strong cash generation and that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. The Directors have made this assessment after consideration of the Group's budgeted cash flows and related assumptions.

Risk Management and Principal Risks continued

The assessment of likelihood and potential impact is subjective and based on the following definitions:

Likelihood of risk occurring	Potential impact	Assessment of risk direction	
 Unlikely  Possible  Likely	 Low  Medium  High	 Reducing  No change  Increasing	The Board's assessment of whether there has been a change in the level of risk due to either a change in likelihood or a change in potential impact.

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

Strategic consequence



Organic growth in our core markets



Growth through a disciplined and value-adding acquisition strategy



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

Likelihood	Potential impact	Risk direction	Mitigation
			<p>Geographic spread from our international acquisition strategy helps to mitigate the impact of local fluctuations in economic activity.</p> <p>New product development, the breadth of our product portfolio and the strength and specialisation of our sales forces should allow us to outperform against a general decline.</p> <p>We are heavily exposed to the RMI market, which is more resilient to the effects of general economic decline affecting the construction industry. This remains true even under current circumstances where conditions specific to the public RMI market mean that our sales in that sector have recently declined.</p> <p>Our business is not capital intensive and our operational flexibility allows us to react quickly to the impact of a decline in volume.</p>
			<p>The ventilation industry in Europe is fragmented with many opportunities to court acquisition targets.</p> <p>Senior management has a clear understanding of potential targets in the industry and a track record of eleven acquisitions since IPO in June 2014.</p> <p>Management is experienced in integrating new businesses into the Group.</p> <p>Our policy of rigorous due diligence prior to acquisition and a structured integration process post acquisition has been maintained.</p>
			<p>Significant transactional risks are hedged by using forward currency contracts to fix exchange rates for the ensuing financial year.</p> <p>Revaluation of foreign currency denominated assets and liabilities is partially hedged by corresponding foreign currency bank debt.</p>
			<p>Disaster recovery and data backup processes are in place, operated diligently and tested regularly.</p> <p>A significant Enterprise Resource Planning system has been implemented for several key sites. A disaster failover site has been implemented.</p> <p>We have a three-layered system of network security protection against cyberattack or breaches of security. This infrastructure is maintained to withstand increasingly sophisticated worldwide cyber threats. We also undertake regular cyber security testing.</p>

Risk Management and Principal Risks continued

Risk	Impact	Strategic consequence
Customers <p>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.</p>	<p>Any deterioration in our relationship with a significant customer could have an adverse significant effect on our revenue from that customer.</p>	 <p>Our organic growth ambitions would be adversely affected.</p>
Legal and regulatory environment <p>Changes in laws or regulation relating to the carbon efficiency of buildings, the efficiency of electrical products, competition or compliance may change.</p>	<p>The shift towards higher value-added and more energy-efficient products may not develop as anticipated resulting in lower sales and profit growth.</p> <p>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.</p> <p>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.</p>	   <p>Our organic growth ambitions may be adversely affected.</p> <p>We may need to review our acquisition criteria to reflect the dynamics of a new regulatory environment.</p> <p>We may have to redirect our new product development activity.</p>
Supply chain and raw materials <p>Raw materials or components may become difficult to source because of material scarcity or disruption of supply.</p>	<p>Sales and profitability may be reduced during the period of constraint.</p> <p>Prices for the input material may increase and our costs may increase.</p>	  <p>Organic growth may be reduced.</p> <p>Our product development efforts may be redirected to find alternative materials and components.</p>
Innovation <p>We may fail to innovate commercially or technically viable products to maintain and develop our product leadership position.</p>	<p>Scarce development resource may be misdirected and costs incurred unnecessarily.</p> <p>Failure to innovate may result in an ageing product portfolio which falls behind that of our competition.</p>	  <p>Our organic growth ambitions depend in part upon our ability to innovate new and improved products to meet and create market needs. In the medium term, failure to innovate may result in a decline in sales and profitability.</p>
People <p>Our continuing success depends on retaining key personnel and attracting skilled individuals.</p>	<p>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.</p>	   <p>Our competitiveness and growth potential, both organic and inorganic, could be adversely affected.</p>

Likelihood	Potential impact	Risk direction	Mitigation
		 Our underlying risk of losing the revenue of any one customer continues unchanged; however, our recent acquisitions have further served to diversify our customer base.	<p>We have strong brands, recognised and valued by our end users, and this gives us continued traction through our distribution channels and with consultants and specifiers.</p> <p>We have a very wide range of ventilation and ancillary products that enhance our brand proposition and make us a convenient "one-stop-shop" supplier.</p> <p>We continue to develop new and existing products to support our product portfolio and brand reputation.</p> <p>We focus on providing excellent customer service.</p>
		 There has been no significant new legislation or regulation, or changes to current legislation or regulation, which has had a material impact on the business. The new UK Data Protection Act which became law in May 2018 does add risk as fines for a breach are potentially high. However, the business does not process much personal data so the increased risk is perceived to be low.	<p>We participate in trade bodies that help to influence the regulatory environment in which we operate and as a consequence we are also well placed to understand future trends in our industry.</p> <p>We are active in new product development and have the resource to react to and anticipate necessary changes in the specification of our products.</p> <p>We employ internal specialist expertise, supported where needed by suitably qualified and experienced external providers. Local operational compliance audits are undertaken.</p> <p>We have training and awareness programmes in place such as health and safety, anti-bribery and data protection. We have a whistleblowing hotline managed by an independent third party providing employees with a process to raise non-compliance issues.</p>
		 Our pattern of purchasing and relationships with our long-term supplier base remains unchanged. Our policy of ensuring a resilient supply base remains a priority.	<p>We establish long-term relationships with key suppliers to promote continuity of supply and where possible we have alternative sources identified.</p>
		 We continue to demonstrate innovation with new product launches.	<p>Our product innovation is driven by a deep understanding of the ventilation market and its economic and regulatory drivers. The Group starts with a clear marketing brief before embarking on product development.</p>
		 There have been no significant changes to the supply and retention of quality employees across the wider workforce. However, some members of the UK Ventilation business Senior Management Team left the business during the year and a search process is currently progressing.	<p>Regular employee appraisals allow two-way feedback on performance and ambition.</p> <p>A Management Development Programme was initiated in 2013 (with the latest launched in late 2017 set to conclude in November 2018) to provide key employees with the skills needed to grow within the business and to enhance their contribution to the business.</p> <p>The Group aims to reward and incentivise employees competitively.</p>

Sustainability



Volusion Group is founded upon the excellence of its people

People

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

Human rights

Community

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

Environment

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

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



Business and ethics

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

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

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

Health and safety

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

All accidents, dangerous incidents and near-miss situations are promptly investigated. The details of such incidents as well as the remedial and preventative measures taken are shared between sites as a means of raising awareness and reducing the risk of repetition. The Board reviews health and safety at every meeting.

Our safety record at every facility has benefited in recent years from the establishment of global standards, measurement and direction, and we have continued to introduce improvements with further independent health and safety audits and management focus on accidents in the workplace.

Diversity

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



Sharesave 2018

As the next step of our journey as a listed company, during the year Volution Group announced the launch of its first Sharesave invitation in which all eligible employees across the Group could take part and share in our future success. It was very encouraging for the future of Volution Group to know that over 26% of eligible employees across the Group chose to have a personal stake in the business. The participation rates across the Group demonstrated great confidence in the future prospects of Volution.

26%
participation

“The Board was very pleased with the employee engagement demonstrated by Sharesave 2018, with good participation rates across the business.”

Ronnie George
Chief Executive Officer

Sustainability continued



People continued

Diversity continued

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

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

Employee communications

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

Employee development

As an organisation we actively encourage employee development as it is important to us that our employees fulfil their potential. 18 participants from across the Group enrolled on our third Management Development Programme (MDP) and a feature on the MDP and some of the participants can be found on page 24. We plan to further enhance the quality and quantity of our support available to all colleagues with the objective of increasing capability levels across the business one example of which would be to fully utilise the apprenticeship levy in the UK.



Human rights

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

We adhere to policies which support human rights principles.

Modern Slavery Act

We are opposed to slavery, servitude, forced labour and human trafficking. We take a zero-tolerance approach to modern slavery in the supply chain and businesses under our control. The Board has approved a statement setting out the steps that have been taken to combat modern slavery. This statement can be found on the Group's website at www.volutiongroupplc.com.



Community

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

Volution Group, together with many of its employees, supported a range of national and local charities during the year, ranging from bake sales and raffles through to donating equipment to worthy causes. We have also lent our support to both well-known UK and international charities, such as Save the Children, Great Ormond Street Children's Hospital, Macmillan Cancer Support and the Alzheimer's Society, and smaller groups such as a regional group of professional artists with learning disabilities, St. Catherine's Hospice and Melanoma Research.

Clean Air Day

In June 2018 we supported Clean Air Day, co-ordinated by environmental charity, Global Action Plan. The aim of this day is to raise awareness of the risks of air pollution and the simple things everyone can do to improve their air quality and health. Poor air quality is proven to negatively impact everyone's health, increasing the risk of serious illnesses and making existing conditions, like respiratory disorders, worse. This annual event increases understanding of the risks and provides education on how to reduce air pollution and improve indoor air quality (IAQ).

Volution Group is committed to sharing knowledge of how ventilation can help protect public health. Clean Air Day provides suggestions on quick and easy ways to make positive changes to home and lifestyle to improve IAQ, acknowledging that the first key step that should be taken is to effectively ventilate indoor environments. To

Board Directors



5 – 71%
Male
2 – 29%
Female

Senior managers¹



8 – 80%
Male
2 – 20%
Female

All other employees



1,126 – 69%
Male
508 – 31%
Female

Note

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

help protect health in the home, we have been working hard to provide ventilation solutions to improve IAQ for households. Designed to work with the natural air infiltration, continuous ventilation systems control the air path through the home, removing damaging humidity and pollutants, such as volatile organic compounds.

Further information on IAQ is given on page 15.

Noise Action Week

For the sixth year in a row, Volution Group supported Noise Action Week. Co-ordinated by Environmental Protection UK, Noise Action Week aims to raise awareness of the cost of noise to the health and wellbeing of communities and individuals as well as helping tackle noise problems in our neighbourhoods. We utilise an in-house sound laboratory and computational fluid dynamics to assist in developing the quietest ventilation products for our customers.

Volution Group aims to help tackle household noise through a focus on continuing innovation to produce the quietest ventilation products on the market and currently offers the Lo-Carbon Svava and the Silent Fan, which have both been awarded a "Quiet Mark". Leading the way in silent fan design, we are committed to reducing sound levels in our products to help create a peaceful home environment. Sound levels are an important comfort issue, with nuisance noise causing unnecessary stress in the home. Excessive noise causes many problems and is now proven to affect our health and wellbeing so this initiative is an important way of highlighting the benefits of noise reduction.



Environment

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

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

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

Sustainability

To assist Volution Group as a sustainable business, we have been awarded ISO 14001 at our major Crawley, UK, site and we ensure that we consistently recycle waste and lower the emissions from our motor fleets. We are constantly looking for ways to improve the efficiency of our motor fleet, which can in turn reduce the amount of emissions produced. We have recently launched our new motor fleet programme which includes a choice of hybrid vehicles.

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

Greenhouse gas emissions

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

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

Emissions data for the year ended 31 July 2018

Emissions from	2018	2017
	CO ₂ e tonnes	CO ₂ e tonnes
Electricity, gas and other fuels	4,431	3,513
Petrol and diesel vehicle fuels	1,284	1,147
Refrigerants	25	57
Total footprint	5,740	4,717
Greenhouse gas emissions intensity ratio: CO ₂ e tonnes per £m of revenue		
	27.91	25.49

Note that:

- > the GHG emissions intensity ratio has increased due to the acquisitions completed during the year;
- > data collected is in respect of the years ended 31 July 2017 and 31 July 2018. The conversion factors used are those published by DEFRA; and
- > some extrapolation or estimation techniques have been used to calculate the Group footprint, specifically regarding the calculation of emissions from cooling units.

Operational Review

The Ventilation Group segment

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

During the year, we completed four acquisitions which have expanded our residential and commercial proposition and sales channels as follows:

- > Simx, the market leading residential ventilation products supplier in New Zealand for both new and refurbishment applications with channel access enabling us to place many of our existing Group products in this market.
- > Oy Pamon, a leading designer, manufacturer and supplier of Mechanical Ventilation with Heat Recovery products primarily for the Finnish new build and refurbishment construction markets.
- > Air Connection, a leading supplier of branded ventilation products to the Danish market.
- > AirFan, a small distributor, based in the Netherlands, of primarily residential ventilation products to the Dutch heating, ventilation and air conditioning market.

Highlights for Ventilation Group segment

Revenue

£183.1 million, 89.0% of Group revenue
(£183.2 million at constant currency)
(2017: £163.1 million, 88.1% of Group revenue)

Adjusted operating profit

£35.4 million, 95.3% of Group adjusted operating profit
(2017: £34.6 million, 97.1% of Group adjusted operating profit)

Average number of employees

1,382 (2017: 1,155)

Revenue

Revenue within the Ventilation Group grew by 12.3% (12.3% at constant currency), of which 2.9% was organic and 9.4% the result of acquisitions.

Market sectors	Constant currency			
	2018 £000	2018 £000	2017 ¹ £000	Growth %
Ventilation Group				
UK Residential RMI	38,166	38,166	39,162	(2.5)%
UK Residential New Build	25,604	25,604	22,635	13.1%
UK Commercial	33,474	33,474	32,792	2.1%
UK Export	12,510	12,340	10,206	20.9%
Nordics	36,692	37,055	30,829	20.2%
Central Europe	28,466	27,732	27,460	1.0%
Australasia	8,182	8,816	—	n/a
Total Ventilation Group	183,094	183,187	163,084	12.3%

Note

- ¹ During 2018 we have refined our approach to allocation of products resulting in the reallocation of sales of a small number of products between market sectors to better reflect their final application. To calculate meaningful growth rates per market sector, the 2017 sales analysis has therefore been similarly restated to reflect this reallocation. The market sector revenue for the affected sectors, previously disclosed in the 2017 Annual Report and Accounts, was UK Residential RMI £38,444,000, UK Residential New Build £23,421,000 and UK Commercial £32,724,000.

Volusion Ventilation UK

In January 2018 we commenced production in our new purpose built injection moulding and fan assembly facility in Reading, UK, producing goods for our Vent-Axia, Manrose, Airtech and National Ventilation brands. It has been reported previously that, despite the construction project and machinery relocation all happening broadly to schedule, this new facility has experienced delays in achieving full production at anticipated levels of efficiency. The relocation caused significant disruption to our normal production operations; however, we do anticipate getting back to acceptable levels of efficiency by December 2018. The disruption caused by the project has resulted in us incurring significantly higher costs than anticipated. In total, costs of £5.0 million (2017: £0.6 million) have been recognised as exceptional in the income statement (for further information see note 5 to the consolidated financial statements). Also, as part of the project, additional ducting and moulding machine capacity has been installed in Reading and the new facility will provide Volusion Group with the significant increase in capacity needed to underpin future growth.

Our facility in Dudley, UK (producing products for our Vent-Axia brand), had a 107 square metre mezzanine floor installed to boost production of heat recovery ventilation units in order to meet continued high demand from our New Build Residential market. The demand for our Sentinel Kinetic range of products continues to grow and the increased sales of the Kinetic Advance Mechanical Ventilation with Heat Recovery products, within that range, have resulted in the introduction of a new material fed production cell to boost capacity. Industrial mechanical ventilation metal box fans and clean air systems products have also maintained steady growth helped by projects in the UK and overseas.

Breathing Buildings had a challenging year with an increase in competition in the education sector. However, assisted by the Group's technical and supply chain capability, significant progress has been made during the year with the development of a new innovative, natural ventilation product range which we believe achieves market leading performance within the sector.

Diffusion enjoyed another year of growth with order intake at record levels. We encountered operational difficulties as a result of our laser cutter requiring repairs and therefore our metal cutting and folding was outsourced at additional cost. This presented a challenge for our production capacity and steps were taken to address the issue including investment in a new laser cutting machine with much greater capacity to process raw sheet steel. We expect delivery of the new laser cutter in October 2018.

Our National Ventilation and Airtech brands had another successful year of growth. Several new products from other Volution Group brands were added to the portfolio during the year to enhance and improve their proposition to the market.

Volution Group, Nordics

In July 2018, the Group completed the acquisitions of Oy Pamon in Finland and Air Connection in Denmark which have significantly strengthened the Group's presence in the Nordics region with a much larger geographical market for our products.

The plastic injection moulding facility located in Gemla in Sweden (producing products for our Fresh brand) has been further renewed and automated during the year following the deployment of another automatic production cell which will support the existing business and increase efficiency.

VoltAir System in Torsby, Sweden, acquired in May 2017, has been further integrated into the Nordics organisation, including transitioning to the Nordics shared Enterprise Resource Planning system and adopting a functional integration into the wider Nordics organisation.

Volution Group, Central Europe

Germany

In Germany work has been focused on preparing for and launching the new Xenion heat recovery ventilation system, based around an innovative, reversible fan which has been developed, utilising findings from aerospace technology, for decentralised heat recovery ventilation systems.

Also during the year, the latest wall mounting block system, Simplex, was launched. The continuing evolution of our approved wall mounting blocks now combines a number of unique features designed to save installation time and cost.

Netherlands

AirFan B.V., acquired in May 2018, expanded our route to market in the Netherlands for new build commercial and industrial ventilation projects. The company has been renamed Vent-Axia B.V., and is targeting growth in the distribution channel.

During the year, the Dutch government made progress on its energy saving initiatives. By 2020, all rental homes of housing corporations should have a minimum level of efficiency defined as energy label B and 80% of homes let by private landlords should have a minimum level of efficiency defined as energy label C. In order to address these new regulations, Ventilair Group in the Netherlands has become part of the BENG consortium (Bijna Energie Neutraal Gebouw, meaning almost zero-energy building) which will offer total renovation solutions to enable landlords to comply with the required energy label regulations.

Belgium

During the year, Ventilair in Belgium implemented a warehouse scanning system in order to enhance service levels. Together with the new Enterprise Resource Planning system implemented in 2017, communication between the company and customers is now much faster and more transparent, resulting in an enhanced delivery service. During the year the product ranges were expanded to more closely match the changing requirements of the market.

Volution Group, Australasia

A report on the acquisition of Simx in March 2018 and this new region can be found on pages 12 to 13.

Operational Review continued

OEM (Torin-Sifan) segment

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

Highlights for OEM (Torin-Sifan) segment

Revenue

£22.6 million, 11.0% of Group revenue
(£22.4 million at constant currency)
(2017: £22.0 million, 11.9% of Group revenue)

Adjusted operating profit

£3.8 million, 10.4% of Group adjusted operating profit
(2017: £3.8 million, 10.6% of Group adjusted operating profit)

Average number of employees

235 (2017: 223)

Revenue

Revenue within the OEM segment grew by 2.8% (1.8% at constant currency).

Market sectors	2018		Constant currency	
	2018 £000	2018 £000	2017 £000	Growth %
Total OEM	22,582	22,371	21,976	1.8%

Overall, our OEM (Torin-Sifan) business enjoyed increased demand for its product range, particularly within the highly efficient EC motor technology segment, which enjoyed record sales levels underpinned by positive regulatory drivers. Sales growth in the second half of the year was slightly disrupted by the implementation of a new Enterprise Resource Planning (ERP) system, although the new system has now stabilised and is operating well.

Sales within the residential market grew by 2.9% with a particularly strong performance in the production of energy-efficient EC fans. Our residential sales were positively impacted by the growth in demand for our highly efficient range of EC fans (known as the Revolution 360 range) which was launched in 2017, with new contracts secured in the UK and Europe. There has also been a level of migration of sales to the Revolution 360 product range, as customers make improvements to their products and specify best-in-class fans. The business has invested in additional

production capacity at our EC Manufacturing and Technology Centre in Swindon, UK, to ensure the growing demand for the Revolution 360 product range can be supported, with new product additions to the range planned for late 2018. Whilst the UK experienced a colder than normal end to the winter, the impact on the demand for boiler spares was minimal, with the distribution supply chain able to support the increased demand from existing inventories. We do, however, anticipate that demand in 2019 may be stronger as these stock levels were run down at the end of the last winter period.

Sales within the commercial market also grew by 2.6%. Sales erosion in traditional AC technology fans has continued due to energy-related product legislation, although this has been mitigated by growth within the EC fan product family, particularly within the large EC blower and fan refurbishment sectors. Our Revolution 360 product range also supports the commercial market with positive sales progress achieved.

The implementation of the new ERP system during the year created productivity and service challenges resulting in additional cost being incurred by the business. The business has a strong focus on making best use of the new ERP system and optimising its operational efficiency, with investment made in our operational leadership team and organisation. The business continues to effectively manage material and labour inflation through cost savings and sales price increases.

Organic growth, four acquisitions completed in the year and good cash generation



Summary

- > Revenue growth of 11.1% (11.1% at constant currency)
- > Growth in adjusted operating profit of 4.1% (4.1% at constant currency) driven by acquisitions
- > Four acquisitions completed in the year
- > Exceptional operating costs of £6.4 million relating to acquisitions and re-organisation of the UK Ventilation business
- > Adjusted operating cash inflow of £34.4 million (2017: £35.9 million)
- > The Group refinanced its bank facilities and now has a £120 million multicurrency revolving credit facility maturing December 2021
- > Closing debt leverage of 1.9x (2017: 0.9x)

Revenue

The Group revenue continued to grow in 2018. Revenue for the year ended 31 July 2018 was £205.7 million (2017: £185.1 million), an 11.1% increase (11.1% at constant currency). Growth was achieved both organically, 2.8% (2.4% at constant currency), and inorganically, 8.3% (8.7% at constant currency). The inorganic growth was a result of the acquisitions made in the year and the full year effect of the acquisitions made in the prior year.

The Ventilation Group revenues grew by 12.3% (12.3% at constant currency), of which organic growth represented 2.9% (2.5% at constant currency). OEM (Torin-Sifan) grew, entirely organically, by 2.8% (1.8% at constant currency).

Profitability

Our underlying result, as measured by adjusted operating profit, was £37.1 million (2017: £35.6 million), 18.0% of revenues (2017: 19.3%), delivering a £1.5 million improvement compared to the prior year. The Group benefited from the acquisition of Simx Limited in March 2018, AirFan B.V. (now renamed Vent-Axia B.V.) in May 2018, Oy Pamon Ab in July 2018 and Air Connection ApS in July 2018 as well as the full year effect of the prior year acquisitions.

On sales growth of 11.1%, adjusted profit before tax improved by £1.2 million to £35.8 million, growth of 3.6%. Our Group adjusted profit before tax margin declined by 1.3 percentage points to 17.4% as a consequence of the acquisition of businesses that operated with profit margins lower than our Group average, exchange rate linked input cost inflation in the UK and a decline in the higher margin UK RMI (public) sector revenue.

The Group's reported profit before tax in the year was £16.7 million compared to £17.9 million in 2017. The reported profit before tax for the period has declined by £1.2 million in spite of a £1.2 million increase in underlying profitability largely because:

- > the cost of exceptional operating costs including costs associated with the acquisitions and also the cost of restructuring in the UK Ventilation business was £6.4 million, an increase of £5.0 million; and
- > the amortisation of acquired intangible assets increased by £0.9 million in the year, as a consequence of recent acquisitions, to £14.7 million (2017: £13.8 million); and
- > the Group refinanced its bank debt in December 2017; as a consequence of the refinancing, unamortised loan issue costs of £0.3 million relating to the previous loans were written off in the period.

These costs were partially offset by:

- > finance revenue of £0.8 million in the year relating to the revaluation of financial instruments carried at fair value (2017: loss of £1.4 million) which uncrystallised movement we do not include in our adjusted results; and
- > the write back of an accrual for contingent consideration of £1.5 million, no longer required, relating to the acquisition of VoltAir System in May 2017.

Financial Review continued

Trading performance summary

	Reported			Adjusted ¹		
	Year ended 31 July 2018	Year ended 31 July 2017	Movement	Year ended 31 July 2018	Year ended 31 July 2017	Movement
Revenue (£m)	205.7	185.1	11.1%	205.7	185.1	11.1%
EBITDA (£m)	37.0	37.8	(2.2)%	41.1	39.2	4.7%
Operating profit (£m)	17.5	20.4	(14.2)%	37.1	35.6	4.1%
Finance costs (£m)	1.6	2.5	(35.8)%	1.3	1.1	20.1%
Profit before tax (£m)	16.7	17.9	(6.5)%	35.8	34.6	3.6%
Basic and diluted EPS (p)	6.7	7.0	(4.3)%	14.5	13.6	6.6%
Total dividend per share (p)	4.44	4.15	7.0%	4.44	4.15	7.0%
Operating cash flow (£m)	29.1	34.5	(15.7)%	34.4	35.9	(4.4)%
Net debt (£m)	77.2	37.0	40.2	77.2	37.0	40.2

Note

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

Reconciliation of statutory measures to adjusted performance measures

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

	Year ended 31 July 2018			Year ended 31 July 2017		
	Reported £000	Adjustments £000	Adjusted results £000	Reported £000	Adjustments £000	Adjusted results £000
Revenue	205,676	—	205,676	185,060	—	185,060
Gross profit	96,623	—	96,623	91,037	—	91,037
Administration and distribution costs excluding the costs listed below	(59,523)	—	(59,523)	(55,410)	—	(55,410)
Amortisation of intangible assets acquired through business combinations	(14,670)	14,670	—	(13,826)	13,826	—
Exceptional operating costs	(6,417)	6,417	—	(1,380)	1,380	—
Release of contingent consideration	1,502	(1,502)	—	—	—	—
Operating profit	17,515	19,585	37,100	20,421	15,206	35,627
Net gain/(loss) on financial instruments at fair value	838	(838)	—	(1,449)	1,449	—
Exceptional write off of unamortised loan issue costs upon refinancing	(320)	320	—	—	—	—
Other net finance costs	(1,296)	—	(1,296)	(1,074)	—	(1,074)
Profit before tax	16,737	19,067	35,804	17,898	16,655	34,553
Income tax	(3,414)	(3,598)	(7,012)	(4,021)	(3,509)	(7,530)
Profit after tax	13,323	15,469	28,792	13,877	13,146	27,023

The following are the items excluded from adjusted measures:

> **Amortisation of acquired intangibles**

On acquisition of a business, where appropriate, we value identifiable intangible fixed assets acquired such as trademarks and customer base and recognise these assets in our consolidated statement of financial position; we then amortise these acquired intangible assets over their useful lives. In the year the amortisation charge of these intangible assets increased to £14.7 million (2017: £13.8 million) as a consequence of recent acquisitions. We exclude this accounting adjustment in the calculation of our adjusted earnings because it is a cost associated with acquisitions, not the underlying trading of the businesses.

> **Exceptional operating costs**

Exceptional operating costs, by virtue of their size, incidence or nature, are disclosed separately in order to allow a better understanding of the underlying trading performance of the Group. During the year, exceptional operating costs were £6.4 million (2017: £1.4 million) and relate to the cost of making acquisitions of £1.4 million (2017: £0.8 million) and the re-organisation of the UK Ventilation business of £5.0 million (2017: £0.6 million). The cost of re-organisation of the UK Ventilation business was mainly related to the consolidation of some UK fan assembly and all injection moulding and plastic extrusion into our new site at Reading, UK, and the rationalisation of the UK Ventilation legal entity structure. The nature of these costs included: dual working, disruption during the transition period, when machinery, inventory and people were in the process of relocating to the new facility, redundancy costs for people who decided to not relocate and legal and professional fees. Details of all these exceptional operating costs can be found in note 5 to the consolidated financial statements and further explanation of the re-organisation of the UK Ventilation business can be found in the Operational Review.

> **Reversal of contingent consideration**

On 29 May 2017, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of VoltAir System AB. Part of the consideration was contingent upon the level of EBITDA achieved during the twelve months to 31 December 2017. There was a minimum level of EBITDA which had to be achieved before any contingent consideration was payable. The contingent consideration, recognised in the 31 July 2017 financial statements, was recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. The VoltAir System AB financial results for the twelve months to 31 December 2017 were such that the minimum level of EBITDA was not achieved and the contingent consideration will not be paid and therefore has been reversed in the period as an exceptional gain of £1.5 million (2017: £nil).

> **Fair value adjustments**

At each reporting period-end date, we measure the fair value of financial derivatives and recognise any gains or losses immediately in finance cost. During the year, we recognised a gain of £0.8 million (2017: loss of £1.4 million), a swing of £2.2 million. We exclude these gains or losses from our measures of adjusted earnings because they are accounting adjustments which will reverse in future periods and do not reflect the underlying trading of the business.

> **Exceptional write off of unamortised loan issue costs upon refinancing**

On 15 December 2017, the Group refinanced its bank debt (see bank facilities, refinancing and liquidity below). As a consequence of the refinance, unamortised loan issue costs of £0.3 million (2017: £nil) relating to the previous bank facility were written off in the period.

Acquisitions

Four acquisitions were completed during the year:

- > Simx Limited, based in New Zealand, acquired in March 2018 for a consideration of NZ\$53.7 million (approximately £28.2 million) net of cash and bank loans repaid of NZ\$19.0 million (approximately £9.8 million);
- > AirFan B.V., based in the Netherlands, acquired in May 2018 for a cash consideration of Euro 0.3 million (approximately £0.3 million) net of cash acquired;
- > Oy Pamon Ab, based in Finland, acquired in July 2018 for an initial cash consideration of Euro 10.9 million (approximately £9.6 million) net of cash acquired. A further amount of deferred cash consideration of up to Euro 2.0 million (approximately £1.8 million) may be payable, contingent on Oy Pamon's earnings for the two years ending November 2018 and 2019; and
- > Air Connection ApS, based in Denmark, acquired in July 2018 for an initial cash consideration of DKK24.1 million (approximately £2.9 million) net of cash acquired. A further amount of deferred cash consideration of up to DKK4.2 million (approximately £0.5 million) may be payable, contingent on Air Connection's earnings for the year ending 31 July 2021.

Finance revenue and costs

Net finance costs of £0.8 million (2017: £2.5 million) decreased in the year as a consequence of the gain of £0.8 million in the fair value of financial derivatives in the year (2017: loss of £1.4 million) as discussed above. Our net finance cost before these revaluations has increased in the year to £1.3 million (2017: £1.1 million) due to higher UK interest rates in the second half of the year and higher levels of debt. Debt increased in the year despite good adjusted operating cash inflow of £34.4 million (2017: £35.9 million) following the four acquisitions in the year, the exceptional cost of re-organisation in the UK Ventilation business and increased capital expenditure of £6.3 million (2017: £3.9 million).

Financial Review continued

Taxation

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

The effective tax rate for the year was 19.5% (2017: 22.5%).

Our underlying effective tax rate, on adjusted profit before tax, was 19.2% (2017: 21.8%) including a benefit arising from patent box of £0.2 million. The decrease of 2.6 percentage points in underlying rate, over the prior year, was partly as a result of the total patent box credits, a full year effect of the lower UK tax rate and the reassessment of deferred tax, offset by a higher rate applicable to profits in recently acquired businesses.

The Group's medium-term adjusted effective tax rate is expected to remain around 20% of the Group's adjusted profit before tax.

Operating cash flow

The Group continued to be cash generative in the year with adjusted operating cash inflow of £34.4 million (2017: £35.9 million). This represents a cash conversion, after capital expenditure and movement in working capital, of 90% (2017: 99%). The Group continues to manage its working capital efficiently with operating working capital representing 11.3% of revenue albeit an increase over the very low levels at the start of the year (2017: 10.5%). In addition, the Group increased its investment for the future with net capital expenditure of £6.3 million (2017: £3.9 million) including investment in the new production facility in Reading, UK, new product development and improved IT systems. See the glossary of terms in note 34 to the consolidated financial statements for a definition of adjusted operating cash flow and cash conversion.

Reconciliation of adjusted operating cash flow

	2018 £m	2017 £m
Net cash flow generated from operating activities	25.8	32.9
Net capital expenditure	(6.3)	(3.9)
UK and overseas tax paid	8.9	5.6
Cash flows relating to exceptional items	5.4	1.2
Exceptional items: fair value of inventories	0.6	0.1
Adjusted operating cash flow	34.4	35.9

Employee Benefit Trust

No loans were made in the year to the Volution Employee Benefit Trust. In the prior year the Group loaned £0.5 million 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 Long Term Incentive Plan and Deferred Share Bonus Plan. The Volution Employee Benefit Trust acquired no shares in the year (2017: 250,000 shares at an average price of £1.95 per share) and 37,013 (2017: nil) were released by the trustees with a value of £65,000 (2017: £nil). 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.

Net debt

Year-end net debt was £77.2 million (2017: £37.0 million), comprised of bank borrowings of £95.4 million (2017: £51.5 million), offset by cash and cash equivalents of £18.2 million (2017: £14.5 million). The net debt of £77.2 million represents leverage of 1.9x adjusted EBITDA.

Movements in net debt position for the year ended 31 July 2018

	2018 £m	2017 £m
Opening net debt 1 August	(37.0)	(36.1)
Movements from normal business operations:		
Adjusted EBITDA	41.1	39.2
Movement in working capital	(0.9)	0.1
Share-based payments	0.5	0.5
Capital expenditure	(6.3)	(3.9)
Adjusted operating cash flow:	34.4	35.9
– Interest paid net of interest received	(0.9)	(0.8)
– Income tax paid	(8.9)	(5.6)
– Exceptional items	(6.0)	(1.3)
– Dividend paid	(8.5)	(7.9)
– Purchase of own shares	—	(0.5)
– FX on foreign currency loans/cash	1.6	(2.4)
– Issue costs of new borrowings	(0.9)	—
– Other	—	(0.2)
Movements from acquisitions:		
– Acquisition consideration net of cash acquired and debt repaid	(51.0)	(18.1)
Closing net debt 31 July	(77.2)	(37.0)

Bank facilities, refinancing and liquidity

On 15 December 2017, the Group refinanced its bank debt. The Group now has in place a £120 million multicurrency revolving credit facility and in addition an accordion facility of up to £30 million, maturing in December 2021, with the option to extend the termination of the facility by a period of twelve months. This new facility is provided under standard Loan Market Association terms and replaces the Group's previous facility. The new facility is provided at a slightly lower interest rate than the facility refinanced.

As at 31 July 2018, we had £24.6 million of undrawn, committed bank facilities and £18.2 million of cash and cash equivalents on the consolidated statement of financial position.

Foreign exchange

The Group is exposed to the impact of changes in the foreign currency exchange rates on transactions denominated in currencies other than the functional currency of our operating businesses. We have significant Euro income in the UK which is mostly balanced by Euro expenditure in the UK. We have little US Dollar income but significant expenditure. We managed our transactional foreign exchange risk by purchasing the majority of our forecast US Dollar requirements for the 2018 financial year in advance, and similarly we have purchased the majority of our forecast US Dollar requirements in advance of the 2019 financial year.

We are also exposed to translational currency risk as the Group consolidates foreign currency denominated assets, liabilities, income and expenditure into Group reporting denominated in Sterling. We hedge the translation risk of the net assets in the Nordics with £24.5 million of borrowings denominated in SEK (2017: £23.2 million). We have partially hedged our risk of translation of the net assets in Belgium, the Netherlands, Germany and Finland by having Euro-denominated bank borrowings in the amount of £40.0 million as at 31 July 2018 (2017: £23.3 million). The acquisition of Simx in New Zealand was financed using mainly Sterling-denominated debt to rebalance our debt with our strong Sterling cash flow. The Sterling value of our foreign currency denominated loans and cash decreased by £1.6 million in the year as a consequence of exchange rate movements. We do not hedge the translational exchange rate risk to the results of overseas subsidiaries.

During the year, movements in foreign currency exchange rates have had a minor effect on the reported revenue and profitability of our business. If we had translated the full year performance of our business at our 2017 exchange rates, our reported Group revenues would have been £0.1 million or 0.1% lower and adjusted operating profit would not have changed.

At the end of the financial year the Sterling value of foreign currency denominated working capital decreased by £0.7 million compared to the foreign exchange rates applying at the beginning of the year.

Earnings per share

The basic and diluted earnings per share for the year was 6.7 pence (2017: 7.0 pence). Our adjusted basic and diluted earnings per share was 14.5 pence (2017: 13.6 pence), an increase of 6.6%.

Dividends

In May 2018 the Group paid an interim dividend of 1.46 pence per share.

The Board has proposed a final dividend of 2.98 pence per share. Subject to approval at our Annual General Meeting of shareholders on 12 December 2018, the recommended final dividend will be paid on 18 December 2018 to shareholders who are on the register on 23 November 2018.



Ian Dew

Chief Financial Officer

11 October 2018

The Strategic Report comprising pages 1 to 49 was approved and signed on behalf of the Board on 11 October 2018.



Ronnie George

Chief Executive Officer

Introduction to Governance

Committed to the highest standards

Dear shareholder,

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



The Board is committed to high standards of corporate governance to underpin the business through a period of sustained growth. Decisions are made based on what the Board believes is likely to be for the benefit of all stakeholders by promoting and maintaining the long-term success of the Company and its reputation. The ways in which we listen and engage with our key stakeholders is set out on pages 61 to 62.

Compliance with the UK Corporate Governance Code

Our approach to governance is based on the concept that good corporate governance enhances longer-term shareholder value and sets the culture, ethics and values for the rest of the Group. Consistent with our belief in the importance of corporate governance, I am pleased to report that the Company has complied in full with the

principles and provisions of the 2016 UK Corporate Governance Code (the Code). A copy of the Code can be found at www.frc.gov.uk.

Composition of the Board

After serving nearly six years in office on the current and pre-IPO Board, Adrian Barden retired from the Board at the conclusion of the Annual General Meeting on 13 December 2017. Adrian provided important continuity on the Board whilst the business moved from private equity ownership to a listed company and I would like to thank him for his contributions during his tenure.

In March 2018 we welcomed Amanda Mellor to the Board as an independent Non-Executive Director, bringing with her experience in mergers and acquisitions, retail, shareholder relations, strategy and governance, gained during a career in retail operations and brands and investment banking and as a non-executive director on the board of a construction company.

Further information on these changes to the Board is set out in the Nomination Committee Report on pages 64 to 65.

Succession planning and diversity policy

This year we have continued to review Board and senior management succession planning. Although the Group has no specific gender and diversity targets as we believe that appointments should be based on merit, we strongly support diversity throughout the workforce. We believe that better business decisions can be made by having representation from different genders and cultural backgrounds with differing skill sets, experience and knowledge, which reflects our customer base and the wider population in our markets. Our recruitment of Amanda Mellor and Claire Tiney has expanded the Board's diversity by increasing board-level experience across executive and non-executive roles in international mergers and acquisitions, blue-chip retailing, property development and the services sector, across the UK and Continental Europe, in addition to improving gender diversity. Further information on the Group's diversity and inclusion is provided on pages 38 to 41.

Evaluating the Board's effectiveness

Each year, the Board undertakes a formal evaluation of its effectiveness. This year we carried out an externally facilitated evaluation to assist in the development of the Board. The results of the Board evaluation confirmed

that the Board continues to function effectively and that there are no significant concerns among the Directors about its effectiveness. The Board members were seen as engaged and committed while the Board's culture remains open, respectful and constructive. A number of actions were identified to further enhance the Board's effectiveness together with the progress made on the actions identified in the 2017 Board evaluation. Further information is set out on page 59.

Appointment and re-election of Directors

In accordance with the Code Provisions and following performance evaluation of those Directors standing for election and re-election at the Annual General Meeting, I can confirm that they all continue to be effective and committed to their roles and have sufficient time available to perform their duties. Accordingly, as recommended by the Nomination Committee, all Directors will be offering themselves for election or re-election at the Company's Annual General Meeting to be held on 12 December 2018, in accordance with the Code. Further information on the Directors can be found in the Directors' biographies on pages 52 to 53 and in the Directors' Report on page 91.

New Remuneration Policy

Following the review of Volution Group's Remuneration Policy during 2017, a new Policy was designed to operate for three years. The new Policy was approved by shareholders at the Annual General Meeting on 13 December 2017. Further details are provided in the Directors' Remuneration Report, which can be found on pages 73 to 89.

Annual General Meeting

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



Peter Hill, CBE

Chairman

11 October 2018



Board culture

The Board performance evaluation undertaken during the year highlighted the Board culture as one of openness and constructive debate; the Directors are able to voice their opinions in a relaxed and respectful environment, allowing coherent discussion. When running Board meetings, the Chairman maintains a collaborative atmosphere and ensures that all Directors contribute to the debate. This culture sets the tone from the top and is reflected, for example, in the employee forum which is held twice a year where the Chief Executive Officer chairs an open debate and update with employee representatives from across the Group.

Board of Directors



Peter Hill, CBE
Non-Executive Chairman

N R

Appointed 23 June 2014

Re-appointed 23 June 2017

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

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

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

External appointments

Peter is currently non-executive chairman of Keller Group plc.



Ronnie George
Chief Executive Officer

Appointed 15 May 2014

Re-appointed N/A

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

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

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

External appointments None.



Ian Dew
Chief Financial Officer

Appointed 15 May 2014

Re-appointed N/A

Term of office Ian joined in 2012 in Consultant Services before being appointed Business Improvement Director and subsequently our CFO in January 2014, becoming a director of our then holding company, Windmill Topco, in April 2014.

Key strengths Financial and accounting expertise together with extensive merger and acquisition experience, both in the UK and internationally.

Experience

Ian has over 25 years' experience in industry and, prior to joining us, held the position of group finance director (industry and speciality group) at Draka Holding N.V., where he had previously been divisional financial controller in the company's marine, oil and gas division. He has also served as finance director of Draka UK and Transplastix Limited.

External appointments None.



Anthony Reading, MBE
Senior Independent
Non-Executive Director

A N R

Appointed 23 June 2014

Re-appointed 23 June 2017

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

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

Experience

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

External appointments None.

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



Amanda Mellor
Independent
Non-Executive Director

A N R

Appointed 19 March 2018

Re-appointed N/A

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

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

Experience Appointed in March 2018. Amanda is currently the group secretary and head of corporate governance of Marks & Spencer Group plc, having previously been director of corporate and investor relations at Arcadia Group plc. She spent her early career in investment banking in London and Paris at James Capel and Robert Fleming. Amanda served as a non-executive director at Kier Group plc from 2011 to 2016. She is a member of the Council of Leeds University, where she is also a visiting professor at the Institute of Ethics.

External appointments

Amanda is currently group secretary and head of corporate governance and member of the operating committee at Marks & Spencer Group plc.



Paul Hollingworth
Independent
Non-Executive Director

A N R

Appointed 23 June 2014

Re-appointed 23 June 2017

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

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

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

External appointments None.



Claire Tiney
Independent
Non-Executive Director

A N R

Appointed 3 August 2016

Re-appointed N/A

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

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

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

External appointments

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

Board composition



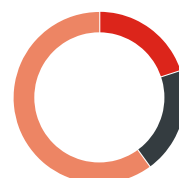
Executive Directors **2**
Non-Executive Chairman **1**
Independent Non-Executive Directors **4**

Board balance



2017/18
Male **5**
Female **2**
2016/17 6 male/1 female
2015/16 7 male

Non-Executive Director tenure



<1 year **1 Director**
1-3 years **1 Director**
4-6 years **3 Directors**

Corporate Governance

Overview

The Board fully supports the principles laid down in the UK Corporate Governance Code as issued by the Financial Reporting Council in April 2016 (the Code), which applies to the financial year ended 31 July 2018 and is available at www.frc.org.uk.

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

Compliance with the UK Corporate Governance Code

The Board considers that it and the Company have, throughout the year, complied with the provisions of the UK Corporate Governance Code (April 2016), which is the version of the Code which applies to the Company for its financial year ended 31 July 2018.

The role of the Board and its Committees

Board

The Board is collectively responsible for promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. The Board sets the Group's purpose, strategy and values, and satisfies itself that these are aligned with the overall culture of the Group. The Board sets the Group's risk appetite and satisfies itself that financial controls and risk management systems are robust, while ensuring the Group is adequately resourced. It also ensures there is appropriate dialogue with shareholders on strategy and remuneration. The Board's main responsibilities are included in a schedule of matters reserved for the Board, as set out on page 56.

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

Members:

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

Nomination Committee

Responsibility for Board composition, succession planning and Director selection

Members:

Non-Executive Chairman
Four independent
Non-Executive Directors

The Committee Report can be found on pages 64 to 65

Audit Committee

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

Members:

Four independent
Non-Executive Directors

The Committee Report can be found on pages 66 to 72

Remuneration Committee

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

Members:

Non-Executive Chairman
Four independent
Non-Executive Directors

The Committee Report can be found on pages 73 to 89

Board responsibilities

Role	Main responsibilities
Chairman of the Board Peter Hill, CBE	<ul style="list-style-type: none"> > Manages and provides leadership to the Board of Directors > Acts as a direct liaison between the Board and the management of the Company, through the Chief Executive Officer > Ensures that the Directors are properly informed and that sufficient information is provided to enable the Directors to form appropriate judgements > In concert with the Chief Executive Officer and the Company Secretary, develops and sets the agendas for meetings of the Board > Recommends an annual schedule of the date, time and location of Board and Committee meetings > Ensures effective communications with shareholders and other stakeholders
Chief Executive Officer Ronnie George	<ul style="list-style-type: none"> > Responsible for the day-to-day management of the Group > Together with the Senior Management Team, is responsible for executing the strategy, once it has been agreed by the Board > Creates a framework that optimises resource allocation to deliver the Group's agreed strategic objectives over varying timeframes > Ensures the successful delivery against the financial business plan and other key business objectives, allocating decision making and responsibilities accordingly > Together with the Senior Management Team, identifies and executes new business opportunities and potential acquisitions or disposals > Manages the Group with reference to its risk profile in the context of the Board's risk appetite
Chief Financial Officer Ian Dew	<ul style="list-style-type: none"> > Responsible for financial planning and record-keeping, as well as financial reporting to the Board and shareholders > Ensures effective compliance and control and responds to ever increasing regulatory developments, including financial reporting and capital requirements > Management of the financial risks of the Group
Senior Independent Director Tony Reading, MBE	<ul style="list-style-type: none"> > An independent Non-Executive Director > Provides a sounding board for the Chairman > Serves as an intermediary for the other Directors when necessary > Is available to shareholders if they have concerns when contact through the normal channel of the Chief Executive Officer has failed to resolve them, or for which such contact is inappropriate
Independent Non-Executive Directors Paul Hollingworth Amanda Mellor Claire Tiney	<ul style="list-style-type: none"> > Provide constructive challenge to the Executive Team > Help develop proposals on strategy > Scrutinise management's performance in meeting agreed goals and objectives > Monitor performance reports > Satisfy themselves on the integrity of financial information and that controls and risk management systems are robust and defensible > Determine appropriate levels of remuneration for Executive Directors, appointing and removing Executive Directors, and succession planning

Corporate Governance continued

Board responsibilities continued

Role	Main responsibilities
Company Secretary Michael Anscombe	<ul style="list-style-type: none"> > Plays a leading role in the good governance of the Company by supporting the Chairman and helping the Board and its Committees to function efficiently, ensuring governance processes remain fit for purpose and considering any improvements as appropriate > Ensures compliance with the rules and regulations required by a premium Main Market listing on the London Stock Exchange including the UK Corporate Governance Code > All Directors have access to the services of the Company Secretary, who may facilitate independent professional advice at the Company's expense at their request to fulfil their duties > Ensuring good information flows within the Board and its Committees and between the Senior Management Team and the Non-Executive Directors, as well as facilitating induction and assisting with professional development as required > Acts as secretary to the Board and each of its Committees > The appointment or removal of the Company Secretary is a matter for the Board as a whole

The matters reserved for the Board include:

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

Board activities and priorities during the year ended 31 July 2018

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

Matters considered at regular Board meetings

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

Other matters considered during the year

Area	Agenda items
Strategy	<ul style="list-style-type: none"> > Review and approval of Group strategy (immediately following year end)
Financial reporting	<ul style="list-style-type: none"> > Review and approval of Annual Report and Accounts, AGM Notice and associated documentation for the year ended 31 July 2017 > Review and approval of interim financial statements for the six months ended 31 January 2018 > Review and approval of Trading Update in August 2017 > Review and declaration of interim dividend and recommendation of final dividend
Budget	<ul style="list-style-type: none"> > Review and approval of three-year financial plan including budget for the year ended 31 July 2019
Operations	<ul style="list-style-type: none"> > Review and approval of acquisition of Simx Limited, Oy Pamon Ab, Air Connection ApS and AirFan B.V. > Post-acquisition review of Breathing Buildings, Welair and VoltAir > Consideration of risk framework, significant risks and risk appetite (in conjunction with the Audit Committee) > Review and approval of Viability Statement > Property matters > Consideration of construction market updates
Shareholder engagement	<ul style="list-style-type: none"> > Broker presentation on the Company's shareholder profile and market perception > Independent feedback from joint corporate brokers following full and half-year investor roadshows > AGM 2017 proxy results and review of shareholder voting
Board governance	<ul style="list-style-type: none"> > Board visits to the Nordics region and the new Reading facility in the UK (following the year end) > Presentations on the Group's European businesses in the Nordics, Germany, Belgium and the Netherlands, Simx in New Zealand and new product development > Board composition and the appointment of Amanda Mellor > Board performance evaluation results presented by Lintstock > Governance, legislation and regulatory updates > Review and approval of the Group's Modern Slavery Act Statement > Updates from Board Committee chairmen as appropriate

Corporate Governance continued

Board and Committee meetings and attendance

The table below sets out the number of meetings of the Board and the Audit, Remuneration and Nomination Committees during the year and individual attendance by the relevant members at these meetings, demonstrating commitment to their roles as Directors of the Company. The Board normally meets seven times during the year and supplementary meetings of the Board are held when necessary.

Director	Board		Audit		Remuneration		Nomination	
	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible
Chairman								
Peter Hill	7	7	—	—	4	4	4	4
Executive Directors								
Ronnie George	7	7	—	—	—	—	—	—
Ian Dew	7	7	—	—	—	—	—	—
Non-Executive Directors								
Adrian Barden ¹	3	3	1	1	3	3	2	2
Paul Hollingworth	7	7	3	3	4	4	4	4
Amanda Mellor ²	2	2	1	1	1	1	1	1
Tony Reading	7	7	3	3	4	4	4	4
Claire Tiney	7	7	3	3	4	4	4	4

Notes

1. Adrian Barden retired from the Board and Committees at the conclusion of the Annual General Meeting on 13 December 2017.
2. Amanda Mellor was appointed to the Board and Committees on 19 March 2018.
3. Where a Director is not a member of the Committee, this is indicated as a dash. During the year, certain Directors who were not Committee members attended meetings of the Audit Committee, Remuneration Committee and Nomination Committee by invitation. These details have not been included in the table.

Agendas for the Board meetings are set out at the beginning of the year and new items are added to this as and when appropriate. All Directors receive papers in advance of Board meetings. These include a business and market update report with updates from the Chief Executive Officer and the Chief Financial Officer. Members of the Group's Senior Management Team may also be invited to present at Board meetings as appropriate so that Non-Executive Directors keep abreast of developments in the Group. All Directors attended the Annual General Meeting in 2017.

Board balance and independence

The Code recommends that at least half the board of directors of a UK listed company, excluding the chairman, should comprise non-executive directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the directors' judgement. Up to 13 December 2017, the Company's Board consisted of a Non-Executive Chairman, four independent Non-Executive Directors and two Executive Directors. Following the retirement of Adrian Barden on 13 December 2017 and up until 18 March 2018, there was one less independent Non-Executive Director. On 19 March 2018, Amanda Mellor was appointed to the Board as an independent Non-Executive Director. Accordingly, the Company's Board returned to consisting of a Non-Executive Chairman, four independent Non-Executive Directors and two Executive Directors. A list of the Directors is provided on pages 52 to 53. Accordingly, the composition of the Board has remained in compliance with the Code throughout the financial year ended 31 July 2018.

Appointment and tenure

The appointment dates of Directors are shown in their biographies on pages 52 to 53.

The Board believes that all Directors are effective and committed to their roles and have sufficient time available to perform their duties. Accordingly, all members of the Board will be offering themselves for election or re-election at the Company's Annual General Meeting to be held on 12 December 2018.

All of the Directors have service agreements or letters of appointment and the details of their terms are set out in the Directors' Remuneration Report on pages 73 to 89. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours. No other contract with the Company or any subsidiary undertaking of the Company in which any Director was materially interested subsisted during or at the end of the financial year.

Non-Executive Directors and independence

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

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

Board performance evaluations and effectiveness

In the Annual Report 2017, the recommendations resulting from the performance evaluations were set out and can be seen in the table below. The progress made over the last year is set out opposite the recommendations.

Board performance evaluation 2017 – recommendations	Progress against the recommendations
Enhancing information to enable more in-depth Board focus on the strategic agenda, including Volution's potential acquisition pipeline and growth opportunities, the industry, market dynamics and competition.	Board packs contained much of this information and a strategy meeting was held in September 2018 with external advisers covering all these topics.
Ensuring the Non-Executive Directors could explore opportunities to further grow their understanding of the business, in particular as Volution's presence in Continental Europe grows.	The Board visited the facility at Hälleforsnäs in Sweden and had the opportunity to meet and speak to a number of employees. The Managing Directors from Central Europe and the Nordics gathered in Stockholm, gave presentations to the Board and attended a Board dinner. In September 2018 the Board also visited the new Reading facility in the UK and there was the opportunity to meet and speak to employees and learn about the facility, products and future plans from senior management.
Devoting further Board time to discussions concerning talent management and Executive and Non-Executive succession planning, ensuring that the Board is exposed to the Senior Management Team and rising stars as part of the annual cycle of presentations and dinners.	Progress was made with detailed discussions on the talent pipeline and senior management succession planning. The Board also discussed Non-Executive Director succession planning with Adrian Barden retiring from the Board during the year and Amanda Mellor being appointed. The Board met a number of the Senior Management Team through the site visits in the UK and in Sweden, through presentations to the Board and at the Board dinner in Sweden.
Further enhancing the Board's understanding of the new products being developed by the Group.	The Board received a presentation from the new Group Technical Director on new product development.

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



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

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

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

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

Corporate Governance continued

Board performance evaluations and effectiveness continued

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

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

Board performance evaluation: 2018 recommendations

- > The development of the next stage of the Group's strategy and organisational capability
- > The development of processes to enable the Board to have appropriate oversight of stakeholder engagement, in particular on employee culture and customers, to ensure the Board will be able to comply with the provisions set out in the new secondary legislation and new UK Corporate Governance Code
- > Succession planning, talent management and focus on the talent pipeline. Continuing to meet members of the Senior Management Team to assist with succession planning
- > Continuing to enhance Non-Executive Directors' knowledge and understanding of the Group's product portfolios, markets and competition

Director induction

A formal induction programme has been developed in line with the Code, to ensure that any new Director receives an appropriate induction to the Group with the support of the Company Secretary. The programme covers, amongst other things, the operation and activities of the Group (including site visits and meeting members of the Senior Management Team); the Group's principal risks and uncertainties; the role of the Board and the decision-making matters reserved to it; the responsibilities of the Board Committees; the strategic challenges and opportunities facing the Group; and the opportunity to meet the Company's main advisers. Following the appointment to the Board of Amanda Mellor in March 2018 and Claire Tiney in August 2016, personalised formal induction programmes were developed tailored to their experience and background and to their own requirements. Any newly appointed Non-Executive Director would also have a personalised formal induction programme created for them.

Directors' conflicts of interest

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

External directorships

The Board allows Executive Directors to accept one external commercial non-executive director appointment provided the commitment is compatible with their duties as an Executive Director. The Executive Director concerned may retain fees paid for these services which will be subject to approval by the Board. Currently, neither of the Executive Directors holds an external directorship. Details of all Directors' significant directorships can be found in their biographies on pages 52 to 53.

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

Information and support available to Directors

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

Internal control and risk management

The Board acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control. The principal risks facing the Group are set out in the Strategic Report on pages 32 to 37, being those risks which could threaten our business model, future performance, solvency or liquidity and mitigation measures are detailed against each risk. The Audit Committee, on behalf of the Board, carried out a review of the effectiveness of the Group's risk management and system of internal control together with a robust assessment of the risks facing the Group. Details can be found on page 71.

The Audit Committee Report on pages 66 to 72 describes the system of internal control and how it is managed and monitored. The Board acknowledges that such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Whistleblowing

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

Stakeholder engagement

Our stakeholder engagement groups are varied as detailed below and we believe that good engagement is key to the long-term success of Volusion. Stakeholder considerations do form part of the Board's discussions leading to decision making. We have invested in the development and involvement of our stakeholder groups as we believe it is in the long-term interests of the Group and the stakeholder groups themselves.

Stakeholder group	Why it is important to engage	How does Volusion engage?
Employees	Employee engagement is critical to our long-term success. Interaction between our employees and customers is also one of the main ways of experiencing our brands. We work to create a diverse and inclusive workplace where every employee can reach their full potential. This ensures we can retain and develop the best talent.	<ul style="list-style-type: none"> > Employee Representative Forum > Management Development Programme > Training and development > Individual performance reviews > Recognition and reward > Apprenticeships > Regular communications such as newsletters > Annual Report and Accounts
Customers	Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain customers and attract new ones and improve product performance. It also highlights opportunities for innovation and growth and challenges to be met.	<ul style="list-style-type: none"> > Management of ongoing customer relationships > Customer events and product launches > Participation in industry forums and events > Brand websites and social media > Annual Report and Accounts
Suppliers	Our suppliers make a vital contribution to our performance. Engaging with our supply chain means that we can ensure security of supply and speed to market. Carefully selected high quality suppliers ensure our brands deliver market-leading innovative products meeting our customer expectations and requirements.	<ul style="list-style-type: none"> > Through our China–Britain Business Council sourcing office in Hangzhou > Supplier audits and inspections > Ongoing supplier relationship meetings > Responsible, sustainable and ethical procurement > Engagement on our code of conduct and anti-bribery and corruption and prevention of modern slavery policies

Corporate Governance continued

Stakeholder engagement continued

Stakeholder group	Why it is important to engage	How does Volution engage?
Shareholders	Continued access to capital is vital to the long-term success of our business. We work to ensure that our investors and investment analysts have a strong understanding of our strategy, performance and ambition. As a company with shares listed on the Main Market of the London Stock Exchange, we must provide fair, balanced and understandable information about the business to enable informed investment decisions to be made.	<ul style="list-style-type: none"> > Annual Report and Accounts > Annual General Meeting > Corporate website including dedicated investor section > Results presentations and post-results engagement with major shareholders > Investor roadshows, site visits, face-to-face meetings and addressing regular investor and analyst enquiries > Regulatory announcements <p>Further detail is set out on page 63.</p>
Community	We aim to contribute positively to the communities and environment in which we operate. We focus on supporting communities and groups local to our operations.	<ul style="list-style-type: none"> > Community investment initiatives > Sponsorship and employee volunteering > Contributing to national initiatives in society such as Clean Air Day and Noise Action Week
Government/ industry bodies	National governments set the regulatory framework within which we operate. We engage to ensure we can help in shaping new policies, regulations and standards, and ensure compliance with existing legislation.	<ul style="list-style-type: none"> > We continually innovate to ensure our products become more energy efficient > Participation in industry bodies and working groups > Meetings and letters with local MP > Attending All-Party Parliamentary Groups and Plenary sessions > Responding to industry and government consultations > Conferences and speaking opportunities
Media	The media is a vital channel for getting our message across to a wide variety of key stakeholders. Communication of brands, innovation and current national and international debates and thought leadership (e.g. indoor air quality) take place via this channel.	<ul style="list-style-type: none"> > Press releases, product launches and conferences > Brand websites and social media accounts > Press visits to our facilities > One-to-one meetings and briefings > Addressing regular press enquiries

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

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

August 2017	<ul style="list-style-type: none"> > Trading Update > Consultation on remuneration with major shareholders and principal investor advisory groups
October 2017	<ul style="list-style-type: none"> > Full Year Results Announcement and analyst presentation > Institutional broker sales desk briefings > UK shareholder roadshow > Annual Report and Accounts and Notice of AGM posted to shareholders and placed on website
December 2017	<ul style="list-style-type: none"> > Annual General Meeting
March 2018	<ul style="list-style-type: none"> > Half-year Results Announcement and analyst presentation > Institutional broker sales desk briefings > UK shareholder roadshow

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

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

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

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

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

Fair, balanced and understandable

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

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

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

Annual General Meeting

The Annual General Meeting (AGM) of the Company will take place at 12.00 noon on Wednesday 12 December 2018 at the offices of Norton Rose Fulbright LLP, 3 More London Riverside, London SE1 2AQ, United Kingdom. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The Notice of AGM can be found in a circular which is being posted at the same time as this Annual Report and Accounts. The Notice of AGM sets out the business of the meeting and explanatory notes on all resolutions. Separate resolutions are proposed in respect of each substantive issue. The Chairman and all Directors will be present at the AGM and will be available to answer shareholders' questions.

Nomination Committee Report

Dear shareholder,

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



Nomination Committee members

Peter Hill (chairman)
 Adrian Barden (until 13 December 2017)
 Paul Hollingworth
 Amanda Mellor (from 19 March 2018)
 Tony Reading
 Claire Tiney

“We are delighted to welcome Amanda Mellor to the Board as an independent Non-Executive Director. She brings to the Board a broad range of experience and is already making a valuable contribution to Board discussions.”

Peter Hill, CBE

Chairman of the Nomination Committee

Role and responsibilities

The key responsibilities of the Committee are:

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

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

Membership and attendance

The UK Corporate Governance Code (the Code) recommends that a majority of the members of a nomination committee should be independent non-executive directors. As the Committee is chaired by me, and its other members are Paul Hollingworth, Amanda Mellor, Tony Reading and Claire Tiney, all of whom are independent Non-Executive Directors, the Company complies with this Code recommendation. Adrian Barden retired from the Board and the Committee at the conclusion of the Annual General Meeting on 13 December 2017 and Amanda Mellor was appointed to the Board and as a Committee member on 19 March 2018.

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

The Committee met four times during the year with attendance disclosed on page 58. The Committee will meet formally at least once a year and at such other times as the Board or the Committee chairman requires.

Board composition

On 10 October 2017, it was announced that Adrian Barden, an independent Non-Executive Director, would be retiring from the Board at the conclusion of the Annual General Meeting on 13 December 2017. The Committee initiated a search for an independent Non-Executive Director by engaging an independent external search firm, Anna Hartropp Limited, to assist in identifying potential candidates. The search firm was given a role profile outlining the skills, attributes and experience sought and asked to produce a long-list of potential candidates from various backgrounds and industries for consideration. The long-list of potential candidates was reviewed and a number were then interviewed by the Chairman and the Chief Executive Officer. A short-list of potential candidates was then agreed and met by all the remaining Board Directors. Following the interviews, the potential candidates were discussed by the Committee resulting in a recommendation of the preferred candidate to the Board. On 19 March 2018 the appointment of Amanda Mellor was announced. Amanda brings to the Board a broad range of experience in mergers and acquisitions, retail, shareholder relations, strategy and governance, gained during a career in retail operations and brands and investment banking

Committee activities during the year

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

- > evaluated the size and composition of the Board including the balance of skills, experience, independence, diversity and knowledge;
- > commenced and concluded a process to find a new independent Non-Executive Director, Amanda Mellor;
- > reviewed succession planning for the Executive Directors and the Senior Management Team;
- > reviewed and approved the recommendations to be made to shareholders for the election and re-election of Directors at the Annual General Meeting;
- > reviewed the results of the Committee performance evaluation; and
- > reviewed the Committee's report in the Annual Report and Accounts and recommended approval to the Board.

After the year end, the Committee considered the outcome of the performance evaluations when discussing the effectiveness of the Non-Executive Directors seeking election and re-election at the Annual General Meeting 2018.

and as a non-executive director on the board of a construction company. Combined with the deep knowledge and experience of our existing Non-Executive Directors, Amanda's experience ensures that the Board has a well-balanced array of skills and is well attuned to the Group's requirements.

I would like to extend my thanks to Adrian Barden, who retired from the Board and the Committee at the conclusion of the Annual General Meeting on 13 December 2017 after serving for nearly six years in office on the current and pre-IPO Board. Adrian provided important continuity on the Board whilst the business moved from private equity ownership to a listed company and I would like to thank him for his contributions during his tenure.

Diversity

The Committee, the Board of Directors and Volution Group as a whole continue to pay full regard to the benefits of diversity, including gender diversity, both when searching for candidates for Board appointments and other appointments. Diversity throughout the business is important in order to reflect the varied nature of the communities that we operate in and our customer base.

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

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

Following the appointment to the Board of Amanda Mellor in March 2018 and Claire Tiney in August 2016, both as independent Non-Executive Directors, I am pleased to report that women now represent 29% of our Board membership. Accordingly, the Company is now just below the voluntary gender diversity target set out in the Hampton-Alexander Review which recommended that women

should represent 33% of Board membership by 2020 (although this applies to companies in the FTSE 350, of which Volution is not yet a member). The Board's commitment towards achievement of the voluntary target will form part of the considerations in the decision to appoint any new Directors to the Board as and when existing members step down from the Board.

Election and re-election of Directors

On the recommendation of the Committee and in line with the Code and the Company's Articles of Association, all of the Company's Directors will stand for election or re-election at the Annual General Meeting 2018. The biographical details of the Directors can be found on pages 52 to 53. The Committee considers that the performance of each of the Directors standing for election or re-election at the Annual General Meeting continues to be effective and each demonstrates commitment to their role.

Committee performance evaluation

During the year, the Board appointed an independent specialist corporate governance consultancy, Lintstock, to conduct a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on page 59. I am pleased to confirm that this process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Committee priorities for 2018/19

During the 2018/19 year the Committee will continue to focus on succession planning at Board and Senior Management level, reviewing our future talent pipeline and supporting the Management Development Programme and development initiatives that underpin this.

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



Peter Hill, CBE

Chairman of the Nomination Committee

11 October 2018

Audit Committee Report

Dear shareholder,

As chairman of the Audit Committee, I am pleased to present the Committee Report to shareholders for the year ended 31 July 2018, and to be able to confirm, on behalf of the Board, that the Annual Report is fair, balanced and understandable.



Audit Committee members

Paul Hollingworth (chairman)

Adrian Barden (until 13 December 2017)

Amanda Mellor (from 19 March 2018)

Tony Reading

Claire Tiney

The Committee has focused on the integrity of the Group's financial reporting and ensuring the appropriate challenge and governance around risk management. The Committee has continued to follow a detailed programme of work and to respond to the increasing depth of review and reporting that is now required of audit committees.

The Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Committee's duties and responsibilities and the Board considers the members' financial experience to be recent and relevant for the purposes of the 2016 edition of the UK Corporate Governance Code (the Code). Further, in accordance with the Code, the Board has determined that the current composition of the Committee as a whole has competence relevant to the sector in which the Group operates. Adrian Barden retired from the Board and the Committee at the conclusion of the Annual General Meeting on 13 December 2017 and Amanda Mellor was appointed to the Board and as a Committee member on 19 March 2018.

BDO has continued to perform the internal audit function on behalf of the Group in accordance with an agreed strategic internal audit plan. This plan continues to provide the Committee with a means of assessing the level and effectiveness of controls across the Group. In addition, the Committee reviews the results of a biannual internal assessment of internal controls carried out by management across all businesses. During the financial year ending 31 July 2019, the Committee will continue to look in detail at the Group's business operations, with a number of internal audits planned to take place during the period, with particular focus on recent acquisitions. These will cover internal control and compliance areas and be undertaken across functions in the businesses in the UK, Europe and New Zealand.

As I reported last year, Andy Glover, having completed five years as lead audit partner, and in line with FRC's partner rotation policy, was replaced by Andy Smyth on completion of the 2017 financial year audit. Andy Smyth has over 25 years of audit and accounting advisory experience with EY and has spent the last nine years as a partner reporting on listed multinational businesses across a number of industry sectors.

On behalf of the Committee, I would like to thank everyone for their hard work over the past year, especially the finance teams across the businesses.

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

Paul Hollingworth

Chairman of the Audit Committee

11 October 2018

“The objective of the Audit Committee is to provide oversight and governance to the Group's financial reporting, its internal controls and processes, its risk management systems and the appointment of and relationship with the external and internal auditors.”

Paul Hollingworth

Chairman of the Audit Committee

Committee activities during the year

During the period, the Committee met on three occasions and dealt with the following matters:

Financial statements and reports

- > reviewed the Preliminary Results Announcement, the Annual Report and Accounts and the Half-year Results Announcement, received reports from the external auditor on the above, and reviewed the Trading Update;
- > reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Accounts;
- > reviewed management representation letters, going concern reviews, fair, balanced and understandable criteria and significant areas of accounting estimates and judgements;
- > reviewed the weighted average cost of capital (WACC) methodology and rates applied to Volusion;
- > reported to the Board on the appropriateness of accounting policies and practices; and
- > reviewed the Viability Statement and associated stress testing.

Risk management

- > monitored and reviewed the risk management and internal control processes to ensure compliance with the UK Corporate Governance Code for disclosure in the Annual Report and Accounts; and
- > considered the Group Risk Register, which identifies, evaluates and sets out mitigation of risks, and reviewed the principal risks and uncertainties disclosed in the Annual Report and Accounts, in particular macroeconomic and cyber risk.

Internal audit

- > reviewed reports from BDO as Group internal auditor and reviewed its strategic internal audit plan;
- > reviewed management responses and actions to address any recommendations resulting from BDO's internal audit reports issued during the year; and
- > monitored the Group's Code of Conduct and Anti-Bribery and Corruption Policy, which allows the receipt, in confidence, of complaints on accounting, risk issues, internal controls, auditing issues and non-financial-related matters.

External auditor and non-audit work

- > considered the tendering and rotation provisions from the EU and the Competition and Markets Authority;
- > reviewed the relationship with the external auditor including its independence, objectivity and effectiveness and, on the basis of that review, recommended to the Board its re-appointment at the Annual General Meeting;
- > reviewed, considered and agreed the scope and methodology of the audit work to be undertaken by the external auditor;
- > agreed the terms of engagement and fees to be paid to the external auditor; and
- > reviewed and approved the Group policy on non-audit services and reviewed any non-audit fees.

Compliance

- > met with the external auditor without executive management being present; and
- > reviewed the Committee performance evaluation.

Audit Committee Report continued

Membership and attendance

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

Accordingly, the Committee comprises four members who are independent Non-Executive Directors, Paul Hollingworth as Committee chairman, considered by the Board to have recent and relevant financial and accounting experience, Tony Reading, Claire Tiney and Amanda Mellor (Adrian Barden retired from the Board and the Committee at the conclusion of the Annual General Meeting on 13 December 2017). All members have a sufficiently wide range of business experience and expertise such that the Committee can fulfil its responsibilities. Biographies of all Committee members can be found on pages 52 to 53. As such, the Committee complies with the Code recommendations.

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

Members and their attendance at meetings during the year are set out in the Governance Report on page 58.

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

Minutes of each Committee meeting are provided to Board members.

Role and responsibilities

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

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

Significant accounting matters

In reviewing the financial statements with management and the external auditor, the Committee discussed and debated the critical accounting judgements and key sources of estimation uncertainty. As a result of its review, the Committee identified the following issues that required particular judgement or had significant impact on interpretation of this Annual Report and Accounts 2018:

Area of focus	Why was this significant?	How did the Committee address this area?
Impairment of goodwill and other intangible assets	The Group's policies on accounting for separately acquired intangible assets and goodwill on acquired businesses is set out in notes 13 and 14 to the consolidated financial statements. The Group concluded four acquisitions during the year which generated goodwill of £32.1 million and other intangible assets of £17.5 million. At 31 July 2018 intangible assets relating to goodwill and other intangible assets amounted to £217 million. Goodwill on acquisitions and acquired intangible assets, which are judged to have indefinite lives, are initially recorded at fair value, and are subject to testing for impairment at each balance sheet date. For intangible assets amortised over finite lives the Group is required to determine whether indicators of impairment exist and, if so, perform a full impairment review. As is customary, such testing involves estimation of the future cash flows attributable to the asset, or cash generating unit of which it is part, and discounting these future cash flows to today's value.	The Committee has reviewed the key assumptions behind these valuations and impairment reviews, notably the expected development of future cash flows and the discount rates used, as well as considering reasonable sensitivities to these estimates and concluded that these support the carrying values set out in note 15 to the consolidated financial statements and no impairment provision is required. The Committee has also reviewed the allocation of goodwill and other intangible assets to the appropriate cash generating units (CGUs) and the level of CGUs at which the impairment testing is completed and considers it reasonable.
Rebates payable and receivable	The Group has a number of customer and supplier rebate agreements that are recognised as a reduction from sales or a reduction of cost of sales as appropriate (collectively referred to as rebates). Rebates are based on an agreed percentage of revenue or purchases, which will increase with the level of revenue achieved or purchases made. These agreements typically run to a different reporting period to that of the Group with some of the amounts payable and receivable being subject to confirmation after the reporting date. At the reporting date, management makes estimates of the amount of rebate that will become both payable by and due to the Group under these agreements based upon their best estimates of volumes and product mix that will be bought or sold over each individual rebate agreement period. The total rebate payable provision at 31 July 2018 included within trade and other payables is £5.8 million (2017: £5.1 million).	The Committee received a paper from management setting out the process for estimating the amount of rebates to be recognised and considered the operating effectiveness of controls surrounding revenue recognition and management's subjective assessment and recognition of rebates at the interim and year end. The Committee reviewed management's methodology and judgement in assessing the recognition of rebates. The Committee concurred with its approach.
Exceptional items	Exceptional items on a pre-tax basis of £4.9 million (2017: £1.4 million) represent a material item in the profit and loss account. Full details are set out in note 5 to the consolidated financial statements. Included in this year's results is a charge of £1.4 million relating to the costs associated with acquisitions (2017: £0.8 million) and re-organisation costs including the factory relocation of £5.0 million (2017: £0.6 million). Contingent consideration that will not be paid has been reversed in the period as an exceptional gain of £1.5 million (2017: £nil).	The Committee reviewed the inclusion of costs shown as re-organisation and acquisition costs by virtue of their size, nature or occurrence, and received updates on the level and nature of these costs. In particular, exceptional costs relating to the re-organisation of the UK Ventilation business, including the consolidation of two UK production facilities in Reading and Slough into one new site in Reading, were reviewed. The Committee believes that the treatment of re-organisation costs and costs associated with acquisitions has been applied appropriately, and that separate disclosure enables the reader to more clearly understand the headline financial and operating performance of the Group.

In addition, the Committee reviewed policy and provisions with respect to warranty, doubtful debts and inventory and WACC methodology and rates.

Audit Committee Report continued

External audit

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

The lead partner during the 2018 financial year was Andy Smyth. This was his first financial year spent auditing the Group and he had no previous involvement with the Group in any capacity.

The Committee assessed the effectiveness of EY and the external audit process using a checklist and questionnaire issued to senior financial management across the Group who had been involved in the audit process. A summary of the findings was prepared for consideration by the Committee at its October 2018 meeting. The Committee was satisfied with EY's performance, the external audit process and that it had employed an appropriate level of professional challenge in fulfilling its role. There were no significant findings from the evaluation process. In addition, the Committee reviewed the FRC Audit Quality Inspection Report on EY.

The Committee has noted the tendering and rotation provisions in the EU Audit Directive and Regulation and the Companies Act 2006, which state that there should be a public tender every ten years and a change of external auditor at least every 20 years. The Company is not obliged to tender for audit services until 2024 (ten years from listing). These provisions, together with the satisfactory outcome of the evaluation of EY and the external audit process, have led the Committee to conclude that there is no current intention of placing the external audit out to tender during the next financial year, subject to any other changes to the regulatory regime and continued satisfaction with the effectiveness of the auditor, which is evaluated annually. Accordingly, the Committee recommended to the Board that a resolution to re-appoint EY be proposed to shareholders at the Annual General Meeting in December 2018 and the Board accepted and endorsed this recommendation.

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

The Committee routinely meets EY without executive management present.

Non-audit services

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

During the year, EY charged the Group £26,000 (2017: £25,000) for non-audit services relating to the half-year review, which represents 6.6% (2017: 8.3%) of the average of the external audit fee over the last three financial years, significantly below the 70% cap set by the EU Audit Directive and Regulation. A breakdown of the fees paid to EY during the year is set out in note 9 to the consolidated financial statements.

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

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

Internal control and risk management

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

Internal control environment

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

- > an appropriate organisational structure with clear lines of responsibility;
- > an experienced and qualified finance function which regularly assesses the possible financial impact of the risks facing the Group;
- > a comprehensive annual business planning process and strategy review;
- > systems of control procedures and delegated authorities which operate within defined guidelines, and approval limits for capital and operating expenditure and other key business transactions and decisions;
- > a robust financial control, budgeting and rolling forecast system, which includes regular monitoring, variance analysis, key performance indicator reviews and risk and opportunity assessments at Board level;

- > procedures by which the consolidated financial statements are prepared, which are monitored and maintained through the use of internal control frameworks addressing key financial reporting risks arising from changes in the business or accounting standards;
- > established policies and procedures setting out expected standards of integrity and ethical standards which reinforce the need for all employees to adhere to all legal and regulatory requirements;
- > an annual compliance checklist; and
- > BDO acting as the internal auditor.

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

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

How we manage risk

As outlined on page 32, the Group has a risk management process that follows a sequence of risk identification, assessment of probability and impact, and assigns an owner to manage mitigation activities at the operation level. Each business unit operates a process to ensure that key risks are identified, evaluated, managed and reviewed appropriately. This process is also applied at Board level to major business decisions such as acquisitions. The business unit risk registers form the basis for the Group Risk Register, which is maintained for all corporate risks and is monitored by senior management and reviewed by the Committee. Throughout the year, the Group Risk Register and the methodology applied was the subject of review by senior management and updated to reflect new and developing areas which might impact business strategy. The Committee reviews the Group Risk Register at least twice a year and assesses the actions being taken by senior management to monitor and mitigate the risks.

The Group's principal risks and uncertainties, the areas which they impact and how they are mitigated are described on pages 34 to 37.

Review of effectiveness

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

The Committee, on behalf of the Board, reviews the effectiveness of risk management and internal control systems on an ongoing basis. Following advice from the Committee, the Board is satisfied that an effective system of internal controls and risk management is in place which enables the Group to identify, evaluate and manage key risks and which accords with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting document issued in September 2014. This process was in place throughout the year and post year end up to the date of approval of this Annual Report and Accounts.

Code of Conduct, anti-bribery and whistleblowing

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

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

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

Audit Committee Report continued

Committee performance evaluation

During the year, the Board appointed an independent specialist corporate governance consultancy, Lintstock, to conduct a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on page 59. I am pleased to confirm that this process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Fair, balanced and understandable

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

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

In particular, the Committee:

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

A summary of the process, and of the Committee's findings, was considered by the Board at its meeting in October 2018. The outcome of that review was that the Committee confirmed to the Board that the Annual Report and Accounts 2018 met the requirements of the Code and the Board's formal statement to that effect is set out on page 54.



Paul Hollingworth
Chairman of the Audit Committee

11 October 2018

Directors' Remuneration Report

Dear shareholder,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2018.



Remuneration Committee members

Tony Reading (chairman)

Adrian Barden (until 13 December 2017)

Peter Hill

Paul Hollingworth

Amanda Mellor (from 19 March 2018)

Claire Tiney

Remuneration framework

At the Annual General Meeting in December 2017 (2017 AGM), our new Remuneration Policy (the Policy) received strong support from shareholders with around 99% of the votes cast being in favour of the resolution. Following our continued growth into a more established public company, the Policy was designed to support the Company in its strategy and business objectives whilst also incorporating a number of best practice features and to further align the interests of the Executive Directors with shareholders.

These features included:

- > increase to the annual bonus deferral requirements – one-third of the total bonus is now deferred into shares;
- > increase to the share ownership guidelines – increased to 200% of salary;
- > more stringent malus and clawback provisions – clawback extended to the cash part of the annual bonus; and
- > holding period incorporated – the Policy was updated to reflect the introduction of the two-year holding period under the Long Term Incentive Plan (LTIP) which was introduced for 2016/17 LTIP grants.

The Company operated under this Policy during 2017/18 and, going forward, the Committee considers that the Policy continues to appropriately support our remuneration principles, which are to:

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

“The objective of the Remuneration Committee is to ensure that shareholder and management interests are aligned. In doing so we also aim to make the various elements of the remuneration package more transparent, easier to communicate and simpler to operate.”

Anthony Reading, MBE

Chairman of the Remuneration Committee

Directors' Remuneration Report continued

Performance in 2017/18 and remuneration outcomes

It has been another year of progress for Volution Group. Adjusted operating profit, adjusted EPS and working capital management were the key measures used by the Committee to measure performance towards achieving the Group's strategic objectives and, accordingly, were the performance measures used in the Annual Bonus Plan (ABP). Performance against these measures resulted in the Committee awarding an annual bonus of 55.4% of salary to Ronnie George and 55.4% of salary to Ian Dew. We have provided full retrospective disclosure of the ABP targets as well as the actual performance against them. In accordance with the Policy, one-third of the total annual bonus payment will be deferred into awards over the Company's shares which will vest after three years. Further details can be found on page 77.

The 2015 LTIP award, being the second grant after our IPO, had a performance period ending on 31 July 2018 and is due to vest in November 2018. Due to good EPS growth and total shareholder return performance over the period, the 2015 LTIP awards will vest at 61.7% of maximum for both Ronnie George and Ian Dew. Further details can be found on page 77.

Remuneration decisions for 2018/19

During the year the Committee reviewed the Executive Director base salaries and determined that both the Chief Executive Officer and Chief Financial Officer should be awarded an increase in base salary of 3%, in line with the wider workforce. These increases were effective from 1 August 2018.

No other changes are being proposed to the remuneration package for 2018/19, details of which are set out on page 82. Variable incentive opportunity levels will remain at the same levels set in 2017/18.

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

We are committed to maintaining an open and transparent dialogue with our shareholders on executive pay and as such have communicated to our major shareholders the remuneration decisions for 2018/19 as set out above.

Sharesave Scheme

As the next step of our journey as a listed company, during the year Volution implemented an all-employee Sharesave Scheme, following approval by shareholders at the 2017 AGM, to enable employees to invest in the future of the Group and encourage wider share ownership. The Board was very pleased that over 26% of eligible employees across the Group chose to participate and have a personal stake in the business.

New UK Corporate Governance Code

The Committee is mindful of the new UK Corporate Governance Code which was recently published and has started to consider the implications of the new Code for the Company.

Annual General Meeting 2018

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



Anthony Reading, MBE

Chairman of the Remuneration Committee

11 October 2018

Annual Report on Remuneration

This section provides details of how the Remuneration Policy (the Policy) was implemented during the year and how the Remuneration Committee (the Committee) intends to apply the Policy approved by shareholders at the 2017 AGM, in 2018/19. Certain sections of this report are audited and indicated as such where applicable. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2018 AGM.

Role of the Committee

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

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

- > establish and maintain formal and transparent procedures for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors, and to monitor and report on them;
- > determine the remuneration, including pension arrangements, of the Executive Directors;
- > monitor and make recommendations in respect of remuneration for the tier of senior management one level below that of the Board;
- > approve annual and long-term incentive arrangements together with their targets and levels of awards;
- > determine the level of fees for the Chairman of the Board; and
- > select and appoint the external advisers to the Committee.

Membership

The Committee currently comprises four independent Non-Executive Directors, Tony Reading, Paul Hollingworth, Claire Tiney and Amanda Mellor (appointed to the Board and Committee on 19 March 2018), and the Chairman of the Board, Peter Hill. Adrian Barden retired from the Board and the Committee at the conclusion of the Annual General Meeting on 13 December 2017.

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

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

Meetings

The Committee met four times during the year and has had two meetings to date in 2018/19. Committee member attendance can be found in the table of Board and Committee attendance on page 58.

Committee activity and key decisions during the year ended 31 July 2018

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

- > implemented the Policy approved by shareholders at the 2017 AGM;
- > considered and approved the Directors' Remuneration Report 2016/17;
- > reviewed outcomes and approved payments for Executive Director and Senior Management Team bonuses for 2016/17;
- > reviewed and approved the parameters of the ABP, including performance measures and targets for 2017/18 for the Executive Directors and Senior Management Team;
- > considered and approved the LTIP awards to the Executive Directors and Senior Management Team for 2017/18;
- > reviewed market trends and developments in executive remuneration in advance of considering Executive Director and Senior Management Team remuneration proposals for 2018/19;
- > reviewed and approved the Executive Director and Senior Management Team salaries for 2018/19;
- > reviewed and approved the parameters of the ABP, including performance measures for 2018/19 for the Executive Directors and Senior Management Team;
- > reviewed and approved the performance measures to be used for any LTIP awards made during 2018/19;
- > considered and approved the invitation under the all-employee Sharesave Scheme; and
- > evaluated the performance of the Committee.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Committee performance evaluation

During the year, the Board appointed an independent specialist corporate governance consultancy, Lintstock, to conduct a formal externally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on page 59. I am pleased to confirm that this process concluded that the Committee had fulfilled its role effectively and did not identify any significant development points requiring action.

Advice to the Committee

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

The Committee appoints its own independent remuneration advisers and at the time of listing appointed Deloitte LLP to that role. Deloitte LLP has served as adviser to the Committee since listing and throughout the year. Total fees for advice provided to the Committee during the year by Deloitte LLP were £26,500 and were charged based on the time spent and seniority of the staff involved in providing the advice. Deloitte LLP also provided the Company with IFRS 2 valuation advice and all-employee share plan advice during the year.

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

Single total figure of remuneration (audited)

The audited table below sets out the total remuneration for the Directors in the years ended 31 July 2018 and 31 July 2017.

	Salary and fees		Benefits ¹		Pension ²		Annual bonus ³		Long-term incentives ⁴		Other		Total	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Chairman														
Peter Hill	139	139	—	—	—	—	—	—	—	—	—	—	139	139
Executive Directors														
Ronnie George	397	389	22	22	52	51	220	341	255	388	—	—	946	1,191
Ian Dew	270	265	18	18	36	35	150	232	182	277	—	—	656	827
Non-Executive Directors														
Adrian Barden ⁵	17	46	—	—	—	—	—	—	—	—	—	—	17	46
Paul Hollingworth	56	56	—	—	—	—	—	—	—	—	—	—	56	56
Amanda Mellor ⁶	15	—	—	—	—	—	—	—	—	—	—	—	15	—
Tony Reading	61	61	—	—	—	—	—	—	—	—	—	—	61	61
Claire Tiney	46	46	—	—	—	—	—	—	—	—	—	—	46	46

Notes

- Benefits include an annual car allowance, life assurance equivalent to four times annual salary and private medical insurance.
- A cash payment in lieu of employer's pension contribution, equivalent to 15% of base salary, was paid to each of the Executive Directors.
- The annual bonus for 2017/18 relates to annual incentive payments for performance in that financial year. The calculation of this amount is set out on page 77. One-third of the 2017/18 annual bonus is deferred into shares for three years. Ronnie George will be awarded shares equivalent to £73,199 and Ian Dew will be awarded shares equivalent to £49,906.
- Long-term incentives: this column relates to the value of long-term awards whose performance period ends in the year under review. The second long-term incentive awards granted post-listing had a performance period that ended on 31 July 2018, and this has been included in the table above. This award is due to vest in November 2018 and therefore the value included in the table above represents an estimated value using the average share price of £2.0580 over the three months to 31 July 2018. In line with the remuneration reporting requirements, the 2017 long-term incentive amounts have been restated to reflect the actual share price (£2.1025) on the date of vesting in October 2017.
- Adrian Barden retired as a Director and from the Board on 13 December 2017.
- Amanda Mellor was appointed as a Director and joined the Board on 19 March 2018.

Annual Bonus Plan (ABP) (audited)

The operation of the ABP during the year ended 31 July 2018 was consistent with the framework set out in the Policy. The maximum annual bonus potential for the Executive Directors during the year was 125% of base salary, and bonus for on-target performance was 60% of the maximum opportunity. In line with last year's report, we have provided full retrospective disclosure of the targets and performance against those targets which are set out in the table below.

Following the Policy review and feedback from shareholders, it was determined that the ABP performance measures would be changed for the year ended 31 July 2018 in order to further align the interests of the Executive Directors with shareholders. Taking into account this feedback from shareholders, the Committee increased the weighting of the EPS measure and reduced the weighting of the adjusted operating profit measure, whilst keeping the total percentage of the bonus based on profit measures the same as last year (85%). The Committee also determined that the Group employee retention measure was no longer as relevant to measuring the success of the business and it would therefore not be used as a measure for the 2017/18 ABP. Instead, there would be an increased weighting on working capital management, which remained a focus for management. The Committee is aware of the current trend of a "simplification" of incentive arrangements in the UK listed company environment. These changes reduced the number of performance measures used (from four to three), therefore simplifying the arrangements in place at Volusion. The performance measures and weightings for the year ended 31 July 2018 therefore became adjusted operating profit (35%), adjusted EPS (50%) and working capital management (15%).

Measure	Strategic objective	Weighting	Threshold	Target	Maximum	Actual performance	Payment (% of maximum)	Payment (% of basesalary)
Adjusted operating profit	To increase profit	35%	£35.6m	£37.5m	£40.0m	£34.7m	0%	0%
Adjusted EPS	Creation of shareholder value	50%	13.58p	14.40p	15.2p	14.48p	82.2%	41.2%
Working capital management	Delivering efficiency of working capital and cash generation	15%	£25.2m	£24.7m	£24.2m	£24.5m	94.6%	14.2%
Total								55.4%

Note

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

Long Term Incentive Plan vesting of 2015 awards

The LTIP values included in the single total figure of remuneration table for 2018 relate to the 2015 LTIP award, being the second LTIP award granted after our IPO. Awards with a face value of 100% of salary were granted to the Executive Directors in November 2015 and, following a three-year performance period ending on 31 July 2018, are due to vest in November 2018. Performance against the performance targets is set out below:

	Weighting (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting) ¹	Maximum (100% vesting) ¹	Actual performance outcome	Vesting (% of maximum)
TSR vs Direct Peer Group index ²	25%	Below index	Equal to index	Index + 8% p.a.	Outperformed index + 8% p.a.	100.0%
TSR vs FTSE companies of a similar size ³	25%	Less than median	Median	Upper quartile	Ranked between 18 and 19 out of 39 companies	36.0%
EPS growth	50%	Below 6% p.a.	6% p.a.	15% p.a.	9.7% p.a.	55.5%
Total vesting (% of maximum)						61.7%

Notes

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

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Share awards granted during the year (audited)

Long Term Incentive Plan (LTIP)

2017/18 awards

During the year the Committee made awards under the LTIP in accordance with the Policy. The LTIP awards were made in the form of nil-cost options which will vest following the Committee's determination of the extent to which performance conditions, measured over three financial years to 31 July 2020, have been met. Awards to the Executive Directors are subject to a two-year holding period.

As described in last year's Annual Report on Remuneration, following the review and feedback from shareholders, it was determined that the performance measures would be changed for the year ended 31 July 2018, in order to further align the interests of the Executive Directors with shareholders. The performance measures used for the LTIP awards give much greater emphasis to EPS growth (75%) and used a single measure of total shareholder return, TSR vs Direct Peer Group (25%).

The Committee determined that the TSR vs Direct Peer Group was the more appropriate measure to retain as it measures the performance of Volution against our direct comparators. These changes simplified the incentive arrangements in place by reducing the number of performance measures from three to two.

Performance measure	Weighting (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting) ¹	Maximum (100% vesting) ¹
EPS growth	75%	Below 6% p.a. (equivalent to 2019/20 EPS of 16.17 pence)	6% p.a. (equivalent to 2019/20 EPS of 16.17 pence)	15% p.a. (equivalent to 2019/20 EPS of 20.65 pence)
TSR vs Direct Peer Group ²	25%	Below median	Median	Upper quartile

Notes

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

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

The LTIP awards made on 23 March 2018 were as follows:

Executive Director	Number of shares	Base price	Face value ¹	Face value % of base salary	Release date ²	Expiry date
Ronnie George	295,970	£2.01	£594,900	150%	23 March 2023	24 March 2028
Ian Dew	168,159	£2.01	£338,000	125%	23 March 2023	24 March 2028

Notes

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

Deferred Share Bonus Plan (DSBP)

2017/18 awards (audited)

As set out in the Remuneration Policy approved by shareholders in 2014, under which the 2016/17 annual bonus was awarded, 50% of any bonus payment above the target incentive (which was 60% of the maximum opportunity) was deferred into shares.

On 23 March 2018, the Executive Directors received an award of shares under the Deferred Share Bonus Plan relating to the 2016/17 annual bonus, as follows:

Executive Director	Number of shares	Base price	Face value ¹	Vesting date
Ronnie George	26,880	£2.01	£54,029	23 March 2021
Ian Dew	18,327	£2.01	£36,837	23 March 2021

Note

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

Equity incentives (audited)

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

Name/Plan	Date of award	Number of share awards at 1 August 2017	Shares awarded during the year	Shares lapsed during the year	Shares vested during the year	Number of share awards at 31 July 2018	Face value at date of grant £ ¹	Vesting date ²	Expiry date
Ronnie George									
LTIP 2014/15 ³	29/10/2014	243,325	—	67,767	184,436	—	—	Vested	30/10/2024
LTIP 2015/16 ⁴	19/11/2015	188,533	—	—	—	188,533	353,499	19/11/2018	20/11/2025
LTIP 2016/17	17/10/2016	228,735	—	—	—	228,735	388,850	17/10/2019	18/10/2026
LTIP 2017/18	23/03/2018	—	295,970	—	—	295,970	594,900	23/03/2021	24/03/2028
DSBP 2015/16	19/11/2015	4,666	—	—	—	4,666	8,749	19/11/2018	N/A
DSBP 2016/17	17/10/2016	4,106	—	—	—	4,106	6,981	17/10/2019	N/A
DSBP 2017/18	23/03/2018	—	26,880	—	—	26,880	54,030	23/03/2021	N/A

Ian Dew

LTIP 2014/15 ³	29/10/2014	173,804	—	48,405	131,740	—	—	Vested	30/10/2024
LTIP 2015/16 ⁴	19/11/2015	134,666	—	—	—	134,666	252,499	19/11/2018	20/11/2025
LTIP 2016/17	17/10/2016	155,955	—	—	—	155,955	265,125	17/10/2019	18/10/2026
LTIP 2017/18	23/03/2018	—	168,159	—	—	168,159	338,000	23/03/2021	24/03/2028
DSBP 2015/16	19/11/2015	3,333	—	—	—	3,333	6,249	19/11/2018	N/A
DSBP 2016/17	17/10/2016	2,933	—	—	—	2,933	4,987	17/10/2019	N/A
DSBP 2017/18	23/03/2018	—	18,327	—	—	18,327	36,839	23/03/2021	N/A

Notes

- The price used to calculate the number of LTIP and DSBP awards was the average of the mid-market closing price of a Volution Group plc share on the three consecutive business days immediately preceding the date of grant, being £1.4384 for LTIP 2014/15, £1.875 for the LTIP 2015/16 and DSBP 2015/16, £1.70 for the LTIP 2016/17 and DSBP 2016/17 and £2.01 for the LTIP 2017/18 and DSBP 2017/18.
- LTIP 2016/17 and LTIP 2017/18 awards were granted with a three-year performance period and an additional two-year holding period.
- LTIP 2014/15 awards had a performance period ending on 31 July 2017. 72% of the award vested in October 2017. Following performance testing, 67,767 awards lapsed for Ronnie George and 48,405 for Ian Dew. In accordance with the rules of the LTIP, 8,878 dividend equivalent shares were added to the vested awards for Ronnie George and 6,341 for Ian Dew.
- LTIP 2015/16 awards had a performance period ending on 31 July 2018. 61.7% of the award will vest in November 2018, with further detail set out on page 77.

Employee Benefit Trust

The Volution Employee Benefit Trust (EBT) currently holds 1,129,865 shares in the Company. It is the Company's intention to use shares currently held in the EBT to satisfy all awards made so far under the Long Term Incentive Plan and Deferred Share Bonus Plan. Dividends arising on the shares held in the EBT are waived on the recommendation of the Company.

Funding of future awards under the share incentive plans

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

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Statement of Directors' shareholdings and share interests (audited)

We believe that Executive Directors should have shareholdings in the Company to ensure that they are as closely aligned as possible with shareholder interests. As such, during the year the Company had share ownership guidelines in place which stated that Executive Directors were expected to achieve and retain a holding of the Company's shares equal to 200% of their base salary. It should be noted, as shown below, that both the Executive Directors currently have shareholdings well in excess of 200% of base salary. The Chairman and the Non-Executive Directors are also encouraged to hold shares in the Company in order to align their interests with those of shareholders. Directors' interests in ordinary shares held as at 31 July 2018 (together with the interests held by Persons Closely Associated with them) are set out below.

There were no changes in the Directors' shareholdings between 31 July 2018 and the date of this report.

	Shares held beneficially at 1 August 2017 ¹	Shares held beneficially at 31 July 2018 ¹	Beneficial shareholding at 31 July 2018 (% of salary)	Target shareholding achieved? ²	LTIP awards (unvested awards subject to performance) ³	LTIP awards vested but not exercised	DSBP awards (unvested awards, not subject to performance)
Chairman							
Peter Hill	35,333	35,333	N/A	N/A	—	—	—
Executive Directors							
Ronnie George	5,622,833	5,622,833	2,794%	Yes	713,238	184,436	35,652
Ian Dew	855,327	855,327	623%	Yes	458,780	131,740	24,593
Non-Executive Directors							
Paul Hollingworth	19,333	19,333	N/A	N/A	—	—	—
Tony Reading	70,000	70,000	N/A	N/A	—	—	—
Amanda Mellor	—	—	N/A	N/A	—	—	—
Claire Tiney	2,869	2,869	N/A	N/A	—	—	—

Notes

1. Includes any shares held by Persons Closely Associated.
2. The target shareholding achieved has been calculated based on shares held beneficially as at 31 July 2018 using the share price on that date of 203 pence per share.
3. LTIP awards in this column consist of all awards granted as at the date of this report which are structured as nil-cost options. All awards are subject to performance conditions, with performance measured over three financial years.

Payments to past Directors

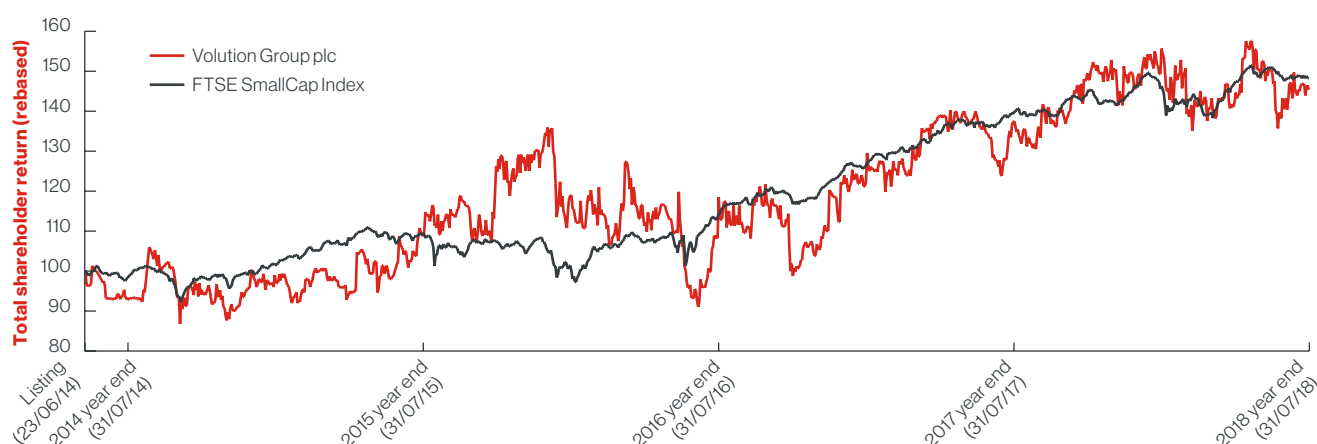
There were no payments to past Directors in the year.

Payments for loss of office

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

Performance graph and Chief Executive Officer remuneration table (audited)

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



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

	2018	2017	2016	2015	2014	2013
Chief Executive Officer's single total figure of remuneration (£000)	946	1,191	638	643	1,061	428
Annual bonus payout (as a % of maximum opportunity)	55.4%	87.8%	64%	65%	100%	54.8%
LTIP vesting (as a % of maximum opportunity)	61.7%	72.1%	N/A	N/A	N/A	N/A

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

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

% change	Chief Executive Officer	All employees ¹
Base salary	2.0%	5.4%
Benefits ²	1.4%	(4.9)%
Total annual bonus	(34.8)%	(31.1)%

Notes

- Also including Chief Executive Officer's remuneration.
- Benefits include car allowance, health cover and pension contributions.

Relative importance of the spend on pay (audited)

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

	2018 £m	2017 £m	% change
Employee remuneration costs ¹	54.4	47.6	14.3
Distributions to shareholders	8.5	7.9	7.7
Adjusted operating profit	37.5	35.6	5.1

Note

- The increase in employee remuneration costs is due to the increasing employee population resulting from the acquisitions made during the year.

Directors' Remuneration Report continued

Statement of implementation of Remuneration Policy for the financial year ending 31 July 2019

Executive Director base salaries

Both Executive Directors will be awarded an increase in base salary of 3%, in line with the wider workforce. The increase took effect from 1 August 2018. As a result, the base salaries for Ronnie George and Ian Dew for the financial year are £408,500 and £278,500, respectively.

Pension and other benefits

The Executive Directors will continue to receive a cash payment in lieu of an employer's pension contribution, equivalent to 15% of base salary.

Other benefits received comprise an annual car allowance paid in cash of £20,000 per annum for the Chief Executive Officer and £15,000 per annum for the Chief Financial Officer, life assurance equivalent to four times annual salary and private medical insurance.

Annual Bonus Plan (ABP)

The maximum annual bonus opportunity for both the Chief Executive Officer and Chief Financial Officer will be 125% of salary, unchanged from the level set in 2017/18. One-third of the total bonus payable will be deferred into shares.

Performance measures and weightings for the financial year ending 31 July 2019 will be the same as those for the year ending 31 July 2018. These are adjusted operating profit (35%), adjusted EPS (50%) and working capital management (15%). These measures reflect feedback received from shareholders during the consultation undertaken when the new Policy was being drafted, following which the ABP performance measures were simplified in order to further align the interests of the Executive Directors with shareholders. The targets set for the year ending 31 July 2019 will be disclosed in the next Annual Report on Remuneration, unless they remain commercially sensitive.

Long Term Incentive Plan (LTIP)

During 2018/19, the Committee intends to grant LTIP awards with a maximum opportunity of 150% of salary and 125% of salary for the Chief Executive Officer and Chief Financial Officer, respectively. These levels are unchanged from 2017/18.

Performance measures to be used for the LTIP awards in 2018/19 will remain the same as for the year ended 31 July 2018, being EPS growth (75%) and TSR vs Direct Peer Group (25%).

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

Non-Executive Director fees

Fees of Non-Executive Directors are determined by the Board in their absence. The fees of the Chairman (whose fees are determined by the Committee in his absence) and the Non-Executive Directors were reviewed in July 2018 and it was determined that the basic fees should be increased in line with the wider workforce equal to 3% with effect from 1 August 2018. No changes are being made to the supplementary fees paid.

The fees with effect from 1 August 2018 are summarised in the table below:

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

Statement on shareholder voting

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

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

Resolution	Votes cast for	% of votes cast	Votes cast against	% of votes cast	Votes withheld
Remuneration Report	135,363,751	85.10	23,708,930	14.90	11,691,484
Remuneration Policy	168,196,529	98.50	2,567,636	1.50	0

Directors' Remuneration Policy Report

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

Remuneration Policy table

Operation	Maximum opportunity	Performance metrics
Base salary		
Purpose and link to strategy: Core element of remuneration set at a level to attract, retain and reward Executive Directors of the required calibre to successfully deliver Company strategy.		
<p>Fixed annual sum, normally reviewed annually.</p> <p>In determining base salaries, the Committee considers:</p> <ul style="list-style-type: none"> > Company performance and external market conditions; > pay and conditions elsewhere in the Group; > role, experience and personal performance; and > salary levels at companies of a similar size and complexity. <p>There is no automatic entitlement to an increase each year.</p>	<p>The current salaries for the Executive Directors are set out in the Annual Report on Remuneration.</p> <p>While the Committee does not consider it appropriate to set a maximum salary, annual increases will generally be in line with those of the wider workforce. Increases beyond those awarded to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances such as progression in the role, where there is a change in responsibility or experience, or a significant increase in the scale of the role and/or size, value and/or complexity of the Group.</p>	<p>Company and individual performance are factors considered when reviewing salaries.</p>
Pension		
Purpose and link to strategy: The Company aims to provide competitive retirement benefits for the role to attract, retain and reward Executive Directors of the required calibre to successfully deliver Company strategy.		
<p>Executive Directors may receive an employer's pension contribution to a personal or Group pension scheme and/or any other arrangement the Committee considers has the same economic benefit (including a cash allowance).</p>	<p>15% of base salary.</p>	<p>N/A</p>

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Remuneration Policy table continued

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

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

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Choice of performance measures and approach to setting

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

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

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

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

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

Legacy arrangements

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

- (i) before the 2014 AGM (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect);
- (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or
- (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

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

Common award terms

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

- > be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect;
- > have any performance conditions applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy;

- > incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vests up to the time of vesting (or where the award is subject to a holding period, release). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
- > be settled in cash at the Committee's discretion; and
- > be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price.

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

Malus and clawback

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

Takeover or other corporate event

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

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

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

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

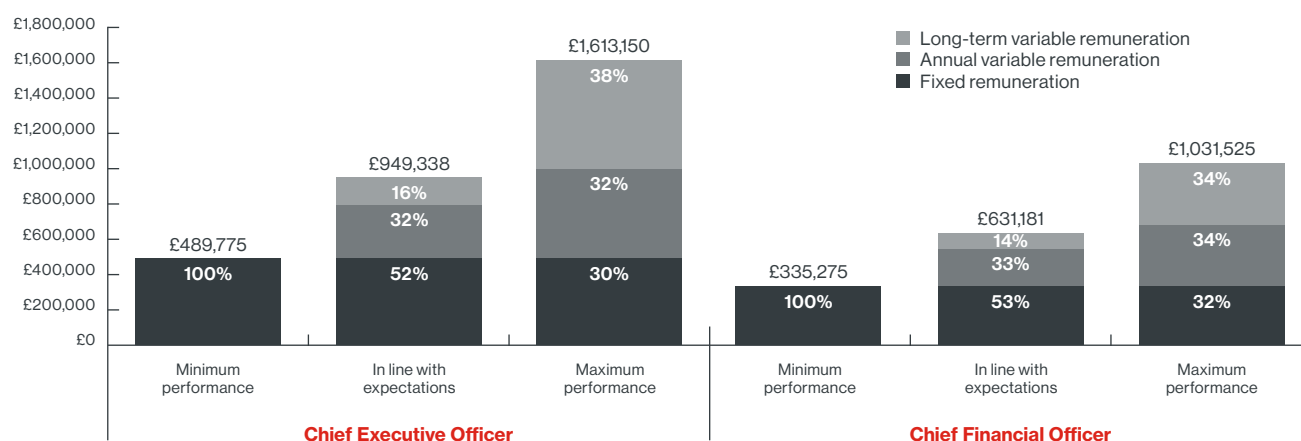
Minor changes

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

Illustrations of the application of the Remuneration Policy

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

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



The assumptions used for these charts are as follows:

Levels of performance	Assumptions
Fixed pay	All scenarios
	<ul style="list-style-type: none"> > Total fixed pay comprises base salary, benefits and pension > Base salary – effective as at 1 August 2018 > Benefits – as set out in the single figure table for the 2017/18 year > 15% of base salary pension contributions
Variable pay	Below threshold performance
	<ul style="list-style-type: none"> > No payout under the ABP > No vesting under the LTIP
	In line with expectations
	<ul style="list-style-type: none"> > 60% of the maximum potential payout under the ABP > 25% vesting under the LTIP, assuming awards equivalent to 150% and 125% of base salary are granted to the CEO and the CFO, respectively
	Maximum performance
	<ul style="list-style-type: none"> > 100% of the maximum potential payout under the ABP (i.e. 125% of base salary) > 100% vesting under the LTIP, assuming awards equivalent to 150% and 125% of base salary are granted to the CEO and the CFO, respectively

Note

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

External appointments of Executive Directors

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

Directors' Remuneration Report continued

Directors' Remuneration Policy Report continued

Approach to recruitment

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

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

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

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

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

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

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

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

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

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

Service agreements and letters of appointment

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

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

The terms of the Non-Executive Directors' positions are subject to their election by the Company's shareholders at the 2018 AGM. No contractual payments would become due on termination.

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

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

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

The Executive Directors' service agreements and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office and will be available at the 2018 AGM.

Policy on Directors leaving the Group

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

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

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

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

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

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

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

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

Differences in Policy for Executive Directors compared to other employees

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

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

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

Statement of consideration of employment conditions elsewhere in the Group

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

Consideration of shareholder views

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

Approval

This Directors' Remuneration Report was approved by the Board of Directors on 11 October 2018 and signed on its behalf by the Remuneration Committee chairman.



Anthony Reading, MBE

Chairman of the Remuneration Committee

11 October 2018

Directors' Report

Introduction

The Directors present their Annual Report and the audited financial statements of the Company for the year ended 31 July 2018.

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

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

- > the Strategic Report on pages 1 to 49;
- > the Governance Report on pages 50 to 92;
- > information relating to financial instruments, as set out in note 23 to the consolidated financial statements; and
- > related party transactions as set out in note 29 to the consolidated financial statements.

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

Corporate structure

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

Results and dividend

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

An interim dividend of 1.46 pence per share was paid to shareholders on 3 May 2018 and the Directors are recommending a final dividend in respect of the financial year ended 31 July 2018 of 2.98 pence per share. If approved, the final dividend will be paid on 18 December 2018 to shareholders on the register on 23 November 2018. The total dividend paid and proposed for the year amounts to 4.44 pence per share.

Share capital and related matters

The Company has only one class of share and the rights attached to each share are identical. Details of the rights and obligations attaching to the shares are set out in the Company's Articles of Association which are available from the Company Secretary. The Company may refuse to register any transfer of any share which is not a fully paid share. At a general meeting of the Company, every member has one vote on a show of hands and on a poll one vote for each share held. Details of the voting procedure, including deadlines for exercising voting rights, are set out in the Notice of Annual General Meeting 2018.

As at 31 July 2018 the issued share capital of the Company was 200,000,000 ordinary shares of 1 pence each. Details of the share capital as at 31 July 2018 is shown in note 25 to the consolidated financial statements.

Powers of the Directors

The Directors may exercise all the powers of the Company including, subject to obtaining the required authority from the shareholders in general meeting, the power to authorise the issue of new shares and the purchase of the Company's shares. At the AGM in 2017, the Company was authorised by members to purchase up to a maximum of 19,883,312 of its own shares. During the financial year ended 31 July 2018, the Directors did not exercise any of the powers to issue or purchase shares in the Company.

Restrictions on transfer and voting rights

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

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

The Company has in place certain share incentive plans and details can be found on pages 77 to 79. Awards under the Company's Long Term Incentive Plan and Deferred Share Bonus Plan are normally made on an annual basis and details can be found in the Directors' Remuneration Report on pages 73 to 89. During the year the Company launched its first invitation under its all-employee Sharesave Scheme.

The Company also has an Employee Benefit Trust (EBT) in which to hold ordinary shares to satisfy awards under the share incentive plans. As at the financial year end on 31 July 2018 and as at the date of this report, there were 1,129,865 ordinary shares held in the EBT. The trustee of the EBT has the power to exercise the rights and powers incidental to, and to act in relation to, the ordinary shares subject to the EBT in such manner as the trustee in its absolute discretion thinks fit.

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

Substantial shareholdings

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

Name of holder	Total holding of shares	% of total voting rights
PrimeStone Capital LLP	26,130,940	13.14%
Standard Life Aberdeen plc	13,496,183	6.79%
FMR LLC	12,731,662	6.40%
Baillie Gifford & Co	11,343,105	5.70%
Artemis Investment Management LLP	10,087,413	5.07%
UBS Global Asset Management	6,413,511	3.22%

Directors

The Directors of the Company and their biographies are set out on pages 52 to 53. Their interests in the ordinary shares of the Company are shown in the Directors' Remuneration Report on page 80.

Amanda Mellor was appointed as an independent Non-Executive Director during the financial year and her biography is set out on page 53. Adrian Barden, independent Non-Executive Director, retired from the Board at the conclusion of the Annual General Meeting on 13 December 2017.

Appointment and removal of Directors

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

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

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

Directors' indemnities and insurance

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

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

Transactions with related parties

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

Change of control

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

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

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

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

Amendments to the Company's Articles of Association

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

Political donations

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

Post-balance sheet events

There are no post-balance sheet events.

Going concern

The Company's statement on going concern can be found on page 33.

Viability Statement

In accordance with the UK Corporate Governance Code 2016 (provision C.2.2), the Board assessed the prospects of the Group over a longer period than the twelve months required by the going concern provision and the statement is set out on page 33.

Annual General Meeting

The Annual General Meeting will be held at 12.00 noon on Wednesday 12 December 2018 at the offices of Norton Rose Fulbright LLP, 3 More London Riverside, London SE1 2AQ. The Notice of Annual General Meeting and an explanation of the items of non-routine business are set out in the explanatory circular that accompanies this Annual Report and Accounts.

Auditor and disclosure of information to auditor

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

- > so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- > the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

By order of the Board



Michael Anscombe
Company Secretary

11 October 2018

Volusion Group plc

Registered office: Fleming Way, Crawley, West Sussex RH10 9YX

Company number: 09041571

Directors' Responsibility Statement

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

By order of the Board



Ronnie George
Chief Executive Officer

11 October 2018



Ian Dew
Chief Financial Officer

11 October 2018

Independent Auditor's Report

to the members of Volusion Group plc

Opinion

In our opinion:

- > Volusion Group plc's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2018 and of the group's profit for the year then ended;
- > the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- > the parent company financial statements have been properly prepared in accordance with IFRS as applied in accordance with the provisions of the Companies Act 2006; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Group	Parent company
Consolidated statement of comprehensive income	Statement of financial position
Consolidated statement of financial position	Statement of changes in equity
Consolidated statement of changes in equity	Statement of cash flows
Consolidated statement of cash flows	Related notes 1 to 15 to the financial statements including a summary of significant accounting policies
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

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

Independent Auditor's Report continued

to the members of Volusion Group plc

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- > the disclosures in the annual report set out on page 33 that describe the principal risks and explain how they are being managed or mitigated;
- > the Directors' confirmation set out on page 33 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- > the Directors' statement set out on page 33 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- > whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- > the Directors' explanation set out on page 33 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> > The risk of improper revenue recognition through inappropriate manual journal entries and/or customer rebates. > The risk of management override resulting from inappropriate presentation of exceptional items and unauthorised non-standard journal entries.
Audit scope	<ul style="list-style-type: none"> > We performed an audit of the complete financial information of five components and audit procedures on specific balances for a further twelve components. > The components where we performed full or specific audit procedures accounted for 93% of Group Profit before tax and exceptional items, 94% of Revenue and 93% of Total assets.
Materiality	<ul style="list-style-type: none"> > Overall Group materiality of £1,083k which represents 5% of Group Profit before tax and exceptional items.

Key audit matters

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

Key audit matters continued**Improper revenue recognition through inappropriate manual journal entries and/or customer rebates**

During the year the Group recognised revenue of £205.7 million (FY 2017: £185.1 million).

Our judgement on the risk profile of the Group:

The risk profile has remained stable.

We determined that there is a risk of material misstatement associated with revenue recognition as revenue is the most significant item in the consolidated income statement and impacts the majority of the key performance indicators of the Group. Revenue substantially arises from the sale of goods, which was the focus of our audit procedures.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>The risk of inappropriate revenue recognition arises from the following:</p> <ul style="list-style-type: none"> > Inappropriate recognition of sales due to inappropriate manual journal entries; and > Judgemental sales rebate provisions. 	<p>We tested the appropriate application of revenue recognition through substantively testing a sample of revenue transactions during, before and after the period end to identify that revenue was recognised appropriately.</p> <p>We used data analytics, where possible, to identify recorded transactions that did not align with our expectation of the transaction flow.</p> <p>We also performed the following:</p> <ul style="list-style-type: none"> > Obtained an understanding of the significant classes of transactions impacting revenue and performed walkthroughs to confirm our understanding of these transactions and the controls in place; > Evaluated the adequacy of the design of the controls on the significant classes of transactions impacting revenue; > For Manrose, Vent-Axia, Breathing Buildings and Ventilair Belgium we employed revenue data analytics to enhance our audit coverage of revenue balances, performing three way correlations between revenue, debtors and cash; > Performed analytical review procedures, including a comparison of actual revenue against budget and prior year; > Tested the application of cut-off by obtaining the incoterms, supporting sales orders, proof of dispatch and proof of payment for a sample of sales transactions across all trading companies in scope; > Tested customer rebate accruals through obtaining direct confirmation of the sales rebate terms from certain customers and formal agreements with customers. We recalculated the expected sales rebates for customers and compared these to actual amounts recorded by management. We also evaluated whether a consistent methodology was applied; > Performed journal entry testing using selected risk based criteria for entries made to revenue. <p>Instructions to perform the above were issued to all full and specific procedures scope locations, which covered 94% of consolidated revenue.</p>	<p>We concluded:</p> <ul style="list-style-type: none"> > The recognition of sales was materially correct; > the occurrence of revenue was found to be appropriate; > revenue was recognised in line with Group policy; > judgemental sales rebate provisions were appropriate; and > appropriate disclosure of the nature of rebates is included in the financial statements.

Supporting references in the Annual Report and Accounts:
The Audit Committee Report (page 66);

Accounting policies (page 109 and page 133); and
Note 3 and note 21 to the consolidated financial statements (page 109 and page 133).

Independent Auditor's Report continued

to the members of Volution Group plc

Key audit matters continued

Accounting for acquisitions

The Group concluded four acquisitions in the current year with a total consideration of £43.9 million (FY2017: £20.5 million).

Our evaluation of the risk profile of the Group:

The risk profile has increased due to the significant amount of acquisitions.

The Group has acquired four businesses in the current year, which comprise 15% of the Group's total assets. The allocation of the purchase price involves a number of subjective assumptions. The additions to goodwill of £32.1 million and other intangible assets of £17.5 million arose from the acquisitions of Simx Limited, AirFan B.V, Oy Pamon Ab and Air Connection ApS.

The Group is required to allocate the purchase price for each business combination to the fair value of the assets and liabilities acquired in the business combination, with the residual representing goodwill on acquisition. Establishing the fair value of the assets and liabilities to allocate the purchase price involves a number of judgements and estimates.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>There is a risk that the value of deferred consideration and the fair values for acquired assets are not appropriate, not aligned with VG policies and that goodwill and other intangible assets are misstated. The acquisitions which took place during the current year are:</p> <ul style="list-style-type: none"> > Simx Limited, which represents a significant acquisition for the Group. The acquisition generated provisional goodwill of £23.5 million, intangible assets of £12.1 million and contributed an additional £8.2 million of revenue and £1.4 million of post-tax earnings. The acquisition represents a new territory for the Group. > The Group also completed three smaller acquisitions which generated aggregate provisional goodwill of £8.7 million and intangible assets of £5.4 million. These smaller acquisitions completed during the last two months of the financial year and resulted in a smaller contribution to revenue and post-tax earnings. Deferred consideration to the value of £1.1 million was recognised on these acquisitions. 	<p>We performed the following procedures to address the risks identified:</p> <ul style="list-style-type: none"> > Obtained management's proposed accounting treatment and determined whether this is appropriate and in line with IFRS 3 > Reviewed the SPAs for terms and conditions attaching to each acquisition and the supporting due diligence reports, as appropriate > Recomputed purchase consideration and significant completion adjustments > Reviewed the acquired balance sheet to ensure no material cut-off issues > Engaged our EY valuations experts in determining the reasonableness of intangible assets recognised on acquisition and challenged inputs used in their determination by benchmarking them against industry indicators > Obtained and evaluated the appropriateness of the fair value adjustments to other non-intangible assets and liabilities on acquisition > Inspected the SPA and confirmed the amounts set aside as deferred consideration for Oy Pamon Ab and Air Connection ApS > Reviewed disclosures to ensure they are in line with IFRS 3 <p>The procedures set out above were carried out by the Group audit team.</p>	<p>We concluded that:</p> <ul style="list-style-type: none"> > The business combinations accounting is consistent with the requirements of IFRS 3. > Management's provisional estimates of the fair values of the assets and liabilities acquired, including the intangible assets and the deferred consideration payable are reasonable. > The goodwill on acquisition recognised in the financial statements is appropriate and supportable. > Appropriate disclosures for these business combinations have been made in the consolidated financial statements

Supporting references in the Annual Report and Accounts:
The Audit Committee Report (page 66);

Accounting policies (page 123); and
Note 16 of the consolidated financial statements (page 124)

Key audit matters continued

Management override arising from inappropriate presentation of exceptional items and unauthorised non-standard journal entries.

The Group reported exceptional operating costs of £6.4 million (2017: £1.4 million).

Our judgement on the risk profile of the Group:

The risk profile has increased due to the magnitude of the reported exceptional items.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>We identified risk to be present in the following:</p> <ul style="list-style-type: none"> > Costs could inappropriately be presented as exceptional to enhance underlying earnings > The posting of unauthorised non-standard journal entries (including manual journal entries) 	<p>Exceptional items</p> <ul style="list-style-type: none"> > We obtained and reviewed management's paper which included the assumptions and judgements used for classification of costs as exceptional. > We identified the key judgements and estimates inherent in management's analysis to determine whether the items presented as exceptional meet the criteria defined by management as "material" and "non-recurring" and whether they are consistent with the Group's accounting policy. We paid particular focus to management's quantification of costs incurred in relation to the factory relocation. > We determined whether the disclosure of exceptional items is consistent with the tone suggested in the FRC's thematic review on exceptional items which was concluded in November 2017. > We considered whether the nature and amounts of the costs were disclosed transparently to allow the reader to understand the performance of the business <p>Unauthorised non-standard journal entries:</p> <ul style="list-style-type: none"> > We made inquiries of management regarding the risks of fraud and the controls put in place to address management override; and > We identified unusual journal entries at the subsidiary and Group levels that exceeded our testing thresholds and validated their appropriateness. <p>The audit of judgements made in classifying costs as exceptional items was performed by the UK team. Instructions to perform the above procedures for unauthorised non-standard journal entries were issued to all full and specific scope locations.</p>	<ul style="list-style-type: none"> > We concluded that the presentation of the reported items as exceptional is supportable. > Our testing of non-standard journal entries raised at subsidiary and Group levels did not provide evidence of any unusual or unauthorised journal entries. > We considered whether the nature and amount of the costs were disclosed transparently to allow the reader to understand the performance of the business and concluded that the disclosures were appropriate.

Supporting references in the Annual Report and Accounts:
The Audit Committee Report (page 69);

Accounting policies (page 112); and
Note 5 to the consolidated financial statements (page 112)

In the prior year, our auditor's report included a key audit matter in relation to impairment of goodwill and other intangible assets, including the assessment of CGUs. In the current year, we have reassessed the risk in relation to such impairment. We noted that Australasia has the highest risk of impairment due to the low headroom of £3.6m and that a decline of 9% would eliminate the headroom. Furthermore a small increase in the WACC by more than 0.8% would also eliminate the headroom. We have identified a key audit matter in relation to the acquisition for Simx Limited above and due to the significant headroom for other CGUs we do not present a separate key audit matter for goodwill and intangible assets impairment risk.

Independent Auditor's Report continued

to the members of Volution Group plc

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 27 reporting components of the Group, we selected 17 components covering entities within Sweden, Belgium, Germany, New Zealand and the United Kingdom, which represent the principal business units within the Group.

Of the 17 components selected, we performed an audit of the complete financial information of five components ("full scope components") which were selected based on their size or risk characteristics. For the remaining twelve components ("specific scope components"), we performed audit procedures on specific accounts within each component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

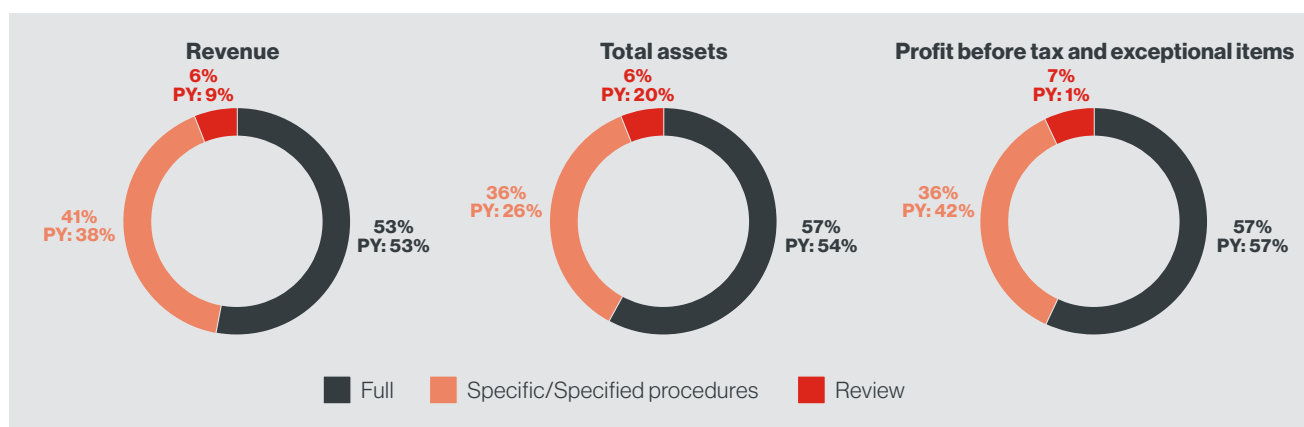
We have set out below the details of our audit procedures:

	% of Group Profit before tax and exceptional items		% of Group Revenue		% of Group Total assets	
	2018	2017	2018	2017	2018	2017
Reporting components where we performed audit procedures	93%	99%	94%	91%	93%	80%
Full scope	57%	57%	53%	53%	57%	54%
Specific scope	36%	42%	41%	38%	36%	26%

The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group. We also instructed 4 locations to perform specified procedures over certain aspects of inappropriate revenue recognition and management override of controls, as described in the Risk section above.

Of the remaining 10 components that together represent 7% of the Group's Profit before tax after adding back exceptional items, none are individually greater than 1% of the Group's Profit before tax after adding back exceptional items. For these components, we performed other procedures, including analytical review of 'review scope' components, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



An overview of the scope of our audit continued

Changes from the prior year

The Group completed four acquisitions in the current financial year. The acquisitions and allocated Group audit scope are set out below:

Acquisition	Group audit scope
Simx Limited	Full
AirFan B.V.	Review
Oy Pamon Ab	Review
Air Connection ApS	Review

There are no other changes in Group audit scope from the prior year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 5 full scope components, audit procedures were performed on 4 of these directly by the primary audit team and one by a component audit team. For the 12 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that a suitably senior member of the Group team physically participated in the closing meeting of all full scope components. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Crawley, Bristol, Cambridge and Stockholm. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending planning and closing meetings and reviewing key audit working papers in risk areas. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

	FY 2018 £000	FY 2017 £000	Explanatory narrative
Materiality	1,083	960	A
Performance materiality	812	720	B
Reporting threshold	54	48	C

A – Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent

of our audit procedures. Materiality provides a basis for determining the nature and extent of our audit procedures.

Our calculation of materiality is summarised below:

	£000's
Statutory pre-tax earnings	16,737
Add back:	
– Non-recurring acquisition costs	1,451
– UK Ventilation reorganisation	4,966
Less:	
– Reversal of contingent consideration	1,502
Normalised pre-tax earnings	21,652
Normalised pre-tax earnings x 5%	1,083

Normalised earnings refers to our estimate of what the earnings-based measure may be if certain factors affecting earnings are removed. We have calculated materiality based on the Group's Profit before tax after adjusting for non-recurring exceptional operating costs and income.

B – Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £812k (2017: £720k). We have set performance materiality at this percentage due to the active implementation of controls and procedures to address comments raised in the internal auditor's reports and our internal control observations; we also gave consideration to our low expectation of audit differences based on recent experience.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £256k to £470k (2017: £141k to £317k).

C – Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £54k (2017: £48k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Independent Auditor's Report continued

to the members of Volution Group plc

Other information

The other information comprises the information included in the annual report and accounts other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- > **Fair, balanced and understandable set out on page 72** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- > **Audit Committee reporting set out from page 66** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- > **Directors' statement of compliance with the UK Corporate Governance Code set out on page 54** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- > the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- > the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 92, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- > We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. There are no significant, industry specific laws or regulations that we considered in determining our approach.
- > We understood how Volution Group plc is complying with those frameworks by making enquiries with management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee. Our assessment included the tone from the top and the emphasis on a culture of honest and ethical behaviour.
- > We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programs and the controls which the Group have established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors these programs and controls.
- > Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures were focussed on revenue recognition, which is discussed in our Key audit matters, and journal entry testing.

- > Our audit procedures were communicated to and performed by our component teams.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- > Following the recommendation of the Audit Committee, we were appointed as auditors by the Board of Directors and signed an engagement letter on 16 May 2016. We were appointed by the Company at the AGM on 13 December 2017 to audit the financial statements for the year ending 31 July 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 July 2014 to 31 July 2018.
- > The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- > The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Andy Smyth (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

11 October 2018

Notes:

1. The maintenance and integrity of the Volution Group plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2018

	Notes	2018 £000	2017 £000
Revenue	3	205,676	185,060
Cost of sales		(109,053)	(94,023)
Gross profit		96,623	91,037
Administrative and distribution expenses		(74,193)	(69,236)
Operating profit before exceptional items		22,430	21,801
Exceptional operating costs	5	(6,417)	(1,380)
Release of contingent consideration	5	1,502	—
Operating profit		17,515	20,421
Finance revenue	6	852	17
Finance costs	5, 6	(1,630)	(2,540)
Profit before tax		16,737	17,898
Income tax	10	(3,414)	(4,021)
Profit for the year		13,323	13,877
Other comprehensive (expense)/income			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(2,075)	922
Gain/(loss) on hedge of net investment in foreign operations		1,691	(493)
Other comprehensive (expense)/income for the year		(384)	429
Total comprehensive income for the year		12,939	14,306
Earnings per share			
Basic earnings per share	11	6.7p	7.0p
Diluted earnings per share	11	6.7p	7.0p

Consolidated Statement of Financial Position

At 31 July 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	12	22,611	19,590
Intangible assets – goodwill	13	112,682	81,584
Intangible assets – others	14	104,124	101,006
Deferred tax assets	26	—	810
		239,417	202,990
Current assets			
Inventories	17	30,136	22,737
Trade and other receivables	18	38,873	37,231
Other current financial assets	19	302	16
Cash and short-term deposits	20	18,221	14,499
		87,532	74,483
Total assets		326,949	277,473
Current liabilities			
Trade and other payables	21	(45,689)	(40,629)
Other current financial liabilities	22	—	(2,124)
Income tax		(1,410)	(3,768)
Provisions	24	(1,004)	(1,841)
		(48,103)	(48,362)
Non-current liabilities			
Interest-bearing loans and borrowings	23	(94,605)	(51,088)
Other current financial liabilities	22	(1,144)	—
Provisions	24	(384)	(134)
Deferred tax liabilities	26	(17,500)	(17,756)
		(113,633)	(68,978)
Total liabilities		(161,736)	(117,340)
Net assets		165,213	160,133
Capital and reserves			
Share capital	25	2,000	2,000
Share premium	25	11,527	11,527
Treasury shares		(1,962)	(2,027)
Capital reserve		93,855	93,855
Share-based payment reserve		1,836	1,289
Foreign currency translation reserve		1,507	1,891
Retained earnings		56,450	51,598
Total equity		165,213	160,133

The consolidated financial statements of Volusion Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 11 October 2018.

On behalf of the Board



Ronnie George
Chief Executive Officer



Ian Dew
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 July 2018

	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 2016	2,000	11,527	(1,533)	93,855	649	1,462	45,585	153,545
Profit for the year	—	—	—	—	—	—	13,877	13,877
Other comprehensive income	—	—	—	—	—	429	—	429
Total comprehensive income	—	—	—	—	—	429	13,877	14,306
Purchase of own shares	—	—	(494)	—	—	—	—	(494)
Share-based payment including tax	—	—	—	—	640	—	—	640
Dividends paid	—	—	—	—	—	—	(7,864)	(7,864)
At 31 July 2017	2,000	11,527	(2,027)	93,855	1,289	1,891	51,598	160,133
Profit for the year	—	—	—	—	—	—	13,323	13,323
Other comprehensive expense	—	—	—	—	—	(384)	—	(384)
Total comprehensive income	—	—	—	—	—	(384)	13,323	12,939
Share-based payment including tax	—	—	65	—	547	—	—	612
Dividends paid	—	—	—	—	—	—	(8,471)	(8,471)
At 31 July 2018	2,000	11,527	(1,962)	93,855	1,836	1,507	56,450	165,213

Treasury shares

The treasury shares reserve represents the cost of shares in Volution Group plc purchased in the market and held by the Volution Employee Benefit Trust to satisfy obligations under the Group's share incentive schemes.

Capital reserve

The capital reserve is the difference in share capital and reserves arising from the use of the pooling of interest method for preparation of the financial statements in 2014. This is a non-distributable reserve.

Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to key management personnel, as part of their remuneration. Refer to note 32 for further detail of these plans.

Foreign currency translation reserve

Exchange differences arising on translation of the Group's foreign subsidiaries into GBP are included in the foreign currency translation reserve. The Group hedges some of its exposure to its net investment in foreign operations; foreign exchange gains and losses relating to the effective portion of the net investment hedge are accounted for by entries made directly to the foreign currency translation reserve. No hedge ineffectiveness has been recognised in the statement of comprehensive income for any of the periods presented.

Retained earnings

The parent company of the Group, Volution Group plc, had distributable retained earnings at 31 July 2018 of £72,214,000 (2017: £72,781,000).

Consolidated Statement of Cash Flows

For the year ended 31 July 2018

	Notes	2018 £000	2017 £000
Operating activities			
Profit for the year after tax		13,323	13,877
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax		3,414	4,021
Loss/(gain) on disposal of property, plant and equipment		218	(70)
Exceptional items	5	6,417	1,380
Release of contingent consideration		(1,502)	—
Cash flows relating to exceptional items		(5,368)	(1,166)
Finance revenue	6	(852)	(17)
Finance costs	6	1,310	2,540
Exceptional write off of unamortised loan issue costs upon refinancing	5, 6	320	—
Share-based payment expense		475	531
Depreciation of property, plant and equipment	12	3,031	2,836
Amortisation of intangible assets	14	15,605	14,581
Working capital adjustments:			
Decrease/(increase) in trade receivables and other assets		1,104	(1,053)
Increase in inventories		(2,193)	(1,147)
Exceptional items: fair value of inventories		(616)	(81)
Increase in trade and other payables		887	2,391
Movement in provisions		(905)	(106)
UK income tax paid		(4,952)	(3,466)
Overseas income tax paid		(3,956)	(2,119)
Net cash flow generated from operating activities		25,760	32,932
Investing activities			
Payments to acquire intangible assets	14	(1,898)	(1,699)
Purchase of property, plant and equipment	12	(4,635)	(2,438)
Proceeds from disposal of property, plant and equipment		256	306
Acquisition of subsidiaries, net of cash acquired	16	(40,985)	(18,118)
Interest received		14	17
Net cash flow used in investing activities		(47,248)	(21,932)
Financing activities			
Repayment of interest-bearing loans and borrowings		(67,869)	(20,778)
Proceeds from new borrowings		103,474	17,491
Issue costs of new borrowings		(954)	—
Interest paid		(843)	(860)
Dividends paid		(8,471)	(7,864)
Purchase of own shares		—	(494)
Net cash flow generated from/(used in) financing activities		25,337	(12,505)
Net increase/(decrease) in cash and cash equivalents		3,849	(1,505)
Cash and cash equivalents at the start of the year		14,499	15,744
Effect of exchange rates on cash and cash equivalents		(127)	260
Cash and cash equivalents at the end of the year	20	18,221	14,499

Volusion Group plc (the Company) is a public limited company and is incorporated and domiciled in the UK (registered number: 09041571). The share capital of the Company is listed on the London Stock Exchange. The address of its registered office is Fleming Way, Crawley, West Sussex RH10 9YX.

Notes to the Consolidated Financial Statements

For the year ended 31 July 2018

1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies under the relevant notes.

The preparation of the consolidated financial information in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise judgement in the process of applying the Group's accounting policies. Accounting policies, including critical accounting judgements and estimates used in the preparation of the financial statements, are described in the specific note to which they relate.

The consolidated financial statements are presented in GBP and all values are rounded to the nearest thousand (£000), except as otherwise indicated.

The financial information includes all subsidiaries. The results of subsidiaries are included from the date on which effective control is acquired up to the date control ceases to exist.

Subsidiaries are controlled by the parent (in each relevant period) regardless of the amount of shares owned. Control exists when the parent has the power, either directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting periods using consistent accounting policies. All intercompany transactions and balances, including unrealised profits arising from intra-group transactions, have been eliminated on consolidation.

Going concern

The Group's Strategic Report on page 33 shows the Directors' assessment of the Group's ability to continue as a going concern.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future, for the period not less than twelve months from the date of this report.

On 15 December 2017, the Group refinanced its bank debt. The Group now has in place a £120 million multicurrency revolving credit facility, and in addition an accordion of up to £30 million. The facility matures in December 2021, with the option to extend the termination of the facility by a period of twelve months.

Foreign currencies

The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of each entity are expressed in GBP (£000), which is the functional currency of the Company and the presentational currency of the Group.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rate prevailing at the end of the reporting period.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date the fair value was determined.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are expressed in GBP using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rate for the period. Exchange differences arising are classified as other comprehensive income and are transferred to the foreign currency translation reserve. All other translation differences are taken to profit and loss with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign operations, in which case they are taken directly to reserves together with the exchange difference on the net investment in these operations.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The significant judgements, estimates and assumptions made in these financial statements relate to: Exceptional items (note 5), Intangible assets – goodwill (note 13), Intangible assets – other (note 14), Impairment assessment of goodwill (note 15) and Rebates payable (note 21).

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.

1. Basis of preparation continued

Critical accounting judgements and key sources of estimation uncertainty continued

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are described under the relevant notes.

The Group based its assumptions and estimates on parameters available when these financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

New standards and interpretations

There were no new or amended accounting standards relevant to the Group's results that are effective for the first time in 2018 that have a material impact on the Group's consolidated financial statements.

The following standards and interpretations have an effective date after the date of these financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 has been endorsed by the EU and is effective for accounting periods beginning on or after 1 January 2018 and was adopted by the Group on 1 August 2018.

IFRS 9 impacts the classification and measurement of the Group's financial instruments and requires certain additional disclosures. IFRS 9 also introduces changes to impairments of financial assets, which will result in the Group moving from an incurred loss model to an expected loss model. Although the new standard impacts the way in which bad debt provisions are calculated, as the Group has historically not incurred significant bad debt losses the Group does not anticipate that the impact of this change will be material.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, as amended, is effective for accounting periods beginning on or after 1 January 2018 and was adopted by the Group on 1 August 2018. IFRS 15 provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. It replaces the separate models for goods, services and construction contracts currently included in IAS 11 Construction Contracts and IAS 18 Revenue.

The Group has undertaken analysis of how IFRS 15 should be implemented and the resulting impact on the financial statements. As permitted by IFRS 15 we have applied the new standard using the modified retrospective method. We recognised the cumulative effect of applying the new standard at the date of initial application, 1 August 2018, with no restatement of the comparative period presented. We have also chosen to apply the new standard only to those contracts that were not considered completed contracts at 1 August 2018.

Our impact assessment has concluded that IFRS 15 does not have a significant impact on the recognition of revenue from the sale of goods due to the lack of complexity involved in these transactions. IFRS 15 impacts the timing and amount of revenue recognised which arises from the provision of services; however, as the level of revenue generated from the provision of services is not significant to the Group, our assessment is that the impact of IFRS 15 is also not material to the Group.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2017 to replace IAS 17 Leases. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 August 2019.

IFRS 16 will require most leases to be recognised in the statement of financial position effectively ending the distinction between finance and operating leases for lessees. The new standard will require the Group to recognise a right-of-use asset and a corresponding lease liability.

The Group has undertaken analysis of how IFRS 16 should be implemented and the resulting impact on the financial statements.

As permitted by IFRS 16 we anticipate implementing the standard using the modified retrospective approach and by adopting some of the available practical expedients which are:

- > "grandfather", our previous assessment of which existing contracts are, or contain, leases; and
- > not applying the new lessee accounting model to short-term or low value leases, for which we will continue to recognise the related lease payments as an expense on a straight line basis over the lease.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

1. Basis of preparation continued

New standards and interpretations continued

IFRS 16 Leases continued

When applying IFRS 16 using the modified retrospective approach, we will not restate comparative information. Instead, we will recognise the cumulative effect of initially applying the standard as an adjustment to equity at the date of initial application, 1 August 2019. Under the modified retrospective approach we will recognise the right-of-use (ROU) asset and the lease liability as follows:

- > For leases currently classified as operating leases:
 - > ROU asset – as if IFRS 16 had always been applied (but using the incremental borrowing rate, applicable to the lease, at the date of initial application).
 - > Lease liability – present value of remaining lease payments.

Based on the above implementation method we have assessed the impact of applying the new standard on all current leases not considered low value or short term from 1 August 2019. On transition there would be an approximate increase to non-current assets of £17.9 million, an increase in total Group liabilities of £19.4 million and a decrease of £1.5 million in equity. In the year ending 31 July 2020 operating costs (excluding depreciation) would reduce by approximately £2.8 million, depreciation would increase by £2.0 million and finance costs would increase by £1.1 million. Overall, EBITDA will be £2.8 million higher as the current operating lease costs will be replaced with depreciation and interest expense. Also operating cash flows will be higher, as lease payments will be reflected within financing activities in the statement of cash flows.

Other new standards or interpretations in issue, but not yet effective, are not expected to have a material impact on the Group's net assets or results.

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.

	2018 £000	2017 £000
Profit after tax	13,323	13,877
Add back:		
Exceptional operating costs (note 5)	6,417	1,380
Reversal of contingent consideration (note 5)	(1,502)	—
Net (gain)/loss on financial instruments at fair value	(838)	1,449
Exceptional write off of unamortised loan issue costs upon refinance (note 6)	320	—
Amortisation and impairment of intangible assets acquired through business combinations	14,670	13,826
Tax effect of the above	(3,598)	(3,509)
Adjusted profit after tax	28,792	27,023
Add back:		
Adjusted tax charge	7,012	7,530
Adjusted profit before tax	35,804	34,553
Add back:		
Interest payable on bank loans and amortisation of financing costs	1,310	1,091
Finance revenue	(14)	(17)
Adjusted operating profit	37,100	35,627
Add back:		
Depreciation of property, plant and equipment	3,031	2,836
Amortisation of development costs, software and patents	935	755
Adjusted EBITDA	41,066	39,218

For definitions of terms referred to above see note 34, Glossary of terms.

3. Revenue

Accounting policy

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates (see note 21) and other similar allowances that are calculated based upon the price of goods, volumes and product mix purchased by the customer. Revenue is stated net of settlement discounts, VAT, other sales taxes and duties.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards have passed to the buyer, usually on the delivery of the goods, and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Rendering of services

Revenue from the provision of services arises from the installation of products and is recognised by reference to the stage of completion. The stage of completion is measured by reference to costs incurred to date as a percentage of total expected costs for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of expenses recognised that are considered to be recoverable.

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

	2018 £000	2017 £000
Sale of goods	200,665	182,502
Rendering of services	5,011	2,558
Total revenue	205,676	185,060
Market sectors	2018 £000	2017¹ £000
Ventilation Group		
UK Residential RMI	38,166	39,162
UK Residential New Build	25,604	22,635
UK Commercial	33,474	32,792
UK Export	12,510	10,206
Nordics	36,692	30,829
Central Europe	28,466	27,460
Australasia	8,182	—
Total Ventilation Group	183,094	163,084
Original Equipment Manufacturer (Torin-Sifan)		
OEM (Torin-Sifan)	22,582	21,976
Total revenue	205,676	185,060

Notes

- During 2018 we have refined our approach to allocation of products resulting in the reallocation of sales of a small number of products between market sectors to better reflect their final application. To calculate meaningful growth rates per market sector, the 2017 sales analysis has therefore been similarly restated to reflect this reallocation. The market sector revenue, for the affected sectors, previously disclosed in the 2017 Annual Report and Accounts were UK Residential RMI £38,444,000, UK Residential New Build £23,421,000 and UK Commercial £32,724,000.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

4. Segmental analysis

Accounting policy

The method of identifying reporting segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker, which is considered to be the Chief Executive Officer of the Group.

In identifying its operating segments, management follows the Group's market sectors. These are Ventilation UK, Ventilation Nordics, Ventilation Central Europe, Ventilation Australasia and OEM (Torin-Sifan). Operating segments that provide ventilation services have been aggregated as they have similar economic characteristics, assessed by reference to the gross margins of the segments. In addition, the segments are similar in relation to the nature of products, services and production processes, type of customer, method for distribution and regulatory environment. The Group is considered to have two reportable segments: Ventilation Group and OEM (Torin-Sifan).

The measure of revenue reported to the chief operating decision maker to assess performance is total revenue for each operating segment. The measure of profit reported to the chief operating decision maker to assess performance is adjusted operating profit (see note 34 for definition) for each operating segment. Gross profit and the analysis below segment profit is additional voluntary information and not "segment information" prepared in accordance with IFRS 8.

Finance revenue and costs are not allocated to individual operating segments as the underlying instruments are managed on a Group basis.

Total assets and liabilities are not disclosed as this information is not provided by operating segment to the chief operating decision maker on a regular basis.

Transfer prices between operating segments are on an arm's length basis on terms similar to transactions with third parties.

Year ended 31 July 2018	Ventilation Group £000	OEM £000	Unallocated £000	Total £000	Eliminations £000	Consolidated £000
Revenue						
External customers	183,094	22,582	—	205,676	—	205,676
Inter-segment	19,332	1,403	—	20,735	(20,735)	—
Total revenue	202,426	23,985	—	226,411	(20,735)	205,676
Gross profit	89,741	6,882	—	96,623	—	96,623
Results						
Adjusted segment EBITDA	38,168	4,454	(1,556)	41,066	—	41,066
Depreciation and amortisation of development costs, software and patents	(2,814)	(607)	(545)	(3,966)	—	(3,966)
Adjusted operating profit/(loss)	35,354	3,847	(2,101)	37,100	—	37,100
Amortisation of intangible assets acquired through business combinations	(13,312)	(1,358)	—	(14,670)	—	(14,670)
Exceptional items	(4,915)	—	—	(4,915)	—	(4,915)
Operating profit/(loss)	17,127	2,489	(2,101)	17,515	—	17,515
Unallocated expenses						
Net finance cost	—	—	(458)	(458)	—	(458)
Exceptional write off of unamortised loan issue costs upon refinancing of our bank facility	—	—	(320)	(320)	—	(320)
Profit/(loss) before tax	17,127	2,489	(2,879)	16,737	—	16,737

4. Segmental analysis continued

Year ended 31 July 2017	Ventilation Group £000	OEM £000	Unallocated £000	Total £000	Eliminations £000	Consolidated £000
Revenue						
External customers	163,084	21,976	—	185,060	—	185,060
Inter-segment	17,070	1,179	—	18,249	(18,249)	—
Total revenue	180,154	23,155	—	203,309	(18,249)	185,060
Gross profit	84,265	6,772	—	91,037	—	91,037
Results						
Adjusted segment EBITDA	37,167	4,347	(2,296)	39,218	—	39,218
Depreciation and amortisation of development costs, software and patents	(2,558)	(578)	(455)	(3,591)	—	(3,591)
Adjusted operating profit/(loss)	34,609	3,769	(2,751)	35,627	—	35,627
Amortisation of intangible assets acquired through business combinations	(12,468)	(1,358)	—	(13,826)	—	(13,826)
Exceptional items	(1,380)	—	—	(1,380)	—	(1,380)
Operating profit/(loss)	20,761	2,411	(2,751)	20,421	—	20,421
Unallocated expenses						
Net finance cost	(297)	—	(2,226)	(2,523)	—	(2,523)
Profit/(loss) before tax	20,464	2,411	(4,977)	17,898	—	17,898

Geographic information

	2018 £000	2017 £000
Revenue from external customers by customer destination		
United Kingdom	108,133	105,426
Europe (excluding United Kingdom and Sweden)	59,239	54,580
Sweden	26,003	21,470
Rest of the world	12,301	3,584
Total revenue	205,676	185,060

	2018 £000	2017 £000
Non-current assets excluding deferred tax		
United Kingdom	142,859	151,732
Europe (excluding United Kingdom and Nordics)	26,698	28,226
Nordics	33,227	22,222
Australasia	36,633	—
Total	239,417	202,180

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.

Notes to the Consolidated Financial Statements continued

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5. Exceptional items

Accounting policy

The Group discloses exceptional items by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group. Exceptional items include, but are not limited to, significant restructuring costs, acquisition and related integration and earn-out costs, fair value adjustments as a result of acquisitions and material gains or losses on disposal of property, plant and equipment.

Critical accounting judgements and key sources of estimation uncertainty

The Group identifies an item of expense or income as exceptional when, in management's judgement, the underlying event giving rise to the exceptional item is deemed to be non-recurring in its nature, size or incidence such that Group results would be distorted without specific reference to the event in question. To enable the full impact of an exceptional item to be understood, the tax impact is disclosed and it is presented separately in the statement of cash flows.

Exceptional items	2018 £000	2017 £000
Acquisition-related costs, including inventory fair value adjustments	1,451	831
UK Ventilation re-organisation including factory relocation costs	4,966	549
Exceptional operating costs	6,417	1,380
Reversal of contingent consideration	(1,502)	—
	4,915	1,380
Total tax relating to exceptional items for the year	(832)	(172)
	4,083	1,208

Acquisition-related costs, including inventory fair value adjustments

Inventory fair value adjustments relate to the requirement to uplift the finished goods of the acquired entities on acquisition by the addition of value not ordinarily considered when accounting for inventory. When these goods are subsequently sold the additional expense to the statement of comprehensive income is classified as exceptional. Costs of £616,000 were recognised in the period relating to the acquisition of Simx Limited. Inventory fair value adjustments in the prior year were £81,000.

Professional fees incurred in respect of acquisitions totalled £835,000. Professional fees incurred in respect of acquisitions in the prior year totalled £324,000, other fees incurred in respect of acquisitions in the prior year totalled £426,000.

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 FY 2018 we have 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:

	2018 £000	2017 £000
Legal and professional fees	359	179
Project manager	153	112
Redundancy-related costs	121	131
Stock write off	76	89
Fixed asset write off	85	24
Site clearance and closure	627	14
Dual running costs	1,015	—
Start-up costs	2,530	—
Total	4,966	549

Dual running costs include the duplicate costs as a result of operating three factories and a temporary warehousing facility whilst machinery, inventories and people were moving from the two existing facilities to the single new factory.

Start-up costs include costs and production variances incurred as a result of the disruption during the transition period when machinery, inventory and people were in the process of relocating to the new factory and were therefore not operating efficiently.

The reorganisation of the UK Ventilation business will continue into FY 2019. It is our intention that all costs directly associated with this will similarly be treated as exceptional, given their size in aggregate and their unusual (one-off) nature.

5. Exceptional items continued

Reversal of contingent consideration

On 29 May 2017, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of VoltAir System AB. Total consideration for the transaction was cash consideration of SEK 79,711,000 (£7,091,000) and contingent consideration with a fair value of SEK 16,930,000 (£1,502,000), giving total consideration of SEK 96,641,000 (£8,593,000). The contingent consideration was based on the level of EBITDA achieved during the twelve months to 31 December 2017. There was a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable. The contingent consideration, recognised in the 31 July 2017 financial statements, was recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. The financial results for the twelve months to 31 December 2017 were such that the minimum level of EBITDA was not achieved and the contingent consideration will not be paid and therefore has been reversed in the period as an exceptional item.

Write off of unamortised loan issue costs upon refinancing

In addition to the exceptional operating costs disclosed in the table above, we have incurred exceptional finance costs relating to the write off of unamortised loan issue costs upon refinancing of our bank facility as disclosed in note 6.

It was deemed that the items allowable for or chargeable to tax were approximately £4,378,000 (2017: £883,000), with a potential tax benefit of £832,000 (2017: £172,000).

6. Finance revenue and costs

Accounting policy

Finance revenue

Finance revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Net financing costs

Net financing costs comprise interest income on funds invested, gains/losses on the disposal of financial instruments, changes in the fair value of financial instruments, interest expense on borrowings and foreign exchange gains/losses. Interest income and expense is recognised as it accrues in the statement of comprehensive income using the effective interest method.

	2018 £000	2017 £000
Finance revenue		
Net gain on financial instruments at fair value	838	—
Interest receivable	14	17
Total finance revenue	852	17
Finance costs		
Interest payable on bank loans	(1,017)	(766)
Amortisation of finance costs	(236)	(231)
Exceptional write off of unamortised loan issue costs upon refinancing of our bank facility	(320)	—
Other interest	(57)	(94)
Total interest expense	(1,630)	(1,091)
Net loss on financial instruments at fair value	—	(1,449)
Total finance costs	(1,630)	(2,540)
Net finance costs	(778)	(2,523)

On 15 December 2017, the Group refinanced its bank debt. The Group now has in place a £120 million multicurrency revolving credit facility (maturing in December 2021) together with an accordion of up to £30 million, with the option to extend the termination of the facility by a period of twelve months. The old facility was repaid in full when the new multicurrency revolving credit facility was entered into. As a consequence of the refinance, the unamortised finance costs of £320,000 relating to the previous loans were written off on 15 December 2017; see note 5, Exceptional items.

The net loss or gain on financial instruments at each year-end date relates to the measurement of fair value of the financial derivatives and the Group recognises any finance losses or gains immediately within net finance costs. The fair value of the Group's financial derivatives can be found in notes 19 and 22.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

7. Staff costs

Accounting policy

Pensions

Contributions to defined contribution schemes are recognised in the statement of comprehensive income in the period they become payable. The cost charged to the statement of comprehensive income of providing retirement pensions for employees represents the amounts paid by the Group to various defined contribution pension schemes operated by the Group in the financial period.

Staff costs	2018 £000	2017 £000
Wages and salaries	46,260	40,227
Social security costs	5,846	5,218
Other pension costs	1,810	1,630
Share-based payment charge (see note 32)	475	531
	54,391	47,606

Other pension costs relate to the Group's contribution to defined contribution pension plans. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2017/18 but based on actual salary levels in 2018/19.

Average monthly number of employees in the year

	2018 Number	2017 Number
Production	754	662
Sales and administration	863	716
	1,617	1,378

Directors' remuneration

	2018 £000	2017 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' emoluments	1,423	1,876
Aggregate Directors' pension scheme contributions	87	86
In respect of the highest paid Director		
Aggregate Director's emoluments	845	1,107
Aggregate Director's pension scheme contributions	52	51

The number of Directors accruing benefits under Group money purchase pension arrangements was nil (2017: nil).

The Group also incurred fees and expenses of £336,000 (2017: £349,000) in respect of Peter Hill, Tony Reading, Paul Hollingworth, Adrian Barden, Claire Tiney and Amanda Mellor for their services as Non-Executive Directors.

8. Other operating expenses

Accounting policy

The Group's research and development concentrates on the development of new products. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are disclosed in the table below.

Cost of sales, distribution costs and administrative expenses include the following:

	2018 £000	2017 £000
Cost of sales		
Costs of inventories recognised as expenses	106,449	92,156
Operating lease expense	1,371	701
Depreciation of property, plant and equipment	1,233	1,166
Administrative and distribution expenses		
Research and development costs	3,404	3,025
Depreciation of property, plant and equipment	1,798	1,670
Amortisation and impairment of intangible assets	15,605	14,581
Operating lease expense	1,786	1,359
Net foreign exchange differences	(102)	270
Loss/(gain) on disposal of property, plant and equipment	218	(70)

9. Auditor's remuneration

The Group paid the following amounts to its auditor, Ernst & Young LLP, and its member firms in respect of the audit of the financial statements and for other services provided to the Group:

	2018 £000	2017 £000
Audit services		
Fees for the audit of the parent and Group financial statements	162	143
Fees for local statutory audits of subsidiaries	300	197
Non-audit services		
Fees payable for interim review	26	25
	488	365

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

10. Income tax

Accounting policy

Current income tax assets and liabilities are measured at the amount expected to be recovered from, or payable to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the reporting date.

The Group's deferred tax policy can be found in note 26.

(a) Income tax charges against profit for the year

	2018 £000	2017 £000
Current income tax		
Current UK income tax expense	2,948	4,623
Current foreign income tax expense	3,605	2,209
Tax credit relating to the prior year	(26)	(171)
Total current tax	6,527	6,661
Deferred tax		
Origination and reversal of temporary differences	(3,031)	(2,820)
Effect of changes in the tax rate	(108)	(351)
Tax charge relating to the prior year	26	531
Total deferred tax	(3,113)	(2,640)
Net tax charge reported in the consolidated statement of comprehensive income	3,414	4,021

(b) Income tax recognised in equity for the year

	2018 £000	2017 £000
Increase in deferred tax asset on share-based payments	(162)	(109)
Net tax credit reported in equity	(162)	(109)

(c) Reconciliation of total tax

	2018 £000	2017 £000
Profit before tax	16,737	17,898
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.67%)	3,180	3,521
Adjustment in respect of previous years	1	394
Expenses not deductible for tax purposes	380	303
Effect of changes in the tax rate (see explanation below)	(108)	(351)
Non-taxable income	(357)	(43)
Higher overseas tax rate	588	318
Patent box	(205)	—
Other	(65)	(121)
Net tax charge reported in the consolidated statement of comprehensive income	3,414	4,021

The Finance Act 2016 was enacted on 15 September 2016 which reduced the headline rate from 18% to 17% to apply from 1 April 2020 and the impact of this rate change has been included in these financial statements, leading to a credit of £351,000 to the tax charge. The Finance Act (No. 2) 2015 was enacted on 18 November 2015 and introduced reductions in the headline rate of corporation tax to 19% and 18% to apply from 1 April 2017 and 1 April 2020 respectively.

The higher overseas tax rates relate to the Group's profits from subsidiaries which are subject to tax jurisdictions with a higher rate of tax compared to the standard rate of corporation tax in the UK (see note 30 for subsidiary locations).

11. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 413,555 dilutive potential ordinary shares at 31 July 2018 (2017: nil).

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

Year ended 31 July	2018 £000	2017 £000
Profit attributable to ordinary equity holders	13,323	13,877
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	198,847,087	199,050,930
Weighted average number of ordinary shares for diluted earnings per share	199,144,705	199,050,930
Earnings per share		
Basic	6.7p	7.0p
Diluted	6.7p	7.0p
	2018 £000	2017 £000
Adjusted profit attributable to ordinary equity holders	28,792	27,023
	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share	198,847,087	199,050,930
Weighted average number of ordinary shares for adjusted diluted earnings per share	199,144,705	199,050,930
Adjusted earnings per share		
Basic	14.5p	13.6p
Diluted	14.5p	13.6p

The weighted average number of ordinary shares has declined as a result of treasury shares held by the Volution Employee Benefit Trust (EBT) during the year (see note 25 for details). The shares are excluded when calculating the reported and adjusted EPS.

See note 34, Glossary of terms, for explanation of the adjusted basic and diluted earnings per share calculation.

12. Property, plant and equipment

Accounting policy

Property, plant and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment: when significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, except freehold land, over their estimated useful lives using the straight line method. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

Buildings	–	30–50 years
Plant and machinery	–	5–10 years
Fixtures, fittings, tools, equipment and vehicles	–	4–10 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income as part of administrative expenses, or if the amount is deemed significant within exceptional items, as set out in note 5.

The Group's impairment policy can be found in note 14.

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For the year ended 31 July 2018

12. Property, plant and equipment continued

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
2018				
Cost				
At 1 August 2017	13,764	8,377	7,579	29,720
On acquisition	—	513	1,579	2,092
Additions	560	1,533	2,542	4,635
Disposals	(561)	(212)	(1,589)	(2,362)
Net foreign currency exchange differences	(123)	(221)	(308)	(652)
At 31 July 2018	13,640	9,990	9,803	33,433
Depreciation				
At 1 August 2017	3,156	3,067	3,907	10,130
Charge for the year	503	784	1,744	3,031
Disposals	(399)	(193)	(1,296)	(1,888)
Net foreign currency exchange differences	(47)	(180)	(224)	(451)
At 31 July 2018	3,213	3,478	4,131	10,822
Net book value				
At 31 July 2018	10,427	6,512	5,672	22,611
	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
2017				
Cost				
At 1 August 2016	12,897	5,418	9,201	27,516
On acquisition	428	149	131	708
Additions	192	1,008	1,238	2,438
Disposals	(84)	(440)	(1,202)	(1,726)
Net foreign currency exchange differences	331	155	298	784
Transfers	—	2,087	(2,087)	—
At 31 July 2017	13,764	8,377	7,579	29,720
Depreciation				
At 1 August 2016	2,641	2,051	3,694	8,386
Charge for the year	480	1,100	1,256	2,836
Disposals	(26)	(388)	(1,057)	(1,471)
Net foreign currency exchange differences	61	111	207	379
Transfers	—	193	(193)	—
At 31 July 2017	3,156	3,067	3,907	10,130
Net book value				
At 31 July 2017	10,608	5,310	3,672	19,590

13. Intangible assets – goodwill

Accounting policy

Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Goodwill is reviewed for impairment annually or more frequently if there is an indication of impairment. Impairment of goodwill is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying value of the cash generating unit to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of goodwill

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The test aims to ensure that goodwill is not carried at a value greater than the recoverable amount, which is considered to be the higher of fair value less costs of disposal and value in use.

The cash flows are derived from the business plan for the following three years. The recoverable amount is very sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are explained further in note 15.

The identification of the Group's cash generating units (CGUs) used for impairment testing involves a degree of judgement (see note 15). Management has reviewed the Group's assets and cash inflows and identified the lowest aggregation of assets that generate largely independent cash inflows.

Goodwill	£000
Cost and net book value	
At 1 August 2016	68,228
On acquisition of Breathing Buildings Limited	6,688
On acquisition of VoltAir System AB	5,527
Net foreign currency exchange differences	1,141
At 31 July 2017	81,584
On acquisition of Simx Limited	23,457
On acquisition of AirFan B.V.	289
On acquisition of Oy Pamon Ab	6,418
On acquisition of Air Connection ApS	1,956
Net foreign currency exchange differences	(1,022)
At 31 July 2018	112,682

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14. Intangible assets – other

Accounting policy

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

The fair value of patents, trademarks and customer base acquired and recognised as part of a business combination is determined using the relief-from-royalty method or multi-period excess earnings method.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Research and development

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the availability of resources to complete the asset; and the ability to reliably measure the expenditure during development.

Subsequent measurement of intangible assets

Intangible assets with a finite life are amortised on a straight line basis over their estimated useful lives as follows:

Development costs	– 10 years
Software costs	– 5–10 years
Customer base	– 5–15 years
Trademarks	– 15–25 years
Patents/technology	– 5–25 years
Other	– 5 years

The estimated useful life and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised in the statement of comprehensive income.

Impairment of other intangible assets

The Group's accounting policy for impairment of other intangible assets is set out above. The Group records all assets and liabilities acquired in business combinations at fair value. Intangible assets are reviewed for impairment annually if events or changes in circumstances indicate that the carrying amount may not be recoverable.

14. Intangible assets – other continued

	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
2018							
Cost							
At 1 August 2017	2,626	6,985	116,117	42,168	2,291	896	171,083
Additions	925	949	—	3	21	—	1,898
On acquisitions	—	59	13,525	2,422	1,222	249	17,477
Disposals	—	(281)	—	—	—	—	(281)
Net foreign currency exchange differences	(79)	17	(710)	(355)	(14)	(27)	(1,168)
At 31 July 2018	3,472	7,729	128,932	44,238	3,520	1,118	189,009
Amortisation							
At 1 August 2017	379	2,424	57,697	8,806	258	513	70,077
Charge for the year	264	647	12,021	1,897	371	405	15,605
Disposal	—	(281)	—	—	—	—	(281)
Net foreign currency exchange differences	(13)	30	(432)	(88)	(2)	(11)	(516)
At 31 July 2018	630	2,820	69,286	10,615	627	907	84,885
Net book value							
At 31 July 2018	2,842	4,909	59,646	33,623	2,893	211	104,124

Included in software costs are assets under construction of £nil (2017: £148,000), which are not amortised. Included in development costs are assets under construction of £420,000 (2017: £217,000), which are not amortised.

	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents £000	Other £000	Total £000
2017							
Cost							
At 1 August 2016	2,232	5,587	110,973	40,481	573	300	160,146
Additions	350	1,328	—	—	21	—	1,699
On acquisitions	—	55	3,682	1,246	1,646	576	7,205
Disposals	—	(19)	—	—	—	—	(19)
Net foreign currency exchange differences	44	34	1,462	441	51	20	2,052
At 31 July 2017	2,626	6,985	116,117	42,168	2,291	896	171,083
Amortisation							
At 1 August 2016	165	1,880	45,580	6,930	52	178	54,785
Charge for the year	206	530	11,521	1,792	200	332	14,581
Net foreign currency exchange differences	8	14	596	84	6	3	711
At 31 July 2017	379	2,424	57,697	8,806	258	513	70,077
Net book value							
At 31 July 2017	2,247	4,561	58,420	33,362	2,033	383	101,006

Notes to the Consolidated Financial Statements continued

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14. Intangible assets – other continued

The remaining amortisation periods for acquired intangible assets at 31 July 2018 are as follows:

	Customer base	Trademark	Patent/ technology
Volusion Holdings Limited and its subsidiaries	4 years	19 years	—
Fresh AB and its subsidiaries	1 years	14 years	—
PAX AB and PAX Norge AS	3 years	15 years	—
inVENTer GmbH	5 years	16 years	16 years
Brüggemann Energiekonzepte GmbH	2 years	—	—
Ventilair Group International BVBA and its subsidiaries	5 years	7 years	—
Energy Technique Limited and its subsidiaries	6 years	18 years	—
Weland Luftbehandlung AB	2 years	—	—
NVA Services Limited and its subsidiaries	8 years	13 years	—
Breathing Buildings Limited	8 years	13 years	3 years
VoltAir System AB	14 years	14 years	4 years
Simx Limited	15 years	25 years	—
Oy Pamon Ab	10 years	20 years	10 years
Air Connection ApS	10 years	—	—

15. Impairment assessment of goodwill

Accounting policy

Intangible assets, including goodwill, that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, where the recoverable amount is the higher of the asset's fair value less costs of disposal and value in use.

Goodwill acquired through business combinations has been allocated, for impairment testing purposes, to a group of cash generating units (CGUs). These grouped CGUs are: UK Ventilation, Central Europe, Nordics, Australasia and OEM. This is also the level at which management is monitoring the value of goodwill for internal management purposes.

31 July 2018	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	55,899	5,101	16,577	12,041	23,064
CGU value in use headroom ¹	135,759	32,165	66,844	25,529	3,649

Applying the same grouped CGUs to the 31 July 2017 goodwill gives the following headroom:

31 July 2017	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000
Carrying value of goodwill	55,899	5,101	8,805	11,779
CGU value in use headroom ¹	182,262	24,519	71,818	17,011

Note

- Headroom is calculated by comparing the value in use (VIU) of a group of CGUs to the carrying amount of its asset, which includes the net book value of fixed assets (tangible and intangible), goodwill and operating working capital (current assets and liabilities).

15. Impairment assessment of goodwill continued

Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 11.4% to 13.5% over that period. In all CGUs it was concluded that the carrying amount was in excess of the value in use and all CGUs had positive headroom.

Key assumptions in the value in use calculation

The calculation of value in use for all CGUs is most sensitive to the following assumptions:

- > Price inflation – small annual percentage increases specific to each CGU are assumed in all markets based on historical data.
- > Growth in the forecast period – specific growth rates have been used for each of the CGUs for the five-year forecast period based on historical growth rates and market expectations.
- > Discount rates – rates reflect the current market assessment of the risks specific to each operation. The pre-tax discount rate ranged from 11.4% to 13.5%.
- > No growth rate has been used to extrapolate cash flows beyond the forecast period other than the 2% rate of inflation.

The value in use headroom, for each cash generating unit where these sensitivities would be applicable, has been set out above. We have modelled various sensitivities in relation to the above key assumptions and in all cases an adverse movement of more than 10% would be required to cause the carrying value of the cash generating units to materially exceed their recoverable value.

16. Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. There have been no non-controlling interests in the business combinations to date. Acquisition costs incurred are expensed and included in exceptional items.

When the Group acquires a business it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

Contingent consideration resulting from business combinations is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date, with changes in fair value recognised either in profit or loss or as a change in other comprehensive income (OCI). The determination of fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) that are expected to benefit from the combination, irrespective of whether assets or liabilities of the acquisition are assigned to those units.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

16. Business combinations continued

Acquisitions in the year ended 31 July 2018

Simx Limited

On 19 March 2018, Volution Group plc, through one of its wholly owned subsidiaries, Chinook Limited, acquired the entire issued share capital of Simx Limited, a company based in New Zealand. The transaction was funded from the Group's existing revolving credit facility. The acquisition of Simx is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was cash consideration of NZD 54,508,000 (£28,651,000).

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £332,000 and have been expensed.

The provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	3,849	8,246	12,095
Deferred tax asset	111	377	488
Property, plant and equipment	1,777	(63)	1,714
Inventory	4,136	(282)	3,854
Trade and other receivables	2,702	—	2,702
Trade and other payables	(2,443)	(456)	(2,899)
Bank debt	(9,806)	—	(9,806)
Deferred tax liabilities	—	(3,370)	(3,370)
Cash and cash equivalents	416	—	416
Total identifiable net assets	742	4,452	5,194
Goodwill on acquisition			23,457
			28,651
Discharged by:			
Consideration satisfied in cash			28,651

Goodwill of £23,457,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £2,702,000. The amounts for trade and other receivables not expected to be collected are £nil.

Simx Limited generated revenue of £8,182,000 and generated a profit after tax of £1,384,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £224,521,000 and the profit before tax from continuing operations would have been £20,881,000.

16. Business combinations continued**Acquisitions in the year ended 31 July 2018** continued**AirFan B.V.**

On 1 May 2018, Volusion Group plc, through one of its wholly owned subsidiaries, Ventilair Group Netherlands B.V., acquired the entire issued share capital of AirFan B.V. The transaction was funded from the Group's cash reserves.

Total consideration for the transaction was cash consideration of €300,000 (£264,000).

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £29,000 and have been expensed.

The provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Property, plant and equipment	16	—	16
Inventory	124	(22)	102
Trade and other receivables	162	—	162
Trade and other payables	(305)	—	(305)
Total identifiable net assets	(3)	(22)	(25)
Goodwill on acquisition			289
			264
Discharged by:			
Consideration satisfied in cash			264

Goodwill of £289,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce.

The gross amount of trade and other receivables is £162,000. The amounts for trade and other receivables not expected to be collected are £nil.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

16. Business combinations continued

Acquisitions in the year ended 31 July 2018 continued

Oy Pamon Ab

On 5 July 2018, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of Oy Pamon Ab. The transaction was funded from the Group's existing revolving credit facility. The acquisition of Oy Pamon Ab is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was cash consideration of €12,258,000 (£10,854,000) and contingent consideration with a fair value of €650,000 (£575,000), giving total consideration of €12,908,000 (£11,429,000). The contingent consideration is based on the level of EBITDA achieved during the two years to 30 November 2018 and 2019. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable; the maximum amount of contingent consideration payable is €2,000,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the 2018 budget and 2019 forecast. The contingent consideration has not been discounted as the impact is considered to be immaterial. The contingent consideration is expected to be finalised and paid during FY 2019 and FY 2020.

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £290,000 and have been expensed.

The provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	64	4,514	4,578
Deferred tax asset	—	91	91
Property, plant and equipment	130	—	130
Inventory	935	(307)	628
Trade and other receivables	604	(107)	497
Trade and other payables	(1,209)	(44)	(1,253)
Deferred tax liabilities	—	(903)	(903)
Cash and cash equivalents	1,243	—	1,243
Total identifiable net assets	1,767	3,244	5,011
Goodwill on acquisition			6,418
			11,429
Discharged by:			
Consideration satisfied in cash			10,854
Contingent consideration			575
Total consideration			11,429

Goodwill of £6,418,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename, customer base, technology and order book was identified and included in intangible assets.

The gross amount of trade and other receivables is £604,000. The amounts for trade and other receivables not expected to be collected are £107,000.

Oy Pamon Ab generated revenue of £703,000 and generated a profit after tax of £160,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £214,310,000 and the profit before tax from continuing operations would have been £18,877,000.

16. Business combinations continued

Acquisitions in the year ended 31 July 2018 continued

Air Connection ApS

On 16 July 2018, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of Air Connection ApS. The transaction was funded from the Group's existing revolving credit facility. The Group's acquisition of Air Connection ApS is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was cash consideration of DKK 25,800,000 (£3,072,000) and contingent consideration with a fair value of DKK 4,200,000 (£500,000), giving total consideration of DKK 30,000,000 (£3,572,000). The contingent consideration is based on the level of EBITDA achieved during the twelve months to 31 July 2021. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable; the maximum amount of contingent consideration payable is DKK 4,200,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the forecast for the year to 31 July 2021. The contingent consideration has not been discounted as the impact is considered to be immaterial. The contingent consideration is expected to be finalised and paid during FY 2022.

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £41,000 and have been expensed.

The provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	—	804	804
Property, plant and equipment	197	—	197
Inventory	833	—	833
Trade and other receivables	648	—	648
Trade and other payables	(868)	—	(868)
Deferred tax liabilities	(18)	(177)	(195)
Cash and cash equivalents	197	—	197
Total identifiable net assets	989	627	1,616
Goodwill on acquisition			1,956
			3,572
Discharged by:			
Consideration satisfied in cash			3,072
Contingent consideration			500
Total consideration			3,572

Goodwill of £1,956,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £648,000.

Air Connection ApS generated revenue of £94,000 and generated a profit after tax of £20,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £209,819,000 and the profit before tax from continuing operations would have been £17,970,000.

Notes to the Consolidated Financial Statements continued

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16. Business combinations continued

Acquisitions in the year ended 31 July 2017

Breathing Buildings Limited

On 16 December 2016, Volution Ventilation Group Limited acquired the entire issued share capital of Breathing Buildings Limited. The transaction was funded from the Group's existing revolving credit facility. The Group acquired Breathing Buildings Limited as it extended Volution's capability with a leader in natural and hybrid ventilation for commercial buildings, in particular focusing on new construction for education.

Total consideration for the transaction was cash consideration of £11,881,000.

Transaction costs associated with the acquisition in the period ended 31 January 2017 were £207,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	54	4,318	4,372
Deferred tax asset	444	(240)	204
Property, plant and equipment	147	12	159
Inventory	734	61	795
Trade and other receivables	2,208	(12)	2,196
Trade and other payables	(1,917)	(86)	(2,003)
Deferred tax liabilities	—	(780)	(780)
Cash and cash equivalents	250	—	250
Total identifiable net assets	1,920	3,273	5,193
Goodwill on acquisition			6,688
			11,881
Discharged by:			
Consideration satisfied in cash			11,881

Goodwill of £6,688,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £2,208,000. The amounts for trade and other receivables not expected to be collected are £12,000.

Breathing Buildings Limited generated revenue of £4,918,000 and generated a profit after tax of £337,000 in the period from acquisition to 31 July 2017 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2016, the Group's revenue would have been £188,514,000 and the profit before tax from continuing operations would have been £17,239,000.

16. Business combinations continued

Acquisitions in the year ended 31 July 2017 continued

VoltAir System AB

On 29 May 2017, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of VoltAir System AB (VoltAir). The transaction was funded from the Group's existing revolving credit facility. The acquisition is in line with the Group's strategy of acquiring selective value-adding and strategically important businesses and will give Volution an enlarged presence in the new build sector in both the residential and commercial ventilation markets in Sweden and the Nordics in the growing and regulatory driven market for air handling units.

Total consideration for the transaction was cash consideration of SEK 79,711,000 (£7,091,000) and contingent consideration with a fair value of SEK 16,930,000 (£1,506,000), giving total consideration of SEK 96,641,000 (£8,597,000). The contingent consideration was based on the level of EBITDA achieved during the twelve months to 31 December 2017. There was a minimum level of EBITDA which must be achieved otherwise no contingent consideration was payable; the maximum amount of contingent consideration payable was SEK 28,000,000. At the acquisition date the contingent consideration was recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. The EBITDA calculation was finalised during FY 2018 and nil contingent consideration was payable (see note 5 for further details).

Transaction costs associated with the acquisition in the year ended 31 July 2017 were SEK 1,292,000 (£117,000) and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	—	2,833	2,833
Deferred tax liability	—	(708)	(708)
Property, plant and equipment	465	84	549
Inventory	367	(64)	303
Trade and other receivables	758	(12)	746
Trade and other payables	(1,112)	(145)	(1,257)
Cash and cash equivalents	604	—	604
Total identifiable net assets	1,082	1,988	3,070
Goodwill on acquisition			5,527
			8,597
Discharged by:			
Consideration satisfied in cash			7,091
Contingent consideration			1,506
Total consideration			8,597

The fair value of the acquired customer base, trademark, patents and committed order book were identified and included in intangible assets. Other fair value adjustments made to the book value of assets and liabilities acquired were immaterial.

Goodwill of £5,527,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies and the experience and skill of the workforce arising from the acquisition.

The gross amount of trade and other receivables is £758,000. The amounts for trade and other receivables not expected to be collected are £12,000.

VoltAir System AB generated revenue of £515,000 and generated a profit after tax of £6,000 in the period from acquisition to 31 July 2017 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2016, the Group's revenue would have been £190,285,000 and the profit before tax from continuing operations would have been £18,780,000.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

16. Business combinations continued

Cash outflows arising from business combinations are as follows:

	2018 £000	2017 £000
Simx Limited		
Cash consideration	28,651	—
Less: cash acquired with the business	(416)	—
AirFan B.V.		
Cash consideration	264	—
Less: cash acquired with the business	—	—
Oy Pamon Ab		
Cash consideration	10,854	—
Less: cash acquired with the business	(1,243)	—
Air Connection ApS		
Cash consideration	3,072	—
Less: cash acquired with the business	(197)	—
Breathing Buildings Limited		
Cash consideration	—	11,881
Less: cash acquired with the business	—	(250)
VoltAir System AB		
Cash consideration	—	7,091
Less: cash acquired with the business	—	(604)
	40,985	18,118

17. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials is purchase cost on a first in, first out basis. The cost of work in progress and finished goods includes: cost of direct materials and labour and an appropriate portion of fixed and variable overhead expenses based on normal operating capacity, but excludes borrowing costs.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost to sell.

	2018 £000	2017 £000
Raw materials and consumables	13,860	12,773
Work in progress	1,371	1,208
Finished goods and goods for resale	14,905	8,756
	30,136	22,737

During 2018, £833,000 (2017: £261,000) was recognised as a cost of sales for inventories written off in the year.

Inventories are stated net of an allowance for excess, obsolete or slow-moving items which totalled £4,083,000 (2017: £2,829,000).

This provision was split amongst the three categories: £1,679,000 (2017: £1,526,000) for raw materials and consumables; £238,000 (2017: £184,000) for work in progress; and £2,166,000 (2017: £1,119,000) for finished goods and goods for resale.

18. Trade and other receivables

Accounting policy

Trade and other receivables are recognised when it is probable that a future economic benefit will flow to the Group. Trade and other receivables are carried at original invoice or contract amount less any provisions for discounts and doubtful debts. Provisions are made where there is evidence of a risk of non-payment taking into account ageing, previous experience and general economic conditions.

Provisions for bad debts

Provisions for bad debts are made with reference to the ageing of receivables and the view of management as to whether amounts are recoverable. Bad debt will be determined with consideration given to recent customer trading and management experience.

Rebates receivable

The Group has a number of supplier rebate agreements that are recognised as a reduction of cost of sales (collectively referred to as rebates). Rebates are based on an agreed percentage of purchases, which will increase with the level of purchases made. These agreements typically are not coterminous with the Group's year end and some of the amounts payable are subject to confirmation after the reporting date.

	2018 £000	2017 £000
Trade receivables	35,964	34,111
Allowance for doubtful debts	(1,204)	(967)
	34,760	33,144
Other debtors	1,490	1,538
Prepayments	2,623	2,549
	38,873	37,231

Movement in the allowance for doubtful debts is set out below:

	2018 £000	2017 £000
At the start of the year	(967)	(893)
Charge for the year	(398)	(758)
Amounts utilised	225	702
Foreign currency adjustment	(64)	(18)
At the end of the year	(1,204)	(967)

Gross trade receivables are denominated in the following currencies:

	2018 £000	2017 £000
Sterling	23,336	25,332
US Dollar	49	19
Euro	4,881	3,971
Swedish Krona	3,242	4,130
New Zealand Dollar	3,086	—
Other	1,370	659
	35,964	34,111

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

18 Trade and other receivables continued

Net trade receivables are aged as follows:

	2018 £000	2017 £000
Neither past due nor impaired	28,897	27,369
Past due but not impaired		
Overdue 0–30 days	4,353	3,993
Overdue 31–60 days	1,179	1,241
Overdue 61–90 days	217	280
Overdue more than 90 days	114	261
	34,760	33,144

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available; otherwise, historical information relating to counterparty default rates is used. The Group continually assesses the recoverability of trade receivables and the level of provisioning required.

19. Other financial assets

	2018 Current £000	2017 Current £000
Financial assets		
Cash held in escrow	—	16
Foreign exchange forward contracts	302	—
	302	16

20. Cash and cash equivalents

Accounting policy

Cash and short-term deposits comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks. Cash and cash equivalents as shown in the statement of cash flows is equal to that in the statement of financial position as follows:

	2018 £000	2017 £000
Cash and short-term deposits	18,221	14,499

	2018 £000	2017 £000
Cash and cash equivalents are denominated in the following currencies:		
Sterling	8,089	7,086
Euro	5,374	5,561
US Dollar	1,456	524
Swedish Krona	783	1,057
New Zealand	2,084	—
Other	435	271
	18,221	14,499

21. Trade and other payables

Critical accounting judgements and key sources of estimation uncertainty

Rebates payable

The Group has a number of customer rebate agreements that are recognised as a reduction from sales (collectively referred to as rebates). Rebates are based on an agreed percentage of revenue, which increases with the level of revenue achieved. These agreements typically are not coterminous with the Group's year end and some of the amounts payable are subject to confirmation after the reporting date.

At the reporting date, the Directors make estimates of the amount of rebate that will become payable by the Group under these agreements, based upon their best estimates of volumes and product mix that will be sold over each individual rebate agreement period. Where the respective customer has been engaged with the Group for a number of years, historical settlement trends are also used to assist in ensuring an appropriate estimate is recorded at the reporting date and that appropriate internal approvals and reviews take place before rebates are recorded.

The total rebate payable provision at 31 July 2018 included within trade and other payables is £5,764,000 (2017: £5,061,000). The sales rebate provision is recognised within trade payables, rather than trade receivables, as a significant proportion of the agreements across the Group do not provide for credit notes to be raised against receivable balances. Rather, cash payment of the rebate amount due is expected. Furthermore, the majority of rebate agreements do not contain a clause which provides a legally enforceable right to offset invoiced amounts.

The total rebate provision of £5,764,000 included within trade and other payables is based on the Directors' best estimate of customer sales over the rebate agreement period. The provision as at 31 July 2018 is based on the Directors' sales estimate based on prior year trading and results. Given that the rebate provision represents an estimate within the financial statements, there is a risk that the Directors' estimate of the potential liability may be incorrect.

	2018 £000	2017 £000
Trade payables	21,973	21,056
Social security and staff welfare costs	1,533	1,434
Accrued expenses	22,183	18,139
	45,689	40,629

22. Other financial liabilities

	2018		2017	
	Current £000	Non-current £000	Current £000	Non-current £000
Foreign exchange forward contracts	—	—	536	—
Contingent consideration – VoltAir System AB	—	—	1,588	—
Contingent consideration – Oy Pamon Ab	—	580	—	—
Contingent consideration – Air Connection ApS	—	564	—	—
	—	1,144	2,124	—

The contingent consideration payable in relation to Oy Pamon Ab is based on its EBITDA performance achieved during the two years to 30 November 2018 and 2019. The contingent consideration payable in relation to Air Connection ApS is based on its EBITDA performance achieved during the twelve months to 31 July 2021. At the date of acquisition the Group estimated the EBITDA result for the relevant period and has recognised a liability based on this estimate. See note 16 for further details.

The prior year contingent consideration payable in relation to VoltAir System AB was released in the year. See note 5 for further details.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

23. Interest-bearing loans and borrowings

Accounting policy

Borrowings and other financial liabilities, including loans, are initially measured at fair value, net of transaction costs.

Borrowings and other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

	2018		2017	
	Current £000	Non-current £000	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2021)	—	95,410	—	—
Cost of arranging bank loan	—	(805)	—	—
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2019)	—	—	—	51,490
Cost of arranging bank loan	—	—	—	(402)
	—	94,605	—	51,088

On 15 December 2017, the Group refinanced its bank debt. The Group now has in place a £120 million multicurrency revolving credit facility, together with an accordion of up to £30 million. The facility matures in December 2021, with the option to extend the termination of the facility by a period of twelve months. The old facility was repaid in full early, on 15 December 2017, and a new multicurrency revolving credit facility was entered into. Interest-bearing loans at 31 July 2018 comprise this multicurrency revolving credit facility, together with an accordion, from Danske Bank A/S, HSBC and the Royal Bank of Scotland, with HSBC acting as agent, and are governed by a facilities agreement. No security is provided under the facility.

Bank loans at 31 July 2017 comprised a revolving credit facility from Danske Bank A/S, HSBC and the Royal Bank of Scotland with HSBC acting as agent and are governed by a facilities agreement. The outstanding loans are set out in the table below. No security was provided under the facility.

Revolving credit facility – at 31 July 2018

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	31,000	15 December 2021	One payment	Libor + margin%
Euro	39,943	15 December 2021	One payment	Euribor + margin%
Swedish Krona	24,467	15 December 2021	One payment	Stibor + margin%
Total	95,410			

Revolving credit facility – at 31 July 2017

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	5,000	30 April 2019	One payment	Libor + margin%
Euro	23,320	30 April 2019	One payment	Euribor + margin%
Swedish Krona	23,170	30 April 2019	One payment	Stibor + margin%
Total	51,490			

The interest rate on borrowings includes a margin that is dependent on the consolidated leverage level of the Group in respect of the most recently completed reporting period. For the year ended 31 July 2017, Group leverage was below 1.0:1 and therefore the margin was 1.00%. The consolidated leverage level fell below 1.0:1 for the year ended 31 July 2017 and therefore the margin for the first half of the year ended 31 July 2018 was 1.00%. On refinancing the margin was reduced to 0.9%. At the half year, the consolidated leverage was below 1.0:1 and therefore the margin continued to be 0.9% under the new facility. For the second half of the year ended 31 July 2018 the margin increased to 1.40% due to the acquisition of Simx Limited which increased leverage to 1.7:1; this rate will continue into the first half of the year ended 31 July 2019.

At 31 July 2018, the Group had £24,590,000 (2017: £37,010,000) of its multicurrency revolving credit facility unutilised.

23. Interest-bearing loans and borrowings continued**Reconciliation of movement of financial liabilities**

	2018 £000	2017 £000
At 1 August	51,490	51,869
Additional loans	103,474	17,491
Loans acquired on acquisition	10,007	—
Repayment of loans	(67,869)	(20,540)
Interest charge	1,017	766
Interest paid	(1,017)	(766)
Foreign exchange	(1,692)	2,670
At 31 July	95,410	51,490

24. Provisions**Accounting policy**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions for the expected costs of maintenance guarantees are charged against profits when products have been invoiced.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation taking into account the risks and uncertainties surrounding the obligation. The timings of cash outflows are by their nature uncertain and are therefore best estimates. Provisions are not discounted as the time value of money is not considered material.

Provisions for warranties and property dilapidations

Provisions for warranties are made with reference to recent trading history and historical warranty claim information, and the view of management as to whether warranty claims are expected.

Warranty provisions are determined with consideration given to recent customer trading and management experience.

Dilapidation provisions relate to dilapidation charges relating to leasehold properties. The timing of cash flows associated with the dilapidation provision is dependent on the timing of the lease agreement termination.

2018	Product warranties £000	Property dilapidations £000	Total £000
At 1 August 2017	1,291	684	1,975
Arising during the year	903	250	1,153
Utilised	(1,201)	(550)	(1,751)
Foreign currency adjustment	11	—	11
At 31 July 2018	1,004	384	1,388
Analysis:			
Current	1,004	—	1,004
Non-current	—	384	384
	1,004	384	1,388

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

24. Provisions continued

2017	Product warranties £000	Property dilapidations £000	Total £000
At 1 August 2016	1,268	671	1,939
On acquisition	120	12	132
Arising during the year	1,010	—	1,010
Utilised	(1,130)	—	(1,130)
Foreign currency adjustment	23	1	24
At 31 July 2017	1,291	684	1,975
Analysis:			
Current	1,291	550	1,841
Non-current	—	134	134
	1,291	684	1,975

Product warranties

A provision is recognised for warranty costs expected to be incurred in the following twelve months on products sold during the year and in prior years. Product warranties can range between one and five years; however, based on management's knowledge of the products, claims in relation to warranties after more than twelve months are rare and highly immaterial.

Property dilapidations

A provision has been recognised for dilapidations relating to obligations under leases for leasehold buildings and will be payable at the end of the lease term.

25. Authorised and issued share capital and reserves

Accounting policy

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Share options exercised during the period are satisfied with treasury shares.

	Number of ordinary shares	Ordinary shares £000	Share premium £000
At 31 July 2017 and 31 July 2018	200,000,000	2,000	11,527

At 31 July 2018, a total of 1,129,865 (2017: 1,166,878) ordinary shares in the Company were held by the Volution EBT, all of which were unallocated and available for transfer to participants of the Long Term Incentive Plan and Deferred Share Bonus Plan on exercise. During the year no ordinary shares in the Company were purchased by the trustees (2017: 250,000), and 37,013 (2017: nil) were released by the trustees at £65,000 (2017: £nil). The market value of the shares at 31 July 2018 was £2,293,626 (2017: £2,220,000).

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

26. Deferred tax

Accounting policy

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- > where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- > in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that the Directors consider it is probable that there will be taxable profits from which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates enacted or substantively enacted by the reporting date.

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

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Deferred tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity.

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

At 31 July 2018, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2017: £5,195,000) relating to management expenses, capital losses of £3,975,000 (2017: £3,975,000) arising in UK subsidiaries and gross tax losses of £407,000 (2017: £385,000) arising in overseas entities as there is insufficient evidence that the losses will be utilised. These losses are available to be carried indefinitely.

At 31 July 2018, the Group had no deferred tax liability (2017: £nil) to recognise for taxes that would be payable on the remittance of certain of the Group's overseas subsidiaries' unremitted earnings. Deferred tax liabilities have not been recognised as the Group has determined that there are no undistributed profits in overseas subsidiaries where an additional tax charge would arise on distribution.

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	1 August 2017 £000	Credited/ (charged) to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2018 £000
2018						
Temporary differences						
Depreciation in advance of capital allowances	(745)	(53)	—	—	—	(798)
Fair value movements of derivative financial instruments	146	(149)	—	—	—	(3)
Customer base, trademark and patent	(16,673)	2,915	—	137	(4,468)	(18,089)
Losses	298	(12)	—	(1)	—	285
Untaxed reserves	(447)	447	—	32	475	507
Other temporary differences	475	(37)	160	—	—	598
	(16,946)	3,111	160	168	(3,993)	(17,500)
Deferred tax asset	810	(810)	—	—	—	—
Deferred tax liability	(17,756)	3,921	160	168	(3,993)	(17,500)
	(16,946)	3,111	160	168	(3,993)	(17,500)

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

26. Deferred tax continued

	1 August 2016 £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2017 £000
Temporary differences						
Depreciation in advance of capital allowances	(365)	(376)	—	(4)	—	(745)
Fair value movements of derivative financial instruments	(108)	254	—	—	—	146
Customer base, trademark and patent	(18,158)	3,083	—	(223)	(1,375)	(16,673)
Losses	872	(779)	—	—	205	298
Untaxed reserves	(398)	62	—	(23)	(88)	(447)
Other temporary differences	(30)	396	109	—	—	475
	(18,187)	2,640	109	(250)	(1,258)	(16,946)
Deferred tax asset	450	155	—	—	205	810
Deferred tax liability	(18,637)	2,485	109	(250)	(1,463)	(17,756)
	(18,187)	2,640	109	(250)	(1,258)	(16,946)

27. Dividends paid and proposed

Accounting policy

Dividends are recognised when they meet the criteria for recognition as a liability. In relation to final dividends, this is when the dividend is approved by the Directors in the general meeting, and in relation to interim dividends, when paid.

	2018 £000	2017 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2018: 1.46 pence per share (2017: 1.35 pence)	2,903	2,688
Proposed dividends on ordinary shares		
Final dividend for 2018: 2.98 pence per share (2017: 2.80 pence)	5,926	5,567

The interim dividend payment of £2,903,000 is included in the consolidated statement of cash flows.

The proposed final dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2018.

28. Risk management

Accounting policy

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk. Instruments used are principally foreign exchange forward contracts. Further details of derivative financial instruments are included in notes 19 and 22.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the reporting date. The resulting gain or loss is immediately recognised in the statement of comprehensive income. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the relationship is more than twelve months and as a current asset or a current liability if the remaining maturity of the relationship is less than twelve months.

No derivative contracts have been designated as hedges for accounting purposes.

Hedge of net investments

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for as follows: gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in OCI while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is reclassified to profit or loss.

The Group uses borrowings in local currencies as a hedge of its exposure to foreign exchange risk on its investments in foreign operations.

28. Risk management continued

As a result of entering into financial instruments, the Group is exposed to market risk, credit risk, foreign exchange risk and liquidity risk. The Group's principal financial instruments are:

- > interest-bearing loans and borrowings;
- > trade and other receivables, trade and other payables, cash and short-term deposits; and
- > foreign exchange forward contracts.

This note provides further detail on financial risk management and includes quantitative information on the specific risks the Group is exposed to.

Derivative financial instruments

The Group uses forward foreign currency contracts to reduce exposure to foreign exchange risk.

Forward foreign currency contracts

The Group's purchases in foreign currencies, net of Group sales in those currencies, represent less than 1% (2017: 3%) of total material and component purchases. Each quarter the Group enters into forward exchange contracts for the purchase of the budgeted monthly net expenditure in US Dollars for the following rolling 12–15 months. Hedge accounting is not applied for these derivatives.

The Group's criteria for entering into a forward foreign currency contract would require that the instrument must:

- > be related to anticipated foreign currency commitment;
- > involve the same currency as the foreign currency commitment; and
- > reduce the risk of foreign currency exchange movements on the Group's operations.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risks, such as equity price risk and commodity risk.

The Group's exposure is primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into derivative financial instruments to manage its exposure to these risks when appropriate.

At 31 July 2018, the Group had commitments under forward foreign exchange contracts with varying settlement dates to 4 June 2019 (2017: 23 July 2018). See notes 19 and 22 for fair values.

Sensitivity analysis

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might affect the value of its derivatives and also the amounts recorded in its equity in the overseas entities and its statement of comprehensive income for the period. Therefore the Group has assessed:

- > what would be reasonably possible changes in the risk variables at the end of the reporting period; and
- > the effects on profit or loss and equity if such changes in the risk variables were to occur.

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Group's floating rate loans and borrowings which at the relevant reporting dates are not hedged. With all other variables being constant the Group's profit before tax is affected through the impact on floating rate borrowings as follows. There is only an immaterial impact on the Group's equity.

	Increase in basis points	Effect on profit before tax £000
31 July 2018		
Sterling	+25	(78)
Swedish Krona	+25	(61)
Euro	+25	(100)
31 July 2017		
Sterling	+25	(13)
Swedish Krona	+25	(58)
Euro	+25	(58)

The assigned movement in basis points for interest rate sensitivity analysis is based upon the currently observable market environment.

The Group cash balances are held in bank current accounts and earn immaterial levels of interest. Management has concluded that any changes in the Libor and SEK Libor rates will have an immaterial impact on interest income earned on the Group cash balances. No interest rate sensitivity has been included in relation to the Group's cash balances.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

28. Risk management continued

Foreign currency risk

The Group's exposure to foreign exchange risk primarily arises when revenue and expenses are denominated in a different currency from the Group's presentational currency and translated into GBP for consolidation into the Group's results. Foreign exchange risk also arises when the individual entities enter into transactions that are not denominated in their functional currency.

The following tables illustrate the impact of several changes to the spot GBP/USD, GBP/EUR, GBP/SEK and GBP/NZD exchange rates of +5% weakening of GBP. The tables below reflect the impact on profit before tax and equity if those changes were to occur. Only the impact of changes in the SEK, USD, NZD and Euro-denominated balances have been considered as these are the most significant non-GBP denominations used by the Group.

	Change in GBP vs USD/ SEK/EUR/NZD rate	Effect on profit before tax	
		2018 £000	2017 £000
Swedish Krona	5%	446	414
US Dollar	5%	(76)	(81)
Euro	5%	353	409
New Zealand Dollar	5%	106	—

	Change in GBP vs SEK/EUR/NZD rate	Effect on equity	
		2018 £000	2017 £000
Swedish Krona	5%	91	(84)
Euro	5%	(110)	(129)
New Zealand Dollar	5%	22	—

Liquidity risk

Liquidity risk for the Group arises from the management of working capital commitments and meeting its financial obligations as they fall due. The Group's policy is to regularly review cash flow forecasts/projections as well as information regarding cash balances to ensure that it has significant cash to allow it to meet its liabilities when they become due. The Group reviews its long-term funding requirements in parallel with its long-term strategy, with an objective of aligning both in a timely manner. At the reporting date, forecasts indicate that the Group is expected to have sufficient liquidity to meet its financial obligations for the foreseeable future.

The tables below summarise the maturity profile of the Group's significant undiscounted financial liabilities at 31 July 2018 and 2017.

	Less than one year £000	Between one and five years £000	More than five years £000	Total £000
At 31 July 2018				
Financial liabilities				
Interest-bearing loans and borrowings (excluding interest)	—	95,410	—	95,410
Forward foreign currency exchange outflow	11,059	—	—	11,059
Forward foreign currency exchange inflow	(11,361)	—	—	(11,361)
Contingent consideration – Oy Pamon Ab	—	580	—	580
Contingent consideration – Air Connection ApS	—	564	—	564
Trade payables and other accrued expenses	44,156	—	—	44,156
	43,854	96,554	—	140,408

The multicurrency revolving credit facility which was signed on 15 December 2017 was for a term of four years, with the option to extend the termination of the facility by a period of twelve months. The facility is fully flexible, with the amount borrowed being reset within one to three months. No interest has been included in the above table. For further details see note 23.

	Less than one year £000	Between one and five years £000	More than five years £000	Total £000
At 31 July 2017				
Financial liabilities				
Interest-bearing loans and borrowings (excluding interest)	—	51,490	—	51,490
Forward foreign currency exchange outflow	15,025	—	—	15,025
Forward foreign currency exchange inflow	(14,489)	—	—	(14,489)
Contingent consideration – VoltAir System AB	1,588	—	—	1,588
Trade payables and other accrued expenses	39,195	—	—	39,195
	41,319	51,490	—	92,809

28. Risk management continued

Fair values of financial assets and financial liabilities

There are no material differences between the book values and fair values for any of the Group's financial instruments carried at amortised cost. Derivative financial instruments have all been valued using other techniques, for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The Group is mainly exposed to credit risk from its operating activities (primarily for trade receivables – credit sales) and from cash and cash equivalents and deposits with banks and financial institutions and other financial instruments.

Trade receivables

The Group's finance function has established a credit policy under which each new customer is analysed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored and credit insurance is used where applicable. The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available; otherwise, historical information relating to counterparty default rates is used. The Group continually assesses the recoverability of trade receivables and the level of provisioning required. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment/pro-forma basis.

Refer to note 18 for the table of the age of accounts receivable that are past due.

The carrying amount of accounts receivable is reduced by an allowance account and the amount of loss is recognised within the consolidated income statement. When a receivable balance is considered uncollectable, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of comprehensive income.

The Group evaluated the concentration of credit risk with respect of trade receivables as low in view of the Group's large and diversified client base, which is located in several jurisdictions, and the Group's established credit policies.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. The Group deposits cash with reputable financial institutions, from which management believes the possibilities of loss to be remote. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 July 2018 and 2017 is the carrying amount. The Group's maximum exposure for derivative financial instruments is noted in either note 19 and 22 or in the liquidity table on the previous page.

Capital risk management

The primary objective of the Group's capital management policy is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs. The Group defines its capital as its share capital (excluding treasury shares), share premium account, foreign currency translation reserves and retained earnings. In addition, the Directors consider the management of debt to be an important element in controlling the capital structure of the Group. The Group may carry significant levels of long-term structural and subordinated debt to fund investments and acquisitions and has arranged debt facilities to allow for fluctuations in working capital requirements. There have been no changes to the capital management policy in the current period. Management manages capital on an ongoing basis to ensure that covenant requirements on third party debt are met.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- > Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities;
- > Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- > Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments carried at fair value comprise the derivative financial instruments in notes 19 and 22 and the contingent consideration in notes 16 and 22. For hierarchy purposes derivative financial instruments are deemed to be Level 2 as external valuers are involved in the valuation of these contracts. Their fair value is measured using valuation techniques including the DCF model. Inputs to this calculation include the expected cash flows in relation to these derivative contracts and relevant discount rates. Contingent consideration is deemed to be Level 3.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

29. Related party transactions

Transactions between Volution Group plc and its subsidiaries, and transactions between subsidiaries, are eliminated on consolidation and are not disclosed in this note. A breakdown of transactions between the Group and its related parties is disclosed below.

No related party loan note balances exist at 31 July 2018 or 31 July 2017.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the period, key management personnel did not owe the Company any amounts.

The Companies Act 2006 and the Directors' Remuneration Report Regulations 2013 require certain disclosures of Directors' remuneration. The details of the Directors' total remuneration are provided in the Directors' Remuneration Report (see pages 73 to 89).

Compensation of key management personnel

	2018 £000	2017 £000
Short-term employee benefits	2,806	2,714
Share-based payment change (see note 32)	461	512
Total	3,267	3,226

Key management personnel is defined as the CEO, the CFO and the ten (2017: ten) individuals who report directly to the CEO.

30. Group structure details

At 31 July 2018, Volution Group plc held 100% of the voting shares of the following subsidiaries:

Group company	Principal activity	Country of incorporation
Direct		
Windmill Topco Limited ¹	Intermediate holding company	England
Volution Holdings Limited ¹	Intermediate holding company	England
Energy Technique Limited ¹	Intermediate holding company	England
Indirect		
Windmill Midco Limited ¹	Intermediate holding company	England
Windmill Cleanco Limited ¹	Intermediate holding company	England
Windmill Bidco Limited ¹	Intermediate holding company	England
Manrose Manufacturing Limited ¹	Ventilation products	England
Volution Ventilation Group Limited ¹	Intermediate holding company	England
Torin-Sifan Limited ¹	Original equipment manufacturer	England
Anda Products Limited ¹	Non-trading	England
Axia Fans Limited ¹	Non-trading	England
Roof Units Limited ¹	Non-trading	England
Torin Limited ¹	Non-trading	England
Vent-Axia Limited ¹	Non-trading	England
Vent-Axia Clean Air Systems Limited ¹	Non-trading	England
Vent-Axia Group Limited ¹	Ventilation products	England
ET Environmental Limited ¹	Ventilation products	England
Diffusion Environmental Systems Limited ¹	Non-trading	England
NVA Services Limited ¹	Intermediate holding company	England
SW National Ventilation Limited ¹	Ventilation products	England
Airtech Humidity Controls Limited ¹	Ventilation products	England
Sens-Air Limited ¹	Ventilation products	England
Breathing Buildings Limited ¹	Ventilation products	England
Volution Ventilation UK Limited ¹	Ventilation products	England
Volution Holdings Sweden AB ²	Intermediate holding company	Sweden
Fresh AB ²	Ventilation products	Sweden
Welair AB ³	Ventilation products	Sweden
VoltAir System AB ⁴	Ventilation products	Sweden

30. Group structure details continued

Group company	Principal activity	Country of incorporation
PAX AB ⁵	Ventilation products	Sweden
Volution Norge AS (formerly Fresh Norge AS) ⁶	Ventilation products	Norway
Fresh Shanghai Limited ⁷	Ventilation products	China
inVENTer GmbH ⁸	Ventilation products	Germany
Volution Management Holdings GmbH ⁸	Intermediate holding company	Germany
Volution Deutschland Real Estate GmbH ⁸	Property holding company	Germany
Brüggemann Energiekonzepte GmbH ⁹	Ventilation products	Germany
Ventilair Group International BVBA ¹⁰	Intermediate holding company	Belgium
Ventilair Group Belgium BVBA ¹⁰	Ventilation products	Belgium
Ventilair Group Netherlands B.V. ¹¹	Ventilation products	Netherlands
Ventilair France SARL ¹²	Ventilation products	France
Chinook Limited ¹³	Intermediate holding company	New Zealand
Simx Limited ¹³	Ventilation products	New Zealand
AirFan B.V. ¹¹	Ventilation products	Netherlands
Oy Pamon Ab ¹⁴	Ventilation products	Finland
Air Connection ApS ¹⁵	Ventilation products	Denmark

Registered offices:

- | | | |
|---|---|--|
| 1. Fleming Way, Crawley, West Sussex RH10 9YX. | 7. No. 272–3 Julu Road, Shanghai, China. | 12. Boulevard de la Liberté 130, FR-59000 Lille, France. |
| 2. Gransholmsvägen 136, 35599 Gemla, Sweden. | 8. Ortsstraße 4a 07751 Löberschütz, Germany. | 13. 1 Haliday Place, East Tamaki, Auckland, 2013, New Zealand. |
| 3. Strandvägen 65, 87052 Nyland, Sweden. | 9. Uhlenhorst 149A, 21435 Stelle, Germany. | 14. Keskikankaantie 17, 15680 Hollola, Finland. |
| 4. Box 7033, 12107 Stockholm-Globen, Sweden. | 10. Pieter Verhaeghestraat 8, 8520 Kuurne, Belgium. | 15. Rude Havvej 17B, DK-8300 Odder, Denmark. |
| 5. Kattkärrsvägen 4, 64831 Hälleforsnäs, Sweden. | 11. Kerver 16, 5521 DB Eersel, Netherlands. | |
| 6. Professor Birkelands vei 24B, 1081 Oslo, Norway. | | |

31. Commitments and contingencies

Accounting policy

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Payments under operating leases are charged to the statement of comprehensive income on a straight line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Operating lease commitments

The Group has entered into commercial leases on certain items of land and building and others. These leases have an average life of between five and 15 years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these contracts.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2018 £000	2017 £000	2018 £000	2017 £000
Within one year	1,729	1,735	281	240
After one year but not more than five years	7,260	6,828	350	266
More than five years	9,831	1,864	—	12
	18,820	10,427	631	518

Commitments

Commitments for the acquisition of property, plant and equipment as of 31 July 2018 are £158,000 (2017: £495,000).

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2018

32. Share-based payments

The Company operates a share-based incentive scheme for Directors and key employees, known as the Volution Long Term Incentive Plan (LTIP). Share options were granted in November 2015, October 2016 and March 2018; these nil-cost options normally vest after three years assuming continuing employment with the Company. The extent to which the options will vest is dependent upon the Company's performance over a three-year period set at the date of grant. The vesting of the awards will be determined by the Company's relative total shareholder return (TSR) performance and EPS growth. The TSR element of the options granted has been valued using the Group's share price volatility, the correlation between the share price movements of TSR comparators and the relevant vesting schedule.

	2018 Number	2017 Number
Outstanding at 1 August	1,624,828	1,023,309
Granted during the year	745,479	648,788
Dividend equivalent added on vesting	19,894	—
Exercised during the year	(37,013)	—
Lapsed during the year	(342,377)	(47,269)
Outstanding at 31 July	2,010,811	1,624,828

The weighted average exercise price for all options is £nil.

Of the total number of options outstanding at 31 July 2018 376,542 had vested and were exercisable.

The weighted average fair value of each option granted during the year was £2.01 (2017: £1.70).

The following information is relevant in the determination of the fair value of options granted during the year under the LTIP:

	2018
Option pricing model used	Monte Carlo
Weighted average share price at grant date (£)	2.00
Exercise price (£)	Nil
Expected life (years)	3
Expected volatility	27.9%
Risk-free interest rate	0.95%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of share prices over a period commensurate with the expected life of the option.

The share-based remuneration expense comprises:

	2018 £000	2017 £000
Equity-settled schemes	475	531
	475	531

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous periods.

33. Events after the reporting period

There have been no material events between 31 July 2018 and the date of authorisation of the consolidated financial statements that would require adjustments of the consolidated financial statements or disclosure.

34. Glossary of terms

Adjusted basic and diluted EPS – calculated by dividing the adjusted profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 413,555 dilutive potential ordinary shares at 31 July 2018 (2017: nil).

Adjusted EBITDA – adjusted operating profit before depreciation and amortisation.

Adjusted finance costs – finance costs removing net gains or losses on financial instruments at fair value and the exceptional write off of unamortised loan issue costs upon refinancing.

Adjusted operating cash flow – adjusted EBITDA plus or minus movements in operating working capital, less net investments in property, plant and equipment and intangible assets.

Adjusted operating profit – operating profit removing exceptional operating costs, release of contingent consideration and amortisation of assets acquired through business combinations.

Adjusted profit after tax – profit after tax removing 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 removing 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.

Cash conversion – is calculated by dividing adjusted operating cash flow by adjusted EBITDA less depreciation.

Constant currency – to determine values expressed as being at constant currency we have converted the income statement of our foreign operating companies for the year ended 31 July 2018 at the average exchange rate for the period ended 31 July 2017. In addition, we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2018, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2017.

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

Net debt – bank borrowings less cash and cash equivalents.

Operating cash flow – EBITDA plus or minus movements in operating working capital, less share-based payment expense, less net investments in property, plant and equipment and intangible assets.

Parent Company Statement of Financial Position

At 31 July 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	5	174	64
Investments	6	199,322	199,429
Deferred tax asset	4	542	478
		200,038	199,971
Current assets			
Other receivables and prepayments	7	93,349	51,545
Other current financial assets	8	297	—
Cash and short-term deposits		603	157
		94,249	51,702
Total assets		294,287	251,673
Current liabilities			
Trade and other payables	9	(19,699)	(21,866)
Other current financial liabilities	10	—	(531)
		(19,699)	(22,397)
Non-current liabilities			
Interest-bearing loans and borrowings	11	(94,605)	(51,087)
		(94,605)	(51,087)
Total liabilities		(114,304)	(73,484)
Net assets		179,983	178,189
Capital and reserves			
Share capital	12	2,000	2,000
Share premium		11,527	11,527
Treasury shares		(1,962)	(2,027)
Share-based payment reserve		1,690	1,289
Capital reserve		(273)	(273)
Retained earnings		167,001	165,673
Total equity		179,983	178,189

As permitted by Section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements.

The Company's profit for the year ended 31 July 2018 was £7.9 million (2017: £16.3 million).

The financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 11 October 2018.

On behalf of the Board



Ronnie George
Chief Executive Officer



Ian Dew
Chief Financial Officer

Parent Company Statement of Changes in Equity

For the year ended 31 July 2018

	Share capital £000	Share premium £000	Treasury shares £000	Share-based payment reserve £000	Capital reserve £000	Retained earnings £000	Total £000
At 1 August 2016	2,000	11,527	(1,533)	649	(273)	157,260	169,630
Profit for the year	—	—	—	—	—	16,277	16,277
Total comprehensive income	—	—	—	—	—	16,277	16,277
Share-based payment	—	—	—	640	—	—	640
Purchase of own shares	—	—	(494)	—	—	—	(494)
Dividends paid	—	—	—	—	—	(7,864)	(7,864)
At 1 August 2017	2,000	11,527	(2,027)	1,289	(273)	165,673	178,189
Profit for the year	—	—	—	—	—	7,904	7,904
Total comprehensive income	—	—	—	—	—	7,904	7,904
Share-based payment	—	—	65	401	—	—	466
Dividends paid	—	—	—	—	—	(8,471)	(8,471)
Waiver of inter-group loan payable	—	—	—	—	—	1,895	1,895
At 31 July 2018	2,000	11,527	(1,962)	1,690	(273)	167,001	179,983

Treasury shares

The treasury shares reserve represents the cost of shares in Volution Group plc purchased in the market and held by the Volution Employee Benefit Trust to satisfy obligations under the Group's share option schemes.

Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to key management personnel, as part of their remuneration. Refer to note 32 of the Group financial statements for further details.

Capital reserve

The capital reserve is the difference in share capital and reserves arising from the use of the pooling of interest method for preparation of the financial statements in 2014. This is a non-distributable reserve.

Retained earnings

£72,214,000 of the retained earnings balance at 31 July 2018 is available for distribution (2017: £72,781,000).

Parent Company Statement of Cash Flows

For the year ended 31 July 2018

	Notes	2018 £000	2017 £000
Operating activities			
Profit for the year after tax		7,904	16,277
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax for the year		(796)	(1,033)
Exceptional costs		557	136
Cash flows relating to exceptional costs		(684)	(9)
Finance revenue		(891)	(34)
Finance costs		1,284	2,476
Share-based payment expense		239	531
Effect of exchange rates on foreign-denominated loans		(779)	771
Depreciation of property, plant and equipment		18	5
Working capital adjustments:			
Increase in other receivables and prepayments		(40,907)	(8,558)
(Decrease)/increase in trade and other payables		(572)	1,738
Net cash flow (used in)/generated from operating activities		(34,627)	12,300
Investing activities			
Purchase of property, plant and equipment	5	(128)	(52)
Interest received		63	34
Net cash flow used in investing activities		(65)	(18)
Financing activities			
Interest paid		(1,049)	(800)
Repayment of interest-bearing loans and borrowings		(57,862)	(20,540)
Proceeds from new borrowings		103,474	17,491
Issue costs of new borrowings		(954)	—
Dividend paid to equity holders		(8,471)	(7,864)
Purchase of own shares		—	(494)
Net cash flow generated from/(used in) financing activities		35,138	(12,207)
Net increase in cash and cash equivalents		446	75
Cash and cash equivalents at the start of the year		157	82
Cash and cash equivalents at the end of the year		603	157

Notes to the Parent Company Financial Statements

For the year ended 31 July 2018

1. General information

These financial statements were approved and authorised for issue by the Board of Directors of Volution Group plc (the Company) on 11 October 2018.

The Company is a public limited company and is incorporated and domiciled in the UK (registered number: 09041571). The share capital of the Company is listed on the London Stock Exchange. The address of its registered office is Fleming Way, Crawley, West Sussex RH10 9YX.

2. Basis of preparation

The financial statements of Volution Group plc (the Company) are presented as required by the Companies Act 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

The financial statements are presented in Sterling (£), rounded to the nearest thousand (£000) unless otherwise stated. They have been prepared under the historical cost convention.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented an income statement or a statement of comprehensive income for the Company. The profit for the year is disclosed in the statement of changes in equity.

The policies applied by the Company are consistent with those set out in the notes to the consolidated financial statements. The following additional policies are also relevant to the Company financial statements.

Investments

Investments in subsidiary undertakings are valued at cost, being the fair value of the consideration given and including directly attributable transaction costs. The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Dividends received

Revenue is recognised when the Company's right to receive the payment is established, which is generally when the shareholders approve the dividend.

Financial instruments

For detailed disclosures of financial instruments refer to note 28 of the Group financial statements.

New standards and interpretations

There were no new or amended accounting standards relevant to the Company's results that are effective for the first time in 2018 that have a material impact on the Company's financial statements.

The following standards and interpretations have an effective date after the date of these financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 has been endorsed by the EU and is effective for accounting periods beginning on or after 1 January 2018 and was adopted by the Company on 1 August 2018.

IFRS 9 impacts the classification and measurement of the Company's financial instruments and requires certain additional disclosures. IFRS 9 also introduces changes to impairments of financial assets, which will result in the Company moving from an incurred loss model to an expected loss model. Although the new standard impacts the way in which bad debt provisions are calculated, as the Company has historically not incurred significant bad debt losses, the Company does not anticipate that the impact of this change will be material.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2018

2. Basis of preparation continued

New standards and interpretations continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15, as amended, is effective for accounting periods beginning on or after 1 January 2018 and was adopted by the Company on 1 August 2018. IFRS 15 provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. It replaces the separate models for goods, services and construction contracts currently included in IAS 11 Construction Contracts and IAS 18 Revenue.

Our impact assessment has concluded that IFRS 15 does not have a significant impact on the recognition of revenue for the Company.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2017 to replace IAS 17 Leases. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Company on 1 August 2019.

The Directors do not consider IFRS 16 to have a significant impact on the Company.

Other new standards or interpretations in issue, but not yet effective, are not expected to have a material impact on the Company's net assets or results.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company financial statements requires the use of certain judgements, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions relevant to the financial statements are embedded with the relevant notes to the consolidated financial statements.

Carrying value of investments

The key source of estimation uncertainty at the reporting date that has a significant risk of causing a material adjustment to the parent company financial statements is the recoverability of the investments set out in note 6.

The recoverability is estimated based on the expected performance and value of the investments, factoring in potential expected future net cash flow to be generated from the investments. The Company based its estimation on information available when these financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected when they occur.

3. Staff costs

	2018 £000	2017 £000
Wages and salaries	2,407	2,237
Social security costs	90	195
Share-based payment charge	239	531
Other pension costs	30	26
	2,766	2,989

Other pension costs relate to the Company's contribution to defined contribution pension plans. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2017/18 but based on actual salary levels in 2018/19.

3. Staff costs continued**Average monthly number of employees in the year**

	2018 Number	2017 Number
Administration	13	13

Directors' remuneration

	2018 £000	2017 £000
--	----------------------	--------------

Amounts paid in respect of qualifying services

Aggregate Directors' emoluments	1,423	1,876
Aggregate Directors' pension scheme contributions	87	86

In respect of the highest paid Director

Aggregate Director's emoluments	845	1,107
Aggregate Director's pension scheme contributions	52	51

The number of Directors accruing benefits under Company money purchase pension arrangements was nil (2017: nil).

The Company also incurred fees and expenses of £336,000 (2017: £349,000) in respect of Peter Hill, Tony Reading, Paul Hollingworth, Adrian Barden, Claire Tiney and Amanda Mellor for their services as Non-Executive Directors.

4. Deferred tax balances

Deferred tax assets and liabilities arise from the following:

	1 August 2017 £000	Charged to income £000	Charged to equity £000	31 July 2018 £000
Deferred tax asset				
Temporary differences	478	(95)	159	542

5. Property, plant and equipment

	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
2018		
Cost		
At 1 August 2017	70	70
Additions	128	128
At 31 July 2018	198	198
Depreciation		
At 1 August 2017	6	6
Charge for the year	18	18
At 31 July 2018	24	24
Net book value		
At 31 July 2018	174	174
At 31 July 2017	64	64

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2018

5. Property, plant and equipment continued

	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
2017		
Cost		
At 1 August 2016	18	18
Additions	52	52
At 31 July 2017	70	70
Depreciation		
At 1 August 2016	1	1
Charge for the year	5	5
At 31 July 2017	6	6
Net book value		
At 31 July 2017	64	64
At 31 July 2016	17	17

6. Investments

	£000
Cost	
At 31 July 2017	199,429
Impairment (as a result of the Group legal entity restructuring)	(107)
At 31 July 2018	199,322

For a list of the subsidiaries in which Volution Group plc held 100% of the voting shares as at 31 July 2018; see note 30 of the Group financial statements.

During the year we reorganised and simplified the legal entity structure of our UK Ventilation businesses. The trade and assets of our various UK Ventilation legal entities was sold to one new legal entity (Volution Ventilation UK Limited) at a consideration equal to the net book value of the assets and liabilities on each of entities statements of financial position at 31 July 2018. As a result of the transaction we have recognised an impairment of £107,000 of our investment in Energy Technique Limited as a consequence of the carrying value of the investment in that company being greater than the consideration paid. This impairment in no way reflects the on-going carrying value or cash generation of the business.

7. Other receivables and prepayments

	2018 £000	2017 £000
Amounts owed by Group undertakings	92,845	51,168
Prepayments	504	377
	93,349	51,545

8. Other financial assets

	2018 Current £000	2017 Current £000
Financial assets		
Foreign exchange forward contracts	297	—
	297	—

9. Trade and other payables

	2018 £000	2017 £000
Trade payables	311	165
Accruals	1,223	1,277
Amounts owed to Group undertakings	18,165	20,424
	19,699	21,866

10. Other financial liabilities

	2018 Current £000	2017 Current £000
Financial liabilities		
Foreign exchange forward contracts	—	531
	—	531

11. Interest-bearing loans and borrowings

	2018		2017	
	Current £000	Non-current £000	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2021)	—	95,410	—	—
Cost of arranging bank loan	—	(805)	—	—
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2019)	—	—	—	51,490
Cost of arranging bank loan	—	—	—	(403)
	—	94,605	—	51,087

On 15 December 2017, the Group refinanced its bank debt. The Group now has in place a £120 million multicurrency revolving credit facility, together with an accordion of up to £30 million. The facility matures in December 2021, with the option to extend the termination of the facility by a period of twelve months. The old facility was repaid in full early, on 15 December 2017, and a new multicurrency revolving credit facility was entered into. Interest-bearing loans at 31 July 2018 comprise this multicurrency revolving credit facility, together with an accordion, from Danske Bank A/S, HSBC and the Royal Bank of Scotland, with HSBC acting as agent, and are governed by a facilities agreement. No security is provided under the facility.

Bank loans at 31 July 2017 comprised a revolving credit facility from Danske Bank A/S, HSBC and the Royal Bank of Scotland with HSBC acting as agent and are governed by a facilities agreement. The outstanding loans are set out in the table below. No security was provided under the facility.

Revolving credit facility – at 31 July 2018

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	31,000	15 December 2021	One payment	Libor + margin%
Euro	39,943	15 December 2021	One payment	Euribor + margin%
Swedish Krona	24,467	15 December 2021	One payment	Stibor + margin%
Total	95,410			

Revolving credit facility – at 31 July 2017

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	5,000	30 April 2019	One payment	Libor + margin%
Euro	23,320	30 April 2019	One payment	Euribor + margin%
Swedish Krona	23,170	30 April 2019	One payment	Stibor + margin%
Total	51,490			

The interest rate on borrowings includes a margin that is dependent on the consolidated leverage level of the Group in respect of the most recently completed reporting period. For the year ended 31 July 2017, Group leverage was between 1.0:1 and 1.5:1 and therefore the margin was 1.25%. The consolidated leverage level fell below 1.0:1 for the year ended 31 July 2017 and therefore the margin for the first period of the year ended 31 July 2018 was 1.00%. At the half year, the consolidated leverage was below 1.0:1 and therefore the margin reduced to 0.9% under the new facility. For the second period of the year ended 31 July 2018 the margin increased to 1.15% due to the acquisition of Simx Limited; this rate will continue into the first period of the year ended 31 July 2019.

At 31 July 2018, the Group had £24,590,000 (2017: £37,010,000) of its multicurrency revolving credit facility unutilised.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2018

11. Interest-bearing loans and borrowings continued

	2018 £000	2017 £000
Reconciliation of movement of financial liabilities		
At 1 August	51,490	51,869
Additional loans	103,474	17,491
Repayment of loans	(57,862)	(20,540)
Interest charge	1,017	766
Interest paid	(1,017)	(766)
Foreign exchange	(1,692)	2,670
At 31 July	95,410	51,490

12. Share capital and share premium

The movement in called-up share capital and share premium accounts is set out below:

	Number of ordinary shares	Share capital £000	Share premium £000
At 31 July 2017 and 31 July 2018	200,000,000	2,000	11,527

13. Dividends paid and proposed

	2018 £000	2017 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2018: 1.46 pence per share (2017: 1.35 pence)	2,903	2,688
Proposed dividends on ordinary shares		
Final dividend for 2018: 2.98 pence per share (2017: 2.80 pence)	5,926	5,567

The interim dividend payment of £2,903,000 is included in the consolidated statement of cash flows.

The proposed dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2018.

14. Related party transactions

The following table provides the total amount of transactions that have been entered into with subsidiary undertakings for the relevant financial period.

	2018		2017	
	Amounts owed by related parties £000	Amounts owed to related parties £000	Amounts owed by related parties £000	Amounts owed to related parties £000
Related parties				
Volution Ventilation Group Limited	91,943	18,165	51,168	18,079
Volution Holdings Limited	902	—	—	—
Energy Technique Limited	—	—	—	145
ET Environmental Limited	—	—	—	2,200
	92,845	18,165	51,168	20,424

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Compensation of key management personnel

The Executive and Non-Executive Directors are deemed to be key management personnel of Volution Group plc. It is the Board that has responsibility for planning, directing and controlling the activities of the Group. Please refer to note 3 for details of the Executive and Non-Executive Directors' remuneration.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the year, key management personnel did not owe the Company any amounts.

15. Share-based payments

For detailed disclosures of share-based payments granted to employees refer to note 32 of the Group financial statements.

Glossary of Technical Terms

Alternating current or AC	the flow of electric current which reverses direction periodically, typically at 50Hz in the UK and Europe. This is the standard type of electricity supply to domestic and commercial properties
AC blowers	a low-pressure fan with an AC motor
AC motor	an alternating current motor
AHU	a ventilation device which usually integrates air, heating and filtration into one combined unit. May also include cooling and heat recovery
Decentralised heat recovery	a system of ventilation that collects heat from exhaust air that would otherwise be lost and reuses such heat by transferring it to the incoming fresh air. Decentralised heat recovery consists of multiple units supplying and extracting from around the home
EC/DC	electronically commutated direct current
Electronically commutated or EC	a type of motor which historically used a mechanical means of reversing the current flow but which now uses an electronic device to do the same, which is more reliable and more efficient
Fan coil	a device used to heat or cool a space which includes a water coil and fan for connection to the wider HVAC package within a building
HVAC	heating, ventilation and air conditioning
Hybrid ventilation	a method that combines both passive and mechanical means to form a mixed mode ventilation system
IAQ	indoor air quality
Lo-Carbon products	a trademark used to represent our low-energy range of products
MEV	Mechanical Extract Ventilation: a system of ventilation operated by a power-driven mechanism which extracts air from a room and discharges it only to the external air
Motorised impellers	a motor that is supplied complete with an impeller attached to it
MVHR	Mechanical Ventilation with Heat Recovery: a centralised system of ventilation that collects heat from exhaust air that would otherwise be lost and reuses such heat by transferring it to the incoming fresh air
NVHR	Natural Ventilation with Heat Recycling
OEM	original equipment manufacturer
RMI	repair, maintenance and improvement
Rotary heat exchanger	a type of heat exchanger consisting of a circular honeycomb matrix which rotates in the air stream of a heat recovery device
Plate heat exchanger	a type of heat exchanger consisting of a series of plates which transfer the heat from one airstream to another
Specifiers	persons who may specify certain characteristics of products

Shareholder Information

Shareholder services

For any enquiries concerning your shareholding please contact our registrar:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
United Kingdom

Equiniti has a shareholder portal offering access to services and information to help manage your shareholdings and inform your important investment decisions. Please visit www.shareview.co.uk.

Shareholder helpline: 0371 384 2030* from the UK
or +44 (0) 121 415 7047 from overseas.

* Lines are open 8.30 am to 5.30 pm, Monday to Friday
(excluding public holidays in England and Wales).

You can access our Annual Report and Accounts and other shareholder communications through our website, www.volutiongroupplc.com.

Company advisers

External independent auditor

Ernst & Young LLP

Joint corporate brokers

Liberum Capital Limited
Canaccord Genuity Limited

Legal adviser

Norton Rose Fulbright LLP

Financial PR adviser

Tulchan Communications LLP

Company Secretary and registered office

Michael Anscombe FCIS

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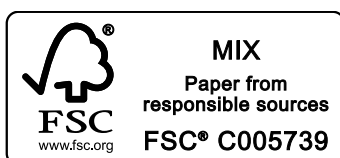
Shareholder enquiries: investors@volutiongroupplc.com

General enquiries: info@volutiongroupplc.com

Website: www.volutiongroupplc.com

Forward-looking statements

The Annual Report and Accounts contains certain statements, statistics and projections that are or may be forward looking. The accuracy and completeness of all such statements including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Volution Group plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as "intends", "expects", "anticipates" and "estimates" and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Volution Group plc believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors, which may be beyond the control of Volution Group plc, that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Other than as required by applicable law or the applicable rules of any exchange on which our securities may be listed, Volution Group plc has no intention or obligation to update forward-looking statements contained herein.



Volusion Group's commitment to environmental issues is reflected in this Annual Report which has been printed on Arcoprint, an FSC® mix certified paper, which ensures that all virgin pulp is derived from well-managed forests and other responsible sources.

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