Healthy air sustainably

volution

Volution Group plc
Annual Report 2020

volution

"Our purpose is to provide healthy indoor air, sustainably. This commitment is integral to everything we do. It shapes our values, steers our strategy and informs our capital allocation. We are closely aligned with environmental, health, regulatory and consumer developments that are reshaping the world's expectation of how we live life indoors."

Contents

Highlights

Financial highlights

- Adjusted operating cash generation of £43.4 million, the highest recorded in the Group's history
- Adjusted operating margins expanded strongly pre-COVID-19 and still delivered a full year margin of 15.6% (2019: 17.8%) despite pandemic
- UK revenue hardest hit by COVID-19 resulting in 17.6% fall (cc), but with good recovery through June and July
- Organic revenue growth of 7.5% constant currency (cc) in Central Europe and 3.9% (cc) in Australasia
- Inventory initiatives delivered £3.8 million improvement, £1.8 million from our OEM business

» Key Performance Indicators **page 36**

Operational highlights

- Business continuity maintained throughout with efficient adjustment to remote working for office staff, and production facilities remaining open and adapted to be "COVID-secure"
- Streamlining and restructuring initiatives completed in the UK, coupled with continuing focus on Operational Excellence in our flagship facility in Reading, which will underpin continued margin expansion in the new financial year
- Capability and range enhancement in the Nordics with addition of ducting manufacturing competence in Denmark to complement our Air Connection business
- Strong organic growth in Germany further underpinned by the successful launch of our wireless controls infrastructure for decentralised heat recovery
- The integration and development of our Australasian businesses continues to go well, with enhancement to our product offering and an increasingly supportive regulatory environment

Sustainability highlights

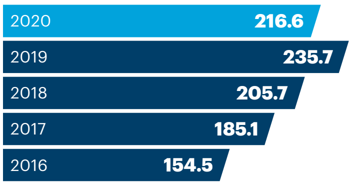
- 56% of plastic used in our own manufacturing facilities is from recycled sources
- 59% of our revenue is from low-carbon, energy saving products

"We have excellent operating cash generation despite a difficult backdrop."

Ronnie George, Chief Executive Officer

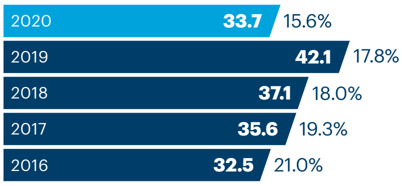
Revenue £m

£216.6m



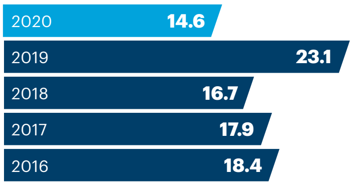
Adjusted operating profit and adjusted operating profit margin £m (% of revenue)

£33.7m (15.6%)



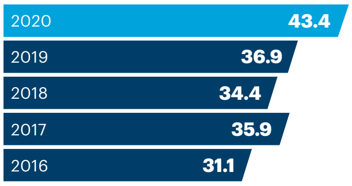
Reported profit before tax £m

£14.6m



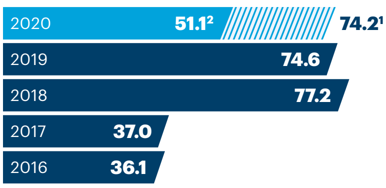
Adjusted operating cash flow £m

£43.4m



Net debt £m

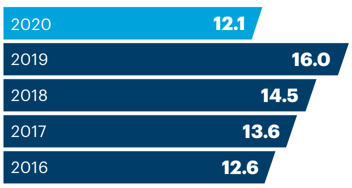
£74.2m



1. IFRS 16 basis.
2. IAS 17 basis.

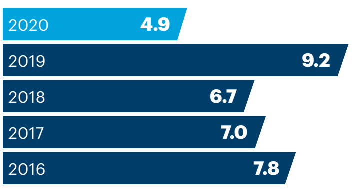
Adjusted EPS pence

12.1p



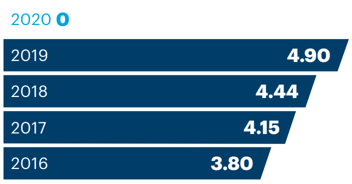
Reported EPS (basic and diluted) pence

4.9p



Dividend per share pence

0p



The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS, adjusted operating cash flow and net debt. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 36. A reconciliation to reported measures is set out in note 2.

» Key Performance Indicators **page 36**

We are market leaders in residential and commercial ventilation solutions

Our regional coverage

United Kingdom

- New Build Residential, RMI (Public and Private), Commercial, Export and OEM

Continental Europe

- Nordics, Germany, Belgium, the Netherlands
- New Build Residential, RMI, Commercial

Australasia

- New Zealand and Australia
- New Build Residential and RMI

% of Volution Group revenue by region

United Kingdom (51.5%)
£111.5m

Manrose, Vent-Axia, torin-sifan, National Ventilation, Airtech, Breathing Buildings, Diffusion

Continental Europe (34.5%)
£74.7m

Fresh, Kair, Ventilair Group, VoltAir, inVENTer, PAX, Air Connection

Australasia (14.0%)
£30.4m

Simx, ventair, Manrose

Our sustainable growth opportunity is being driven by our purpose

We are differentiated by our purpose

Our purpose is to provide healthy indoor air, sustainably. This commitment is integral to everything we do. It shapes our values, steers our strategy and informs our capital allocation. We are closely aligned with environmental, health, regulatory and consumer developments that are reshaping the world's expectation of how we live life indoors.

We are becoming more sustainable all the time. During 2020, meetings with stakeholders helped highlight the most important issues facing Volution. Installers are concerned with packaging waste on site, and consumers are concerned with energy use. Our employees want to work in an organisation that is striving to make itself sustainable. We have used these insights to evolve and strengthen our sustainability strategy, resulting in sharpened priorities for our road ahead. This framework is integral to our strategy, operations, culture and future success. You can read more about our investment case on page 4.

» Read more on **page 26**

Our value creation proposition

Our leading innovation unlocks a unique global growth opportunity and delivers value for our customers, communities, employees and shareholders.

Healthy air, sustainably

1

GLOBAL MEGATRENDS

Our changing world is reshaping life indoors

» Read more on **page 20**

2

REGULATORY TAILWINDS

The regulatory response is driving growth opportunities

» Read more on **page 22**

3

INNOVATION IN OUR DNA

Our innovation positions us to meet new challenges

» Read more on **page 24**

Our Investment Case

Operational

Sustainability

Delivering healthy indoor air whilst minimising our impact on the environment and helping support the United Nations Sustainable Development Goals.

56%
recycled plastic used in the products that we make

» Read more in our sustainability section on **page 26**

Market leadership

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

16
market leading brands in 10 countries

Growth

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

11%
revenue 5-year CAGR

» Read more about our growth strategy on **page 18**

Diversification

We service both residential and commercial sectors, in both public and private new build and refurbishment applications in diverse geographies including the UK, Continental Europe and Australasia.

57.2%
of our revenue is from non-UK customers

» Read more about our geographic spread on **page 2**

» Read more about the revenue in our product sectors on **page 2**

Strong, consistent development in financial performance

Reliable organic growth and successful integration of acquisitions have driven strong and reliable growth in profitability and operating cash flows. 2020 significantly impacted by COVID-19.

3%
adjusted operating profit 5-year CAGR

9%
Adjusted operational cash flow 5-year CAGR

Structural growth drivers

Growing focus on indoor air quality

COVID-19 has amplified the growing global focus on indoor air quality. There will be increasing demand for ventilation systems which help to provide healthy indoor environments across our markets.

» Read more in our global megatrends section on **page 20**

Legislative tailwinds

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

"In the context of unprecedented challenges due to COVID-19 we demonstrated the considerable resilience of our business model."

Andy O'Brien
Chief Financial Officer

Our purpose is to provide healthy indoor air, sustainably

Our core values

We believe

Our values form our behaviour and our culture.

Professional and Reliable
With customers, suppliers, colleagues and shareholders and in all relationships.

Innovate
Our products, services and solutions.

Integrity
Environmentally, socially and in our governance.

Commitment
100% every day, everywhere.

Customer Service
Strive for quality and excellence in everything we do.

Grow
Our sales and profit, our people, our capability, our capacity and our ambition. Grow our value and invest for the future.

Fun
Enjoying what we do, respecting those around us.

People
» Read more on **page 32**

Our business

We listen

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

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

Impact on our results:

Continued revenue growth and margin improvement

Regulatory Landscape
» Read more on **page 22**

We innovate

We continue to innovate products to meet customer needs and regulatory obligations, whilst considering life cycle and environmental impact.

We invest and spend 2.4% approximately of revenue each year to put ourselves ahead of regulatory developments, and ensure our customers have the best, highly specifiable products to meet indoor air quality and carbon efficiency goals. We can then differentiate our brands with market leading and market defining products and offer cost-effective quality through constant value analysis and value engineering developments.

Impact on our results:

2.4%

of revenue spent on new product innovation

Market leading innovation supports market leading margins

Innovation
» Read more on **page 24**

We manufacture

We manufacture whilst remaining focused on sustainability and assemble high-quality, technically sophisticated ventilation solutions at optimised cost.

We have an asset light, low fixed cost assembly model which allows us to respond efficiently to changes in demand. Coupled with a disciplined approach to working capital, this results in consistently high levels of operating cash generation.

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

Impact on our results:

81%

of revenue from products made in house

We target >90% conversion of operating profit to cash and are able to redeploy this cash into our acquisition strategy

Manufacturing versus buying-in results in greater flexibility and lower cost

Sustainability Vision
» Read more on **page 26**

Our outcomes

We distribute

We provide best in class customer service to thousands of customers with thousands of products across the Group, whilst minimising waste and single use plastic.

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

Impact on our results:

21,000+

locations being shipped to

Strong distribution channels and wide availability creating customer loyalty and margin quality

Strategy
» Read more on **page 18**

We help our customers

We have specialist sales and marketing teams supporting our customers.

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

Impact on our results:

400+

total sales people across the Group

Solution selling and strong specifications generate customer preference

Chief Executive Officer's Review
» Read more on **page 10**

We grow

We deliver growth by leveraging our product range and acquisitions to develop strong market positions and expand our sales channels.

Our vision is to create long-term growth by continuously developing new and exciting propositions for our customers. Our aim is to increase the value to customers across our brands by leveraging our product ranges, strengthening our market positions and engendering loyalty through customer service and trust in our brands. At the same time our acquisition strategy ensures we constantly improve our channels to market and widen our geographic and product diversity.

Impact on our results:

11%

5-year revenue CAGR

Continued revenue growth and margin improvement

Key Performance Indicators
» Read more on **page 36**

We deliver

We create sustainable results for our stakeholders.

Our long-term focus on value creation creates a sustainable business model.

Shareholders

We seek to deliver attractive returns for our shareholders, with sustained growth in profit and cash flow.

Employees

We offer career advancement and training within a framework of sustainable employment and international opportunities.

Customers

We listen to our customers and create products that deliver healthy air.

Suppliers

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

Communities and the environment

We innovate as sustainably as possible with products designed to reduce energy consumption. Our businesses aim to support the communities in which they operate through employee volunteer programmes and minimising any negative impact our operations have on the environment. We take part in the annual Clean Air Day and Noise Action Week.

Stakeholder Engagement
» Read more on **page 34**

Our highest priority is the safety and wellbeing of our employees and customers

> "The crisis has impressed on me the relevance, importance and sustainability of many of Volution's products and solutions in improving indoor air quality."

Summary

- Resilient performance underpinned by geographic diversity.
- Continued strong operating cash generation.
- Positive outlook for growth supported by beneficial regulatory backdrop.

Dear shareholder,

Following my appointment as Chairman on 1 February 2020, I am pleased to present our Annual Report and Accounts for the year ended 31 July 2020.

Following a good first half performance, with revenue and earnings both up on prior year, the second half was one of considerable uncertainty due to the COVID-19 pandemic as well as Brexit. In response to the COVID-19 pandemic, management took quick and decisive action to protect the health, safety and wellbeing of employees and the finances of the business with a focus on cost and cash control. In accordance with governments' advice and as a provider of an essential service, most of our facilities kept operating throughout the pandemic serving customers where possible. We were proud to support some of the important projects that were taking place such as providing ventilation for use in the Nightingale Hospital in London, constructed especially for the pandemic, and other hospitals and public dwellings. The Company ensured there was regular communication with employees, shareholders, customers, suppliers and other stakeholders. There were many challenges in our different locations, with the UK being our hardest hit region as construction activity reduced by 70% initially. However, in contrast, our revenue streams in Continental Europe and Australasia held up well throughout the COVID-19 crisis and underpinned Volution's resilient performance in the second half of the year.

Once governments started lifting restrictions, I was impressed by the quick return to normal operations and the resilience of our people. Having visited our largest UK facility in Reading in August, I witnessed first hand, some of the precautions that we have been taking to make sure our people are safe. The crisis has impressed on me the relevance, importance and sustainability of many of Volution's products and solutions in improving indoor air quality, and the strength of our business model, in particular our operating cash generation and geographic and product diversity. I believe we are in a strong position to manage any future disruption caused by the COVID-19 pandemic.

We do expect further political and economic uncertainty ahead, as a consequence of the UK's departure from the European Union and dependent on whether a trade deal is agreed between the UK and the European Union by 31 December 2020. However, we are an international business with 57.2% of our revenue being generated outside the UK and we remain confident in the long-term prospects for the Group due to our geographic diversification, value-adding business model and clear growth strategy. More detailed analysis of how Brexit may affect Volution going forward can be found in the Risk Management and Principal Risks section on page 46.

People and culture

The health, safety and wellbeing of our employees is paramount to Volution. As the COVID-19 crisis evolved we acted early on to ensure that in the majority of our geographies, employees who were able to move to remote home working were supported to do so. Most of our production sites remained operational during the crisis, strictly adhering to governments' guidelines on social distancing and with enhanced cleaning and hygiene. Our teams across the Group responded with great speed and agility during a difficult time, demonstrating the positive culture which exists across Volution. On behalf of the Board, I would like to thank all our employees for their considerable commitment, understanding and co-operation during a very difficult time.

Performance and results

This set of results reflects the resilience of the business through the pandemic with the Group's revenue decreasing by just 8.1% compared to last year to £216.6 million (2019: £235.7 million). The main impact on demand was in the UK and management took actions on indirect costs and focused on cash flow which mitigated the impact and sets up the business for the next financial year as it continues to recover. Although adjusted operating profit was down by 19.8% to £33.7 million, this did include a restructuring charge of £1.5 million. Regrettably it has been necessary to reduce employee numbers to both rightsize the UK business and drive efficiencies.

Volution did initially utilise the UK Government furlough scheme and similar schemes in our other regions, but given the recovery and financial strength of the business, the Board agreed that from the start of the new financial year on 1 August 2020, no more UK Government furlough payments or job retention bonuses would be taken.

Dividends

On 16 March 2020 Volution announced in its Half-Year Results that an interim dividend of 1.71 pence per share was to be paid to shareholders on 5 May 2020. As a result of the impact of the pandemic on the business, we announced on 25 March 2020 that the payment of the interim dividend was suspended. Following due consideration by the Board, we announced on 30 July 2020 that the interim dividend was cancelled and would not be paid and that no final dividend would be recommended to shareholders in respect of the financial year ended 31 July 2020.

The Board understands the importance of paying dividends but the decision to pay no dividends for the financial year ended 31 July 2020 was prudent, alongside other measures taken to protect the Group's cash position during an unprecedented time. The Board does intend to recommence the payment of dividends during the financial year ending 31 July 2021.

Board

During the year there were a number of changes to the Board. I was appointed as Chairman on 1 February 2020 following the retirement of Peter Hill. Peter retired, having completed almost six years as Chairman, to focus on his other two non-executive chairmanships. On behalf of the Board, I would like to thank Peter for his contribution to Volution.

The Board was delighted to welcome Andy O'Brien to the Group on 1 August 2019 as Chief Financial Officer following the retirement of his predecessor, Ian Dew. Andy joined Volution following nine years at Aggreko plc, a FTSE 250 global provider of temporary power, heating and cooling solutions, where he held numerous senior finance roles including most recently finance director, power solutions.

Following the requirement under the 2018 UK Corporate Governance Code that I step down as chairman of the Audit Committee following my appointment as Chairman of the Board, I would like to thank Tony Reading for acting as interim chairman of the Audit Committee until the Board appointed a permanent successor to that role. The Board was very pleased to welcome Nigel Lingwood as our new independent Non-Executive Director and chairman of the Audit Committee on 30 April 2020. Nigel has extensive public company, financial and accounting and acquisition experience and was recently group finance director of Diploma PLC, which operates a similar business model to Volution.

Tony Reading also stepped down as chairman of the Remuneration Committee on 30 April 2020 after almost six years in the role. Tony was succeeded by Claire Tiney, who has been a member of the Remuneration Committee since 2016. Claire has considerable experience as an HR director and as the chair of two other listed company remuneration committees.

Shortly after the UK Government announced lockdown restrictions, it became apparent that the pandemic would adversely affect the business performance in the second half of the financial year. As a result, all Board members took a 20% reduction in base salary for four months, which ended on 31 July 2020.

I would like to record my appreciation for the support given by my fellow Board members during the crisis and for the regular dialogue that was maintained despite the challenges with communications.

Governance

The Group continues to be committed to high levels of corporate governance, in line with its status as a company with a premium listing on the Main Market of the London Stock Exchange. We are fully compliant with the 2018 edition of the UK Corporate Governance Code and compliance is set out in the Governance Report on pages 55 to 69.

During the year, a formal performance evaluation of the Board and Committees took place to assist in their development. The results of the evaluations confirmed that the Board and Committees continue to function effectively and that there are no significant concerns among the Directors about their effectiveness. Further information is set out in the Governance Report on pages 65 to 66.

Summary

As society begins to better understand the importance of air quality, Volution is in a strong position to offer customers ventilation solutions which are becoming more sustainable and help lead to healthier lives. We also believe that as a business, we can demonstrate more dynamically how sustainable our products already are and articulate better our sustainability strategy and vision. This Annual Report explains how the Board aims to achieve this. Our sustainability strategy and performance targets can be found on pages 26 to 33.

Following a very difficult period since the pandemic first struck earlier this year, our response has shown me the strength and resilience of our asset light business model and geographic diversity and the agility and decisiveness of management in responding to a major and ongoing threat to the business. Whilst we have not yet seen the end of the COVID-19 threat, we understand how to protect the health, safety and wellbeing of our employees and secure the long-term success of the business.

Paul Hollingworth
Chairman

8 October 2020

We're creating significant opportunities amidst the challenges and uncertainty

"Geographic diversity underpinned business resilience throughout the crisis."

Summary

- A year where we experienced significant reductions in demand in the second half resulting from the global pandemic and where the priority was to keep our valued employees safe at all times.
- Our asset light model, dexterous approach to reduced demand and cash conservation measures mitigated the impact of a 19% revenue decline in the second half of the year and ensured that we continued to generate operating cash throughout the year.
- Revenue of £217 million achieved despite a significant impact from COVID-19 in the second half of the year.
- Organic revenue decline of 8.1% in the year (7.0% at constant currency), the period April to June significantly down on the prior year, recovering through to July at a 7.7% decline (8.0% at constant currency), with the recovery continuing into the new financial year.
- Adjusted operating profit of £33.7 million, a decrease of 19.9% over the prior year having delivered a profit growth of 7.6% in the first half of the year.
- Excellent progress in the first half of the year in our Operational Excellence programme. Organic operating margins expanding by 70 bps and continued progress with initiatives in the second half of the year despite the lower revenues impacting the operating margin out-turn in the year. We remain committed to our short-term operating margin target of 20%.
- High level of customer service across all geographic areas throughout the worst of the global pandemic, with supplies of critical ventilation products to important projects such as the Nightingale Hospital at the ExCeL in London.
- Significant progress with business streamlining initiatives as part of our Operational Excellence programme, most notably in the UK, resulting from the substantial investment in our ERP systems and flagship manufacturing facility in Reading.
- Successfully integrated the prior year's acquisition of Ventair in Australia, establishing a leading residential position in Australasia, as well as one smaller bolt-on acquisition in the year in Denmark.
- Continuing investment in the most innovative ventilation solutions for our markets with the notable introduction of the wireless infrastructure to complement our leading product position for decentralised heat recovery ventilation in Germany, where we delivered organic revenue growth of 18.1% in the year.

Overview

The financial year 2020 was without doubt the most challenging since we listed in 2014. Good progress was made in the first half of the year, with operating margins expanding by 70 bps versus the prior year underpinned by our focus on Operational Excellence, with a positive outlook for the second half of the year. As we returned from the Christmas period we were notified of potential impacts from our Chinese suppliers due to the outbreak of COVID-19. We managed to navigate the potential disruption to our supply chain and had no discernible service impacts to customers in the year. As the new calendar year progressed, what was expected to be a potential risk to our supply chain became a demand shock with revenues most significantly impacted in our UK market. The geographic diversity of the Group, something we have worked on for some years now, provided us with a resilience and reliability in our revenues such that our revenue decline in the second half of the year was limited to a 19% fall, resulting in revenue decreasing by just 8.1% for the full financial year compared to the prior year. The main decline occurred during April and May with reductions of 50% and 35% respectively, with most of the adverse impact coming from the UK market.

Early on in the second half of the financial year it became clear that all of our markets were going to be impacted by the global pandemic to varying degrees. I have been genuinely impressed by the dexterity and improvisation of our teams to ensure that we could continue to operate our business model and provide high levels of customer service and support, whilst also taking maximum precautions to keep our employees safe and protected. Across all areas of the Group we moved sales support teams and back office staff to a home working situation as quickly as possible whilst maintaining good customer service. Social distancing and improved hygiene and cleaning regimes were introduced at all of our facilities. Where efficiency gains have been made, we will look to lock these in as part of normal practice post the crisis. Our employees have been truly inspirational, and I would like to thank each and every one of them for their commitment and dedication to our business at this most difficult time.

The Group delivered revenue of £217 million in 2020, a decline of 8.1% in the year with all of the revenue decline taking place in the second half of the year as a result of the global pandemic. Adjusted operating margins reduced from 17.8% in the prior year to 15.6% in the year, the decline as a result of the significant volume reduction in the second half of the year as well as a number of restructuring costs incurred due to the various streamlining initiatives that were implemented in the latter part of the year. Our short-term target to improve operating margins to 20% remains intact. Good progress was made in the first half of the year and has continued in the new financial year.

As part of our Operational Excellence programme we have a heightened and increased awareness of managing waste in our supply chain and across all aspects of our business. Throughout the year we have increased our focus on reducing waste, hugely assisting with our operating margin expansion plans. Some notable achievements in the year include the material reduction of single use plastic in our packaging of products as well as a project to analyse the potential to increase the use of recycled plastics in our processes. We have set ourselves an ambitious target to increase the use of recycled plastic materials from our current rate of 56% in all of our injection moulding and extrusion processes to a rate of 90% by the end of our 2025 financial year. We are determined to ensure our products are supplied to the market in the most sustainable way and the application and use of greater proportions of recycled input materials will also support us in our goal of increasing both our gross and operating margins.

As well as the increased usage of recycled materials and the considerable initiatives to reduce packaging materials in the supply of our ventilation solutions to the market, we are embarking on a journey to improve our sustainability across all aspects of the business. Our sustainability strategy, plans and ambitious targets for the coming years are set out on pages 26 to 33.

Over the last couple of years there has been a noticeable increase in awareness, across all of our markets, of the importance of indoor air quality. Regulations encouraging the reduction of carbon emissions in new build and refurbishment markets, the importance of a healthy environment and how air quality is inextricably linked to delivering a harmonious environment for both commercial and residential buildings are supporting the demand for our innovative solutions. We have seen in New Zealand the positive impact on revenue from the Healthy Homes Act, which regulates landlords to provide good quality ventilation in their dwellings, driving our growth in that market to 0.8% at constant currency during the year, despite almost no revenue in April 2020 due to the local lockdown to control the spread of COVID-19.

In Germany, regulations supporting the retrofitting of energy efficient ventilation, in particular our leading decentralised heat recovery solutions, enabled us to deliver organic growth of 18.1% in the year, actually running at close to 30% in the first half of the year but reducing to 8% in the second half of the year as local lockdown measures subdued the strong demand for our products. Whilst the impacts of the global pandemic have been hugely distressing, there has been a steep increase in awareness of how indoor air quality and properly ventilated buildings provide a healthier place to live, work and play. Over the coming years we look forward to and expect far greater regulation to reduce carbon emissions, improve efficiency of buildings and also ensure that buildings provide a healthy environment for occupants.

We expect further political and economic uncertainty ahead, as a consequence of the UK's departure from the European Union and dependent on whether a trade deal is agreed between the UK and the European Union by 31 December 2020. However, the Group is now a truly international business with over 57% of our revenue being generated outside the UK which, coupled with our value-adding business model and clear growth strategy, gives us confidence in the long-term prospects for the Group. More detailed analysis of how Brexit may affect Volution going forward can be found in the Risk Management and Principal Risks section on pages 47 and 48.

Chief Executive Officer's Review continued

United Kingdom

Market sector revenue	31 July 2020 £m	31 July 2019 £m	Growth (cc) %
UK			
Residential RMI	**33.4**	39.4	(15.2)
New Build Residential Systems	**21.9**	27.8	(21.0)
Commercial	**27.3**	34.8	(21.8)
Export	**8.6**	9.9	(12.8)
OEM	**20.3**	23.6	(13.6)
Total UK revenue	**111.5**	135.5	(17.6)
Adjusted operating profit	**15.6**	24.1	(32.9)
Adjusted operating profit margin (%)	**14.0**	17.8	(3.8)pp
Reported operating profit	**4.8**	12.2	(60.3)

In the UK our revenues reduced from £135.5 million to £111.6 million (on a constant currency basis), a 17.6% decline. Adjusted operating profit declined from £24.1 million to £15.6 million with an adjusted operating margin reduction from 17.8% to 14.0% due to revenue reduction as a result of the pandemic coupled with the restructuring costs. The decline occurred solely in the second half of the year and it is important to note that in the first half of the year adjusted operating margins had increased from 17.4% to 18.9%, underpinned by all of the Operational Excellence initiatives. Demand recovered in the UK with April and May 2020 being the most adversely impacted months and we saw a steady improvement in revenues through June and July, continuing into the new financial year. We fully expect the UK to return to a positive operating margin growth trajectory, assisted by the recovering demand and the many initiatives delivered in 2020 and underway to deliver further gains in the coming months.

Sales in our UK New Build Residential Systems sector were £21.9 million (2019: £27.8 million), an organic decline of 21.0%, disappointingly the first time since 2010 that we have not delivered strong organic growth in this sector. We do, however, continue to benefit from regulatory drivers aimed at reducing the carbon emissions from all new residential dwellings and the imminently expected revisions to both Part F and Part L of the Building Regulations will provide greater regulatory support for demand for central ventilation systems in new residential development. Whilst there is uncertainty around the medium-term completions for new build residential properties in the UK, we do see short-term positivity in this sector, supported by the stamp duty holiday until 31 March 2021, lower rates for mortgages and what appears to be an element of pent-up demand for house purchases. The long-term demand for our ventilation systems will continue to be underpinned by regulatory drivers as the more energy efficient ventilation systems will be increasingly vital for the developer or architect to specify. We also note a more discerning house buyer becoming more acutely aware of the advantages, not just to energy efficiency but also to indoor air quality inextricably linked to improved health. These drivers are prevalent in all of our markets, not just in the UK.

The UK Residential Public RMI market started the year very well with an organic growth of 4.5% in the first half of the year. Revenues ended the year at £13.0 million, an organic decline of 16.6% which all occurred in the second half of the year. As the UK went into lockdown at the end of March 2020, our public housing RMI customers took a sensible risk-averse approach to refurbishment. Demand materially reduced in April through to the end of the financial year although we have now seen a material step up in activity. Across our market leading brands of Vent-Axia and Airtech we have a wider offer to our market than our competitors. With the ability to specify products and supply through our valued distribution partners under our Vent-Axia brand, or providing a more specialised support through our Airtech brand, we are well positioned to benefit from the catch-up on overdue refurbishment works in this sector of the market. Over the last three years we have substantially improved the product portfolio ensuring that we have all types of ventilation solutions required for any application.

The UK Residential Private RMI market revenue of £20.4 million represented a decrease of 14.4% compared to the prior year. As with all aspects of the UK revenue we saw a profound impact on demand in April and May; however, the recovery in Residential Private RMI was encouraging during July and the start of the new financial year. As with other refurbishment markets across the Group we are seeing a definite upturn in demand for our products as homeowners divert spending to home improvement at a time when holidays, travel and entertainment are more difficult. It remains to be seen, but several recent studies have indicated that having spent an unusually high period of time in the home, customers are now looking to make improvements that previously were being left unattended to. Coupling these improving trends with our strong position, three proprietary brands and significant routes to market through both the trade and the retail routes, we are optimistic about the demand in the coming months. During the year there was a substantial enhancement in the product range available to this market and with our facility in Reading now running as intended, we are well placed to service the likely higher demand.

The UK Commercial market revenue declined in the year to £27.3 million (2019: £34.9 million). Our revenue splits broadly into two-thirds new build market and the balance refurbishment. We had the same situation in this market as with the rest of the UK and a similar rebound is occurring in the recent months. Our leading range of Natural Ventilation with Heat Recycling (NVHR) is winning important projects for the education new build market and despite uncertainty regarding the medium-term demand in commercial buildings, we are seeing a steady pipeline of projects. Our fan coil range of products, providing cooling and heating in primarily but not exclusively commercial buildings, continues to be well placed to solve the problem of overheating in buildings. Since acquiring both Diffusion and Breathing Buildings we have now integrated the brands into a more cohesive and better co-ordinated commercial offer to the UK market. The Breathing Buildings offices in Cambridge will now close by the end of this calendar year and together with operational streamlining that was carried out in the second half of the year will underpin cost savings in this area.

Whilst our improvements to the natural and hybrid range of products are helping us win share in the new build school market, we noticed a marked slowdown in activity for the supply of energy efficient fan coils into the new office construction market. Our refurbishment product range performed very well and we are now crystallising the benefits of having one sales leadership team across our commercial market.

The UK Export market revenue declined to £8.6 million (2019 like for like: £9.9 million), a decline of 12.8% (at constant currency) due to the UK market seeming to be more adversely impacted during April and May than the other markets we supply.

The OEM revenue stream also reduced to £20.3 million, a decline of 13.6% at constant currency. In line with our Operational Excellence programme there were considerable improvements to the production efficiency as well as product cost reductions to our leading EC3 motor proposition, which will manifest in margin expansion in the new financial year. Having experienced teething issues in the prior year when implementing the new ERP system, we are now enjoying the considerable upside benefits of this project, the supply chain optimised and working efficiently, coupled with planning and customer service enhancements which will pay back in the coming months.

John Foley, having joined in May 2019 as Managing Director of the UK Ventilation Group, has developed a strong UK leadership team and whilst the second half of the year was a difficult period to manage, many planned streamlining and business efficiency initiatives were delivered. All of these are designed to deliver customer service and margin expansion benefits in the new financial year. Our flagship production facility is running to plan and will support not just the UK revenue growth initiatives but also provide low cost, flexible and responsive support to many of our residential refurbishment initiatives across the Group.

John Foley, Managing Director, Ventilation UK

Chief Executive Officer's Review continued

Continental Europe

Market sector revenue	**31 July 2020 £m**	31 July 2019 £m	Growth (cc) %
Nordics	**41.6**	47.0	(9.4)
Central Europe	**33.1**	31.0	7.5
Total Continental Europe revenue	**74.7**	78.0	(2.7)
Adjusted operating profit	**15.3**	16.7	(7.9)
Adjusted operating profit margin (%)	**20.5**	21.4	(0.9)pp
Reported operating profit	**12.1**	12.4	(2.0)

Sales in Continental Europe were more robust than in the UK, with revenue of £74.7 million (2019: £78.0 million) an organic decline of just 2.7% on a constant currency basis. Adjusted operating profit was £15.3 million versus a prior year achievement of £16.7 million, and adjusted operating margins reduced by 0.9pp to 20.5%. As with the UK there were some streamlining and business efficiency improvements in the year, the costs associated with these changes being incorporated in the operating result. Considering that all areas of our Continental European business were impacted by COVID-19 in the second half of the year, a revenue decline of just 2.7% (constant currency) is a testament to the diversity and strength of our market positions. Whilst there was a small operating margin decline we are confident that the improvements made in the year will underpin a step up in the new financial year, supporting our short-term target to deliver a Group operating margin of 20%.

Sales in the Nordics region were £41.6 million (2019: £47.0 million), a decrease of 9.4% at constant currency compared to the previous year. There was a similar pattern for revenues in the Nordics as in the UK; however, the decline was less pronounced and by the end of the financial year we had recovered to what we would consider to be more normal levels of revenue.

Our Swedish residential refurbishment trade and retail activities performed well during the year, a similar story to elsewhere in the Group, where refurbishment demand is expected to be more robust than the project markets. In Norway, the lockdown in April and May was more stringent and our revenues were more adversely affected. The same situation persisted in the Finnish market where demand for the Pamon heat recovery system products was much lower than the prior year. Denmark has performed in a similar way to Sweden and all Nordic markets are now performing much closer to expected levels.

During the year we acquired the assets of a small rectangular steel ducting manufacturing business to complement our Air Connection circular ducting and heat recovery systems offer. Being able to offer the market a full turnkey solution for projects will enable us to grow share and leverage our wider product portfolio of heat recovery systems. We also completed the transaction to acquire our distribution route to market sales capability from Nordic Line, our long-term historical partner for residential refurbishment product sales in the local market.

Andreas Löfstrand was promoted to sole Managing Director for our Nordic area having run a joint leadership with Eva Thunholm, who advised us of her intention to leave in February 2020. A number of significant Operational Excellence initiatives are

Andreas Löfstrand, Managing Director, Nordics

underway including the move of our Nordic headquarters from the existing site in Gemla, Sweden, to a new more efficiently laid out facility in Växjö in Sweden. These changes are again intended to underpin our margin expansion plans of a short-term target to deliver a Group operating margin of 20%.

Revenue in Belgium and the Netherlands was £16.1 million compared to the prior year of £16.6 million, an organic decline of 2.3% on a constant currency basis. Having delivered an organic growth of 5.6% in the first half of the year the revenue declines in the second half were mainly in the Netherlands with our activity in Belgium rebounding very well in the latter part of the year. Our companies in Belgium and the Netherlands were some of the first areas in the Group to go into lockdown and the opportunity for the rest of the Group to learn from how they activated remote working from office customer support was hugely helpful. Our strategy to grow our position with wholesalers in both Belgium and the Netherlands is working very well and we expect to see further benefits from this strategy in the new year.

Our star performer in the year was Germany. Our market leading proposition in decentralised heat recovery and a favourable and supportive regulatory backdrop, coupled with support from the German Government to apply this technology in both new and refurbishment applications, enabled us to deliver revenues of £17.0 million, an organic growth of 18.8% on a constant currency basis. Our Xenion range of decentralised heat recovery performed very well in the year and although delayed until the start of the new financial year, we are delighted to have added a wireless control infrastructure across the product range. This rolling out in the first quarter of the new financial year is expected to further support the strong organic growth we have seen in the last few years. During 2021 we have an ambitious roll-out programme to introduce these leading decentralised heat recovery products into the UK and Nordic markets.

Sustainability

Strengthening our sustainability strategy

We have set ourselves an ambitious target to increase the use of recycled plastic materials from our current rate of 56% in all of our injection moulding and extrusion processes to a rate of over 90% within the next five years. As well as the increased use of recycled materials and the considerable initiatives to reduce packaging materials in the supply of our ventilation solutions to the market, we are embarking on an intense focus on improving our sustainability across all aspects of the business.

» Read more on **page 26**

"We're delivering sustainability and resilience of the built environment through innovative solutions."

Chief Executive Officer's Review continued

Australasia

Market sector revenue	31 July 2020 £m	31 July 2019 £m	Growth (cc) %
Total Australasia revenue	**30.4**	22.2	42.6
Adjusted operating profit	**4.6**	3.9	22.3
Adjusted operating profit margin (%)	**15.2**	17.7	(2.5)pp
Reported operating profit	**3.5**	2.9	20.1

Sales in Australasia were £30.4 million, growth of 42.6% at constant currency, driven by a full year of trading from Ventair and assisted by organic growth of 3.9% (at constant currency). The organic growth, whilst lower in the second half of the year, was particularly impressive when considering that in New Zealand the country implemented a very significant lockdown in April with negligible activity. Adjusted operating margins fell to 15.2% versus 17.7% in the prior year, mainly as a result of dilution from the Ventair acquisition in Australia. Sales have been underpinned by two important factors. In New Zealand, the Healthy Homes Act has provided regulatory support for the provision of ventilation to be included in all rental properties. We have seen this regulation drive a marked increase in demand for our ventilation ranges with this trend expected to continue for the foreseeable future. Secondly, as in all of our markets, the impact of COVID-19 on consumer behaviour is supporting greater investment in residential refurbishment and our orientation in Australasia is predominantly towards this area of the market.

Since acquiring Ventair in March 2019 we have made progress with the introduction of new products from across the Group. There has also been good cross-selling of product ranges from the Ventair portfolio, initially launched in New Zealand, but also the potential to sell elsewhere in the Group. We are focused on continuing to improve the product mix in Australia, as well as the continuing good growth in revenue to assist with expanding operating margins. Whilst these markets are logistically remote from our UK and Continental European activities, the market characteristics and approach to customers are very similar. Regulations in both countries are increasingly supportive of our innovative range of products and we enjoy strong relationships with traditional mechanical and electrical wholesalers, as well as some retail routes to market. We are the market leaders in New Zealand and we are looking to build our market share in Australia more quickly as we broaden the range of products on offer.

Strategy

Organic growth

The financial year ended 31 July 2020 was the first year since listing in 2014 that the Group has failed to deliver revenue growth. Good progress was being made in the first half of the year and then regrettably the impacts of the global pandemic materially affected our revenue streams in the second half of the year. Despite the disappointing revenue performance we continued to bring new product solutions to each of our markets and have been working more closely on maximising the utilisation of our enriched product portfolio to cross-sell more products in each of our geographies. Starting in 2018 and completed in 2020, we have performed a considerable upgrade of our residential refurbishment product portfolio. The project, internally code-named "Liberty", has now provided us with a more interchangeable and configurable combination of chassis, grille, electronics and motor parts which enable us to customise solutions for each of our markets more quickly and efficiently than before. These ranges were rolled out in the UK during the year and will be rolled out to other geographies over the next year.

Innovation and iterative development of existing products will enable us to capture greater market share. As well as the roll-out of the Liberty range of products, we are targeting the roll-out of decentralised heat recovery products in the Nordics and UK. As the existing stock of residential dwellings in all of our respective markets comes under greater scrutiny to improve carbon emissions and energy efficiency, best achieved through improved insulation and airtightness, the provision of heat recovery ventilation, whether central systems or decentralised solutions, becomes much more compelling.

Indoor air quality is inextricably linked to health. COVID-19 has heightened people's awareness of what indoor air quality means with practically all governments having encouraged citizens to meet in "well ventilated spaces". Whilst the impact will not be immediate, we are seeing a noticeable difference in how local customers think about ventilation in buildings and the consequences for health. During the year enquiries for ventilation solutions that can specifically help reduce the risk of COVID-19 transmission were a common theme and we have already developed some niche solutions that can help reduce the risk, as well as providing more general guidance on how to properly ventilate indoor spaces. Overheating in buildings is also an increasing theme that we are helping customers with as well as the need to reduce noise ingress and provide quieter ventilation solutions. All of these trends are evident in the markets in which we trade and we expect to see more regulations prescribing a more sympathetic and energy efficient ventilation solution to be applied, mainly in new build developments but also swiftly followed by the refurbishment sector.

Acquisitions

During the year we made good progress with the integration of Ventair Australia into the Group. We have high expectations to grow our market share in Australia, providing the market with a wider range of products through our national supply network. We also added one small bolt-on acquisition in the year, a sales network servicing wholesalers and builders' merchants in Denmark.

When the impacts of the global pandemic were firs›t evident on revenues, towards the end of March, we focused on cash conservation and mitigation measures. As we moved to the end of the financial year, the recovery in activity was clearly evident and we are now continuing to fully engage with our ongoing plans to grow by acquisition. We believe that the ventilation markets in which we operate remain fragmented and fully expect to continue our successful track record of adding new brands and market positions to the Group's portfolio.

Operational Excellence

At the beginning of the financial year we announced a change to the third pillar of our strategy to include a focus on Operational Excellence to underpin the short-term goal of a 20% operating margin. In the first half of the year we delivered a 70 bps total improvement in operating margin and had the revenues not been adversely impacted in the second half of the year from COVID-19, were confident of continuing progress. I am confident that the considerable efforts that we made in the year, the streamlining initiatives, not just in the UK but across all three geographic regions, will assist us greatly in improving operating margins in the next couple of years. Our heightened focus on sustainability, eliminating as much waste as possible from our processes and our supply chain, will further assist with our margin expansion plans.

Further information on our strategy can be found on pages 18 and 19.

People

The year has been the most challenging I can remember, and I recognise that this has been the case for all of our employees both professionally and personally. Throughout the crisis we have kept our employees fully informed as to what was happening. Our UK business was the most adversely affected with regard to activity and we utilised the Coronavirus Job Retention Scheme. In April, when UK revenues declined 70% on the prior year, we were able to furlough a large proportion of our employees, but then be more considered about what to do next as the situation became clearer. I am certain that the use of this scheme did protect employment; however, we did have a UK re-organisation which resulted in a number of employees being made redundant. Much of this related to streamlining measures; however, a large element was related to the downturn in demand we have experienced. I am hugely mindful of the personal stress that redundancy causes and believe that we carried out these changes in the most supportive and sympathetic way we could. Wherever possible we encouraged volunteers rather than using compulsory redundancy.

What we have seen throughout the COVID-19 crisis, something we will benefit from over the long term, is the considerable commitment and dedication from all of our employees in providing business continuity and excellent customer service. Whilst demand in April and May was much lower than normal, at that time practically all of our back-office sales support and other services were working from home. I want to place on record my thanks and appreciation to everyone for the amazing way in which they have dealt with, and are continuing to deal with the crisis and believe we are very well placed to enjoy the recovery in our markets which is already underway.

Outlook

We have seen strong organic revenue growth of 7% in the first two months of the new financial year, driven by our geographic diversity, structural drivers in the form of more stringent air quality regulations, our market leading positions and strong demand in the refurbishment markets from customers upgrading their ventilation solutions. The self-help and streamlining measures we implemented last year, together with continuing operational efficiencies, have also delivered a significant increase in our operating margins in all three of our geographic regions.

The Board is pleased with the strong start to the new financial year, and is comfortable with the market expectations for FY21, however, the outlook remains uncertain. The COVID-19 pandemic continues to impact on our markets, and in the UK the ongoing negotiations to finalise a trade agreement with the EU are a concern. We do believe that our geographic diversity, underpinned by the considerable improvement in both our direct and indirect cost base, will enable us to make further progress.

Ronnie George
Chief Executive Officer
8 October 2020

Extending our track record of industry leadership and strong performance

We intend to achieve our goals through a combination of three strategic objectives: organic growth, selective acquisitions and Operational Excellence, and this year have focused our activity around embedding our approach to Environmental, Social and Governance issues (ESG) into our culture. The following diagram summarises our Group strategy:

Organic growth

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

Actions

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

Achievements during the year

- Organic operating margin expansion in the first half of the year, although latterly impacted in the second half of the year due to COVID-19.
- Significant market traction with our Xenion range of decentralised heat recovery products in Germany.
- Continued roll-out of the Liberty fan platform across the Group.
- Launched our new wireless zonal control system for decentralised heat recovery in Germany.
- Increased efficiency and use of recycled materials at our moulding, extrusion and assembly facility in Reading, UK.

FY2021 focus

- Range development, maximising the opportunities arising from our expanding geographic and market sector range.
- Roll out the range of decentralised heat recovery systems across the Group's different geographic channels.
- Extend our range of controls to a wider range of product platforms.
- Further broaden the EC3 product range marketed by Torin-Sifan.
- Launch our new mechanical extract central ventilation system (MEV) platform through Group sales channels.

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

Value-adding acquisitions

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.
- Share experiences across our sales and marketing teams, maximising our effectiveness.

Achievements during the year

- Inorganic revenue growth of 3.5% (3.7% at constant currency).
- Integration of Ventair extending our reach to the attractive residential market in Australia.
- Extension of Simx product ranges including many new Group products.
- Launch of the Manrose and Vent-Axia brands in Australia. Continued to substitute externally sourced products used by our acquired companies with internally developed and manufactured solutions expanding our gross margins.
- Expanded the Manrose and Vent-Axia brands internationally through newly acquired businesses.
- Acquired the rights of our former agent, Nordic Line, for our distribution route to market in Denmark.

FY2021 focus

- Continue the integration of our Australasian businesses into our Group, building on new regulatory opportunities.
- Continue to search and pursue new acquisition opportunities.
- Maximise synergies available through our growing scale.
- Further grow intercompany sales to widen product categories served internationally.
- Focus new product development to expand our offer in existing channels.

Operational Excellence

Our dedication to Operational Excellence continues. We have been focused on improving efficiency of all our operations and processes, reducing waste and optimising packaging and logistics. We have been building sustainability and ongoing improvement into the culture of our operations teams, helping to drive our ESG strategy.

Actions

- A year of increasing efficiency gains at our new facility in Reading, UK.
- Share operational best practice around the Group with specific focus on procurement and innovation.
- Further develop our ERP systems which underpinned various streamlining initiatives in the UK.
- Leverage our innovation.

Achievements during the year

- Finalised plans to move to a new, more efficient layout facility in Sweden.
- Removed over 600,000 single use plastic bags from production.
- Rolled out our new Liberty range of extract fans around a common platform for efficient manufacture and inventory reduction – now launched in all geographies.
- Continued to enhance the planning and materials management aspect of our Torin-Sifan ERP system resulting in significant in-year stock reduction and improved material supply.
- Achieved significant cost-out through value engineering and improved sourcing arrangements assisting us to expand product gross margins in line with our operating margin expansion objectives.

FY2021 focus

- Increase manufacturing efficiency, reduce waste, increase use of recycled materials and build a more sustainable supply chain.
- Targeted reductions in material costs with main focus on electronics and plastic raw materials for both injection moulding and extrusion.
- Finalise the roll-out of a common ERP platform across our UK Ventilation Group underpinning the streamlining initiative.
- Move to a new, improved layout facility in Sweden, due for completion by December 2020.
- Optimise supply chain and sourcing benefits.

1

Our changing world is reshaping life indoors

The construction, maintenance and life-long performance of indoor spaces have a huge impact on our health, environment and quality of living.

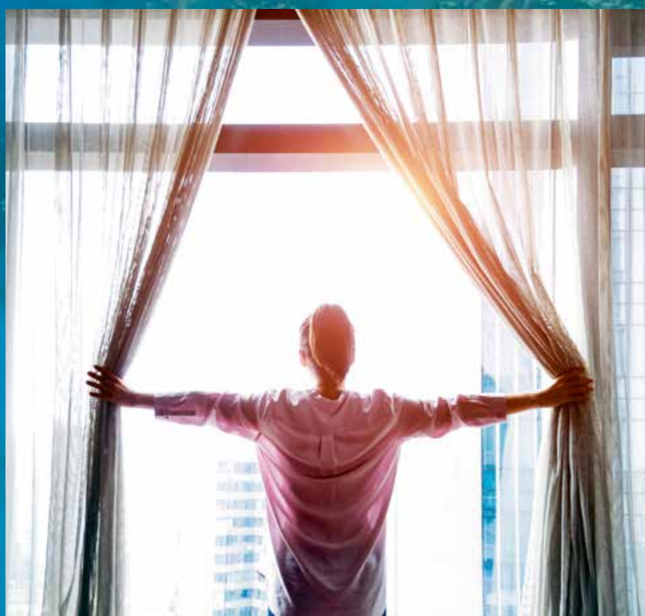
In fact, with the average human spending up to 90% of their time indoors, our interaction with the world is filtered through the buildings that surround us and the technology that shapes them.

Ventilation is an integral element of these systems and plays a crucial role in both protecting us from the pollutants in our atmosphere and reducing the emissions that originally contribute to them. Our purpose is closely focused on addressing these challenges and informs our culture, strategy and future growth of our business. Read about how our business model creates long-term value for our stakeholders on page 6.

» Read about how our business model creates long-term value for our stakeholders on **page 6**

"As we spend 90% of our time indoors at growing risk from airborne chemicals and fumes interacting with outdoor air pollution, it is important that indoor air quality is also included in the Environment Bill, as underlined by the Royal College of Paediatrics and Child Health's 'Health effects of indoor air quality on children and young people'."

Professor Stephen Holgate, Adviser to Royal College of Physicians, "Air Pollution: The Public Health Challenge of our Time", Air Pollution News, February 2020



Our purpose responds to these global trends

The European Commission estimate that buildings account for around 40% of our energy consumption. Energy efficient buildings are crucial for tackling climate change

Link to our sustainability strategy

1 2

Energy use for electricity, heat and transportation accounts for the single largest share of greenhouse gas (GHG) emissions around the world. Building, heating, insulating and powering homes has a particularly large environmental impact, making it tremendously important that we find more sustainable solutions for life indoors. In airtight buildings, ventilation has a crucial role to play in addressing this challenge.

20%

around 20% of our emissions come from our homes

Air quality has a huge impact on the health of our communities

Link to our sustainability strategy

1 2

Climate change and air pollution present a severe public health crisis for countries around the world. These pollutants spread indoors where humans spend on average 90% of their lives and can be massively detrimental for both our near-term quality of life and our long-term health. COVID-19 puts even greater emphasis on the importance of good indoor air quality.

2–5x

as many air pollutants are indoors rather than outside, according to Environmental Protection Agency (EPA) research

Consumers' awareness of indoor air quality and its impact on health is growing

Link to our sustainability strategy

1 3

With COVID-19 and bush fires affecting some of our markets in 2020, we have seen increasing consumer awareness of the importance of indoor air quality and its impact on health. This awareness is driving demand for smarter, more feature-rich products that help protect the health of our customers through both our new build project specification channels and our retail channels servicing refurbishment and renovation where we have been increasing our propositions on filtration and ionisation.

Our sustainability strategy

1. Engineer sustainable solutions

» Read more on **page 28**

2. Improve environmental performance

» Read more on **page 30**

3. Connect people together

» Read more on **page 32**

2

The regulatory response is driving growth opportunities

Governments across the UK, Continental Europe and Australasia are under increasing pressure to introduce policies aimed at tackling the climate crisis and protecting the health and wellbeing of their citizens. In particular, their legislative commitments to cutting emissions and achieving net zero carbon targets are filtering through to new building, construction, energy efficiency and motor regulations in our key markets. The regulatory tailwinds should significantly increase demand for our sustainable and innovative ventilation solutions, while our leadership position in the UK, Continental Europe and Australasia means that we are well positioned to seize this opportunity.

» Read more about our business model on **page 6**

"The European Green Deal is our new growth strategy – for a growth that gives back more than it takes away. It shows how to transform our way of living and working, of producing and consuming so that we live healthier and make our businesses innovative."

Ursula von der Leyen,
President of the European Commission

Key regulatory trends in our regions

United Kingdom:
Ambitious energy targets

The UK Government is committed to achieving net zero emissions by 2050. To help achieve this target, it is introducing:

- **Future Homes Standard:** The National House Building Council (NHBC) conclude that to meet the Future Homes Standard MVHR is likely to be needed in most if not all dwellings.
- **New motor provisions:** 2021 eco-design requirements for 120W motors.
- **Industry standards:** Rapidly evolving standards for healthy homes.

70–80% reduction

in home emissions targeted by the Future Homes Standard

Continental Europe:
National and EU-wide change

The EU Energy Performance of Buildings Directive continues to improve insulation and airtightness in buildings across Europe. Most national regulators in our EU markets are supporting this with additional standards and legislation, focused heavily on energy efficiency, eco-design and office ventilation.

66–67% reduction

in home emissions targeted by the German Government by 2030

Australasia:
New minimum standards

The Government of New Zealand has recently introduced tightened regulations for the construction and rental sectors, focusing in particular on insulation, heating, ventilation, moisture ingress and stopping draughts. Every rental property must have mechanical ventilation installed. New Zealand landlords must ensure they comply with the Healthy Homes Standards roll-out starting in July 2021.

July 2021

for New Zealand landlords to start to comply with the Healthy Homes Standards

» Read more about the regulatory trends shaping our markets on **page 22**

3

Our innovation positions us to meet new challenges

Volution's market leading positions in the UK, Continental Europe and Australasia mean that these global trends and regulatory tailwinds present a huge growth opportunity for the future of our business.

However, it is our culture of innovation, sustainability, operational excellence, collaboration and problem solving that truly empowers us to capitalise on this opportunity.

This year, we have continued to make strong progress in product design and development, operational excellence and workforce development, despite the considerable market headwinds and logistical challenges raised by the COVID-19 crisis.

"Joining the Group in December 2019, it has been an exciting time at Reading. Clearly a large part of my time has been devoted to ensuring our people are safe and well cared for in the face of the global pandemic."

Peter Barker, Operations Director at Reading, UK

How we are capitalising on the opportunity

Collaborative working

Read more on **page 17**

As our Group grows, the opportunities that our increased scale and sales channels provide continue to enable us to invest in innovation. Our sales and marketing teams are encouraged to work together across our businesses to optimise our investments in new product ideas. During 2020 we rolled out our Liberty extract fan platform which now trades in all our regions and launched our zonal wireless control platform. During 2021 we will extend this further to more product categories and additional markets.

Leading our industry

Read more on **page 28**

Our decentralised and empowered management model ensures that we continue to have local focus within our regions. Localism enables us to play active roles within our trade associations ensuring that we help form the response from our industry at a national level. This intimate local understanding ensures that legislation encapsulates the valuable role ventilation plays in delivering low-carbon buildings within the national frameworks.

Embedding sustainability in the supply chain

Read more on **page 30**

We continue to invest in new products, but in 2020 we have also focused on targeted innovation of our existing product portfolio. We have challenged our operations and supply chain teams with developing new, innovative ways to build, package and distribute our products in a more sustainable way, with focus on reducing virgin plastic in our products, optimising logistics and minimising waste within the whole supply chain.

- Collaborative innovation
- Workforce empowerment
- Sustainable leadership
- Safety first

Product innovation

Market transformation

As active members of trade associations across our regions, we encourage and influence directional change in building regulations and improve industry guidance. These activities help ensure that the regulatory tailwinds created through the international drive to net-zero carbon help support the correct application and use of our technologies.

Read more on the Regulatory Landscape on **page 22**

Healthy indoor air, sustainably

A purpose-led approach

At Volution, we know we have a role to play in the future of our planet. Delivering healthy indoor air, sustainably, we want to accelerate a low-carbon future with the health and wellbeing of people and the planet at its core. We achieve this by manufacturing energy efficient ventilation products and solutions that protect the environment and people.

Our commitment to sustainability is instilled across our entire company and we are constantly challenging our approach to the manufacturing and supply of products to minimise our impact on the environment. The relationships we build with our employees, communities and customers are essential to help us deliver our ambitions.

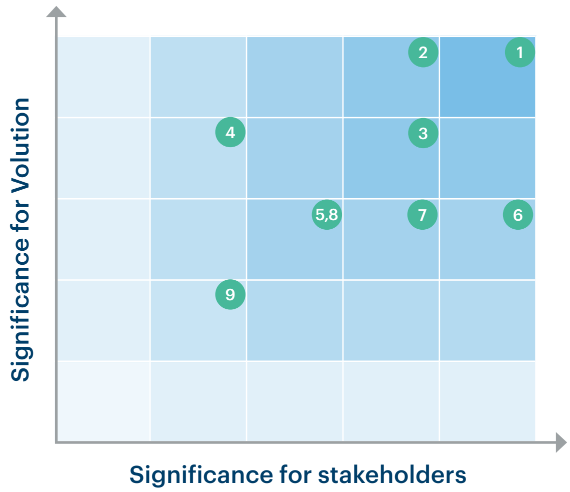
Embedding these values across our organisation is critical to helping us attract, develop and retain the best talent within our organisation.

Our Sustainability strategy

To help us fulfil our ambitions we have defined a new sustainability strategy. This year we have reviewed the material issues that impact our sustainability and prioritised them around the Company's and stakeholders' needs. These include feedback from our stakeholders. These have then been defined in 3 focus areas: product, planet and people. Within each of these areas we have new initiatives and improvement plans. We have aligned our strategy to the United Nations Sustainability goals which are the blueprint to achieve a better and more sustainable future for all.

Our sustainability strategy

Materiality matrix

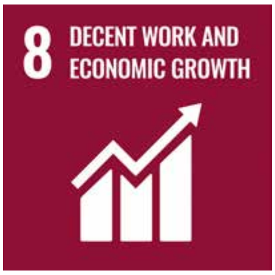


1. Climate change and carbon emissions
2. Health and safety
3. Sustainable products
4. Supply chain management
5. Sustainable materials
6. Packaging/waste management
7. Employee engagement
8. Diversity and inclusion
9. Training and development

UN Sustainable development goals

The design of Volution's products helps support SDG target 3.9: "By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination."

The design of Volution's products helps support SDG target 7.3: "By 2030, double the global rate of improvement in energy efficiency."



Volution's ambition to be a diverse and inclusive employer supports SDG target 8.5: "By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value."

Volution's products and its approach to minimising its operational impacts support SDG target 11.6: "By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management."

SDG 12.5 ("By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.") is core to Volution's approach to sustainability and its ambition to limit its impact on the environment.

Volution's ambition to reduce carbon emissions and minimise its impact on climate change supports SDG 13.2: "Integrate climate change measures into policies, strategies and planning."

Managing our strategy – being a responsible business

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

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

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

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

Volution's Board of Directors is ultimately responsible for our Environmental and Social strategy. The board works with our executive team to identify the issues that are most pertinent to Volution and which help evolve our purpose and our business model and we continually review our governance structure to ensure the correct skills are present. Our governance model at a local individual company level then develops actions and initiatives which help drive the deliverables of our strategy. Our local Managing Directors are responsible for implementing and delivering policy and report their progress to the executive team.

Product

Our ambition

To champion the energy saving potential of our products and solutions and support the net-zero ambitions of the countries in which we operate.

To continue to develop clean air solutions that protect people's health and increase their comfort in an ethical and responsible way.

Increase our sustainable product portfolio

Our products are intrinsically designed to improve air quality and reduce emissions over traditional methods. We engineer them to protect our customers from the impact of pollution on the spaces they inhabit, whilst simultaneously supporting the fight to make these spaces less carbon intensive in their own right.

Increasing demand for our low carbon product ranges including centralised and decentralised heat recovery products and our wireless control platforms will help drive our ambitions. The percentage of our sales from low carbon products continues to grow both through regulatory tailwinds and consumer preference.

Supply chain collaboration

We work with our supply chain to develop long term relationships, which help drive innovations to help improve the sustainability of our products. Sourcing of more sustainable materials, reduced energy use of components and motors and lower energy losses of power suppliers are simple examples.

Our audit processes already include reviews of a supplier's health and safety credentials, ethical working practices and fair treatment of their workforce and we are working to include a wider sustainability review into our processes.

Inspire sustainable innovation

We are committed to investing in innovation to support breakthroughs in sustainable living and ensuring that emission reduction and air quality are core considerations in our solution design.

We are members of trade associations across our geographies and actively support the introduction of progressive building regulations across the UK, Continental Europe and Australasia to accelerate market adoption on these solutions. We comprehensively engage with our residential and commercial construction customers to identify how we can shape more energy efficient and healthy indoor environments.

In the next 12 months we will be rolling out our new wireless de-centralised heat recovery products into Germany, the Nordics and the UK and launching our new mechanical extract ventilation ("MEV") platform internationally.

Industry partnerships

As active members of trade associations across our Group we influence directional change in the building regulations and improve industry guidance. This activity helps ensure that the regulatory tailwinds created through the international drive to net-zero carbon help support the correct application and use of our technologies. Read more on the Regulatory Landscape on page 22.

Industry partnerships

As active members of trade associations across our Group we influence directional change in the building regulations and improve industry guidance. This activity helps ensure that the regulatory tailwinds created through the international drive to net-zero carbon help support the correct application and use of our technologies.

» Read more on **page 22**

"Our products save energy, reduce carbon emissions and help to build healthy, sustainable homes and buildings."

Ronnie George, Chief Executive Officer

Measuring our approach

Increase the low-carbon credentials in our products portfolio

Low-carbon products are those products which provide energy savings once installed in their application. They include products which reduce carbon emissions verified through national calculation methods or recognised schemes for improving energy efficiency of buildings. In our European companies these are driven by the Energy Performance of Buildings Directive with every local jurisdiction having their own national calculation method. Examples in the UK are products that reduce carbon emissions in the Standard Assessment Procedure (SAP), and that are listed on the Product Characteristics Database (PCDB) or applied in commercial buildings through the Simplified Building Energy Model (SBEM). In Germany, products that reduce carbon using calculations through DIN V 4701-10:2003-08 combined with DIN V 4108-6:2004-03 or DIN V 18599-6:2018-09. We also include products that are listed through other schemes which recognise energy saving measures such as the Energy Technology List (ETL) or, in Australia products that help improve the star rating of a home in the Nationwide House Energy Rating Scheme (NatHERS). In addition, we include products that save energy over traditional methods such as our products with automation and our DC/EC motorised extract fans.

Long term goal

70% of our revenue from low-carbon sales is our goal by the end of FY2025

Achievements in 2020

59% of our revenue from low-carbon sales in 2020

Planned improvements for 2021

60%+ of our revenue from low-carbon sales is our target to beat in 2021

In support of SDGs

Planet

Our ambition

Reduce our environmental impact by improving business efficiencies and minimising our impact on the climate.

Focus on the quality of materials we use to support the creation of a circular economy, and eliminate all forms of waste across our value chain.

Responsible operations

Responsible decision making and smart resource planning are integral to our culture of stakeholder accountability and continuous improvement. We are deeply committed to minimising our impact on the environment by positively challenging and improving our production supply chain with a focus on eliminating waste, minimising emissions and maximising efficiency. As a minimum standard, we comply with current applicable legislation in the countries in which we operate.

In particular, we are concentrated on tackling single-use plastics in our packaging and delivery processes, from investing in recyclable materials to working closely with suppliers to measure and reduce plastic usage.

Another key focus is to identify any potential climate-related risks affecting our business and we are proactively reducing carbon emissions across our business operation. This is all managed through our governance and risk-management process.

Mitigate carbon emissions

In 2019 our new Reading facility in the UK was fully commissioned. This facility has photovoltaic cells on the roof and a battery management system which reduces our electricity usage. Having closed two older sites in Slough and Reading in the UK and consolidated production into this one new site, moving goods between these two sites has also been eliminated.

We seek to lower the emissions from our motor vehicle fleet. We are constantly looking for ways to improve the efficiency of our vehicles, which can in turn reduce the amount of emissions produced. Last year we launched our new motor fleet programme which includes a choice of hybrid vehicles.

New initiatives encouraging remote working and fewer unnecessary journeys plus use of online meeting platforms will continue to drive down our transport emissions.

Optimise sustainable materials

We are focusing on increasing the use of recycled plastic and in 2020 56% of the plastic purchased for use in our own manufacturing came from recycled sources which equates to over 200 metric tons of PVC. We will continue to increase our usage and work with 3rd party suppliers of finished goods to improve the sustainability.

Reduce waste production

We are continuously improving and reducing our waste. Our individual companies have a target to reduce packaging materials by 15% a year. In the UK in 2020 we have completely removed transit single use plastic bags which has led to over 600,000 being diverted from landfill as few recycling facilities exist for them. We have initiatives to reduce cardboard use in our product packaging and transport cartons as well as reducing shrink wrapping around palletised consignments. Not only do these initiatives reduce waste but they also drive down costs consistent with our focus on operational excellence.

> "This year we eliminated the use of 600,000 single use plastic bags from landfill."
>
> **Ronnie George, Chief Executive Officer**

Measuring our approach

Optimise recycled plastics in our manufactured products

Long term goal

90% is our target for the amount of recycled plastics that are used in our manufactured products by end of FY2025, without compromising on the quality or reliability of our products.

Achievements in 2020

56% of the plastic used for use in our own manufacturing came from recycled sources in 2020. This includes 100% of all of our raw material PVC requirements used in our extrusion processes.

Planned improvements for 2021

63% is our target for the recycled content of the plastic used in our own manufacturing facilities by the end of the year. This will be achieved by introducing a new source of recycled HIPS into our ducting component ranges.

In support of SDGs

People

Our ambition

To continue to develop an engaging and inclusive workforce where our employees feel valued and can fulfil their potential.

Build relationships with the local community, provide support where needed, and leave a lasting legacy.

Champion a zero-harm culture

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

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

During the year a number of health and safety audits were undertaken to ensure local management placed sufficient focus on health and safety. In addition, due to COVID-19 extra precautions were taken to protect staff working within our facilities, including social distancing measures, sanitising stations, office screening, remote working and online meetings reducing the risk of transmission.

Employee engagement

We have a number of employee communication channels across the business, including an Employee Forum which includes rotating employee representatives from all areas across the Group and allows two-way communication between Volution senior management and the attendees who in turn brief the employees they are representing in each business unit. We also have local internal newsletters which provide a framework for colleagues to participate in two-way communication, giving them a platform from which to help shape and influence decision making within the Group.

Retain and grow talent – fulfilling our employees potential

As an organisation we actively encourage employee development as it is important to us that our employees fulfil their potential and that we attract and retain the best people. We aim to continually enhance the quality and quantity of our support available to all colleagues with the objective of continuously increasing capability levels across the business. With COVID-19 restricting movement and expected to continue to do so, in 2021 we will focus our training and development plans at a more localised level than we have historically.

Promote diversity, social inclusion and protect localism

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. A key example of this is when we have acquired new companies to the Group and have actively promoted and worked on retaining all employees post completion. We make a huge effort to inspire the employees from these newly acquired organisations often using success stories from previous transactions to engender confidence and trust in our company. Read more on diversity on page 69.

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, together with many of its employees, supported a range of national and local charities during the year. This year the UK team took part in the Macmillan Coffee Morning in September. Vent-Axia continue to support the Children with Cancer Opera at Syon event, although it was unfortunately eventually cancelled in 2020 but we will support again in 2021.

We also continue to support industry fund raising events for the Electrical Industry Charity who offer a wide range of support services to those who serve and have served within the electrical and energy sector.

> "We believe that optimised business decisions can be made by having representation from different genders and diverse cultural backgrounds with varying skill sets, experience and knowledge."
>
> **Ronnie George,** Chief Executive Officer

Measuring our approach

Our ongoing goal is for zero harm to come to any of our employees or wider stakeholders. We set ourselves a target of zero reportable accidents

Performance against target in 2020

1 In 2020 we had 1 reportable accident. It was preventable and down to human error. It resulted in a major injury with a broken arm. The person was absent for over 2 months but then returned to work. We have taken remedial action to try and prevent it from happening again.

Planned improvements for 2021

0 In 2021 we aim for zero.

In support of SDGs

Picture taken pre-COVID-19

Engaging our stakeholders

Directors' s172 statement

Businesses do not operate in isolation. Without a good understanding of who the key stakeholders are and their needs, a business will fail to deliver sustainable value to shareholders and other stakeholders.

The Directors take their duties under s172 (1) of the Companies Act 2016 seriously and consider that they have acted in the way they consider, in good faith, would promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172 (1) (a–f) in the decisions taken during the year ended 31 July 2020.

The Board considers its key stakeholders to be its employees, customers, suppliers, shareholders, the communities in which we operate and governments and industry bodies in the countries in which we operate. The Board takes seriously the views of these stakeholders in setting and implementing our strategy and believes that good engagement is key to the long-term success of Volution. Stakeholder considerations 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. To the extent that it is relevant, in addition to the stakeholders discussed below, the impact on the environment in which the Group operates is considered when making decisions.

We set out below how we have engaged with key stakeholders which provides valuable input into the Board's decision making. Our business model on pages 6 and 7 outlines our engagement with stakeholders and the value the business creates for each of them and this engagement sets the context for the strategy set out on pages 18 and 19. In particular our engagement with governments and industry bodies in the countries in which we operate has assisted in shaping policy on improving indoor air quality, such improvement being part of the Group's purpose. Our purpose and sustainability strategy are set out on page 3 and pages 26 to 33. Our employees are fundamental to the execution of our strategy. We aim to be a responsible employer providing a fair package of pay and benefits including opportunities for personal development and sharing in the financial success of the Group. Claire Tiney is the designated Non-Executive Director for workforce engagement and attends the Employee Representative Forums, reporting back to the Board. During the year, the Board considered carefully the impact of the COVID-19 pandemic on all stakeholder groups but in particular on our employees' health and wellbeing.

In summary, as required by Section 172 of the UK Companies Act, a director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- company's reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

Stakeholder group	Why it is important to engage	How does Volution engage?
Employees	Employee engagement is critical to our long-term success. Interaction between our employees and customers is also one of the main ways of experiencing our brands. We work to create a diverse and inclusive workplace where every employee can reach their full potential. This ensures we can retain and develop the best talent.	• Employee Representative Forum attended by Claire Tiney, designated Non-Executive Director for workforce engagement • 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 of sustainable products and growth and challenges to be met.	• Management of ongoing customer relationships • Customer events and product launches • Participation in industry forums and events • Brand websites and social media • Annual Report and Accounts
Suppliers	Our suppliers make a vital contribution to our performance. Engaging with our supply chain means that we can ensure security of supply and speed to market. Carefully selected high-quality suppliers ensure our brands deliver market leading innovative products meeting our customer expectations and requirements.	• Through our China–Britain Business Council sourcing office in Hangzhou • Supplier audits and inspections • Ongoing supplier relationship meetings • Responsible, sustainable and ethical procurement • Engagement on our Code of Conduct and policies on the prevention of anti-bribery and corruption and modern slavery
Shareholders	Continued access to capital is vital to the long-term success of our business. We work to ensure that our investors and investment analysts have a strong understanding of our strategy, performance and ambition. As a company with shares listed on the Main Market of the London Stock Exchange, we must provide fair, balanced and understandable information about the business to enable informed investment decisions to be made.	• Annual Report and Accounts • Annual General Meeting • Corporate website including dedicated investor section • Results presentations and post-results engagement with major shareholders • Investor roadshows, site visits, face-to-face meetings and addressing regular investor and analyst enquiries • Regulatory announcements • Further detail is set out on page 68
Community	We aim to contribute positively to the communities and environment in which we operate. We focus on supporting communities and groups local to our operations.	• Community investment initiatives • Sponsorship and employee volunteering • Contributing to national initiatives in society such as Clean Air Day and Noise Action Week
Government/ industry bodies	National governments set the regulatory framework within which we operate. We engage to ensure we can help in shaping new policies, regulations and standards, which assist in improving indoor air quality, and ensure compliance with existing legislation.	• We continually innovate to ensure our products become more energy efficient • Participation in industry bodies and working groups • Engagement with tax authorities • Meetings and letters with local MPs • Attending All-Party Parliamentary Groups and plenary sessions • Responding to industry and government consultations • Conferences and speaking opportunities

Strong and sustainable performance

We have identified a number of key performance indicators (KPIs) that monitor performance against our strategy and priorities, and enable investors and other stakeholders to measure our progress. We have refined our KPIs this year and have set ourselves targets where appropriate, which measured and delivered over a consistent basis will deliver sustainable shareholder value.

The three strategic pillars

- Organic growth in our core markets
- Value-adding acquisitions
- Operational Excellence

» We discuss the KPI performance in the Financial Review on **pages 40 to 45**
» Non-financial KPIs focus on our sustainability and can be found in the sustainability section on **pages 26 to 33**

Financial targets

Revenue growth
+10% pa

Organic revenue growth
>3% pa

Adjusted operating margin (% of revenue)
20%

Adjusted earnings per share p
+10% pa

Adjusted operating cash flow conversion
>90%

Return on Acquisition Investment (ROAI)
>18%

(post 3 full years of ownership)

Note
1. The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, constant currency, adjusted EPS, adjusted operating cash flow and net debt. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 36. A reconciliation to reported measures is set out in note 2.

Strategic pillars key

Organic growth
Value-adding acquisitions
Operational Excellence

Link to Directors' remuneration key

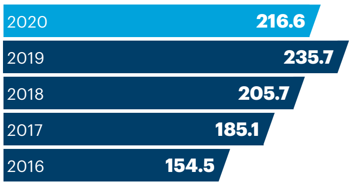
LTIP Long term incentive plan
ABP Annual bonus plan

Financial performance

Revenue growth £m (% of revenue)

+10.7%

Five-year compound



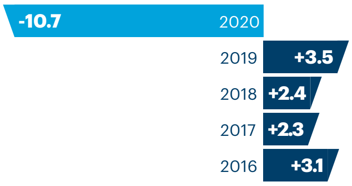
Strategic pillars measured by this KPI

This KPI tracks our performance against our strategic aim to grow the business.

Organic revenue growth %

+0.1%

Five-year average



Strategic pillars measured by this KPI

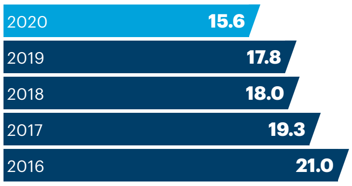
This KPI tracks our revenue performance from existing businesses excluding the impact of acquisitions. We expect to deliver growth ahead of GDP, leveraging our strong brands positions and market leading product portfolios supported by regulatory trends and increasing customer awareness of air quality and the importance of ventilation.

Adjusted operating margin[1]

% of revenue

18.3%

Five-year average



Strategic pillars measured by this KPI

This adjusted measure tracks the underlying financial performance and quality of the Group's earnings. We aim to achieve and sustain attractive operating margins by leveraging the benefits of product innovation, and through economies of scale in sourcing and operational efficiencies in our production and indirect costs.

Comments

- Organic revenue growth is the constant currency % growth in the year
- Second half demand and revenue was significantly impacted by the pandemic, 11.6% (10.7% at constant currency (cc)) organic reduction, most notably in the UK market resulting in a 17.7% revenue reduction in the year
- Full year organic growth of 6.9% (7.5% at cc) delivered in Central Europe and 0.4% (3.9% at cc) in Australasia
- Continuity of supply and high levels of customer service were maintained throughout the pandemic impact
- Encouraging recovery in the UK market during the fourth quarter, with RMI the prime driver

Link to Directors' remuneration

LTIP ABP

Comments

- First half delivered 70bps margin improvement across the Group, or 130bps when viewed on an organic basis, with good organic margin enhancement in all three geographic segments
- Full year adjusted operating margin of 15.6%, with second half of 12.2% impacted by COVID-19 driven demand reduction
- Restructuring cost of £1.5 million in the year in UK to streamline the organisation and embed efficiencies

Link to Directors' remuneration

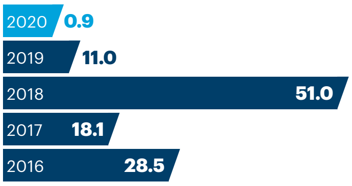
LTIP ABP

Key Performance Indicators continued

Financial performance continued

Expenditure on acquisitions £m

£21.9m
Five-year average



Strategic pillars measured by this KPI

Carefully selected, value enhancing acquisitions are a key part of our growth strategy, where we look to bring into the Group businesses that offer growth potential, capable management and attractive market positions.

Comments

- During 2020 we acquired the rights from our former agent Nordic Line for our distribution route to market in Denmark

Link to Directors' remuneration

LTIP ABP

Return on acquisition investment (ROAI) %

Group 20.4%

Strategic pillars measured by this KPI

We aim to enhance the value of acquired businesses over time, via a combination of expanding the product portfolio, value engineering and access to the Group's procurement capabilities. We believe that three years is an appropriate timeframe to deploy and bring enhancements to bear, although we do expect to continue enhancing value and improving performance beyond that point. The KPI measures adjusted operating profit[1] of all businesses acquired by the Group since its formation in 2012 and which the Group has held for more than three years, divided by the capital invested to acquire them.

Comments

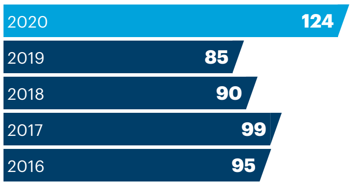
- Returns on our acquisitions in Nordics and Central Europe remain very strong, with Central Europe improving 1.8pp in the year principally due to the strong performance in Germany
- Returns on the U.K. acquisitions substantially impacted by demand reduction due to COVID-19 in second half of FY20 coupled with challenges in our U.K. commercial sector performance in the first half

Link to Directors' remuneration

LTIP ABP

Adjusted operating cash flow conversion[1] %

99%
Five-year average



Strategic pillars measured by this KPI

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

Comments

- Working capital reduction of £6.1 million in the year, primarily driven by inventory optimisation of £3.8 million
- Capital expenditure of £4.3 million (2019: £5.8 million)
- On a pre-IFRS 16 basis cash flow conversion would be 116% and the five year average would be 97%

Link to Directors' remuneration

LTIP ABP

Strategic pillars key

Organic growth

Value-adding acquisitions

Operational Excellence

Link to Directors' remuneration key

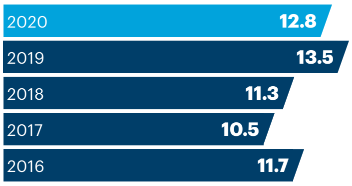
LTIP Long term incentive plan

ABP Annual bonus plan

Working capital as a % LTM revenue

12.0%

Five-year average



Strategic pillars measured by this KPI

This KPI tracks our working capital efficiency, optimisation of our working capital, especially inventories across the Group is an important stream of our Operational Excellence focus.

Comments

- Working capital reduction of £6.1 million in the year, primarily driven by inventory optimisation of £3.8 million

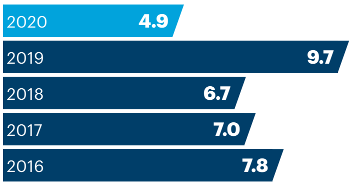
Link to Directors' remuneration

LTIP ABP

Reported earnings per share p

-3.6%

Five-year compound



Strategic pillars measured by this KPI

This KPI provides a measure of shareholder value.

Comments

- Reported EPS grew 14.6% in the first half of the year due to operating margin expansion but was heavily impacted in the second half by the reduced demand and reduction in operating profit

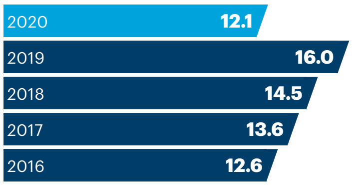
Link to Directors' remuneration

LTIP ABP

Adjusted earnings per share[1] p

1.9%

Five-year compound



Strategic pillars measured by this KPI

This KPI provides a measure of shareholder value.

Comments

- Adjusted EPS grew 6.5% in the first half of the year due to operating margin expansion but was heavily impacted in the second half by the reduced demand and reduction in operating profit
- Adjusted effective tax rate increased by 3.0pp from 20.7% in 2019 to 23.7% in 2020 due to the shift in relative mix of profits from UK to overseas

Link to Directors' remuneration

LTIP ABP

Excellent operating cash generation, the highest since IPO in 2014

> "In the context of unprecedented challenges due to COVID-19 we demonstrated the considerable resilience of our business model, delivering an adjusted operating margin of 15.6% and recording our strongest ever year of operating cash generation."

Resilient performance

- Revenue of £216.6 million represents a 7% constant currency (cc) reduction, with 5% (cc) growth in H1 followed by contraction of 18.5% (cc) in H2 due to the impact of the pandemic.
- Adjusted operating profit of £33.7 million, down £8.4 million versus prior year (2019: £42.1 million).
- Adjusted operating margin of 15.6%, with strong progress in H1 underpinned by Operational Excellence programme (18.3%, up 0.7pp on H1 2019) and H2 margins mainly impacted by the loss of volume.
- Reported operating profit of £18.2 million (2019: £24.7 million).
- No exceptional operating costs in the year (2019: £1.8 million).
- £43.4 million adjusted operating cash generation, the Group's highest ever, brings closing net debt excluding lease liabilities to £51.1 million and leverage to 1.3x (2019: 1.6x).

Trading performance summary

Group revenue for the year ended 31 July 2020 was £216.6 million, representing a 7% reduction at constant currency (cc) versus the prior year (2019: £235.7 million). Inorganic growth of £8.2 million (£8.6 million at cc) came from having a first full year of ownership of our Ventair business in Australia, with organic revenue of £208.4 million (£210.6 million at cc) representing a 10.7% (cc) reduction.

Following a first half year in which we delivered 5.0% (cc) revenue growth, with a 1.4% organic reduction offset by inorganic growth in Australasia, our second half felt the impact of the COVID-19 pandemic. Second half revenues fell by 18.5% (cc) with the most profound impact being in the UK (down 31.8%). In Continental Europe second half revenues fell by a modest 4.9% (cc), with most markets such as the Netherlands, Belgium and Finland seeing a level of downturn in demand, but with some of our key markets such as Germany and Sweden continuing to operate at broadly similar levels of activity to those observed pre-COVID-19. In Australasia, despite a comprehensive national lockdown in New Zealand for almost all of the month of April, during which time only very small scale activity occurred, we were still able to deliver 10.2% (cc) growth for the second half, with organic revenue growth in Australasia for H2 of 1.8% (cc).

Adjusted operating margins of 15.6% (2019: 17.8%) included a strong first half in which we expanded our margins by 0.7pp to 18.3% (2019 H1: 17.6%) and delivered organic margin improvements across all three of our geographic segments. Second half margins of 12.2% (2019 H2: 18.1%) reflect the impact of reduced volumes due to the pandemic, though it is worth noting that we were still able to deliver a second half operating margin in excess of 20% in Continental Europe, whilst in Australasia the organic margin in the second half was 0.7pp higher than in the corresponding period of the prior year.

	Reported			Adjusted[1]		
	Year ended 31 July 2020	Year ended 31 July 2019	Movement	**Year ended 31 July 2020**	Year ended 31 July 2019	Movement
Revenue (£m)	**216.6**	235.7	(8.1)%	**216.6**	235.7	(8.1)%
EBITDA (£m)	**41.0**	44.6	(8.1)%	**41.4**	46.5	(10.9)%
Operating profit (£m)	**18.2**	24.7	(26.1)%	**33.7**	42.1	(19.8)%
Net finance costs (£m)	**3.7**	1.5	(141.1)%	**2.5**	2.1	(18.4)%
Profit before tax (£m)	**14.5**	23.1	(37.1)%	**31.2**	39.9	(21.6)%
Basic EPS (p)	**4.9**	9.2	(46.7) %	**12.1**	16.0	(24.4)%
Total dividend per share (p)	**—**	4.9	(100)%	**—**	4.9	(100)%
Operating cash flow (£m)	**43.0**	34.9	23.0%	**43.4**	36.9	17.5%
Net debt (£m)	**74.2**	74.6	0.4	**74.2**	74.6	0.4
Like-for-like net debt (£m)[2]	**51.1**	74.6	23.5	**51.1**	74.6	23.5

Notes
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 the adjusted measures see the glossary of terms in note 36 to the consolidated financial statements.
2. Pre-IFRS 16 basis, excludes lease liabilities (£23.1 million).

Reported and adjusted results

The Board and key management 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 EPS and adjusted operating cash flow. These measures are deemed more appropriate to track underlying financial performance as they exclude income and expenditure which are 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.

Adjusted profit before tax of £31.2 million was 21.6% lower than 2019 (£39.9 million). Reported profit before tax was £14.5 million (2019: £23.1 million) and is after charging £15.1 million in respect of amortisation of intangible assets (2019: £15.4 million), £1.2 million due to the fair value measurement of financial instruments (2019: gain of £0.6 million) and £0.4 million (2019: £0.2 million) in respect of costs for the previous Chief Financial Officer. There were no exceptional operating costs recorded in the year (2019: £1.8 million).

	Year ended 31 July 2020			Year ended 31 July 2019		
	Reported £000	**Adjustments £000**	**Adjusted results £000**	Reported £000	Adjustments £000	Adjusted results £000
Revenue	**216,640**	**—**	**216,640**	235,698	—	235,698
Gross profit	**99,328**	**—**	**99,328**	111,079	—	111,079
Administration and distribution costs excluding the costs listed below	**(68,995)**	**—**	**(68,995)**	(69,027)	—	(69,027)
Other operating income	**3,404**	**—**	**3,404**	—	—	—
Amortisation of intangible assets acquired through business combinations	**(15,124)**	**15,124**	**——**	(15,439)	15,439	—
Exceptional operating costs	**—**	**—**	**——**	(1,801)	1,801	—
Former CFO compensation	**(386)**	**386**	**——**	(150)	150	—
Operating profit	**18,227**	**15,510**	**33,737**	24,662	17,390	42,052
Net (loss)/gain on financial instruments at fair value	**(1,219)**	**1,219**	**—**	605	(605)	—
Other net finance costs	**(2,451)**	**—**	**(2,451)**	(2,127)	—	(2,127)
Profit before tax	**14,557**	**16,729**	**31,286**	23,140	16,785	39,925
Income tax	**(4,892)**	**(2,504)**	**(7,396)**	(4,913)	(3,354)	(8,267)
Profit after tax	**9,665**	**14,225**	**23,890**	18,227	13,431	31,658

Finance Review continued

Cost impact of COVID-19 and UK business restructuring on our results

The predominant impact of COVID-19 on our adjusted and reported results for the year came from the reduction in revenue during the second half, and the resultant effect on gross profit. Taking our revenue shortfall of £19.1 million at expected gross margin equates to an estimated gross profit impact of approximately £8.6 million.

With production output substantially curtailed in our principal UK factories notably Reading, Crawley and Swindon from late March through to July we also suffered from an under-recovery of both labour costs and factory overheads which at normal production levels would have been absorbed into our inventory. Comparing the April to July position with the periods up to March, we assess this loss of recoveries to be a negative impact on profit of approximately £1.7 million.

As activity and output levels materially reduced, we furloughed approximately 65% of our UK workforce at the peak, with staff subsequently returning as activity recovered during the fourth quarter. The total value of benefit we received in the year for claims under the Coronavirus Job Retention Scheme (CJRS) and equivalent schemes outside of the UK was £3.4 million. With the resumption in activity we will not be making any new claims under the CJRS post 31 July 2020 nor will we be claiming under the subsequently announced Job Retention Bonus Scheme for the staff who we brought back from furlough.

The response to the demand reduction, and also part of our ongoing efficiency and Operational Excellence initiatives, we undertook a number of streamlining measures in the latter part of the financial year in the UK. This will result in a reduction of approximately 120 heads across our UK organisation by the end of the first quarter of financial year 2021, and we incurred a cost in financial year 2020 of £1.5 million as a result.

Given the unprecedented nature of the crisis and its wide ranging impacts across our business and results, we have not treated any of these items as exceptional in the year and all are included within both our adjusted and our reported results.

Currency impacts

Aside from Sterling, the Group's key trading currencies for our non-UK businesses are the Euro, representing approximately 18% of Group revenues, Swedish Krona (approximately 13%), New Zealand Dollar (approximately 8%) and Australian Dollar (approximately 6%). We do not hedge the translational exchange risk arising from the conversion of the results of overseas subsidiaries, although we do denominate some of our borrowings in both Euro and Swedish Krona which offsets some of the translation risk relating to net assets. We had Euro denominated borrowings as at 31 July 2020 of £40.3 million (2019: £40.6 million) and Swedish Krona denominated borrowings of £23.3 million (2019: £24.0 million). The Sterling value of these foreign currency denominated loans net of cash increased by £0.3 million as a result of exchange rate movements (2019: £0.1 million).

During the year Sterling strengthened on average against all four of our principal non-Sterling trading currencies, against the Euro by 0.6%, Swedish Krona by 2.3%, New Zealand Dollar by 3.3% and Australian Dollar by 4.7%. This gave rise to an adverse revenue impact of £2.5 million in the year, with operating profits adversely impacted by £0.3 million.

	Average rate 2020	Average rate 2019	Movement
Euro	**1.1399**	1.1335	0.6%
Swedish Krona	**12.1266**	11.8573	2.3%
New Zealand Dollar	**1.9865**	1.9237	3.3%
Australian Dollar	**1.8819**	1.7968	4.7%

Transactional foreign exchange exposures arise principally in the form of US Dollar denominated purchases from our suppliers in China. We aim to purchase 80–90% of our expected requirements 12 to 18 months forward, and as such we have purchases in place for approximately 80% of our forecasted requirements for the 2021 financial year at rates broadly similar to those experienced in the 2020 financial year.

Finance revenue and costs

Reported net finance costs of £3.7 million (2019: £1.5 million) include £1.2 million net loss on the revaluation of financial instruments (2019: net gain of £0.6 million). Adjusted finance costs were £2.5 million (2019: £2.1 million).

We benefited in the year from a 0.25pp lower margin on our debt in half two as a result of achieving a leverage below 1.5x at the half year (2020 H1: 1.3x), supplemented by the 0.50pp base rate reduction in the UK in March 2020 as well as the 0.10pp reduction in ECB base rate in September 2019. Our strong operating cash generation throughout the year delivered a £23.5 million reduction in net debt (excluding adjustment for lease liabilities of £23.1 million); however, as part of our COVID-19 contingency planning between March and June/July we did retain significantly more cash in bank than normal rather than paying down debt and the higher gross debt did drive an increase in our interest cost. During July we paid down £31.5 million of our gross debt and as at 31 July 2020 our gross debt stood at £69.6 million (2019: £86.1 million) offset by cash and cash equivalents of £18.5 million (2019: £11.5 million).

Excluding IFRS 16	**2020**	2019
Average gross debt (£m)	**88.3**	91.8
Weighted average interest rates on gross debt	**2.24%**	2.29%
Average cash balance (£m)	**23.2**	10.9
Weighted average interest rates on cash	**0.28%**	0.06%
Average net debt balance (£m)	**65.1**	81.0
Weighted average interest rates on net debt	**2.94%**	2.59%

Tax rate increased by 3.0pp due to geographic mix

Our effective adjusted tax rate for the year was 23.7% (2019: 20.7%). The increase of 3.0pp in the year was substantially driven by the shift in our relative profit mix from the UK, where our rate is 19%, towards overseas jurisdictions where our average rate for the year was 25.5%. The current rates in our principal countries of operation are shown below:

UK	19.0%
Sweden	21.4%
Norway	24.0%
Denmark	22.0%
Finland	20.0%
Germany	28.3%
Belgium	29.6%
Netherlands	25.0%
New Zealand	28.0%
Australia	30.0%

The UK Finance Act 2016 had included a planned reduction in the UK headline corporation tax rate to 17% from 1st April 2020. With the reversal of this reduction and rates remaining at 19%, coupled with continuing strong performance and outlook in non-UK jurisdictions with higher tax rates, we anticipate our near term rate to be in the range of 22% to 25%.

Record operating cash generation reduces Group net debt by £23.5 million (excluding lease liabilities) and brings leverage to 1.3x

Our asset light business model with modest capital expenditure requirements and our disciplined approach to working capital management ensure that Volution consistently generates strong operating cash inflows. As the COVID-19 crisis began to impact our businesses in March, we reacted swiftly across the Group to reduce and re-phase our incoming inventory purchases, minimise our capital expenditure and maintain constant dialogue and vigilance across our finance and commercial teams to ensure that customer collections were well managed.

This enabled the Group to deliver its strongest ever adjusted operating cash flow of £43.4 million (2019: £36.9 million), with a cash conversion KPI of 124% (2019: 85%) well in excess of our target of >90%. Working capital inflow of £6.1 million (2019: £4.7 million outflow) was primarily driven by a £3.8 million reduction in inventory, as the benefits of our Operational Excellence focus were realised and as our teams reacted with agility to monitor and adjust to the changes in demand during the latter part of the year due to the pandemic.

Capital expenditure of £4.3 million (2019: £5.8 million) focused primarily on new product development programmes (£1.3 million) as we continue to develop and expand our product offering across the Group. We also continued to invest in IT systems including ERP development and roll-out (£0.4 million) which has been a key enabler of our streamlining and re-organisation of the UK businesses.

Dividend payments of £6.5 million were £2.6 million lower than prior year (2019: £9.1 million), as a result of the suspension and subsequent cancellation of the 2020 interim dividend. As communicated in our pre-close trading update of 30 July 2020 we will not be paying a dividend in respect of the 2020 financial year, although we do anticipate recommencing dividend payments in 2021.

Tax paid of £5.9 million was £3.5 million lower than the prior year (2019: £9.3 million), reflecting the reduction in profit before tax as a result of the pandemic. Whilst the UK Government did allow companies to defer VAT payments relating to the period March to June 2020 until 31 March 2021 as part of the package of support for businesses in the wake of the COVID-19 crisis, we did not make use of this deferral and fully paid our VAT liabilities in the year.

Whilst there was low spend on acquisitions (£0.9 million) in the year (2019: £11.0 million), growth by acquisition remains a core tenet of the Group's strategy going forward. Our strong balance sheet and net debt position mean we are well placed to pursue value enhancing opportunities in what we believe to be attractive and fragmented markets.

Reconciliation of adjusted operating cash flow

	2020 £m	2019 £m
Net cash flow generated from operating activities	**41.4**	31.9
Net capital expenditure	**(4.3)**	(5.8)
UK and overseas tax paid	**7.6**	9.3
Tax refund	**(1.7)**	—
Cash flows relating to non-exceptional items	**0.4**	0.1
Cash flows relating to exceptional items	**—**	1.4
Adjusted operating cash flow	**43.4**	36.9

Finance Review continued

Movements in net debt position for the year ended 31 July 2020

	2020 £m	2019 £m
Opening net debt 1 August	**(74.6)**	(77.2)
Movements from normal business operations:		
Adjusted EBITDA	**41.4**[1]	46.5
Movement in working capital	**6.1**	(4.7)
Share-based payments	**0.2**	0.9
Capital expenditure	**(4.3)**	(5.8)
Adjusted operating cash flow:	**43.4**	36.9
– Interest paid net of interest received	**(2.1)**	(1.9)
– Income tax paid	**(7.6)**	(9.3)
– Income tax refund	**1.7**	—
– Exceptional items	**—**	(1.4)
– Non-exceptional adjustments	**(0.4)**	(0.1)
– Dividend paid	**(6.5)**	(9.1)
– Purchase of own shares	**(0.8)**	(1.2)
– FX on foreign currency loans/cash	**(0.3)**	(0.1)
– Issue costs of new borrowings	**—**	(0.2)
– IFRS 16 long term lease liabilities adjustment	**(23.2)**	—
– IFRS 16 payment of lease liabilities	**(2.9)**	—
Movements from acquisitions:		
– Acquisition consideration net of cash acquired and debt repaid	**(0.9)**	(11.0)
Closing net debt 31 July	**(74.2)**	(74.6)

Note
1. Includes £3.1 million of depreciation for right of use assets due to IFRS 16.

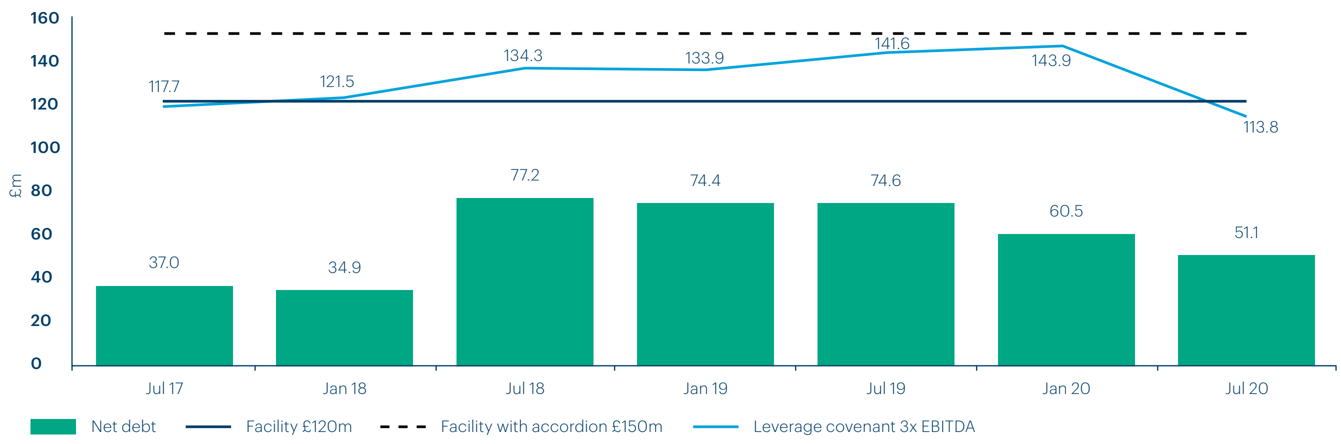
Funding facilities and liquidity

The Group has in place a £120 million multicurrency revolving credit facility (RCF) with an additional accordion facility of up to £30 million, and a maturity date of 15 December 2022. As at 31 July 2020, we had £50.4 million of undrawn, committed bank facilities (2019: £33.9 million) and £18.5 million of cash and cash equivalents on the consolidated statement of financial position (2019: £11.5 million).

The financial covenants under the RCF are tested twice yearly, at 31 January and 31 July, and require us to have a consolidated leverage (excluding lease liabilities) of not more than 3 times pro-forma LTM (last twelve months) EBITDA, and to maintain an interest cover of not less than 4 times. Interest cover at 31 July 2020 continued to be substantially ahead of the covenant requirement at 18.7 times.

The excellent operating cash generation throughout the year has meant that despite the contraction in LTM EBITDA during half two, our leverage (pre-IFRS 16) stood at 1.3x at 31 July 2020 (2019: 1.6x). Our finance teams have continued to update and test a range of forward-looking scenarios and conduct stress testing as further discussed in the Viability Statement on page 48, and under the potential scenarios considered as part of our going concern review we remain within our debt facilities and the associated financial covenants for the foreseeable future.

The net debt position of the Group versus both our facilities and our leverage covenant on a pre-IFRS 16 basis is shown in the below chart:



Employee Benefit Trust

During the year £0.8 million of loans (2019: £1.2 million) were made to the Volution Employee Benefit Trust for the exclusive purpose of purchasing shares in Volution Group plc in order to partly fulfil the Company's obligations under its share incentive plans. The Volution Employee Benefit Trust acquired 400,000 shares at an average price of £2.00 per share in the period (2019: £1.85) and 275,655 shares (2019: 19,981 shares) were released by the trustees with a value of £490,666 (2019: £36,000). The Volution Employee Benefit Trust has been consolidated into our results and the shares purchased have been treated as treasury shares deducted from shareholders' funds.

New reporting standards

The Group adopted IFRS 16, Leases, on 1 August 2019, which brings leases, principally for land and buildings, on to the balance sheet. IFRS 16 resulted in a small reduction in net assets of £0.3 million, with an increase in assets of £24.2 million through the recognition of a right-of-use asset, offset by an increase in liabilities of £24.5 million (due to the lease liability).

The net effect on the Group's profit and loss account has been immaterial, with operating lease costs of approximately £3.4 million being replaced by a depreciation charge of £3.1 million and a financing expense of £0.5 million. There has been no impact on the Group's cash flows. Further detail can be found in the notes to the financial statements.

Earnings per share

Our reported basic earnings per share for the year is 4.9 pence (2019: 9.2 pence).

Our adjusted basic earnings per share for the year is 12.1 pence (2019: 16.0 pence).

Dividends

In December 2019 the Group paid a final dividend of 3.30 pence per share in respect of the previous financial year.

There will be no dividends in respect of the financial year ended 31 July 2020.

Andy O'Brien
Chief Financial Officer
8 October 2020

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

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

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

The risks and uncertainties facing the Group have been considered in the context of the continuing COVID-19 pandemic, as well as the potential implications from any changes in the trading relationship between the UK and the European Union (EU) from 1 January 2021. More detail of the specific risk associated with the new relationship yet to be negotiated between the UK and the EU can be found on pages 47 and 48. A specific assessment of the potential risks and our approach to management of these risks can be found on pages 50 to 53.

Our approach

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

The Group's framework of risk management is 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 2020.

Board

Overall responsibility for risk management

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

↓

Audit Committee

Assurance oversight of the internal controls and risk management process

↓

Executive Management

Day-to-day management of risk

Design and implementation of the necessary systems of internal control

Identifying and monitoring material risks

Material risks (including emerging risks) that we consider may lead to threats to our business model, strategy and liquidity are identified through our framework of risk management, our 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 an annual 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 2018 UK Corporate Governance Code (the 2018 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 29 of the 2018 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. During this review we also considered the emerging risks facing the Group, the main one being the COVID-19 pandemic, and any impact on our assessment of principal risks. For each risk there is a description of the possible impact of the risk to the Group, should it occur, together with strategic consequences and the mitigation and control processes in place to manage the risk. This list is likely to change over time as different risks take on larger or smaller significance.

UK relationship with the European Union

Following the referendum outcome in June 2016, the UK left the EU on 31 January 2020. Since that date, the UK Government and European Commission have been negotiating the framework for the future relationship and any new agreement would operate from 1 January 2021. At the time of writing it is unclear what trading relationship the UK will have with the EU from 1 January 2021.

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

On the supply chain side, our primary non-UK supply comes from China, and so (aside from any heightened foreign exchange rate volatility) is not materially impacted. Border delays are recognised as a potential source of disruption, and as such we will continue to monitor the risk and remain agile to adjusting inventory levels and orders with our key suppliers in the run up to 31 December 2020.

We have undertaken an analysis of the risks and operational challenges to our business resulting from no trading relationship being agreed and consideration of these risks has been incorporated into the Group's principal risks as appropriate.

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

We recognise that significant uncertainty will remain until a trade deal may be agreed and as such our understanding of potential risks and impacts is being regularly reviewed and assessed.

COVID-19 risk

At the beginning of the COVID-19 outbreak in January 2020, our initial focus, working with our Chinese supply partners, was to ensure continuation of supply of critical materials and components to our various businesses in the UK, Continental Europe and Australasia. Whilst a number of our suppliers did have to stop operating for a period of time, the agility of our supply chain teams both in China and in our operating businesses, coupled with sensible inventory holdings in our businesses, enabled us to continue uninterrupted supply to our customers.

As the scale of the pandemic escalated through March and all of our businesses began to be impacted, our local management teams, supported by Group guidance and with regular sharing of information and learnings across the Group, moved quickly and with agility to ensure a safe working environment for all of our employees. Those employees able to work remotely were supported and helped to do so, whilst our production facilities were reviewed to ensure appropriate social distancing with enhanced cleaning, hygiene and protection measures such as temperature checking being adopted to ensure the safety of our employees. At the date of this report all of our facilities are operational.

We entered the COVID-19 crisis with a robust balance sheet and significant financial headroom within our banking facilities. Our teams acted decisively across the Group to reduce costs and to protect liquidity. The finance teams have also been performing additional cash forecasting and stress testing to ensure Volution has sufficient liquidity, not just to survive the current COVID-19 crisis but also to ensure the Group emerges in a strong position, able to invest for growth going forward, whether organically or through acquisition. Further detail on our financial response and liquidity actions and position can be found in the Financial Review on page 40.

People and talent is a key risk and rightly so, because it is only with our talented employees that we are able to navigate our way through these unprecedented times. Volution's culture and values, notably commitment, professionalism and customer service, have also been critical to the resilient manner in which our teams have approached the challenges of COVID-19.

With the pandemic still very much prevalent, and ever changing government instructions and guidance, it is clear that COVID-19 will continue to affect our markets, customers, suppliers and employees. We have evaluated how COVID-19 has impacted and continues to impact our assessment of principal risks on pages 50 to 53.

» Read more on **page 50**

Risk Management and Principal Risks continued

Risks associated with the UK leaving the EU and negotiating a trade agreement to operate from 1 January 2021

Potential risk	Likelihood[1]	Potential impact[1]	Mitigation
Increases in tariffs and duty on goods and raw materials imported into the UK from the EU and exported to the EU			The Group has considered the potential cost impact of World Trade Organisation tariffs coming into force for exports from the UK and imports into the UK, and the resultant cost of these potential tariffs is not expected to be material to the Group as a whole.
Regulatory risks relating to potential changes to UK and EU-based law and regulation including product approvals			In the short to medium term we do not expect UK or EU approvals for our products to markedly change. Both CE and the proposed UKCA marking schemes will be aligned and based on the same international standards.
Exchange rate volatility and reduction in the value of Sterling along with the associated increase in the costs of goods from overseas			To hedge against transactional foreign exchange risk we use forward foreign exchange contracts to cover around 80–90% of our expected US Dollar purchases for a period of 12–18 months from inception. Our global trading mix and product sourcing arrangements mean that historically we have had a natural gross margin hedge against a depreciation in Sterling versus the Euro at a Group level. The Group's approach to transaction risk management is to enter into forward exchange contracts for the purchase of the budgeted monthly net expenditure in US Dollars for a rolling period. The Group's treasury function hedges this exposure by using forward foreign exchange contracts put in place to cover around 80–90% of these transactions for 12–18 months from inception.
Queues and delays at UK and EU ports as a result of increased customs checks			We will continue to monitor this risk in the run up to 31 December 2020 and if deemed sensible will assess whether to increase supplies from our UK businesses to some of our European businesses prior to this date.
Labour force impacts, particularly the mobility of the workforce and availability of talent			We note the increased pressure on the availability of lower skilled labour in recent years, and the reduction in migration from EU countries since the Brexit referendum. As noted on page 52 however, we believe that some of these workforce availability pressures will be reduced at least in the near term, due to COVID-19 and unemployment levels in the UK. We are not critically reliant on our workforce having to travel extensively between the EU and the UK, or the need to source EU workers on UK contracts.

Note

1. An explanation of likelihood and potential impact can be found on **page 51**.

Viability statement

The Board has considered the viability of the Group over a three-year period to 31 July 2023, taking into account the Group's current position and the potential impact of the principal risks and uncertainties.

The COVID-19 pandemic has created an unprecedented challenge for businesses in making judgements regarding trading prospects. At Volution, we are focused on protecting the Group over the coming months and the key actions we are taking are outlined in the Going Concern disclosure below. While the Board has no reason to believe that the Group will not be viable over a longer period, it has determined that three years is an appropriate period as it aligns with the Group's business planning cycle. The Board believes that this approach provides greater certainty over forecasting and, therefore, increases reliability in the modelling and stress testing of the Group's viability. In addition, a three-year horizon is typically the period over which we review our external banking facilities and is also the performance based period over which awards granted under Volution's share-based incentive plan are measured.

As part of the annual budgeting process, the Board considers projections for subsequent years. 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.

The Group has committed facilities (revolving credit facility) totalling approximately £120 million, and an accordion of a further £30 million, maturing in December 2022. Whilst this falls within the three-year horizon for considering the viability of the Group we have already begun discussions with our advisers and our incumbent banks and we are confident of securing new facilities at appropriate levels and on acceptable terms.

With respect to the longer term viability of the Group, we believe the business model will remain highly relevant. The regulatory and consumer drive towards making new and existing homes more efficient and therefore airtight will continue, meaning that the opportunities to solve the problems of indoor air quality will only grow, strengthening the vital role ventilation has to play in creating a healthy indoor environment. We believe that one of the consequences of COVID-19, which should be positive for our business and future prospects, is a heightened awareness of the importance of indoor air quality to health and the role played by good ventilation systems. Customer requirements in terms of enhanced functionality, energy efficiency and aesthetics of products are also supportive trends.

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 50 to 53. They are recorded in a Group Risk Register which is reviewed and discussed by the Board at least twice a year. The Board also undertook a specific assessment of the potential impacts and risks associated with the UK leaving the EU Customs Union, set out on page 47. Whilst this change will bring a measure of disruption, the Board does not believe that it impacts the viability of the Group.

Whilst the review has considered all the principal risks identified by the Group, the following were focused on for enhanced stress testing: economic slowdown and supply chain risk affecting gross margins which have both been considered in the context of the impact of further lockdowns as a result of the COVID-19 pandemic, disruption as a result of the UK leaving the EU Customs Union, increased debt from acquisitions and combinations of the above scenarios. The sensitivities modelled used the same assumptions as for the going concern statement, as set out opposite, for the years ending 31 July 2021 and 31 July 2022 with further assumptions applied for the year ending 31 July 2023. These scenarios were modelled to represent a potential delay in the recovery of the impacted businesses from the effects of COVID-19 and/or a second wave of COVID-19 infection and corresponding government restrictions during the year ended 31 July 2021, and a combination of these scenarios with the addition of impacts from other of the Group's principal risks, including the UK ending the transition phase of its exit from the EU.

None of the individual sensitivities applied impact the Directors' assessment of viability. The geographic 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 concentration of customers or sectors. 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. Furthermore, note 30 on page 147 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 financial statements have been prepared on a going concern basis. In adopting the going concern basis the Directors have considered all of the above factors, including potential scenarios arising from the COVID-19 pandemic, the risks associated with the UK leaving the EU Customs Union, and from its other principal risks set out on pages 50 to 53. Under the potential scenarios considered, which are severe but plausible, the Group remains within its debt facilities and the attached financial covenants for the foreseeable future and the Directors therefore believe, at the time of approving the financial statements, that the Company is well placed to manage its business risks successfully and remains a going concern. The key facts and assumptions in reaching this determination are summarised below.

Our financial position remains robust with committed facilities (revolving credit facility) totalling approximately £120 million, and an accordion of a further £30 million, maturing in December 2022, of which £50.4 million remains undrawn at the date of this report.

The financial covenants on these facilities are for leverage (net debt/adjusted EBITDA[1]) of not more than three times and for adjusted interest cover of not less than four times.

Our base case scenario has been prepared using forecasts from each of our Operating Companies, with each considering both the challenges and opportunities they are facing as a consequence of COVID-19.

We have then applied some severe but plausible downside sensitivities in order to model the potential impacts of either:

- a delay in the recovery of the impacted businesses from the effects of COVID-19; and/or
- a second wave of COVID-19 infection and corresponding government restrictions during FY21.

A reverse stress test scenario has also been modelled, with a full year revenue contraction of 33%, which is considered extremely remote in likelihood of occurring. This includes a combination of the COVID-19 downside scenarios, with the addition of impacts from the Group's other principal risks.

None of these scenarios result in a breach of the Group's available debt facilities or the attached covenants and accordingly the Directors believe there is no material uncertainty in the use of the going concern assumption.

Note
1. Net debt and adjusted EBITDA are on a pre-IFRS 16 basis for covenant purposes.

Risk heatmap

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

↗ COVID-19 impact – the arrows show the risk direction as a result of the impact of COVID-19

Risk Management and Principal Risks continued

Strategic consequence

Organic growth

Value-adding acquisition

Operational Excellence

Risk	Impact	Strategic consequence	Likelihood
Economic risk A decline in general economic activity and/or a specific decline in activity in the construction industry, including, but not exclusively, an economic decline caused by the COVID-19 pandemic and the new relationship between the UK and the EU from 1 January 2021.	Demand for our products serving the residential and commercial construction markets would decline. This would result in a reduction in revenue and profitability.	Our ability to achieve our ambition for continuing organic growth would be adversely affected.	
Acquisitions We may fail to identify suitable acquisition targets at an acceptable price or we may fail to complete or properly integrate the acquisition.	Revenue and profitability would not grow in line with management's ambitions and investor expectations. Failure to properly integrate a business may distract senior management from other priorities and adversely affect revenue and profitability. Financial performance could be impacted by failure to integrate acquisitions and to secure possible synergies.	Our strategic ambition to grow by acquisition may be compromised.	
Foreign exchange risk The exchange rates between currencies that we use may move adversely.	The commerciality of transactions denominated in currencies other than the functional currency of our businesses and/or the perceived performance of foreign subsidiaries in our Sterling denominated consolidated financial statements may be adversely affected by changes in exchange rates.	Our ambition to grow internationally through acquisition exposes us to increasing levels of translational foreign exchange risk.	
IT systems including cyber breach We may be adversely affected by a breakdown in our IT systems or a failure to properly implement any new systems.	Failure of our IT and communication systems could affect any or all of our business processes and have significant impact on our ability to trade, collect cash and make payments.	We could temporarily lose sales and market share and could potentially damage our reputation for customer service.	

Likelihood of risk occurring	Potential impact	Assessment of risk direction
Unlikely	Low	Reducing
Possible	Medium	No change
Likely	High	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.

Potential impact	Change in the year: Pre-COVID-19	Change in the year: Post-COVID-19	Impact of COVID-19	Mitigation
High	Increasing	Increasing	COVID-19 has impacted and will continue to impact economic outlook and confidence in a number of regions in which we operate. That said we believe that government responses and any stimulus packages deployed are likely to be supportive and help underpin construction demand, and will focus on energy efficient and sustainable technologies including ventilation systems.	Geographic spread from our international acquisition strategy helps to mitigate the impact of local fluctuations in economic activity. New product development, the breadth of our product portfolio and the strength and specialisation of our sales forces should allow us to outperform against a general decline. We have a strong presence in the RMI market, which is more resilient to the effects of general economic decline affecting the construction industry. This remains true even under current circumstances. Our business is not capital intensive and our operational flexibility allows us to react quickly to the impact of a decline in volume.
Medium	No change	No change	COVID-19 may affect the cost or timing of any potential acquisitions but could also be an opportunity for the Group with potential acquisitions coming to the market. Our strong cash position means we are well positioned to benefit if any attractive opportunities arise.	The ventilation industry in Europe remains fragmented with many opportunities to court acquisition targets. Senior management has a clear understanding of potential targets in the industry and a track record of twelve acquisitions since IPO in June 2014. Management is experienced in integrating new businesses into the Group. Our policy of rigorous due diligence prior to acquisition and a structured integration process post-acquisition has been maintained.
Medium	Increasing	Increasing	COVID-19 has impacted the customer demand and supply chain patterns, which could lead to unpredictable hedging of currencies. We believe that the increased economic uncertainty in the context of COVID-19 (and Brexit) makes it likely that in the near-term exchange rates may continue to see heightened levels of volatility.	Significant transactional risks are hedged by using forward currency contracts to fix exchange rates for the ensuing financial year. Revaluation of foreign currency denominated assets and liabilities is partially hedged by corresponding foreign currency bank debt.
Medium	Increasing	Increasing	We believe there is increased risk due to COVID-19 as there is the potential for: • new risks linked to employees working from home; and • an increase in targeted phishing campaigns and fraud attempts.	Disaster recovery and data backup processes are in place, operated diligently and tested regularly. A significant Enterprise Resource Planning system has been implemented for several key sites. A disaster failover site has been implemented. We have a three-layered system of network security protection against cyberattack or breaches of security. This infrastructure is maintained to withstand increasingly sophisticated worldwide cyber threats. We also undertake regular cyber security testing and training of our employees. We have commenced a process of internal and external penetration testing with quarterly monitoring checks.

Risk Management and Principal Risks continued

Risk	Impact	Strategic consequence	Likelihood
Customers A number of our business derive meaningful amounts of their revenue from key customers. Failure to maintain relationships with these key customers, or with heating and ventilation consultants, could result in revenue loss.	Any deterioration in our relationship with a key customer could have an adverse effect on our revenue from that customer.	Our organic growth ambitions and Operational Excellence may be adversely affected.	
Regulatory environment Laws or regulation relating to the carbon efficiency of buildings, the efficiency of electrical products and compliance may change.	The shift towards higher value-added and more energy efficient products may not develop as anticipated resulting in lower sales and profit growth. If our products are not compliant and we fail to develop new products in a timely manner we may lose revenue and market share to our competitors.	Our organic growth ambitions may be adversely affected. We may need to review our acquisition criteria to reflect the dynamics of a new regulatory environment. We may have to redirect our new product development activity.	
Supply chain and raw materials Raw materials or components may become difficult to source because of material scarcity or disruption of supply, including as a consequence of the COVID-19 pandemic and the new relationship between the UK and the EU from 1 January 2021. The increased friction and potential for "trade war" and disputes primarily between the US and China could also destabilise supply chain activity.	Sales and profitability may be reduced during the period of constraint. Prices for input materials may increase and our costs may increase.	Organic growth may be reduced. Our product development efforts may be redirected to find alternative materials and components. Operational Excellence may be adversely affected.	
Innovation We may fail to innovate commercially or technically viable products to maintain and develop our product leadership position.	Scarce development resource may be misdirected and costs incurred unnecessarily. Failure to innovate may result in an ageing product portfolio which falls behind that of our competition.	Our organic growth ambitions depend in part upon our ability to innovate new and improved products to meet and create market needs. In the medium term, failure to innovate may result in a decline in sales and profitability. Operational Excellence may be adversely affected.	
People Our continuing success depends on retaining key personnel and attracting skilled individuals.	Skilled and experienced employees may decide to leave the Group, potentially moving to a competitor. Any aspect of the business could be impacted with resultant reduction in prospects, sales and profitability.	Our competitiveness and growth potential, both organic and inorganic, could be adversely affected. Operational Excellence may be adversely affected.	

Potential impact	Change in the year		Impact of COVID-19	Mitigation
	Pre-COVID-19	Post-COVID-19		
			COVID-19 has increased the risk that customers could fall into financial difficulties or change the way they do business, moving to more online trading and reduction in stock levels.	Our geographic diversity reduces the risk associated with key customers, most of whom only operate in single countries. We have strong brands, recognised and valued by our end users, and this gives us continued traction through our distribution channels and with consultants and specifiers. We have a very wide range of ventilation and ancillary products that enhance our brand proposition and make us a convenient "one-stop-shop" supplier. We continue to develop new and existing products to support our product portfolio and brand reputation. We focus on providing excellent customer service.
			COVID-19 has further heightened consumers' and regulators/governments' awareness of air quality and the role ventilation can play. We therefore believe that in addition to the already supportive regulatory backdrop and drivers around carbon and energy efficiency, COVID-19 is likely to place additional emphasis on governments developing appropriate regulations in support of improving indoor air quality.	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. With the proposed UK Future Homes Standard and the European Green Deal along with the Healthy Homes Standards in New Zealand, favourable regulatory tailwinds have continued to develop. This is especially true since the outbreak of COVID-19. We are active in new product development and have the resource to react to and anticipate necessary changes in the specification of our products.
			At the beginning of the COVID-19 outbreak, our initial focus, working with our Chinese supply partners, was to ensure continuation of supply of critical materials and components to our various businesses in the UK, Europe and Australasia. Whilst a number of our suppliers did have to stop operating for a period of time, the agility of our supply chain teams both in China and in our operating businesses, coupled with sensible inventory holdings in our businesses, enabled us to continue uninterrupted supply to our customers.	We establish long-term relationships with key suppliers to promote continuity of supply and where possible we have alternative sources identified. We will continue to monitor stock levels and order patterns in the run up to 1 January 2021 and where deemed necessary will adjust inventory levels to help mitigate any disruptions in supply.
			COVID-19 has not impacted our innovation process.	Our product innovation is driven by a deep understanding of the ventilation market and its economic and regulatory drivers. The Group starts with a clear marketing brief before embarking on product development.
			There have been no significant changes to the supply and retention of quality employees across the wider workforce since the COVID-19 outbreak. We believe that retention is likely to be a lower risk in the near term as staff will be less likely to take the risk of changing employment in these uncertain times.	Regular employee appraisals allow two-way feedback on performance and ambition. A Management Development Programme was initiated in 2013 to provide key employees with the skills needed to grow within the business and to enhance their contribution to the business.

Non-Financial Information Statement

This section of the Strategic Report constitutes Volution's Non-Financial Information Statement and is produced to comply with Sections 414CA and 414CB of the Companies Act 2006.

Reporting requirements	Relevant Policy/Code	Section within Annual Report
Environmental matters	• Sustainability Policy	• Sustainability (pages 26 to 33)
Employees	• Code of Conduct • Health and Safety Policy • Anti-Bribery and Corruption Policy • Whistleblowing Policy • Modern Slavery Policy • Data Protection Policy	• People (pages 68 and 69) • Board Diversity (page 69) • Gender Diversity (page 69) • Stakeholder Engagement (pages 34 and 35) • Principal Risks (pages 50 to 53)
Human rights	• Code of Conduct • Modern Slavery Policy • Stakeholder Engagement	• People (pages 68 and 69) • Stakeholder Engagement (pages 34 and 35)
Social matters	• Code of Conduct • Stakeholder Engagement	• People (pages 68 and 69) • Governance (page 67) • Stakeholder Engagement (pages 34 and 35)
Anti-bribery and anti-corruption	• Anti-Bribery and Corruption Policy • Whistleblowing Policy	• People (pages 68 and 69) • Governance (page 80)
Principal risks		• Risk Management (pages 46 to 53) • Principal Risks and Uncertainties (pages 50 to 53)
Business model		• Business Model (pages 6 and 7)
Non-financial key performance indicators		• Key Performance Indicators (pages 36 to 39)

The Strategic Report was approved by the Board and signed on its behalf by Ronnie George, Chief Executive Officer, on 8 October 2020.

Ronnie George
Chief Executive Officer

Governance Report

Governance Report

Business done the right way should be a force for good

"The long-term success and sustainability of Volution is underpinned by our focus on effective corporate governance. By ensuring high governance standards, we aim to contribute to the sustainability of our industry and society and to deliver value to each of our stakeholders."

Dear shareholder,

Following my appointment as Chairman on 1 February 2020, on behalf of the Board, I am pleased to present 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 both periods of sustained growth and challenges such as the COVID-19 pandemic. 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 are set out on pages 34 and 35.

Compliance with the 2018 UK Corporate Governance Code

Our approach to governance is based on the concept that good corporate governance enhances longer-term shareholder value and sets the culture, ethics and values for the Group. Consistent with our belief in the importance of corporate governance, I am pleased to report that the Company has complied in full with the principles and provisions of the 2018 UK Corporate Governance Code (the 2018 Code) which has applied to the Company since the start of the financial year. A copy of the 2018 Code can be found at www.frc.gov.uk.

Board composition and succession planning

During the year the Nomination Committee discussed succession planning for Executive and Non-Executive Directors and progressive refreshing of the Board. There were a number of changes to the composition of the Board and its Committees which, in order of date, were as follows:

- Andy O'Brien was appointed to the Board as Chief Financial Officer on 1 August 2019;
- Peter Hill retired as Chairman of the Board and from the Company on 31 January 2020;
- Paul Hollingworth was appointed as Chairman of the Board and stepped down as chairman of the Audit Committee on 1 February 2020;
- Tony Reading was appointed as interim chairman of the Audit Committee on 1 February 2020 and stepped down on 30 April 2020 following the appointment of Nigel Lingwood. Tony Reading also stepped down as chairman of the Remuneration Committee on 30 April 2020 and was succeeded by Claire Tiney. Claire has been a member of the Remuneration Committee since 2016 and has considerable experience as an HR director and as the chair of two other listed company remuneration committees; and
- Nigel Lingwood was appointed as an independent Non-Executive Director and chairman of the Audit Committee on 30 April 2020.

Peter Hill retired having completed almost six years as Chairman, to focus on his other two non-executive chairmanships.

The Board was delighted to welcome Andy O'Brien to Volution on 1 August 2019. Andy joined Volution following nine years at Aggreko plc, a FTSE 250 global provider of temporary power, heating and cooling solutions, where he held numerous senior finance roles including most recently finance director, power solutions.

Following the requirement under the 2018 Code that I step down as chairman of the Audit Committee following my appointment as Chairman of the Board, I would like to thank Tony Reading for acting as interim chairman of the Audit Committee until the Board appointed a permanent successor to that role. The Board was very pleased to welcome Nigel Lingwood as our new independent Non-Executive Director and chairman of the Audit Committee on 30 April 2020.

Further information on the above can be found in the Nomination Committee Report on pages 70 to 72.

Senior management succession planning and diversity

This year we have continued to review the Group's talent pipeline and senior management succession planning. Although the Group has no specific gender and diversity targets as we believe that appointments should be based on merit, we strongly support diversity throughout the workforce. We believe that better business decisions can be made by having representation from different genders and cultural backgrounds with differing skill sets, experience and knowledge, which reflects our customer base and the wider population in our markets. Further information on the Group's diversity and inclusion is provided on pages 68 to 69.

Evaluating the Board's effectiveness

Each year the Board undertakes a formal evaluation of its effectiveness. This year we carried out an internally 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 2019 Board evaluation. Further information is set out on pages 65 and 66.

Election and re-election of Directors

In accordance with the 2018 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 11 December 2020, in accordance with the 2018 Code. Further information on the Directors can be found in the Directors' biographies on pages 58 and 59.

Remuneration Policy

Volution's Remuneration Policy was last approved at the Annual General Meeting in 2017 and as such a new Policy has been designed this year to operate for the next three years and is being submitted to shareholders for approval at the Annual General Meeting on 11 December 2020. Further details are provided in the Directors' Remuneration Report, which can be found on pages 81 to 100.

Annual General Meeting

The Annual General Meeting (AGM) of the Company will take place at 12.00 noon on Friday 11 December 2020 at Volution's registered office, Fleming Way, Crawley, West Sussex RH10 9YX, United Kingdom. This year due to UK Government restrictions in place on public gatherings and AGMs specifically due to the COVID-19 pandemic, shareholders will not be permitted to attend the AGM. We therefore strongly urge all shareholders to register their votes in advance by appointing the Chairman of the AGM as their proxy and giving him voting instructions. We do not recommend the appointment of any other person as your proxy as they will not be able to attend the AGM and your vote will not be counted.

Paul Hollingworth
Chairman

8 October 2020

Board of Directors

Paul Hollingworth
Non-Executive Chairman

N R

Appointed: 23 June 2014

(Chairman since 1 February 2020)

Career and experience: Paul was appointed as a Non-Executive Director of Volution upon its listing on the Main Market of the London Stock Exchange in 2014 and in February 2020 became Non-Executive Chairman and chairman of the Nomination Committee.

Paul brings extensive public company and wide ranging international business experience, particularly in manufacturing environments. Paul previously headed the finance function and served on the boards of a number of UK listed public companies, including Ransomes plc, De La Rue plc, BPB plc, Mondi Group plc and Thomas Cook Group plc. Paul was also a non-executive director and chairman of the audit committee of Electrocomponents plc.

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

External appointments: None.

Ronnie George
Chief Executive Officer

Appointed: 15 May 2014

Career and experience: Ronnie joined Volution in 2008 as Managing Director of Vent-Axia Division (now the Ventilation Group) and became CEO in 2012 upon leading the management buyout backed by TowerBrook Capital Partners LP. Since then he has transformed the company from a UK-centric provider of air quality solutions into a globally diversified organisation with 16 market leading brands in ten countries. Ronnie led the successful listing of Volution on the Main Market of the London Stock Exchange in 2014 and has subsequently delivered a strong and consistent financial performance increasing revenue by 95%, growing the Company organically and through twelve acquisitions.

Ronnie has extensive industry experience and prior to joining Volution spent 20 years in the wire and cable industry latterly leading Draka's global activities to supply to the marine, oil and gas sectors. In 2015 he was nominated as a finalist for EY Entrepreneur of the Year in London and the South East.

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.

External appointments: None.

Andy O'Brien
Chief Financial Officer

Appointed: 1 August 2019

Career and experience: Andy joined Volution as Chief Financial Officer in August 2019 following nine years at Aggreko plc where he held numerous senior finance roles including most recently finance director, power solutions.

Andy brings extensive UK and international financial and accounting expertise through a background working in a global business environment having lived and worked in the Nordics, Dubai and Singapore. Throughout his career, Andy has operated in environments where cost control has been critical and in his role at Aggreko, oversaw revenues totalling $1.2 billion and worked on a number of international acquisitions.

Prior to joining Aggreko, Andy spent four years at Vetco Gray and six years at Lafarge SA.

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

External appointments: None.

Tony Reading, MBE
Senior Independent Non-Executive Director

A N R

Appointed: 23 June 2014

Career and experience: Tony joined Volution on listing in 2014 as Senior Independent Non-Executive Director and chairman of the Remuneration Committee. On 1 February 2020 Tony was appointed as interim chairman of the Audit Committee and stepped down as chairman of both Committees on 30 April 2020.

Tony has extensive public company and international business experience gained in both executive and non-executive roles. He has been a non-executive director of Taylor Wimpey plc, Laird PLC, e2v technologies plc, Spectris plc and George Wimpey plc and was previously executive director of Tomkins plc and chairman and chief executive officer of Tomkins Corp. USA.

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

External appointments: None.

Committee membership:

A Audit Committee

N Nomination Committee

R Remuneration Committee

● Chair of Committee

Amanda Mellor
Independent Non-Executive Director

A N R

Appointed: 19 March 2018

Career and experience: Amanda joined the Board in March 2018 as an independent Non-Executive Director and brings experience in international M&A, shareholder relations, strategy and governance.

Amanda is currently the group secretary of Standard Chartered plc having previously spent nine years as group secretary and head of corporate governance at Marks and Spencer Group plc where she was also an executive member of the operating committee. Prior to that, Amanda spent time at Arcadia Group plc and working in investment banking at James Capel and Robert Fleming.

Amanda served as a non-executive director at Kier Group plc from 2011 to 2016 and has served as a member of the Council and the remuneration committee of Leeds University, where she is also a visiting professor of the Inter-Disciplinary Ethics Applied Centre.

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

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

Claire Tiney
Independent Non-Executive Director

A N R

Appointed: 3 August 2016

Career and experience: Claire joined the Board in August 2016 as an independent Non-Executive Director and was appointed as chair of the Remuneration Committee on 30 April 2020.

Claire has over 30 years' listed company experience, including a number of executive roles at WH Smith Group plc, Mothercare plc and McArthurGlen Ltd, bringing strengths in business strategy and turnaround, strategic development and change management.

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

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.

Nigel Lingwood
Independent Non-Executive Director

A N R

Appointed: 30 April 2020

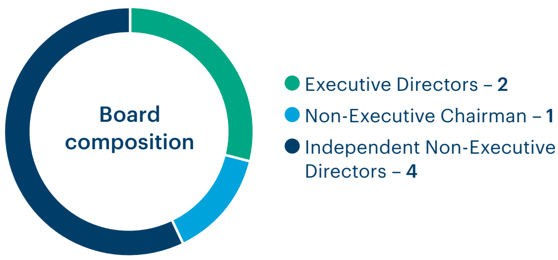
Career and experience: Nigel joined the Board in April 2020 as an independent Non-Executive Director and chairman of the Audit Committee bringing extensive public company, financial and accounting and acquisition experience.

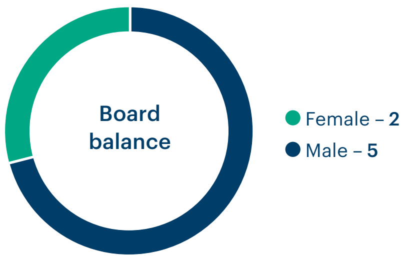
Nigel was group finance director of Diploma PLC from 2001 to September 2020. During his time at Diploma, Nigel had overseen more than 50 international acquisitions across Europe, North America and Australia during which time the company had grown market capitalisation from ca.£60 million to ca.£1.8 billion.

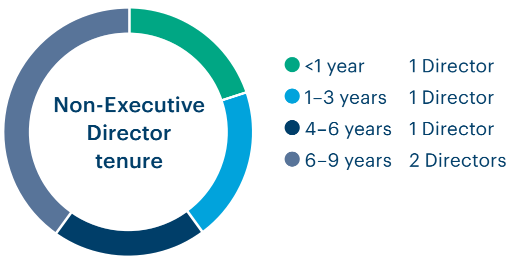
Nigel was previously senior independent director and audit committee chairman of Creston plc from July 2015 until December 2016 when the company was taken private.

Key strengths: Recent and relevant financial and accounting expertise together with extensive public company experience and wide ranging international business experience; significant strategic and operational expertise together with extensive merger and acquisition experience, both in the UK and internationally.

External appointments: None.







Governance Framework

Overview

The Board fully supports the principles laid down in the UK Corporate Governance Code as issued by the Financial Reporting Council in 2018 (the 2018 Code), which applies to the financial year ended 31 July 2020 and is available at www.frc.org.uk.

This report sets out the Company's governance structure and how it complies with the 2018 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 2018 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 2018 UK Corporate Governance Code

The Board considers that it and the Company have, throughout the year, complied with the provisions of the 2018 UK Corporate Governance Code, which is the version of the Code which applies to the Company for its financial year ended 31 July 2020.

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 62.

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 70 to 72

Audit Committee

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

Members:

Four independent Non-Executive Directors

The Committee Report can be found on pages 73 to 80

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 81 to 100

Board responsibilities

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

Governance Framework continued

Board responsibilities continued

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

The matters reserved for the Board include:

- agreeing the Group's strategy and objectives;
- approving acquisitions and disposals;
- changing the structure and capital of the Group;
- approving the Annual Report and Accounts, Half-Year Report and stock exchange announcements relating to trading;
- 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;
- approving the appointment of advisers;
- 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 is updated to include any topical matters that arise.

2020 Board Activities

Board activities and priorities during the year ended 31 July 2020

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

Matters considered at regular Board meetings

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

Other matters considered during the year

Area	Agenda items
Strategy	• Review and approval of updated Group strategy
Financial	• Review of the Company's response to COVID-19 and associated risk review • Review and approval of Trading Updates in August 2019, March 2020, April 2020, June 2020 and July 2020 • Review and approval of Annual Report and Accounts, AGM Notice and associated documentation for the year ended 31 July 2019 • Review and approval of new business operating segments for the six months ended 31 January 2020 • Review and cancellation of interim dividend and no recommendation to pay a final dividend • Review and approval of interim financial statements for the six months ended 31 January 2020
Budget	• Review and approval of budget for the year ended 31 July 2021
Operations	• Business impact assessment of COVID-19 and approval of appropriate actions • Presentations from the Managing Directors of the businesses • Post-acquisition review of Air Connection and Oy Pamon • Consideration of risk framework, significant risks and risk appetite (in conjunction with the Audit Committee) • Review and approval of Viability Statement • Property matters
Shareholder engagement	• Broker presentation on the Company's shareholder profile and market perception • Independent feedback from corporate brokers following full and half-year investor roadshows • AGM 2019 proxy results and review of shareholder voting

Governance Report

Governance	• Approval of the appointment of Paul Hollingworth as Chairman of the Board, Andy O'Brien as Chief Financial Officer and Nigel Lingwood as an independent Non-Executive Director. Approval of changes to the chairs of the Audit Committee and Remuneration Committee • Board composition and the re-appointment of Tony Reading • Board visit to the Reading facility in the UK • Presentations on the Group's new product development programme and ESG • Board performance evaluation results • Governance, legislation and regulatory updates, in particular the 2018 UK Corporate Governance Code and secondary legislation on governance • Claire Tiney's report to the Board following her attendance at the Volution Employee Forum • Review and approval of the Group's Modern Slavery Act Statement • Updates from Board Committee chairs as appropriate

Board meetings and attendance

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

Director	Number of meetings held	Attendance
Chairman		
Paul Hollingworth[1]	10	10
Peter Hill[1]	10	3
Executive Directors		
Ronnie George	10	10
Andy O'Brien	10	10
Non-Executive Directors		
Nigel Lingwood[2]	10	3
Amanda Mellor[3]	10	9
Tony Reading	10	10
Claire Tiney	10	10

Notes

1. Peter Hill retired from the Board on 31 January 2020 and was succeeded by Paul Hollingworth on 1 February 2020.
2. Nigel Lingwood was appointed to the Board on 30 April 2020.
3. Amanda Mellor was not able to attend the Board meeting on 20 February 2020 due to a prior commitment which could not be rescheduled. Amanda received a full set of papers for the meeting and had the opportunity to discuss issues arising directly with the Chairman of the Board.

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 2019 except for Amanda Mellor who was unable to attend due to a commitment which could not be rescheduled.

Board balance and independence

The 2018 Code recommends that at least half the board of directors of a UK listed company, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement. The Company's Board consists of a Non-Executive Chairman, four independent Non-Executive Directors and two Executive Directors. A list of the Directors is provided on pages 58 and 59. The composition of the Board has remained in compliance with the 2018 Code throughout the financial year ended 31 July 2020.

Appointment and tenure

The appointment dates of Directors are shown in their biographies on pages 58 and 59.

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 11 December 2020.

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 81 to 100. 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 2018 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 2018 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 2019, 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 2019 – recommendations	Progress against the recommendations
Continue the development of the Group's strategy.	The Board continued to develop the Group's strategy which was refreshed and announced during the year and is set out in the Strategic Report.
Review in greater depth competition and the markets in which Volution operates, innovation and product development and stakeholder engagement, in particular engagement with customers and employees.	The Board received a number of presentations during the year covering most regions of the Group and included detail on the markets operated in and the competition. In addition the Board was updated on new product development and the Group's product portfolio. The site visit to the Reading facility enhanced the Non-Executive Directors' knowledge and understanding of certain products and their manufacturing processes. Stakeholder engagement is set out in detail on pages 34 to 35.
Implement the Non-Executive Director succession plan, Senior Management Team succession planning, talent management and focus on the talent pipeline. Continue to meet members of the Senior Management Team to assist with succession planning.	The Board discussed Non-Executive Director succession planning and approved a plan. A number of Board changes were made during the year as set out earlier in this Governance Report. The Senior Management Team succession planning was discussed during the year together with the talent pipeline. During the year the Board met a number of the Senior Management Team either during Board presentations, at Board dinners or as part of the Reading facility site visit.

Governance Report continued

Board performance evaluations and effectiveness continued

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

Process for the 2020 Board and Committee evaluation

The Chairman of the Board and each Committee chair discussed with the Company Secretary areas of focus for the 2020 review

The Chairman and Directors completed a web-based questionnaire

Reports were produced and reviewed and discussed with the Chairman and each Committee chair

Reports were discussed at the Board meeting

Recommendations were agreed

The process of evaluating the performance to identify areas for further development was undertaken internally under the direction of the Chairman.

The evaluation process involved the Chairman and the Company Secretary discussing and agreeing the scope and developing 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 responses to the evaluation of the Board and its Committees were collated and analysed by the Company Secretary and then reviewed by the Chairman prior to being considered by the full Board. The Chairman also appraised the performance of individual Directors.

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 observations and recommendations were made which were considered by the Board. The key areas of recommendation are set out below.

As a separate exercise the Senior Independent Director, together with the Non-Executive Directors, conducted the Chairman's performance evaluation. It was agreed that the Chairman gave appropriate time and commitment to his role as Chairman of the Company and was effective in that role since appointment on 1 February 2020. The Senior Independent Director then discussed the results with the Chairman.

Board performance evaluation: 2020 recommendations

- Improve external communication of the Group's purpose and sustainable products
- Further enhance the Board's understanding of the Group's culture
- Ensure good Board exposure to the Senior Management Team
- Enhance understanding of innovative new products
- Review timing of agenda items

Director induction

A formal induction programme has been developed in line with the 2018 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 Nigel Lingwood on 30 April 2020, a personalised formal induction programme was developed tailored to his experience and background and to his own requirements.

Directors' conflicts of interest

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

External directorships

The Board allows Executive Directors to accept one external commercial non-executive director appointment provided the commitment is compatible with their duties as an Executive Director. The Executive Director concerned may retain fees paid for these services which will be subject to approval by the Board. Currently, neither of the Executive Directors holds an external directorship. Details of all Directors' significant directorships can be found in their biographies on pages 58 and 59.

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 46 to 53, 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 79.

The Audit Committee Report on pages 73 to 80 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

The Board considers its key stakeholders to be its employees, customers, suppliers, shareholders, the communities in which we operate and governments and industry bodies in the countries in which we operate. The Board takes seriously the views of these stakeholders in setting and implementing our strategy and believe that good engagement is key to the long-term success of Volution. Stakeholder considerations 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.

The Directors take their duties under Section 172 (1) of the Companies Act 2016 seriously and consider that they have acted in the way they consider, in good faith, would promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in Section 172 (1) (a–f) in the decisions taken during the year ended 31 July 2020. The full statement together with how Volution engages with key stakeholders can be found on pages 34 and 35.

Governance Report continued

Shareholder relations

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 2019	• Trading Update • Consultation on remuneration with major shareholders and principal investor advisory groups
October 2019	• 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 2019	• Analyst and investor presentation and site tour of Reading facility in the UK • Annual General Meeting
March and April 2020	• Half-Year Results Announcement and analyst presentation • Institutional broker sales desk briefings • UK shareholder roadshow • Trading updates in March and April
June and July 2020	• Trading updates

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

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

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

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

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

Business 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 Code of Conduct. These values and principles are applied to dealings with our customers, suppliers and other stakeholders.

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

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

Human rights

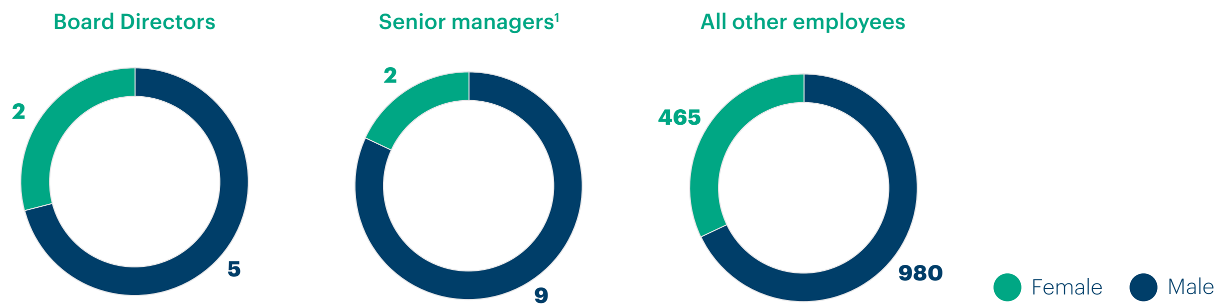
Breaches of human rights are not considered to be a material risk for the business as our activities are substantially carried out in developed countries that have strong legislation governing human rights. We adhere to policies which support human rights principles.

Diversity

We employ a diverse workforce and pride ourselves on providing equal opportunities for all. We understand the benefits a diverse workforce brings and recognise that the industry faces underrepresentation of women as well as people from different ethnic backgrounds. High value is placed on rewarding our people for their commitment, their integrity and their service.

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

The building services 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:



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.

Modern Slavery Act

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

Clean Air Day

As in previous years, we continue to support Clean Air Day. Due to COVID-19 it was postponed from June until October 2020. It continues co-ordinated by environmental charity Global Action Plan. The aim of this day is to raise awareness of the risks of air pollution and the simple things everyone can do to improve their indoor air quality and health. Poor air quality is proven to negatively impact everyone's health, increasing the risk of serious illnesses and making existing conditions, like respiratory disorders, worse. This annual event increases understanding of the risks and provides education on how to reduce air pollution and improve indoor air quality.

Volution 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 indoor air quality, acknowledging that the first key step that should be taken is to effectively ventilate indoor environments.

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 Friday 11 December 2020 at Volution's registered office, Fleming Way, Crawley, West Sussex RH10 9YX, United Kingdom. This year due to UK Government restrictions in place on public gatherings and AGMs specifically due to the COVID-19 pandemic, shareholders will not be permitted to attend the AGM. We therefore strongly urge all shareholders to register their votes in advance by appointing the Chairman of the AGM as their proxy and giving him voting instructions. We do not recommend the appointment of any other person as your proxy as they will not be able to attend the AGM and your vote will not be counted.

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.

Nomination Committee Report

"The Committee monitors and maintains an appropriate balance of skills, experience, independence and diversity on the Board."

Committee members

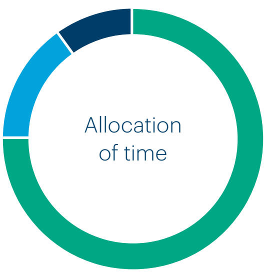
Paul Hollingworth (chairman from 1 February 2020)
Peter Hill (chairman to 31 January 2020)
Nigel Lingwood (from 30 April 2020)
Amanda Mellor
Tony Reading
Claire Tiney

Highlights

- Discussed a succession plan for the Chairman of the Board following Peter Hill's stated intention to retire and recommended to the Board the appointment of Paul Hollingworth as his successor.
- Recruitment of Nigel Lingwood as a Non-Executive Director and chairman of the Audit Committee.
- Reviewed the succession plan and identified future needs, both for Board and senior management positions.

Priorities

- Continue to manage Board and senior management succession plans.
- Ongoing evaluation of the size and composition of the Board including the balance of skills, knowledge, independence, experience and diversity.
- Review the talent pipeline below Board level.



- Board succession planning and appointments – 75%
- Senior management succession planning and talent management – 15%
- Governance – 10%

Dear shareholder,

Following my appointment as chairman of the Nomination Committee on 1 February 2020, I am pleased to present our report detailing the role and responsibilities of the Committee and its activities during the year.

Role and responsibilities

The key responsibilities of the Committee are:

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

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

Membership and attendance

The 2018 UK Corporate Governance Code (the 2018 Code) recommends that a majority of the members of a nomination committee should be independent non-executive directors. As can be seen from the above list of members, the Committee complies with this 2018 Code recommendation, as I am the chairman and all other members are independent Non-Executive Directors. Biographies of all Committee members can be found on pages 58 and 59.

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

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

Member	Member since	Number of meetings held	Attendance
Paul Hollingworth (chairman from 1 February 2020)	23 June 2014	5	5
Peter Hill (chairman to 31 January 2020)[1]	23 June 2014	5	1
Nigel Lingwood[2]	30 April 2020	5	1
Amanda Mellor	18 March 2018	5	5
Tony Reading	23 June 2014	5	5
Claire Tiney	3 August 2016	5	5

Notes
1. Peter Hill retired from the Board and the Committee on 31 January 2020 and was succeeded by Paul Hollingworth on 1 February 2020.
2. Nigel Lingwood was appointed to the Board and the Committee on 30 April 2020.

Committee activities during the year

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

- evaluated the size and composition of the Board including the balance of skills, knowledge, independence, experience and diversity;
- discussed a succession plan for the Chairman of the Board following Peter Hill's stated intention to retire as Chairman of the Board and from the Company, and recommended to the Board the appointment of Paul Hollingworth to succeed Peter as Chairman of the Board;
- commenced and concluded a process to find a new Non-Executive Director, Nigel Lingwood, and recommended his appointment to the Board;
- considered and recommended to the Board the re-appointment of Tony Reading as a Non-Executive Director and Senior Independent Director;
- as part of the Non-Executive Director succession planning, reviewed and discussed the roles of chairs of the Audit Committee and Remuneration Committee. Tony Reading was appointed as interim chairman of the Audit Committee on 1 February 2020 and Nigel Lingwood was appointed as his successor on 30 April 2020; Tony Reading stepped down as chairman of the Remuneration Committee on 30 April 2020 and was succeeded by Claire Tiney;
- reviewed succession planning and talent development for the Senior Management Team;
- following the changes to the Board and roles set out above, considered and approved a new succession plan for Non-Executive Directors to ensure progressive refreshing of the Board;
- reviewed and approved the recommendations to be made to shareholders for the election and re-election of Directors at the Annual General Meeting; and
- reviewed the results of the Committee performance evaluation.

After the year end at the October 2020 meeting, 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 2020.

Board composition and succession planning

During the year the Nomination Committee discussed succession planning for Executive and Non-Executive Directors and progressive refreshing of the Board. There were a number of changes to the composition of the Board and its Committees. In date order, the Committee discussed Board member succession planning as follows:

- Andy O'Brien succeeding Ian Dew: As reported in the Committee Report last year, a search process for a new Chief Financial Officer had been initiated following the stated intention that Ian Dew was to retire. An independent external search firm, Russell Reynolds Associates Limited (having no other connection to Volution), was utilised to assist in identifying potential candidates and the Board was delighted to welcome Andy O'Brien to the Group on 1 August 2019. Andy joined Volution following nine years at Aggreko plc, a FTSE 250 global provider of temporary power, heating and cooling solutions, where he held numerous senior finance roles including most recently finance director, power solutions;

Nomination Committee Report continued

Board composition and succession planning continued

- Paul Hollingworth succeeding Peter Hill: Peter stated that he intended to step down as Chairman of the Board, having completed almost six years in the role, to focus on his two other non-executive chairmanships. The Committee discussed a succession plan for the role and agreed that Paul Hollingworth should be appointed as Chairman of the Board. Paul Hollingworth, having served on the Volution Board since IPO in June 2014, was the chairman of the Audit Committee. He has significant business experience having previously headed the finance function and served on the boards of a number of UK listed public companies, including Ransomes plc, De La Rue plc, BPB plc, Mondi Group plc and Thomas Cook Group plc. He retired from the Electrocomponents plc board in July 2017 having served as a non-executive director and chairman of the audit committee for nine years. On behalf of the Board, I would like to thank Peter for the contribution he made to Volution as Chairman;

- Tony Reading appointed as interim chairman of the Audit Committee: Following the requirement under the 2018 Code that Paul Hollingworth step down as chairman of the Audit Committee following his appointment as Chairman of the Board, the Committee discussed a succession plan for the role. It was agreed that Tony Reading be appointed as interim chairman of the Audit Committee until the Board appointed a permanent successor;

- Claire Tiney succeeding Tony Reading as chair of the Remuneration Committee: After almost six years in the role, Tony Reading advised that he wished to step down as chairman of the Remuneration Committee. The Committee discussed a succession plan for the role and agreed that, given her experience as an HR director and in light of her experience as chair of two other listed companies' remuneration committees, Claire Tiney be appointed to succeed Tony Reading as chair of the Remuneration Committee on 30 April 2020; and

- Nigel Lingwood appointed as Non-Executive Director: Following the requirement under the 2018 Code that Paul Hollingworth step down as chairman of the Audit Committee following his appointment as Chairman of the Board, the Committee agreed that Tony Reading be appointed as interim chairman of the Audit Committee until the Board appointed a permanent successor to that role. An independent external search firm, Russell Reynolds Associates Limited (having no other connection to Volution), was utilised 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 longlist of potential candidates from various backgrounds and industries for consideration. The longlist of potential candidates was reviewed and a number were then interviewed by the Chairman and Chief Executive Officer. A shortlist of potential candidates was then agreed and met by all the Board members. Preferred candidates were discussed by the Committee resulting in a recommendation to the Board that Nigel Lingwood be appointed as the new independent Non-Executive Director. The Board was delighted to welcome Nigel, who was appointed on 30 April 2020 and was also appointed as chairman of the Audit Committee and as a member of the Remuneration Committee and the Nomination Committee with effect from the same date.

Diversity

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

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

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

Election and re-election of Directors

On the recommendation of the Committee and in line with the 2018 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 2020. The biographical details of the Directors can be found on pages 58 and 59. 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 conducted an internally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on pages 65 and 66. 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 2020/21

During the 2020/21 year the Committee will continue to evaluate the size and composition of the Board including the balance of skills, knowledge, independence, experience and diversity. There will also be continued focus on the talent pipeline and succession planning at Board and senior management level.

Paul Hollingworth
Chairman of the Nomination Committee

8 October 2020

Audit Committee Report

> "I am pleased to introduce my first report as Chairman of the Audit Committee. The report provides insight into the Committee's activities during the year and sets out how we have performed our principal duties."

Committee members

Nigel Lingwood (chairman from 30 April 2020)

Paul Hollingworth (chairman to 1 February 2020)

Tony Reading (interim chairman from 1 February 2020 to 30 April 2020)

Amanda Mellor

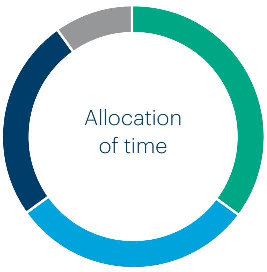
Claire Tiney

Highlights

- Continued focus on integrity of reporting process.
- Rigorous assessment of risk management and internal controls with enhanced process to identify, assess and monitor emerging risks.
- Reviewed the impact on the business and implications for the coming year of COVID-19 and the UK leaving the EU.

Priorities

- Monitor the impact of changes in financial reporting requirements.
- Risk identification, management and mitigation.
- Maintain and manage the ongoing internal audit programme.
- Review financial reporting processes to ensure robustness in light of COVID-19.



Dear shareholder,

Following my appointment as chairman of the Audit Committee on 30 April 2020, I am pleased to present the Committee Report to shareholders detailing the activities during the financial year ended 31 July 2020.

I would like to thank Paul Hollingworth for his dedicated chairmanship of the Committee since the IPO in June 2014. I would also like to thank Tony Reading for acting as interim chairman of the Committee for three months of the financial year.

The last year, and in particular the second half, has been one of considerable uncertainty in the UK and the other countries in which Volution operates, due to the COVID-19 pandemic as well as Brexit. Against this background, the Committee continued to focus on the fundamentals of the Group's financial reporting, our system of internal controls and risk management and the performance of the internal and external auditors.

The Committee members have been selected to provide a 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 2018 UK Corporate Governance Code (the 2018 Code). Further, in accordance with the 2018 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.

BDO continued to perform the internal audit function on behalf of the Group in accordance with an agreed internal audit plan. This plan continued to provide the Committee with a means of assessing the breadth and effectiveness of controls across the Group. The impact of COVID-19 from late March led to a move to remote working both for our teams and BDO's internal audit teams. It was therefore deemed that on-site internal audit reviews could not be conducted effectively whilst complying with government guidance in the countries where the Group operates. It was decided

Audit Committee Report continued

that management would concentrate on closing out the internal audit recommendations for the remainder of the financial year and working with BDO to develop a revised internal audit plan for FY2021. I am pleased to report that these reviews re-started in July 2020.

Following the completion of the audit for the financial year ended 31 July 2019, Andrew Clewer was appointed by the Committee as the new EY external audit partner. Andrew has 32 years of audit and accounting advisory experience working in listed multinational and private businesses across a number of industry sectors.

The Committee received an update from the external auditor in July 2020 as to how the external audit approach was adapting to the changes in both risk and working practices as a result of COVID-19. The external auditor confirmed in its final report to the Committee that it had performed all necessary additional procedures in response to the outbreak of COVID-19 to complete its audit work satisfactorily.

The Committee reviewed proposals to amend the Group's segmental reporting and concluded that it was appropriate and that comparators appropriately restated on a consistent basis. The Committee also reviewed with Management and the external auditor the impact on the Group's financial statements from the adoption of IFRS 16 Leases.

During the financial year ending 31 July 2021, 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, including those delayed due to the COVID-19 pandemic. These will include internal control and compliance areas and be undertaken across functions in the businesses in the UK, Continental Europe and Australasia.

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.

Nigel Lingwood
Chairman of the Audit Committee
8 October 2020

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 reporting to 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;
- reviewing the scope of work to be undertaken by the external auditor and reviewing the results of that work;
- monitoring and reviewing the effectiveness of the external auditor;
- reviewing and monitoring the independence of the external auditor and approving its provision of non-audit services;
- monitoring and reviewing the adequacy and effectiveness of the risk management systems and processes, and where appropriate, making recommendations to the Board on areas for improvement;
- 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;
- reviewed the report from the Chief Financial Officer on the controls to mitigate fraud risk; and
- overseeing the Group's procedures for its employees to raise concerns through its Whistleblowing Policy as set out in the Code of Conduct.

Membership and attendance

The 2018 Code recommends that all members of an audit committee should 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, Nigel Lingwood as Committee chairman, considered by the Board to have recent and relevant financial and accounting experience, Tony Reading, Amanda Mellor and Claire Tiney. All members have a sufficiently wide range of business experience and expertise such that the Committee can fulfil its responsibilities. Biographies of all Committee members can be found on pages 58 and 59. As such, the Committee complies with the 2018 Code recommendations.

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

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

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

Member	Member since	Number of meetings held	Attendance
Nigel Lingwood (chairman from 30 April 2020)[1]	30 April 2020	3	1
Paul Hollingworth (chairman and member to 1 February 2020)[2]	23 June 2014	3	1
Tony Reading (interim chairman from 1 February 2020 to 30 April 2020)[3]	23 June 2014	3	3
Amanda Mellor	18 March 2018	3	3
Claire Tiney	3 August 2016	3	3

Notes

1. Nigel Lingwood was appointed to the Board and as chairman of the Committee on 30 April 2020.
2. Paul Hollingworth stepped down as chairman of the Committee and as a member on appointment as Chairman of the Board on 1 February 2020.
3. Tony Reading was appointed as interim chairman of the Committee on 1 February 2020 and stepped down on 30 April 2020.

Audit Committee Report continued

Committee activities during the year

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

Financial statements and reports

- Reviewed and approved changes to the Group's segmental reporting structure under IFRS 8
- Reviewed and approved changes resulting from the impact of IFRS 16 Leases and IFRS 9, Financial Instruments on the Group's financial statements
- 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 Updates
- Reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Accounts
- Reviewed management representation letters, going concern reviews, fair, balanced and understandable criteria and significant areas of accounting estimates and judgements
- Reported to the Board on the appropriateness of accounting policies and practice
- Reviewed the Viability Statement and associated stress testing

Risk management

- Monitored and reviewed the risk management and internal control processes to ensure compliance with the 2018 Code for disclosure in the Annual Report and Accounts
- Considered the Group Risk Register, which identifies, evaluates and sets out mitigation of risks, and reviewed the principal risks and uncertainties disclosed in the Annual Report and Accounts

Internal audit

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

External auditor and non-audit work

- Noted the tendering and rotation provisions from the EU and the Competition and Markets Authority
- Conducted a process of selecting a new external audit partner
- Reviewed the relationship with the external auditor including its independence, objectivity and effectiveness and recommended to the Board its re-appointment at the Annual General Meeting
- Reviewed, considered and agreed the scope of the audit work to be undertaken by the external auditor
- Agreed the terms of engagement and fees to be paid to the external auditor
- Reviewed and approved the Group policy on non-audit services and reviewed any non-audit fees

Compliance

- Met with the external auditor without executive management being present
- Reviewed the Committee performance evaluation

Other

- Received a presentation from management on the re-organisation of the Ventilation UK finance functions and the implementation of a single finance team with responsibility for all Ventilation UK brands
- Received a presentation from the Group IT Director covering the Groups approach to cyber security

Significant accounting matters

The Committee considered the matters set out below as being significant in the context of the consolidated financial statements for the year ended 31 July 2020. These were discussed and reviewed with management and the external auditor and the Committee challenged judgements and sought clarification where necessary. The Committee received a report from the external auditor on the work they had performed to arrive at their conclusions and discussed in detail all material findings contained within the report.

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 are set out in notes 14 and 16 to the consolidated financial statements. At 31 July 2020 intangible assets relating to goodwill and other intangible assets amounted to £196.6 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 14 and 16 to the consolidated financial statements and no impairment provision is required. The Committee has also reviewed the allocation of goodwill and other intangible assets to the appropriate cash generating units (CGUs) and the level of CGUs at which the impairment testing is completed and considers it reasonable.
Liabilities arising from retrospective volume rebates	The Group has a number of customer rebate agreements that are considered to be variable consideration and are recognised as a reduction from sales. Rebates are based on an agreed percentage of revenue, which will increase with the level of revenue achieved. These agreements may run to a different reporting period to that of the Group with some of the amounts payable being subject to confirmation after the reporting date. At the reporting date, management makes estimates of the amount of rebate that will become payable by the Group under these agreements using a probability weighted average to arrive at an expected amount. The liability arising from retrospective volume rebates at 31 July 2020 included within trade and other payables is £7.7 million (2019: £6.5 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	For the year ended 31 July 2020 the Group has not disclosed any items as exceptional (2019: £1.8 million cost). Judgement is required to determine whether items are appropriate to be disclosed as exceptional by virtue of their size, nature or occurrence, in order to present the reader with a clearer representation of the underlying operating and financial performance of the Group.	The Committee reviewed a number of significant items of both cost and income incurred during the year including restructuring costs and government support income (Coronavirus Job Retention Scheme) and agreed that, notwithstanding the highly unusual nature of the FY2020 income statement as a result of the impact of COVID-19, it is not appropriate for these items to be separately disclosed as exceptional.
Going concern	The Board of Directors has a responsibility to assess whether there are any significant doubts about an entity's ability to continue as a going concern. The Group has completed a comprehensive and robust assessment in order to support the preparation of the financial statements on the going concern basis. Such testing involves a number of assumptions regarding the future financial performance of the Group for an 18-month period through to 31 January 2022.	The Committee has reviewed the key assumptions used in the going concern assessment and the other relevant factors surrounding going concern, notably the expected liquidity levels of the Group and covenant headroom. The Committee has also considered reasonable sensitivities to these estimates including potential scenarios arising from the COVID-19 pandemic and from its other principal risks and concluded that these support the preparation of the financial statements on the going concern basis. Further detail of the going concern assessment prepared by the Group is included on page 49.
Implementation of new accounting standards – IFRS 16 Leases	IFRS 16 Leases was effective for the first time during the year ended 31 July 2020, having been adopted by the Group on 1 August 2019. Judgement is required in deciding on the implementation approach and practical expedients to apply, the incremental borrowing rate used and when assessing the impact on the financial statements including the sufficiency and appropriateness of the disclosures in the Annual Report 2020.	The Committee reviewed the impact of adopting IFRS 16 Leases as a result of the implementation across the Group. A paper prepared by the Group finance department on the impact of this standard on the Group's consolidated financial statements was submitted to the Committee. The Committee reviewed and challenged management's key judgements in adopting the new standard and the impact on the financial statements including the disclosures in the Annual Report 2020. Further information on the impact of IFRS 16 Leases is set out in the Group's accounting policy on pages 119 to 121.
	In addition, the Committee reviewed policy and provisions with respect to warranty, doubtful debts and inventory and weighted average cost of capital 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 financial year ended 31 July 2020 was Andy Clewer. This was his first financial year spent auditing the Group and he had no previous involvement with the Group in any capacity prior to appointment.

The Committee assessed the effectiveness of EY and the external audit process using a checklist and questionnaire issued to senior financial management across the Group who had been involved in the audit process. A summary of the findings was prepared for consideration by the Committee and the Committee concluded that the external audit process had been effective.

The Committee has noted the tendering and rotation provisions in the EU Audit Directive and Regulation and the Companies Act 2006, which state that there should be a public tender every ten years and a change of external auditor at least every 20 years. The Company is not obliged to tender for audit services until 2024 (ten years from listing). These provisions, together with the evaluation of EY and the external audit process, have led the Committee to conclude that there is no current intention of placing the external audit out to tender, subject to any other changes to the regulatory regime and satisfaction with the effectiveness of the auditor, which is evaluated annually. Accordingly, the Committee recommended to the Board that a resolution to re-appoint EY be proposed to shareholders at the Annual General Meeting in December 2020 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 external auditor do not provide any advice on tax. All tax related work is undertaken by PwC. 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 state 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 £35,000 (2019: £45,000) for non-audit services relating to the half-year review, which represents 5.5% (2019: 8.0%) 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 10 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 were 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;
- systems of control procedures and delegated authorities which operate within defined guidelines, and approval limits for capital and operating expenditure and other key business transactions and decisions;
- a robust financial control, budgeting and forecasting system, which includes regular monitoring, variance analysis, key performance indicator reviews and risk and opportunity assessments at Board level;
- procedures by which the consolidated financial statements are prepared, which are monitored and maintained through the use of internal control frameworks addressing key financial reporting risks arising from changes in the business or accounting standards;
- established policies and procedures setting out expected standards of integrity and ethical standards which reinforce the need for all employees to adhere to all legal and regulatory requirements;
- an annual internal controls compliance checklist; and
- BDO acting as the internal auditor carrying out an extensive and structured programme of internal audit reviews.

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 regular Committee meetings, 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. There were no significant or high risk matters identified and reported to the Committee by BDO during the financial year.

During the year, due to the unforeseen circumstances surrounding the COVID-19 pandemic, the internal audit work was suspended in March 2020, as the UK and other countries went into lockdown. The Group needed to focus its attention on the business and respond to the pandemic as well as follow government guidance which came with many restrictions. This included people working at home and only essential travel allowed. It was therefore deemed that the internal audit work could not be conducted effectively whilst complying with government guidance in the countries where the Group operated. It was decided that management would concentrate on concluding the internal audit recommendations for the remainder of the financial year and start a revised internal audit plan with effect from 1 August 2020.

How we manage risk

As outlined above, the Group has a risk management process that follows a sequence of risk identification, assessment of probability and impact, and assigns an owner to manage mitigation activities at the operational level. Each business unit operates a process to ensure that key risks are identified, evaluated, managed and reviewed appropriately. This process is also applied at Board level to major business decisions such as acquisitions. The business unit risk registers form the basis for the Group Risk Register, which is maintained for all corporate risks and is monitored by senior management and reviewed by the Committee. During the year, the Group Risk Register and the methodology applied were the subject of review by senior management and updated to reflect new and developing areas which might impact business strategy, such as the COVID-19 pandemic. 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 46 to 53.

Review of effectiveness

Provision 29 of the 2018 Code states that the Board should monitor the Company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness.

The Committee receives an annual report on the performance of the system of internal control, and on its effectiveness in managing principal risks and in identifying control failings or weaknesses. In accordance with the requirements of the 2018 Code, the Financial Reporting Council (FRC) Guidance on Audit Committees, and the recommendations of the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the Committee reviews the Group's risk management process at least annually. The Committee has reviewed the effectiveness of the Group's risk management and internal control systems for the period from 1 August 2019 to the date of this Report. Taking into account the matters set out on pages 46 to 53 relating to principal risks and uncertainties and the internal audit reports from BDO, the Board, with the advice of the Committee, is satisfied that the Group has in place effective risk management and internal control systems.

Audit Committee Report continued

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 2018 Code in this area, which states that the Committee should review arrangements by which employees across the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensuring that these concerns are investigated and escalated as appropriate.

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

During the year, the Committee reviewed the arrangements by which employees are able to raise, in confidence, any concerns they may have about possible wrongdoing or dishonest or unethical behaviour, such as bribery, corruption, fraud, dishonesty and illegal practices. An external independent whistleblowing provider provides a confidential web-based and telephone facility which has been communicated across the Group, branded as "Speak Up", to ensure awareness. The Code of Conduct protects anyone who comes forward to make a disclosure under the Whistleblowing Policy. When a disclosure is made, the Company Secretary initiates an investigation to include all necessary parties to ensure the matter is appropriately resolved. A report on any investigations is submitted to the Committee to ensure it is satisfied that such matters have been resolved satisfactorily. There were no material reports brought to the attention of the Committee for investigation this year. The Committee also has the power to conduct further enquiries itself or any other additional actions it sees fit.

Committee performance evaluation

During the year, the Board conducted a formal internally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on pages 65 and 66. 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 2018 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 and the Company Secretary, with guidance and input from external advisers. This ensures 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 2020. The outcome of that review was that the Committee confirmed to the Board that the Annual Report and Accounts 2020 met the requirements of the 2018 Code and the Board's formal statement to that effect is set out on page 60.

Nigel Lingwood
Chairman of the Audit Committee

8 October 2020

Directors' Remuneration Report

> "My primary objective this year has been to engage with our shareholders to understand their views on our proposed new Remuneration Policy."

Committee members

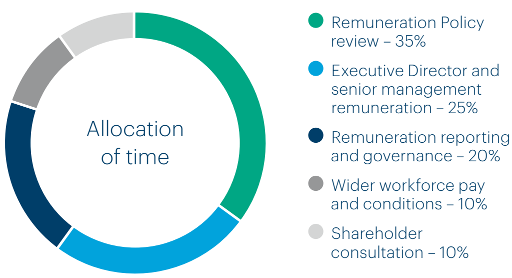
Claire Tiney (chair from 30 April 2020)
Tony Reading (chairman to 30 April 2020)
Peter Hill (until 31 January 2020)
Paul Hollingworth
Nigel Lingwood (from 30 April 2020)
Amanda Mellor

Highlights

- Reviewed the Remuneration Policy, consulted with shareholders and recommended approval of the new policy to shareholders at the 2020 AGM.
- Approved the remuneration for Executive Directors and senior management having considered the impact of COVID-19 on business performance.
- Determined incentive scheme outcomes and set incentive scheme targets.

Priorities

- Monitor the 2020 AGM voting results on the Annual Report on Remuneration and Remuneration Policy and conduct any necessary stakeholder engagement.
- Implement the new Remuneration Policy.
- Determine incentive scheme outcomes and set incentive scheme targets.



Dear shareholder,

Following my appointment as chair of the Committee on 30 April 2020, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2020. On behalf of the Committee I would like to thank Tony Reading for his strong chairmanship since IPO in June 2014 and for the smooth handover of the Committee's activities to me.

Remuneration framework

At the Annual General Meeting in December 2019 (2019 AGM), the Directors' Remuneration Report resolution received good support from shareholders with just over 76% of the votes cast being in favour of the resolution. The Board noted the significant minority vote against the approval of the Directors' Remuneration Report (23.7%) and an explanation was given in the stock exchange announcement after the 2019 AGM with an update published on the Investment Association Public Register in May 2020.

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

- attract and retain the best talent;
- drive behaviours that support the Group's strategy and business objectives which are developed in the long-term interests of the Company and its shareholders;
- reward senior management appropriately for its personal and collective achievements;
- provide incentives that help to maintain commitment over the longer term and align the interests of senior management with those of shareholders; 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.

Review of remuneration arrangements

Our current Policy, which was approved by shareholders with a 98.5% vote in support at the AGM, has been in place since 2017. In line with the three-year cycle a new Policy will be presented to shareholders for approval at the 2020 AGM.

During 2020 we undertook a review of the current Policy against our business strategy, updated shareholder views and market practice to ensure that it remains appropriate going forward in light of our business strategy and the external environment. When reviewing the current Policy, the Committee was mindful of the recent events relating to COVID-19 and the impact on the Company, shareholders and wider stakeholders.

The new Policy has been reviewed with the following principles in mind:

- **clarity** – all remuneration aspects are clearly and openly communicated to employees, shareholders and other stakeholders through comprehensive Directors' remuneration report disclosures and shareholder consultation materials;
- **simplicity** – the remuneration package is simple and clear, consisting of three main elements of pay: i) fixed pay (salary, benefits, pension); ii) annual bonus; and iii) LTIP;
- **risk** – going forward the Committee has discretion to adjust variable pay outcomes away from the formulaic outturn. Malus and clawback provisions are also in place for all variable pay elements;
- **predictability** – the potential range of payouts is set out in the relevant Remuneration Policy;
- **proportionality** – there is a clear link between pay for performance and link to business strategy, with stretching targets applied to the annual bonus and LTIP; and
- **alignment to culture** – the variable incentive schemes, including quantum, time horizons, form of award and performance measures, are all designed with the Company's people, culture, purpose, values and strategy in mind.

Proposed changes to the current Remuneration Policy

The Committee is of the view that the current Policy continues to remain appropriate, against both internal and external reference points, and that it continues to support the strategic priorities of the business while rewarding management as it delivers sustained long-term value for our shareholders. Therefore, no major changes to the current Policy are being proposed. However, we are proposing some changes taking into account the views of our shareholders and emerging market practice and the new Policy will contain the following:

- **post-employment shareholdings** – introduce a formal post-employment shareholding guideline based on the existing shareholding requirements. The Investment Association position will be adopted and the Executive Directors will be required to maintain the full shareholding guideline (200% of base salary), or their actual shareholding on leaving if lower, for two years after departure;
- **pension** – the Committee is aware of the current sentiment on senior management pension levels and can confirm that the pension arrangement for any new hires will be in line with the wider UK workforce. This has been demonstrated in practice already with our new Chief Financial Officer being appointed on a pension level of 5.5% of salary. The Committee also reviewed the pension level for the incumbent Chief Executive Officer and taking into account the positioning of the overall remuneration package, the other changes being made to the current Policy, and the fact that the current pension level (15% of salary) is in line with the market, no changes are proposed at this stage. It should be noted that in our main UK business, once a member of the Senior Management Team reaches 50 years old, the employer contribution rises from 5.5% to 8.5% of salary. However, the Committee will watch how the market evolves and keep this under ongoing review. For the avoidance of doubt, the pension level of any new Chief Executive Officer appointment would be in line with that offered to the wider UK workforce;
- **Annual Bonus Plan Target** – reduce the annual bonus pay-out for target performance to 50% from 60% of the maximum opportunity;
- **malus/clawback** – extend the malus and clawback terms to include corporate failure and payments based on erroneous or misleading data; and
- **discretion** – ensure that the Committee has the powers to adjust the LTIP away from the formulaic outturns taking into account wider Company and individual performance to ensure alignment between pay and performance. There is already such discretion built in to the Annual Bonus Plan.

Response to COVID-19

As announced, the Company has been proactively taking actions to manage the impact of COVID-19. The Board, including the Executive Directors, took a 20% salary reduction for a four-month period which ended on 31 July 2020.

The Board, including the Executive Directors, will also receive no salary increase for the 2020/21 financial year.

Performance in 2019/20 and remuneration outcomes

Volution had made good progress in the first half year as set out in the financial results announced on 16 March 2020. However, shortly after that announcement, the COVID-19 pandemic adversely affected the business performance in the second half of the financial year. As a result, the Board, including the Executive Directors, agreed to take a 20% reduction in base salary for four months, which ended on 31 July 2020. Also as a result of the pandemic, full-year performance against two of the key measures used in the Annual Bonus Plan (ABP), being adjusted operating profit and adjusted EPS, fell well below the targets set. However, the working capital management target was largely met and resulted in 11% being eligible for payment to the Executive Directors. Given the adverse impact on the business, shareholders and employees from the COVID-19 pandemic, the Executive Directors waived the right to receive the 11% eligible payment under the ABP.

We have provided full retrospective disclosure of the ABP targets as well as the actual performance against them. As no annual bonus will be paid to the Executive Directors, no deferred shares will be awarded. Further details can be found on page 94.

The LTIP awards granted during the 2017/18 financial year do not vest until 23 March 2021 although they had a performance period ending on 31 July 2020 and are subject to a two-year holding period. Although total shareholder return performance over the period was in the upper quartile compared to the direct peer group, due to EPS growth being below target as a result of the impact of the COVID-19 pandemic on business performance, these LTIP awards will vest at 25% of maximum. Andy O'Brien was granted an additional buy-out share award, which vests in two tranches following the first and second anniversaries of his appointment. There were no performance conditions attached to this award which reflected the terms of the award forgone at his previous employer. Further details can be found on page 95.

When determining variable pay outcomes, the Committee also took account of the shareholder experience given the effect of the COVID-19 pandemic on business performance and the wider economy. Overall, the Committee considered that remuneration outcomes were appropriate and as such determined that no discretion would be applied.

Remuneration decisions for 2020/21

During the year the Committee reviewed the Executive Director base salaries and as part of the review considered the remuneration arrangements of the wider workforce. It was determined that no increase in base salary would be awarded to the Chief Executive Officer or the Chief Financial Officer. Variable incentive opportunity levels will remain at the same levels set in 2019/20.

The performance measures applicable to the ABP will remain unchanged and the Committee continues its policy of setting stretching annual bonus targets which take into account a number of internal and external factors. There will be a small change in the target weightings which will become: adjusted EPS (52%); adjusted operating profit (36%); working capital management (12%). Given the ongoing COVID-19 pandemic and potential impact it could still have on the economy and the business, although the targets will be set for the full financial year, the Committee will closely monitor the situation, particularly at the half-year, and flexibility has been built in to the new Policy to allow the Committee to make adjustments, if necessary, which we would of course communicate to shareholders.

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

Further details can be found on page 100.

Shareholder consultation

We are committed to maintaining an open and transparent dialogue with our shareholders on executive pay. As such, the Committee has communicated to our major shareholders the new Policy being submitted to the 2020 AGM and the remuneration decisions for 2020/21 as set out above. The feedback on the new Policy provided by shareholders has been positive.

Annual General Meeting 2020

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 and the resolution to approve the new Remuneration Policy at this year's Annual General Meeting on 11 December 2020.

Claire Tiney
Chair of the Remuneration Committee

8 October 2020

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 are being asked to approve by binding shareholder vote at the Annual General Meeting in December 2020.

Subject to the passing of that resolution, the Policy will become effective on 11 December 2020.

A thorough review process of the Policy was undertaken with input from the Board, management, shareholders and our external advisers. The Committee is of the view that the current Policy continues to appropriately support the strategic priorities of the business while rewarding management as it delivers sustained long-term value for our shareholders. Therefore, no major changes to the current Policy are being proposed. However, we are proposing some changes taking into account the views of our shareholders and emerging market practice:

- **post-employment shareholdings:** introduce a formal post-employment shareholding guideline;
- **pension:** include the pension arrangement for any new hires which will be in line with the wider UK workforce;
- **malus/clawback:** extend the malus and clawback terms to include corporate failure and payments based on erroneous or misleading data;
- **discretion:** grant powers to adjust the LTIP away from the formulaic outturns taking into account wider Company and individual performance to ensure alignment between pay and performance. There is already such discretion built in to the Annual Bonus Plan; and
- **Annual Bonus Plan Target:** reduce the annual bonus payout for target performance to 50% from 60% of the maximum opportunity. Taking into account COVID-19, flexibility has also been built in to allow the Committee to review the bonus targets during the year and make adjustments if appropriate.

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.		
Normally reviewed annually. In determining base salaries, the Committee considers: • Company performance and external market conditions; • pay and conditions elsewhere in the Group; • role, experience and personal performance; and • salary levels at companies of a similar size and complexity. There is no automatic entitlement to an increase each year.	The current salaries for the Executive Directors are set out in the Annual Report on Remuneration. While the Committee does not consider it appropriate to set a maximum salary, annual increases will generally be in line with those of the wider workforce (in percentage of salary terms). Increases beyond those awarded to the wider workforce may be awarded in certain circumstances such as progression in the role, where there is a change in responsibility or experience, or a significant increase in the scale of the role and/or size, value and/or complexity of the Group.	Company and individual performance are factors considered when reviewing salaries.
Pension		
Purpose and link to strategy: The Company aims to provide an appropriate means of saving for retirement.		
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).	Current CEO: 15% of base salary. Current CFO and any new hires to the Board: a contribution not exceeding the maximum contribution available to the wider UK workforce at the time (or to the wider workforce in the country where they are employed, if different). For the current CFO, the pension level is currently equivalent to 5.5% of salary.	N/A

Operation	Maximum opportunity	Performance metrics
Annual Bonus Plan (ABP)		
Purpose and link to strategy: To incentivise Executive Directors to achieve specific, pre-determined goals. Rewards achievement of objectives linked to the Company's strategy.		
Annual bonus payment is determined by the Committee after the financial year end, based on performance against targets set by the Committee for the year or part of the year. Normally, one-third of any annual bonus payment earned by the Executive Directors will be deferred into awards over the Company's shares under the Company's Deferred Share Bonus Plan (DSBP) which normally vest after at least three years.	150% of base salary (subject to a combined Annual Bonus Plan opportunity and Long Term Incentive Plan award cap of 275% of salary in respect of any financial year).	Performance measures are determined with reference to the Company's key strategic business objectives. No less than 50% of the bonus will be dependent on financial measures and the remainder will be based on non-financial or individual measures that are aligned to the strategic priorities of the business. At threshold performance up to 25% of the maximum pays out. Below this level of performance, no bonus pays out. On-target bonus is set at 50% of the maximum opportunity. The Committee retains the discretion to vary the level of bonus paid away from the formulaic outcome to reflect overall Company and individual performance and any other circumstances as determined by the Committee.
Long Term Incentive Plan (LTIP)		
Purpose and link to strategy: To incentivise the delivery of key strategic objectives over the longer term and align the interests of Executive Directors with those of our shareholders.		
Vesting of the awards is dependent on the achievement of performance targets set by the Committee, measured over a period of at least three years. Shares will then normally be subject to an additional two-year holding period. During this holding period, no further performance measures will apply.	175% of base salary as permitted by the plan rules (subject to a combined Annual Bonus Plan opportunity and Long Term Incentive Plan award cap of 275% of salary in respect of any financial year).	Awards vest based on challenging financial, non-financial or share price targets. At least 50% will be based on financial and/or share price-based measures. No more than 25% vests at threshold with 100% of awards vesting at maximum performance. The Committee retains the discretion to vary the level of LTIP vesting away from the formulaic outcome to reflect overall Company and individual performance and any other circumstances as determined by the Committee.

Directors' Remuneration Policy Report continued

Remuneration Policy table continued

Operation	Maximum opportunity	Performance metrics
Other benefits		
Purpose and link to strategy: To provide a market-competitive package of benefits consistent with the role to attract, retain and reward Executive Directors of the required calibre to successfully deliver Company strategy.		
Various cash/non-cash benefits are provided to Executive Directors which may include (but are not limited to) a company car (or cash equivalent), life assurance, expatriate benefits, private medical insurance (for the Executive Director and their immediate family) and relocation benefits and any tax liability that may be due on these benefits. Executive Directors are also eligible to participate in any all-employee share plans (e.g. the Sharesave Scheme) on the same basis as other eligible employees.	Although the Committee does not consider it appropriate to set a maximum benefits level, they are set at an appropriate level for the specific nature of the role and the individual's personal circumstances.	N/A
Share ownership guidelines		
Purpose and link to strategy: To provide close alignment between the longer-term interests of Executive Directors and shareholders.		
Executive Directors are expected to achieve and retain a holding of the Company's shares worth 200% of their base salary. It is expected that Executive Directors will retain at least 50% of any shares delivered under the DSBP and LTIP, after the deduction of applicable taxes, until the guideline is met. Executive Directors will normally be expected to remain aligned with the interests of shareholders for an extended period after leaving the Company. Executive Directors will typically be expected to retain a shareholding at the level of the in-employment shareholding guideline for two years (or the actual shareholding on stepping down, if lower), unless the Committee determines otherwise in exceptional circumstances. Further detail is set out in in the Annual Report on Remuneration.	200% of base salary.	N/A

Operation	Maximum opportunity	Performance metrics
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.		
The Chairman is paid an all-inclusive fee for all Board responsibilities. Non-Executive Directors receive a basic Board fee. Neither the Chairman nor Non-Executive Directors are eligible to participate in any of the Company's incentive arrangements or receive any pension provision. Additional fees may be payable for additional Board responsibilities such as chairmanship or membership of a committee or performing the Senior Independent Director role or for an increased time commitment. The Committee reviews the fees paid to the Chairman and the Board reviews the fees paid to the Non-Executive Directors, annually, with reference to the time commitment of the role and market levels in companies of comparable size and complexity.	Fees are set within the aggregate limits set out in the Company's Articles of Association from time to time. Non-Executive Directors and the Chairman may receive 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. Any increase in fees would normally be in-line with the wider workforce salary increase (in percentage terms). Increases beyond those awarded to the wider workforce may be awarded in certain circumstances such as where there is a significant increase in the time commitment or responsibilities of the role.	N/A

Choice of performance measures and approach to setting

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

Awards under the ABP will be determined by reference to financial measures as regards at least 50% of the award, with any balance based on non-financial measures 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 (or other person to whom the Policy applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company (or other such person).

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.

Directors' Remuneration Policy Report continued

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, or other exceptional circumstances arise, which causes the Committee to determine an amended or substituted performance condition would be more appropriate;
- incorporate the right to receive additional shares with a value 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 in exceptional circumstances; 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.

Performance conditions applying to the annual bonus may be amended in the same way as performance conditions for LTIP awards.

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, corporate failure, or an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was based, 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.

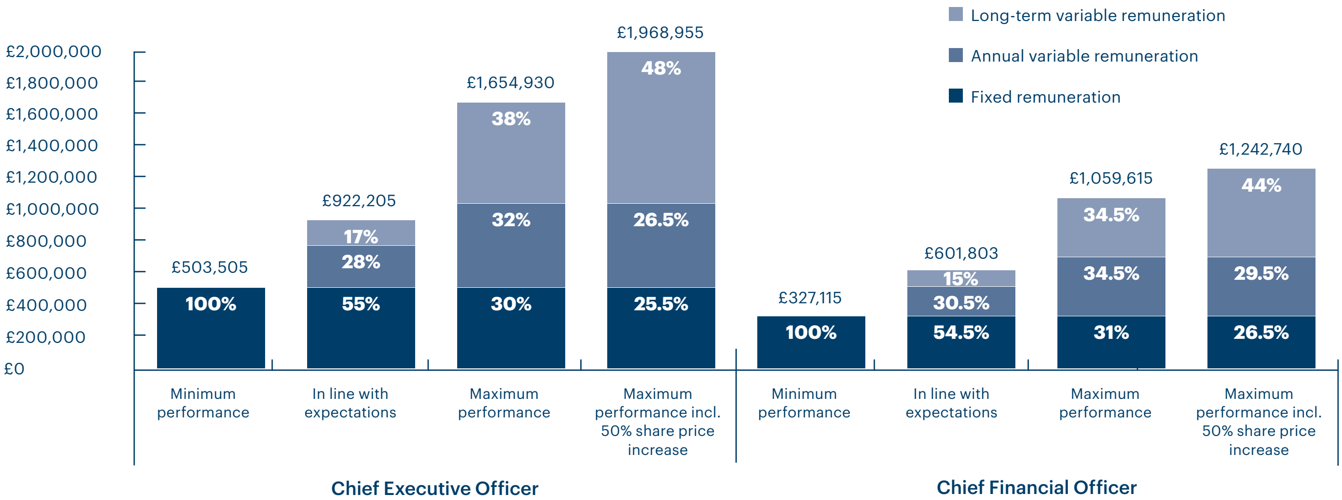
Minor changes

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 four assumed performance scenarios. The charts are for illustrative purposes only and actual outcomes may differ from that shown.



The assumptions used for these charts are as follows:

Levels of performance		Assumptions
Fixed pay	All scenarios	• Total fixed pay comprises base salary, benefits and pension • Base salary – effective as at 1 August 2020 • Benefits – as set out in the single figure table for the 2019/20 year • 15% and 5.5% of base salary pension contributions for CEO and CFO, respectively
Variable pay	Below threshold performance	• No payout under the ABP • No vesting under the LTIP
	In line with expectations	• 50% of the maximum potential payout under the ABP • 25% vesting under the LTIP, assuming awards equivalent to 150% and 125% of base salary are granted to the CEO and the CFO, respectively
	Maximum performance	• 100% of the maximum potential payout under the ABP (i.e. 125% of base salary) • 100% vesting under the LTIP, assuming awards equivalent to 150% and 125% of base salary are granted to the CEO and the CFO, respectively
	Maximum performance – 50% share price growth assumption	• The same as the maximum performance row above but incorporating a 50% share price growth assumption for the LTIP over the three-year performance period

External appointments of Executive Directors

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

Approach to recruitment

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

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

Directors' Remuneration Policy Report continued

Approach to recruitment continued

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 may 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 and nine months' prior written notice for the Chief Executive Officer and Chief Financial Officer respectively.

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

The terms of the Non-Executive Directors' positions are subject to their election by the Company's shareholders at the 2020 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 their 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 2020 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 ordinarily be paid in monthly instalments over the length of the notice period. Payments will be 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 for "good leavers" at the Committee's discretion, with respect to the period of the financial year served and subject to the normal deferral requirements, 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 default position under the plan rules is that the award will vest in full on the normal vesting date, 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.

The Committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a director's office or employment or for any fees for outplacement assistance and/or the director's legal and/or professional advice fees in connection with his cessation of office or employment.

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. However, the chair of the Remuneration Committee attends the Volution Employee Forum where employee representatives present views from the employees they are representing and there is the opportunity for interaction.

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.

To ensure shareholder views have been taken in to account, from the date of the 2020 Remuneration Policy being approved a formal post-employment shareholding guideline will be in place requiring Executive Directors to hold a shareholding equal to their in-employment shareholding, or their actual shareholding on leaving if lower, for two years after departure. This post-employment shareholding requirement will apply to shares acquired from incentive plans from DSBP and LTIP awards granted after 1 August 2020.

Annual Report on Remuneration

This section provides details of how the current Remuneration Policy (the current Policy) was implemented during the year and how the Remuneration Committee (the Committee) intends to apply the new Remuneration Policy being submitted to shareholders for approval at the 2020 AGM (the new Policy), during the financial year ending 31 July 2021. 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 2020 AGM.

Role of the Committee

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

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

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

Membership

The Committee currently comprises four independent Non-Executive Directors, Claire Tiney (chair), Nigel Lingwood, Amanda Mellor and Tony Reading, and the Chairman of the Board, Paul Hollingworth.

Claire Tiney is the chair of the Committee having been appointed on 30 April 2020 to succeed Tony Reading who had chaired the Committee from his appointment to the Board on 23 June 2014. Claire Tiney has been a member of the Committee since 1 August 2016 and has extensive experience of chairing listed company remuneration committees. The Chairman of the Board is a member of the Committee because the Board considers it essential that the Chairman is involved in setting remuneration policy (although he is not party to any discussion directly relating to his own remuneration).

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

Meeting attendance

The Committee met three times during the year and has had two meetings to date in 2020/21. Committee member attendance can be found in the table below.

Member	Member since	Number of meetings held	Attendance
Claire Tiney (chair from 30 April 2020)	1 August 2016	3	3
Tony Reading (chair to 30 April 2020)	23 June 2014	3	3
Paul Hollingworth	23 June 2014	3	3
Amanda Mellor	18 March 2018	3	3
Nigel Lingwood[1]	30 April 2020	3	1
Peter Hill[2]	23 June 2014	3	2

Notes
1. Nigel Lingwood joined the Committee on appointment to the Board on 30 April 2020 and attended the one meeting held between that date and 31 July 2020.
2. Peter Hill retired as Chairman of the Board and as a member of the Committee on 31 January 2020.

Committee activity and key decisions during the year ended 31 July 2020

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

- implemented the current Policy approved by shareholders at the 2017 AGM;
- considered and approved the Directors' Remuneration Report 2018/19;
- reviewed outcomes and approved payments for Executive Director and Senior Management Team bonuses for 2018/19;
- reviewed performance measurement outcomes and vesting of LTIP awards granted in 2016;
- reviewed and approved the parameters of the ABP, including performance measures and targets for 2019/20 for the Executive Directors and Senior Management Team;
- considered and approved the LTIP awards to the Executive Directors and Senior Management Team for 2019/20;
- reviewed market trends and developments in executive remuneration in advance of considering Executive Director and Senior Management Team remuneration proposals for 2020/21;
- reviewed and approved the Executive Director and Senior Management Team salaries for 2020/21; and
- evaluated the performance of the Committee.

Committee performance evaluation

During the year, the Board conducted a formal internally facilitated evaluation of the performance of the Board, its Committees, the Directors and the Chairman. Further details can be found in the Governance Report on pages 65 and 66. 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 £21,650 and were charged based on the time spent and seniority of the staff involved in providing the advice. Deloitte LLP also provided the Company with IFRS 2 valuation advice during the year.

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

Single total figure of remuneration (audited)

The audited table below sets out the total remuneration for the Directors in the years ended 31 July 2020 and 31 July 2019.

	Salary and fees[1]		Benefits[2]		Pension[3]		Annual bonus[4]		Long-term incentives[5]		Other[6]		Total		Fixed remuneration		Variable remuneration	
	2020 £000	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000
Chairman																		
Paul Hollingworth	**91**	58	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**91**	58	**91**	58	**—**	—
Executive Directors																		
Ronnie George	**391**	409	**22**	22	**55**	54	**—**	228	**138**	197	**—**	—	**606**	910	**468**	485	**138**	425
Andy O'Brien	**281**	—	**15**	—	**22**	—	**—**	—	**—**	—	**121**	—	**439**	—	**318**	—	**121**	—
Non-Executive Directors																		
Nigel Lingwood[7]	**12**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**12**	—	**12**	—	**—**	—
Amanda Mellor	**44**	48	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**44**	48	**44**	48	**—**	—
Tony Reading	**59**	63	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**59**	63	**59**	63	**—**	—
Claire Tiney	**46**	48	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**46**	48	**46**	48	**—**	—
Former Directors																		
Peter Hill (Chairman to 31.01.20)	**72**	143	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**72**	143	**72**	143	**—**	—

Notes

1. As a result of the impact of COVID-19 on the business, all Board members took a 20% salary reduction for a four-month period which ended on 31 July 2020.
2. Benefits: this includes an annual car allowance, life assurance equivalent to four times annual salary and private medical insurance.
3. Pension: a cash payment in lieu of employer's pension contribution, equivalent to 15% of base salary, was paid to Ronnie George and 5.5% was paid to Andy O'Brien.
4. Annual bonus: the annual bonus for 2019/20 relates to annual incentive payments for performance in that financial year. The calculation of this amount is set out on page 94. Despite an annual bonus of 11% being earned, the Executive Directors waived their right to this bonus for 2019/20.
5. Long-term incentives: this column relates to the value of long-term awards whose performance period ends in the year under review. The awards granted on 23 March 2018 had a performance period that ended on 31 July 2020, and this has been included in the table above. This award is due to vest on 23 March 2021 and therefore, the value included in the table above represents an estimated value using the average share price of £1.78 over the three months to 31 July 2020. The average share price for the three months to 31 July 2020 is lower than the share price at the date of grant; therefore, none of the value set out in the single figure table for this award is attributable to share price appreciation. In line with the remuneration reporting requirements, the awards which vested on 17 October 2019 have been restated to reflect the actual share price (£1.98) on the date of vesting. No discretion was exercised in respect of either LTIP vesting.
6. Other: the buy-out awards granted to Andy O'Brien on 15 October 2019 (68,181) have been valued using the average share price of £1.78 over the three months to 31 July 2020. Andy O'Brien forfeited share awards on leaving his last employer. In accordance with the Volution Remuneration Policy, the Remuneration Committee approved the grant of additional awards to Andy O'Brien to partially compensate him for remuneration forgone at his previous employer. These buy-out awards were granted to replicate as far as possible, the likely value and time horizons associated with the share awards forfeited at his previous employer. He received a buy-out award of 68,181 shares on 15 October 2019 and vesting was subject to continued employment with Volution and not subject to any performance conditions, reflecting the criteria of the forfeited share awards. Although the normal release date for the first tranche (34,090 shares) of the buy-out award was 1 August 2020, as this was the beginning of the Company's restricted share dealing period ahead of the announcement of financial results for the year ended 31 July 2020, the vesting and first date of exercise date became 8 October 2020. Although the normal release date for the second tranche (34,091 shares) of the buy-out award will be 1 August 2021, as this will be the beginning of the Company's restricted share dealing period ahead of the announcement of financial results for the year ending 31 July 2021, the vesting and first date of exercise will become the announcement date of these financial results.

   In August 2019, Andy O'Brien received a £15,000 bonus following his agreement to join the Company.
7. Nigel Lingwood was appointed as a Non-Executive Director on 30 April 2020.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Annual Bonus Plan (ABP) (audited)

The operation of the ABP during the year ended 31 July 2020 was consistent with the framework set out in the current Policy. The maximum annual bonus potential for the Executive Directors during the year was 125% of base salary, and bonus for on-target performance was 60% of the maximum opportunity. In line with last year's report, we have provided full retrospective disclosure of the targets and performance against those targets which are set out in the table below.

The performance measures and weightings for the year ended 31 July 2020 were the same as for the year ended 31 July 2019 as set out in the table below.

Also as a result of the pandemic, full year performance against two of the key measures used in the Annual Bonus Plan (ABP), being adjusted operating profit and adjusted EPS, fell well below the targets set. However, the working capital management target was largely met and resulted in 11% being eligible for payment to the Executive Directors. Given the adverse impact on the business, shareholders and employees from the COVID-19 pandemic, the Executive Directors waived the right to receive the 11% bonus payment earned under the ABP.

Measure	Strategic objective	Weighting	Threshold	Target	Maximum	Actual performance	% of measure achieved	**Payment (% of base salary)**
Adjusted operating profit[1]	To increase profit	35%	£43.0m	£44.7m	£46.3m	£33.7m	0%	**0%**
Adjusted EPS[1]	Creation of shareholder value	50%	16.5p	17.1p	17.7p	12.1p	0%	**0%**
Working capital management	Delivering efficiency of working capital and cash generation	15%	£33.8m	£32.8m	£31.8m	£32.7m	73%[2]	**11%[2]**
						Total		**0%[2]**

Notes

1. Adjusted operating profit up to target level is purely organic. Between target and maximum, unbudgeted acquisitions will be taken into account. Adjusted EPS includes unbudgeted acquisitions.
2. As noted above, the working capital management target was largely met and resulted in a 11% bonus entitlement for each Executive Director. However, given the adverse impact on the business, shareholders and employees from the COVID-19 pandemic, the Executive Directors waived the right to receive the 11% bonus entitlement under the ABP.

Long Term Incentive Plan vesting of 2017/18 awards

The LTIP values included in the single total figure of remuneration table for 2020 relate to the LTIP award granted on 23 March 2018. Awards with a face value of 100% of salary were granted to Ronnie George and the then Chief Financial Officer, Ian Dew, and, following a three-year performance period ending on 31 July 2020, are due to vest on 23 March 2021. The award to Ian Dew will be pro-rated to his leaving date of 31 October 2019. In accordance with the Policy, this LTIP award is subject to an additional two-year holding period following vesting. Therefore, this award will not be available to exercise until 23 March 2023. 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)**
EPS growth	75%	Below 6% p.a. (equivalent to 2019/20 EPS of less than 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)	-3.82% p.a. (actual 2019/20 EPS of 12.1 pence)	**0%**
TSR vs Direct Peer Group index[2]	25%	Below median	Median	Upper quartile	Above upper quartile	**100%**
Total vesting (% of maximum)						**25%**

Notes

1. Awards vest on a straight line basis between these points.
2. Direct Peer Group index is comprised of 16 companies: Breedon Group, Epwin Group, Eurocell, Forterra, Headlam Group, Ibstock, Luceco, Marshalls, Michelmersh Brick, Norcros, Polypipe, Safestyle, SIG, Topps Tiles, Tyman and Watkin Jones.

Governance Report

Share awards granted during the year (audited)

Long Term Incentive Plan (LTIP)

2018/19 awards

In October 2019, the Committee made awards under the LTIP in accordance with the current 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 2022, have been met. Awards to the Executive Directors are subject to a two-year holding period.

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

Performance measure	Weighting (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting)[1]	Maximum (100% vesting)[1]
EPS growth	75%	Below 6% p.a. (equivalent to 2021/22 EPS of less than 19.06 pence)	6% p.a. (equivalent to 2021/22 EPS of 19.06 pence)	12% p.a. (equivalent to 2021/22 EPS of 22.48 pence)
TSR vs Direct Peer Group Index[2]	25%	Below median	Median	Upper quartile

Notes

1. Awards will vest on a straight line basis between these points.
2. Direct Peer Group index is comprised of 16 companies: Breedon Group, Epwin Group, Eurocell, Forterra, Headlam Group, Ibstock, Luceco, Marshalls, Michelmersh Brick, Norcros, Polypipe, Safestyle, SIG, Topps Tiles, Tyman and Watkin Jones.

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 15 October 2019 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	356,846	£1.76	£628,049	150%	15 October 2024	16 October 2029
Andy O'Brien	208,096	£1.76	£366,249	125%	15 October 2024	16 October 2029

Notes

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

Andy O'Brien forfeited share awards on leaving his last employer. In accordance with the current Policy, the Remuneration Committee approved the grant of additional awards to Andy O'Brien to partially compensate him for remuneration forgone at his previous employer. These buy-out awards were granted to replicate, as far as possible, the likely value and time horizons associated with the share awards forfeited at his previous employer. He received a buy-out award of 68,181 shares on 15 October 2019. The first tranche had a normal vesting date of 1 August 2020 and the second tranche a normal vesting date of 1 August 2021. These awards were subject to continued employment with Volution and were not subject to any performance conditions, reflecting the criteria of the forfeited share awards.

The buy-out awards made to Andy O'Brien on 15 October 2019 were as follows:

Executive Director	Number of shares	Base price	Face value[1]	Face value % of base salary	Release date[2]
Andy O'Brien	34,090	£1.76	£59,998	20.48%	1 August 2020
	34,091	£1.76	£60,000	20.48%	1 August 2021

Notes

1. The price used to calculate the number of buy-out awards was the average of the mid-market closing price of a Volution Group plc share on the three consecutive business days immediately preceding the date of grant.
2. Although the normal release date for the first tranche of the buy-out award (34,090) was 1 August 2020, as this was the beginning of the Company's restricted share dealing period ahead of the announcement of financial results for the year ended 31 July 2020, the vesting date and first date of exercise became 8 October 2020. Although the normal release date for the second tranche (34,091 shares) of the buy-out award will be 1 August 2021, as this will be the beginning of the Company's restricted share dealing period ahead of the announcement of financial results for the year ending 31 July 2021, the vesting date and first date of exercise will become the announcement date of these financial results.

Annual Report on Remuneration continued

Share awards granted during the year (audited) continued

Deferred Share Bonus Plan (DSBP)

2019/20 awards

As set out in the current Policy, under which the 2018/19 annual bonus was awarded, one-third of any bonus payment earned by the Executive Directors will be deferred into awards over the Company's shares.

On 15 October 2019, Ronnie George and the then Chief Financial Officer, Ian Dew, received an award of shares under the Deferred Share Bonus Plan relating to the 2018/19 annual bonus, as follows:

Executive Director	Number of shares	Base price	Face value[1]	Release date
Ronnie George	43,271	£1.76	£76,157	15 October 2022
Ian Dew	29,500	£1.76	£51,920	15 October 2022

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

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 2019	Shares awarded during the year	Shares lapsed during the year	Shares vested during the year	**Number of share awards at 31 July 2020**	Face value at date of grant £[1]	Vesting date[2]	Expiry date
Ronnie George									
LTIP 2016/17[3]	17/10/2016	228,735	—	136,006	99,662	**—**	—	Vested	18/10/2026
LTIP 2017/18	23/03/2018	295,970	—	—	—	**295,970**	594,900	23/03/2021	24/03/2028
LTIP 2018/19	17/10/2018	328,552	—	—	—	**328,552**	612,750	17/10/2021	18/10/2028
LTIP 2019/20	15/10/2019	—	356,846	—	—	**356,846**	628,050	15/10/2022	16/10/2029
DSBP 2016/17[4]	17/10/2016	4,106	—	—	4,410	**—**	—	Vested	N/A
DSBP 2017/18	23/03/2018	26,880	—	—	—	**26,880**	54,030	23/03/2021	N/A
DSBP 2018/19	17/10/2018	39,248	—	—	—	**39,248**	73,199	17/10/2021	N/A
DSBP 2019/20	15/10/2019	—	43,271	—	—	**43,271**	76,157	15/10/2022	N/A
Andy O'Brien									
LTIP 2019/20	15/10/2019	—	208,096	—	—	**208,096**	366,249	15/10/2022	16/10/2029
Buy-out 2019/20	15/10/2019	—	34,090	—	—	**34,090**	59,998	01/08/2020	N/A
Buy-out 2019/20	15/10/2019	—	34,091	—	—	**34,091**	60,000	01/08/2021	N/A
DSBP 2019/20	—	—	—	—	—	**—**	—	—	—

Notes
1. The price used to calculate the number of LTIP and DSBP awards was the average of the mid-market closing price of a Volution Group plc share on the three consecutive business days immediately preceding the date of grant, being £1.70 for the LTIP 2016/17 and DSBP 2016/17, £2.01 for the LTIP 2017/18 and DSBP 2017/18, £1.865 for the LTIP 2018/19 and DSBP 2018/19 and £1.76 for the LTIP 2019/20 and DSBP 2019/20.
2. LTIP awards granted from 2016/17 were granted with a three-year performance period and an additional two-year holding period, except for the sign-on awards granted to Andy O'Brien on 15 October 2019 which vest with a separate vesting schedule, in two tranches as set out above.
3. LTIP 2016/17 awards had a performance period ending on 31 July 2019. 40.54% of the award vested on 17 October 2019. Following performance testing, 136,006 awards lapsed for Ronnie George. In accordance with the rules of the LTIP, 6,933 dividend equivalent shares were added to the vested awards for Ronnie George.
4. DSBP 2016/17 awards vested on 17 October 2019 and the shares were immediately transferred to each Executive Director, becoming part of their beneficial shareholdings. In accordance with the rules of the DSBP, 304 dividend equivalent shares were added to the vested awards for Ronnie George.

Employee Benefit Trust

The Volution Employee Benefit Trust (EBT) currently holds 1,873,039 shares in the Company. It is the Company's intention to use shares currently held in the EBT to satisfy all awards made so far under the Long Term Incentive Plan, Deferred Share Bonus Plan and Sharesave Plan. Dividends arising on the shares held in the EBT are waived on the recommendation of the Company.

Funding of future awards under the share incentive plans

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

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 Ronnie George had a shareholding well in excess of 200% of base salary. Andy O'Brien will build up his shareholding over time to reach the required 200% of base salary. From the date of the 2020 Remuneration Policy being approved a formal post-employment shareholding guideline will be in place requiring Executive Directors to hold a shareholding equal to their in-employment shareholding, or their actual shareholding on leaving if lower, for two years after departure. This post-employment shareholding requirement will apply to shares acquired from incentive plans from DSBP and LTIP awards granted after 1 August 2020. 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 2020 (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 2020 and the date of this report.

	Shares held beneficially at 1 August 2019[1]	**Shares held beneficially at 31 July 2020[1]**	Beneficial shareholding at 31 July 2020 (% of salary)	Target shareholding achieved?[2]	LTIP awards (unvested awards subject to performance)[3]	LTIP awards (unvested awards not subject to performance)[3]	LTIP awards vested but not exercised	DSBP awards (unvested awards, not subject to performance)
Chairman								
Paul Hollingworth	30,916	**30,916**	N/A	N/A	—	—	—	—
Executive Directors								
Ronnie George[4]	5,642,797	**2,597,207**	1,033%	Yes	981,368	—	407,906	203,383
Andy O'Brien[5]	—	**—**	0%	No	208,096	68,181	—	—
Non-Executive Directors								
Nigel Lingwood	—	**5,000**	N/A	N/A	—	—	—	—
Amanda Mellor	—	**—**	N/A	N/A	—	—	—	—
Tony Reading	90,000	**100,000**	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 2020 using the share price on that date of 166.5 pence per share.
3. LTIP awards in this column consist of all awards granted as at the date of this report which are structured as nil-cost options. All awards are subject to performance conditions, with performance measured over three financial years.
4. On 17 October 2019, 4,410 DSBP shares vested and were transferred from the EBT to Ronnie George and were added to his beneficial shareholding. He then transferred 2,800,000 shares to his spouse on 24 January 2020. His spouse sold 3,050,000 shares on 24 January 2020.
5. Andy O'Brien was appointed as Chief Financial Officer and as an Executive Director on 1 August 2019. Although the normal release date for this first tranche of the LTIP award (34,090 shares) was 1 August 2020, as this was the beginning of the Company's restricted share dealing period ahead of the announcement of financial results for the year ended 31 July 2020, the vesting date and first date of exercise became 8 October 2020. Using the average share price of 176 pence per share over the three months to 31 July 2020, these vested awards were valued at £50,998 equating to 20.48% of salary.

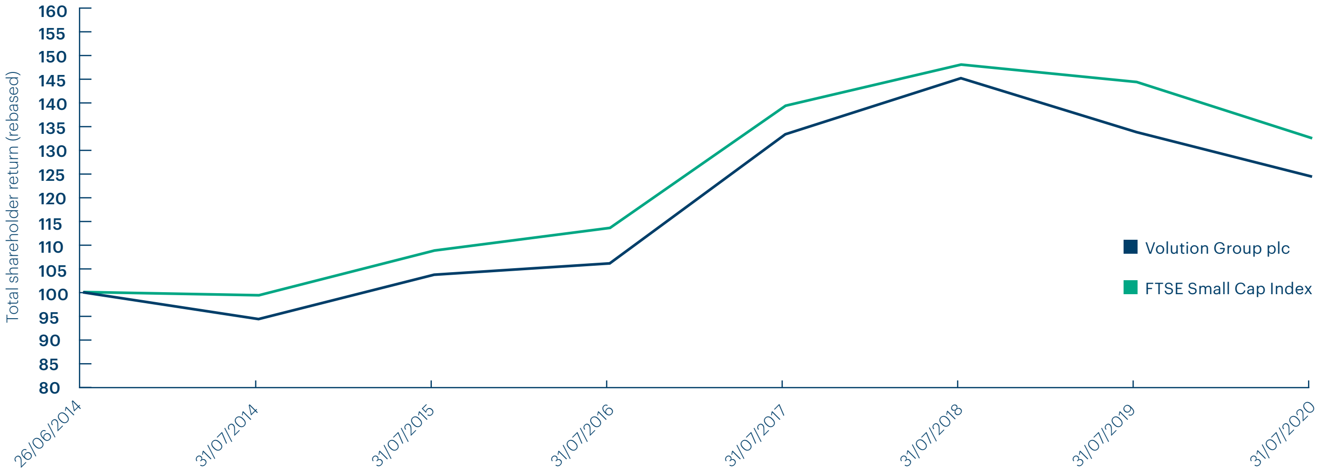
Payments to past Directors and payments for loss of office

As disclosed in the Directors' Remuneration Report for the year ended 31 July 2019, Ian Dew stepped down from the Board on 31 July 2019 and remained in employment until 31 October 2019 to effect an orderly handover. Ian Dew received a payment in lieu of notice for the remainder of his nine-month notice period consisting of normal remuneration payments in respect of salary and pension contributions (totalling £236,408) and normal contractual benefits (totalling £11,475), in accordance with his service agreement. As a "good leaver" Ian Dew retained the benefit of his DSBP awards and LTIP awards which are pro-rated for time, subject to the original time horizons and original performance conditions where applicable. The LTIP granted on 23 March 2018 will vest in respect of 23,684 shares (determined by reference to the vesting outturn disclosed on page 94 and a pro-rata reduction to reflect his service to 31 October 2019) with a value of £42,158 (calculated on the same basis as Ronnie George's award in the single total figure of remuneration). There were no other payments to past Directors or payments for loss of office in the year.

Annual Report on Remuneration continued

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.

	2020	2019	2018	2017	2016	2015	2014	2013
Chief Executive Officer's single total figure of remuneration (£000)	**606**	910	909	1,191	638	643	1,061	428
Annual bonus payout (as a % of maximum opportunity)	**0%**[1]	44.7%	44.3%	87.8%	64%	65%	100%	54.8%
LTIP vesting (as a % of maximum opportunity)	**25%**	40.5%	61.7%	72.1%	N/A	N/A	N/A	N/A

Note

1. As noted above, the working capital management target was largely met and resulted in 11% being eligible for payment to each Executive Director. However, given the adverse impact on the business, shareholders and employees from the COVID-19 pandemic, the Executive Directors waived the right to receive the 11% bonus entitlement under the ABP.

Percentage change in remuneration of the Board Directors (audited)

The table below shows the percentage change in remuneration of each Executive and Non-Executive Director against Volution's employees as a whole between the year ended 31 July 2019 and the year ended 31 July 2020.

		Executive Directors (% change)[3]		Non-Executive Directors (% change)[3]				
Element of pay	Average employee (% change)[1,2]	Ronnie George	Andy O'Brien	Paul Hollingworth	Nigel Lingwood[6]	Amanda Mellor	Tony Reading	Claire Tiney
Base salary	1.9%	0%	0%	0%	N/A	0%	0%	0%
Benefits[4]	(0.1)%	0%	0%	N/A	N/A	N/A	N/A	N/A
Annual bonus	(79.1)%	(100)%[5]	N/A[5]	N/A	N/A	N/A	N/A	N/A

Notes

1. This table shows the change in average salary and average bonus delivered to eligible employees between 31 July 2019 and 31 July 2020.
2. Average employee pay has been calculated on a full-time equivalent basis. This figure excludes the Executive and Non-Executive Directors.
3. Although stated as a zero change in salary, all Board members had a salary reduction of 20% for four months of the financial year as a result of the COVID-19 pandemic.
4. Benefits include car allowance, health cover and life assurance but exclude employer pension contributions.
5. For 2019/20, neither of the Executive Directors received an annual bonus. Therefore, no comparison to 2018/19 has been drawn.
6. Appointed 30 April 2020.

Chief Executive Officer pay ratio (audited)

The table below sets out the ratio at 25th, median and 75th percentile of the total remuneration received by the Chief Executive Officer (using the amount set out in the single total figure table shown in this report on page 93), compared to the total remuneration received by our UK employees for whom total remuneration has been calculated on the same basis. The year in review is the first year to which these disclosure provisions apply to Volution.

Year ended	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
31 July 2020	Option A	34 : 1	27 : 1	18 : 1

Employees	25th percentile	Median	75th percentile
Salary	£16,995	£20,887	£30,572
Total pay and benefits	£17,867	£22,136	£33,919

The employees used for the purposes of the table above were identified as based in the UK and on a full-time equivalent basis as at 31 July 2020. Option A was chosen as it is considered to be the most accurate way of identifying the relevant employees required by The Companies (Miscellaneous Reporting) Regulations 2018. No other adjustments were necessary and no elements of employee remuneration have been excluded from the pay ratio calculation.

The Board has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

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.

	2020 £m	2019 £m	% change
Employee remuneration costs	**54.9**	61.2	(10.3)%
Distributions to shareholders	—	9.1	(100.0)%
Adjusted operating profit	**33.7**	42.1	(19.9)%

Statement of implementation of Remuneration Policy for the financial year ending 31 July 2021

Executive Director base salaries

During the year the Committee reviewed the Executive Director base salaries and as part of the review considered the remuneration arrangements of the wider workforce in light of the COVID-19 pandemic. It was determined that no increase in base salary would be awarded to the Chief Executive Officer (£418,700) or the Chief Financial Officer (£293,000).

Pension and other benefits

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

Other benefits received comprise an annual car allowance paid in cash of £20,910 per annum for the Chief Executive Officer and £15,300 per annum for the Chief Financial Officer, life assurance equivalent to four times annual salary and £1,360 for 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 2019/20. One-third of the total bonus payable will be deferred into shares for three years.

The performance measures applicable to the ABP will remain unchanged and the Committee continues its policy of setting stretching annual bonus targets which take into account a number of internal and external factors. There will be a small change in the target weightings which will become: adjusted EPS (52%); adjusted operating profit (36%); working capital management (12%). Given the ongoing COVID-19 pandemic and potential impact it could still have on the economy and the business, although the targets will be set for the full financial year, the Committee will closely monitor the situation, particularly at the half-year.

The targets set for the year ending 31 July 2021 will be disclosed in the next Annual Report on Remuneration, unless they remain commercially sensitive.

Statement of implementation of Remuneration Policy for the financial year ending 31 July 2021 continued

Long Term Incentive Plan (LTIP)

During 2020/21, 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 2019/20.

Performance measures to be used for the LTIP awards in 2020/21 will remain the same as for the year ended 31 July 2020, being EPS growth (75%) and TSR vs Direct Peer Group Index (25%).

In light of the uncertainty around COVID-19, the LTIP targets have not yet been approved by the Committee and communicated to participants. These will be disclosed in the RNS announcement when awards are made and included in next year’s Directors’ Remuneration Report.

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

Non-Executive Director fees

Fees of Non-Executive Directors are determined by the Board in their absence. The fees of the Chairman (whose fees are determined by the Committee in his absence) and the Non-Executive Directors were last reviewed in July 2020. In light of the COVID-19 pandemic and that neither the Executive Directors nor the wider workforce would be receiving an increase in salary during 2020/21, fees for the Chairman and Non-Executive Directors will remain unchanged for the year ending 31 July 2021.

The fees with effect from 1 August 2020 are summarised in the table below:

	From 1 August 2020	From 1 August 2019	% change
Chairman fee covering all Board duties	£143,220	£143,220	0%
Non-Executive Director basic fee	£47,740	£47,740	0%
Supplementary fees to Non-Executive Directors covering additional Board duties:			
– Senior Independent Director	£5,000	£5,000	0%
– Audit Committee chairman	£10,000	£10,000	0%
– Remuneration Committee chairman	£10,000	£10,000	0%

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 Remuneration Policy.

At our 2019 AGM held on 12 December 2019, we received shareholder support of 76.3% in respect of resolution 2, the non-binding resolution for the approval of the Directors’ Remuneration Report, for the financial year ended 31 July 2019. In line with the provisions of the UK Corporate Governance Code, we provided an explanation for this in a stock exchange announcement following the 2019 AGM and provided an update statement published in May 2020 by the Investment Association on its Public Register website.

During the course of 2020 we consulted with shareholders as part of the design of the new Remuneration Policy that will be put to a shareholder vote at the December 2020 AGM, in line with the three-year policy cycle. As part of that process we listened to shareholder views on the remuneration framework more broadly and took this into account as part of the design process.

The following table sets out the voting by shareholders at the Annual General Meeting in December 2019 in respect of our Annual Report on Remuneration and at the Annual General Meeting in December 2017 in respect of our current Remuneration Policy.

Resolution	Votes cast for	% of votes cast	Votes cast against	% of votes cast	Votes withheld
Remuneration Report (2019 AGM)	139,809,720	76.30	43,416,366	23.70	—
Remuneration Policy (2017 AGM)	168,196,529	98.50	2,567,636	1.50	—

Approval

This Directors’ Remuneration Report was approved by the Board of Directors on 8 October 2020 and signed on its behalf by the chair of the Remuneration Committee.

Claire Tiney
Chair of the Remuneration Committee
8 October 2020

Directors' Report

Introduction

The Directors present their Annual Report and the audited financial statements of the Company for the year ended 31 July 2020.

This Directors' Report includes additional information required to be disclosed under the Companies Act 2006, the 2018 UK Corporate Governance Code (the 2018 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 54;
- the Governance Report on pages 55 to 103;
- information relating to financial instruments, as set out in note 25 to the consolidated financial statements; and
- related party transactions as set out in note 31 to the consolidated financial statements.

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

Corporate structure

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

Results and dividend

The Group's results for the year are shown in the statement of comprehensive income on page 114.

On 16 March 2020 the Company announced in its Half-Year Results that an interim dividend of 1.71 pence per share was to be paid to shareholders on 5 May 2020. As a result of the impact on the business of the COVID-19 pandemic, the Company announced on 25 March 2020 that the payment of the interim dividend was suspended. Following due consideration by the Board, the Company announced on 30 July 2020 that the interim dividend was cancelled and would not be paid and that no final dividend would be recommended to shareholders in respect of the financial year ended 31 July 2020.

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 2020.

As at 31 July 2020 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 2020 are shown in note 27 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. During the financial year ended 31 July 2020, 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 94 to 96. 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 81 to 100. The Company launched its first invitation under its all-employee Sharesave Scheme in 2018.

The Company also has an Employee Benefit Trust (EBT) in which to hold ordinary shares to satisfy awards under the share incentive plans. As at the date of this report, there were 1,873,039 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 27 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	25,496,251	12.87%
FMR LLC	17,622,011	8.89%
Baillie Gifford & Co	11,343,105	5.73%
Standard Life Aberdeen plc	9,076,611	4.58%
UBS Global Asset Management	6,413,511	3.24%
Artemis Investment Management LLP	6,045,047	3.05%

Directors

The Directors of the Company and their biographies are set out on pages 58 and 59. Their interests in the ordinary shares of the Company are shown in the Directors' Remuneration Report on page 97. During the financial year the following Directors were appointed and retired as follows:

- Andy O'Brien was appointed as Chief Financial Officer and as an Executive Director on 1 August 2019;
- Peter Hill retired as Chairman of the Board and as a Director on 31 January 2020; and
- Nigel Lingwood was appointed as an independent Non-Executive Director on 30 April 2020.

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 2018 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 31 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 25 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 49.

Viability Statement

The Board assessed the prospects of the Group over a three-year period and the Viability Statement is set out on page 48.

Annual General Meeting

The Annual General Meeting will be held at 12.00 noon on Friday 11 December 2020 at Volution's registered office, Fleming Way, Crawley, West Sussex RH10 9YX, United Kingdom. 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.

Energy and greenhouse gas emissions reporting

The Board presents this report in order to meet the Company's obligation under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 to disclose the Group's worldwide emissions of the "greenhouse gases" (GHG) attributable to human activity measured in tonnes of carbon dioxide equivalent. As stated in the Sustainability section on pages 26 to 33, Volution is committed to reducing and minimising its impact on the environment. Examples of actions taken to increase energy efficiency are given there.

Energy and GHG emissions data for the year ended 31 July 2020

Emissions from	**2020** CO_2**e tonnes**	2019 CO_2e tonnes
Electricity, gas and other fuels	**2,993**	3,412
Petrol and diesel vehicle fuels	**1,137**	1,464
Refrigerants	**66**	31
Total[1]	**4,196**	4,907
Volution's chosen intensity measurement: CO_2e tonnes per £m of revenue	**19.37**	20.81

Note

1. 52.5% of the total figure reported for 2020 relates to emissions in the UK and offshore and 47.5% relates to regions outside the UK and offshore. We have only included emissions for which we are directly responsible. We have not included emissions for activities over which we have no direct control.

Our Energy and GHG emissions for 2020 were calculated using the methodology set out in the UK Government's Environmental Reporting Guidelines 2019. Activity data has been converted into GHG emissions using the UK Government's most recent GHG Conversion Factors for Company Reporting (2019). This is in line with standard industry practice and allows fair comparison with other UK businesses.

By order of the Board

Michael Anscombe
Company Secretary
8 October 2020

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

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework and applicable law). 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Directors' confirmations

The Directors consider 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 Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 58 and 59, confirms that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditor is unaware;
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditor is aware of that information; and
- the financial statements on pages 114 to 163 were approved by the Board of Directors on 8 October 2020 and signed on its behalf by Ronnie George and Andy O'Brien.

On behalf of the Board

Ronnie George
Chief Executive Officer
8 October 2020

Andy O'Brien
Chief Financial Officer
8 October 2020

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

Opinion
In our opinion:

- Volution Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Group	Parent company
Consolidated statement of financial position as at 31 July 2020	Statement of financial position as at 31 July 2020
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of cash flows for the year then ended	Related notes 1 to 14 to the financial statements including a summary of significant accounting policies
Related notes 1 to 36 to the financial statements, including a summary of significant accounting policies	

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

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

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

Conclusions relating to 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 46 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 104 in the annual report that they have carried out a robust assessment of the emerging and 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 49 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 49 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	• The risk of manipulation of revenue recognition through inappropriate manual journal entries and/or customer rebates. • The risk of management override resulting in inappropriate identification, presentation and disclosure of exceptional items and/or unauthorised non-standard manual journal entries. • The risk to going concern and related disclosures arising from COVID-19. • The risk of impairment arising from COVID-19.
Audit scope	• We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further nineteen components. • The components where we performed full or specific audit procedures accounted for 90% of Profit before tax and exceptional items, 88% of Revenue and 97% of Total assets.
Materiality	• Overall Group materiality of £992k.

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.

The risk of manipulation of revenue recognition through inappropriate manual journal entries and/or customer rebates	Our judgement on the trend in risk over the prior year of the Group:
During the year the Group recognised revenue of £216.6 million (FY2019: £235.7 million) and a rebate liability of £7.8 million (FY2019: £6.4 million).	The risk profile has remained stable however, revenue has been impacted by COVID-19 during lockdown.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of manipulation of revenue recognition through inappropriate manual journal entries and/or customer rebates: • inappropriate recognition of sales due to inappropriate manual journal entries; and • inappropriate cut off as a result of judgemental customer rebate provisions as a result of management bias.	We tested the appropriate application of revenue recognition through substantively testing a sample of revenue to identify that revenue was recognised appropriately. We performed the following: • obtained an understanding of the significant classes of transactions impacting revenue and performed walkthroughs to confirm our understanding; • evaluated the adequacy of the design of the controls on the significant classes of transactions impacting revenue; • performed analytical procedures, including a comparison of actual revenue against budget and prior year; and • tested the application of cut off by obtaining the delivery terms, supporting sales orders, proof of dispatch and proof of payment for a sample of sales transactions across all trading companies in scope. For all full and specific scope entities except Ventair Pty and Oy Pamon, we used data analytics to identify recorded transactions that did not align with our expectation of the transaction flow. This involved performing three-way correlation between revenue, debtors and cash and obtaining evidence for unaligned amounts. We tested formal agreements with customers and agreed terms to supporting evidence. We also searched for and enquired about the existence of side agreements. We recalculated the expected sales rebates for customers and compared these to actual amounts recorded by management. We also evaluated whether a consistent methodology was applied with the prior year. Instructions to perform the above procedures were issued to all full and specific procedures scope locations, which covered 88% of consolidated revenue.	We concluded that: • revenue has been recognised in accordance with IFRS; • the recording of the occurrence of revenue was found to be appropriate; and • the customer rebate liabilities recognised by the Group were appropriate.

Supporting references in the Annual Report and Accounts: The Audit Committee Report (page 77); Accounting policies (page 122); and note 3 note to the consolidated financial statements (page 123).

Key audit matters continued

Management override arising from inappropriate presentation of exceptional items and/or unauthorised non-standard journal entries	Our judgement on the risk profile of the Group
The Group reported exceptional operating costs of £nil million (2019: £1.8 million).	The risk profile has reduced.

We determined that exceptional items contain a risk of material misstatement as adjusted performance measures are regularly referred to by management in describing the Group's performance and form the basis of bonuses payable to Executive Directors. The principal areas of judgement relate to the identification and disclosure of exceptional operating costs and the posting of unauthorised non-standard journals that may impact on the adjusted performance measures.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of management override arises as follows: • the presentation of items as exceptional, or the non-recording of exceptional credits, when in practice the items in question may relate to underlying trading activities and / or recur from period to period; and • the posting of unauthorised non-standard journal entries (including manual journal entries).	Exceptional items: • We obtained and reviewed management's paper which included the assumptions and judgements used for classification of items as exceptional together with their conclusion that there were no such items in FY20. • We considered whether there were any unusual credit items that should be identified as exceptional. Unauthorised non-standard journal entries: • We made enquiries of management regarding the risks of fraud and the controls put in place to address management override. • We identified unusual journal entries that exceeded our testing thresholds, or were unusual as a result of who posted, and validated their appropriateness. • The audit of judgements made in classifying items as exceptional, or not, was performed by the UK team. Instructions to perform the above procedures for unauthorised non-standard journal entries were issued to all full and specific scope locations.	We concluded that the disclosure of £nil exceptional is acceptable. Our testing of non-standard journal entries raised at subsidiary and Group levels did not provide evidence of any unauthorised or inappropriate journal entries.

Supporting references in the Annual Report and Accounts: The Audit Committee Report (page 77); Accounting policies (page 126); and Note 6 to the consolidated financial statements (pages 126 and 127).

Independent Auditor's Report continued

To the members of Volution Group plc

Key audit matters continued

Management's consideration of going concern	Our judgement on the risk profile of the Group
The Group has a committed revolving credit facility of £120 million and an accordion of £30 million, which is subject to approval.	The risk profile has increased.

We determined that going concern is a risk of material misstatement following the impact that COVID-19 has had on demand and operations. The principal areas of judgement relate to the identification and disclosure of going concern are.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management's consideration of going concern The Group operates in a number of geographic markets which have been affected by COVID-19 which have impacted on revenue, operations and people. Management of cash resources and compliance with covenants is therefore critical to the continued operations of the business, as a result we consider management's going concern assessment and associated forecasts, particularly in light of COVID-19, to be a key area of audit focus.	In assessing management's consideration of the potential impact of COVID-19, we have undertaken the following audit procedures: • We obtained from management their latest financial models that support the Board's assessment and conclusions with respect to the statement of going concern. • We obtained the facility agreement and confirmed the covenant arrangements that apply. • We performed procedures to ensure the accuracy of the models and resulting forecasts, together with the balance of net debt. • We recalculated managements forecast covenants and compared them with the facilities agreements to ensure that they were met. • We requested management to prepare a reverse test to indicate how significant a reduction in revenue would need to be to breach covenants and assessed the likelihood of occurrence. • We challenged management on the critical estimates and judgements applied in their latest financial models so we could understand and consider the rationale and contra indicators for the factors incorporated into the models and assessed the impact of COVID-19 on the forecasts and conclusion. • We inspected the financial models provided to assess their consistency with our understanding of the operations of the Group. We also agreed any key amendments, estimates and judgements to underlying supporting information and fact patterns as appropriate and considered contra evidence. • We subjected the financial models to additional stress testing to confirm that the Board have considered a balanced range of outcomes in their assessment of the potential impact of COVID-19 on the Group. The Group team performed going concern procedures in respect of 100% of the Group.	We communicated to the Audit Committee that: We consider the disclosures made in the basis of preparation and the Strategic report by the Board in respect to going concern to be appropriate.

Refer to Chief Executive' Review (page 17), Finance review (page 44), Principal Risks and Uncertainties (page 49), Audit and Risk Committee Report (page 77), the Going Concern section within the Accounting Policies (page 18) and Note 1 of the financial statements.

Key audit matters continued

Management's consideration of impact of COVID-19 on Impairment	Our judgement on the risk profile of the Group
The Group has PPE and Intangible assets amounting to £240 million (£237.1 million).	The risk profile has increased.

We determined that impairment is a risk of material misstatement following the impact that COVID-19 has had on cashflows. The principal judgement relates to the forecasting of cash flows and discount rate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee

The Group has a significant value of goodwill, other intangible assets and property, plant and equipment.
 	
There is a risk that cash generating units ('CGUs') may not achieve the anticipated business performance to support their carrying value. This could lead to an impairment charge that has not been recognised by management. Significant judgement is required in forecasting the future cash flows of each CGU, together with the rate at which they are discounted.
	In assessing management's consideration of the potential impact of COVID-19, we have undertaken the following audit procedures:
	
	• We obtained management's financial models, that support the Board's assessment and conclusions with respect to impairment. We compared the CGU carrying value to our workpapers.
	
	• We understood the methodology applied by management in performing its impairment test for each of the relevant CGUs and walked through the controls over the process.
	
	• For all CGUs, we performed detailed testing to critically assess and corroborate the key inputs to the valuations, including:
	  • analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience;
	  • performing current market and historical analysis to assess future assumptions;
	  • in conjunction with our valuation specialists, assessing the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against market data and comparable organisations; and
	  • validating the growth rates assumed by comparing them to economic forecasts.
	
	• We calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We then determined whether adequate headroom remained using these sensitivities and our independent assessment.
	
	• We assessed the disclosures in note 15 against the requirements of IAS 36 Impairment of Assets, in particular in respect of the requirement to disclose further sensitivities for CGUs where a reasonably possible change in a key assumption would cause an impairment. We requested management to revise their disclosed sensitivities to align with lower growth rates.
	
	The audit procedures performed to address this risk were performed by the group audit team.
		We communicated to the Audit Committee that:
		
		We concluded that no impairments were required at the year end, based on the results of our work. Of the Group's assets, the portion relating to Australia remains sensitive to reasonably possible changes in key assumptions.
		
		Management describes these sensitivities appropriately in the intangible assets and property, plant and equipment notes to the Group financial statements, in accordance with IAS 36.

Refer to Notes 13–16 of the Consolidated Financial Statements.

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, (2019: 26) reporting components of the Group, we selected 17 (2019: 19) components covering entities in New Zealand, Australia, Germany, Belgium, Sweden, Finland and the UK, which represent the principal business units within the Group.

Of the 17 (2019: 19) components selected, we performed an audit of the complete financial information of 4, (2019: 5) components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 13 (2019: 14) components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

We set out below details relating to the coverage of our audit procedures. The audit scope of specific scope or specified procedures components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

	% of Group profit before tax and exceptional items		% of Group revenue		% of Group total assets	
	2020	2019	**2020**	2019	**2020**	2019
Reporting components where we performed audit procedures	**90%**	94%	**88%**	93%	**97%**	98%
Full Scope	**44%**	57%	**40%**	51%	**75%**	81%
Specific scope or specified procedures	**46%**	37%	**48%**	42%	**22%**	17%
Review scope	**10%**	6%	**12%**	7%	**3%**	2%

Of the remaining 10 components that together represent 10% of Group profit before tax and exceptional items, none are individually greater than 2% of this adjusted profit before tax measure. For these components ('review scope' components), we performed other procedures including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

The change to the scopes adopted in the previous year relate to Australasia components: In the current financial year we are performing specific scope procedures at Simx Limited, whereas the scope for the previous year was full scope procedures and for Volution Ventilation Australia Limited where we are performing specific scope procedures, where as in the previous year the entity was out of scope. In addition, VoltAir System AB, Breathing Buildings Limited, Airtech Humidity Controls Limited have been covered by review scope procedures where as in the prior year specified procedures were adopted.

We identified new key audit matters in respect of Going Concern and Impairment as a result of the impact of COVID-19 on the Group.

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 4 full scope components, audit procedures were performed on 3 of these directly by the primary audit team and 1 by the component audit teams. For the 13 specific scope components and the 1 full 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 adapted their approach to interact with and oversee local EY teams in response to the COVID-19 pandemic. Due to COVID-19 travel restrictions imposed by governments, we did not complete our planned visits to the locations. In lieu of these visits, we maintained continuous dialogue with our local EY teams. This included: additional meetings with our component teams and local management via videoconference, and performing remote review of the key workpapers associated with the component teams' audit procedures.

We attended all meetings with our full and specific component teams and local management to conclude the audit procedures at each location by videoconference, to ensure that we were fully aware of their progress and results of their audit procedures. The Group audit engagement partner participated in the closing meetings for all full and specific scope UK and overseas components.

The performance of the year end audit was also required to be conducted remotely due to COVID-19 restrictions and social distancing requirements at both component and Group locations. This was supported through remote access to the Group's financial systems and the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence.

Our application of materiality

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

Materiality

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

Using professional judgement, we determined materiality to be £992k (2019: £1,247k).

In determining our benchmark for materiality, we considered a number of different metrics used by investors and other users of the financial statements. We consider that analysts are focused on the speed at which underlying operations and revenue are returning to normal. Setting materiality when the business has been impacted by COVID-19 requires greater auditor judgement. We continue to believe that a materiality based on profit before tax is appropriate given the nature of the Group, but 2020 results have been distorted as a result of the pandemic. For the current year, we have sought to derive a normalised basis for setting that profit and we have set at 5% of prior year adjusted Profit Before Tax, reduced by 20.5% to reflect the decline in operating profit following the volatility in the results of the Group arising from the impact of COVID-19. We have further considered the appropriateness of this materiality – we have determined by considering both the revenue and equity of the Group, and on the basis that our materiality is 0.5% of revenue and 0.6% of equity we remain satisfied that our chosen basis is an appropriate measure of materiality.

This approach is a change from the prior year (which was based on 5% of profit before tax excluding the impact of exceptional items).

We determined materiality for the parent company to be £1,973k (2019: £1,471k), which is 1.0% (2019: 0.5%) of total assets. The materiality determined for the standalone parent company financial statements exceeds the Group materiality as it is determined on a different basis given the nature of the operations. For the purposes of the audit of the Group financial statements, our procedures, including those on balances in the Parent Company, are undertaken with reference to the Group materiality and performance materiality set out in this report.

During the course of our audit, we reassessed initial materiality and made changes to the above calculation to align with the Group's actual reported results.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £744k (2019: £935k). 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 offset by the impact of COVID-19, which we considered to impact going concern and impairment but not to impact on our consideration of performance materiality.

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 £198k to £350k (2019: £160k to £588k).

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 £50k (2019: £62k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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

We have nothing to report in this regard.

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 69** – 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 on pages 73 to 80** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

Independent Auditor's Report continued

To the members of Volution Group plc

Other information continued

- **Directors' statement of compliance with the UK Corporate Governance Code set out on pages 60 to 69** – 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained during the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 104, 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. We challenged management to understand where it 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 has 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 and risk of management override. Our procedures were focused on revenue recognition, disclosure of exceptional items and unusual journals, which is discussed in our Key audit matters, and journal entry testing.
- Our procedures were performed by the primary team and were also communicated to, and performed by, our component teams.

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

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 3 September 2019. We were appointed by the company at the AGM on 12 December 2018 to audit the financial statements for the year ended 31 July 2020 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 7 years, covering the years ending 31 July 2014 to 31 July 2020.

- No non-audit services prohibited by the FRC's Ethical Standard were provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Ernst & Young LLP

Andy Clewer (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

8 October 2020

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 2020

	Notes	2020 £000	2019 £000
Revenue from contracts with customers	3	**216,640**	235,698
Cost of sales		**(117,312)**	(124,619)
Gross profit		**99,328**	111,079
Administrative and distribution expenses		**(84,505)**	(84,616)
Other operating income	5	**3,404**	—
Operating profit before exceptional items		**18,227**	26,463
Exceptional operating costs	6	**—**	(1,801)
Operating profit		**18,227**	24,662
Finance revenue	7	**87**	621
Finance costs	7	**(3,757)**	(2,143)
Profit before tax		**14,557**	23,140
Income tax	11	**(4,892)**	(4,913)
Profit for the year		**9,665**	18,227
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(2,604)**	2,303
Loss on hedge of net investment in foreign operations		**(202)**	(303)
Other comprehensive (expense)/income for the year		**(2,806)**	2,000
Total comprehensive income for the year		**6,859**	20,227
Earnings per share			
Basic earnings per share	12	**4.9p**	9.2p
Diluted earnings per share	12	**4.9p**	9.2p

Consolidated Statement of Financial Position

At 31 July 2020

	Notes	2020 £000	2019 £000
Non-current assets			
Property, plant and equipment	13	**21,514**	23,758
Right-of-use assets	23	**22,074**	—
Intangible assets – goodwill	14	**116,778**	118,183
Intangible assets – others	16	**79,813**	95,126
		240,179	237,067
Current assets			
Inventories	18	**31,909**	35,585
Right of return assets	3	**274**	430
Trade and other receivables	19	**35,613**	42,199
Other financial assets	20	**—**	907
Cash and short-term deposits	21	**18,493**	11,547
		86,289	90,668
Total assets		**326,468**	327,735
Current liabilities			
Trade and other payables	22	**(31,274)**	(38,807)
Refund liabilities	3	**(8,636)**	(7,529)
Income tax		**(1,654)**	(279)
Other financial liabilities	24	**(574)**	(318)
Interest-bearing loans and borrowings	25	**(2,994)**	—
Provisions	26	**(1,802)**	(1,398)
		(46,934)	(48,331)
Non-current liabilities			
Interest-bearing loans and borrowings	25	**(89,211)**	(85,391)
Other financial liabilities	24	**(1,468)**	(1,501)
Provisions	26	**(272)**	(384)
Deferred tax liabilities	28	**(13,028)**	(16,019)
		(103,979)	(103,295)
Total liabilities		**(150,913)**	(151,626)
Net assets		**175,555**	176,109
Capital and reserves			
Share capital	27	**2,000**	2,000
Share premium	27	**11,527**	11,527
Treasury shares		**(2,401)**	(2,030)
Capital reserve		**93,855**	93,855
Share-based payment reserve		**1,410**	1,745
Foreign currency translation reserve		**701**	3,507
Retained earnings		**68,463**	65,505
Total equity		**175,555**	176,109

The consolidated financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 8 October 2020.

On behalf of the Board

Ronnie George
Chief Executive Officer

Andy O'Brien
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 July 2020

	Share capital £000	Share premium £000	Treasury shares £000	Capital reserve £000	Share-based payment reserve £000	Foreign currency translation reserve £000	Retained earnings £000	Total £000
At 1 August 2018	2,000	11,527	(1,962)	93,855	1,836	1,507	56,450	165,213
Profit for the year	—	—	—	—	—	—	18,227	18,227
Other comprehensive expense	—	—	—	—	—	2,000	—	2,000
Total comprehensive income	—	—	—	—	—	2,000	18,227	20,227
Purchase of own shares	—	—	(1,199)	—	—	—	—	(1,199)
Vesting of shares	—	—	1,131	—	(1,043)	—	(88)	—
Share-based payment including tax	—	—	—	—	952	—	—	952
Dividends paid	—	—	—	—	—	—	(9,084)	(9,084)
At 31 July 2019	2,000	11,527	(2,030)	93,855	1,745	3,507	65,505	176,109
Adjustment on initial application of IFRS 16	—	—	—	—	—	—	(316)	(316)
At 1 August 2019	2,000	11,527	(2,030)	93,855	1,745	3,507	65,189	175,793
Profit for the year	—	—	—	—	—	—	9,665	9,665
Other comprehensive expense	—	—	—	—	—	(2,806)	—	(2,806)
Total comprehensive income	—	—	—	—	—	(2,806)	9,665	6,859
Purchase of own shares	—	—	(804)	—	—	—	—	(804)
Vesting of shares	—	—	433	—	(572)	—	139	—
Share-based payment including tax	—	—	—	—	237	—	—	237
Dividends paid	—	—	—	—	—	—	(6,530)	(6,530)
At 31 July 2020	**2,000**	**11,527**	**(2,401)**	**93,855**	**1,410**	**701**	**68,463**	**175,555**

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 34 for further detail of these plans.

Foreign currency translation reserve

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

Retained earnings

The parent company of the Group, Volution Group plc, had distributable retained earnings at 31 July 2020 of £94,295,000 (2019: £82,335,000).

Consolidated Statement of Cash Flows
For the year ended 31 July 2020

	Notes	2020 £000	2019 £000
Operating activities			
Profit for the year after tax		**9,665**	18,227
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax		**4,892**	4,913
Gain on disposal of property, plant and equipment		**(21)**	(76)
Exceptional items	6	**—**	1,801
Cash flows relating to exceptional items		**—**	(1,486)
Finance revenue	7	**(87)**	(621)
Finance costs	7	**3,757**	2,143
Share-based payment expense		**200**	895
Depreciation of property, plant and equipment	13	**3,260**	3,272
Depreciation of right-of-use assets	23	**3,129**	—
Amortisation of intangible assets	16	**16,403**	16,594
Working capital adjustments:			
Decrease in trade receivables and other assets		**6,739**	10
Decrease/(increase) in inventories		**3,336**	(2,756)
Decrease in trade and other payables		**(4,337)**	(1,955)
Movement in provisions		**311**	221
Cash generated by operations		**47,247**	41,182
UK income tax paid		**(2,250)**	(3,900)
UK income tax refund		**1,657**	—
Overseas income tax paid		**(5,251)**	(5,422)
Net cash flow generated from operating activities		**41,403**	31,860
Investing activities			
Payments to acquire intangible assets	16	**(1,760)**	(1,836)
Purchase of property, plant and equipment	13	**(2,790)**	(4,180)
Proceeds from disposal of property, plant and equipment		**256**	218
Acquisition of subsidiaries, net of cash acquired	17	**(856)**	(8,417)
Interest received		**87**	16
Net cash flow used in investing activities		**(5,063)**	(14,199)
Financing activities			
Repayment of interest-bearing loans and borrowings		**(51,285)**	(29,609)
Proceeds from new borrowings		**34,500**	17,500
Issue costs of new borrowings		**—**	(180)
Interest paid		**(2,316)**	(1,913)
Payment of principal portion of lease liabilities		**(2,878)**	—
Dividends paid		**(6,530)**	(9,084)
Purchase of own shares		**(804)**	(1,199)
Net cash flow used in financing activities		**(29,313)**	(24,485)
Net increase/(decrease) in cash and cash equivalents		**7,027**	(6,824)
Cash and cash equivalents at the start of the year		**11,547**	18,221
Effect of exchange rates on cash and cash equivalents		**(81)**	150
Cash and cash equivalents at the end of the year	21	**18,493**	11,547

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

Notes to the Consolidated Financial Statements

For the year ended 31 July 2020

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 49 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.

Our financial position remains robust with committed facilities (revolving credit facility) totalling approximately £120 million, and an accordion of a further £30 million, maturing in December 2022, of which £50.4 million remains undrawn at the date of this report.

The financial covenants on these facilities are for leverage (net debt/adjusted EBITDA) of not more than three times and for adjusted interest cover of not less than four times.

Our base case scenario has been prepared using forecasts from each of our Operating Companies, with each considering both the challenges and opportunities they are facing as a consequence of COVID-19.

We have then applied some severe but plausible downside sensitivities in order to model the potential impacts of either:

- a delay in the recovery of the impacted businesses from the effects of COVID-19; and/or
- a second wave of COVID-19 infection and corresponding government restrictions during FY21.

A reverse stress test scenario has been modelled which is considered remote in likelihood of occurring, which includes a combination of these scenarios with the addition of impacts from the Group's other principal risks.

None of these scenarios result in a breach of the Group's available debt facilities or the attached covenants and accordingly the Directors believe there is no material uncertainty in the use of the going concern assumption.

Foreign currencies

The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of each entity are expressed in GBP (£000), which is the functional currency of the Company and the presentational currency of the Group.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rate prevailing at the end of the reporting period.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date the fair value was determined.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are expressed in GBP using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rate for the period. Exchange differences arising are classified as other comprehensive income and are transferred to the foreign currency translation reserve. All other translation differences are taken to profit and loss with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign operations, in which case they are taken to other comprehensive income together with the exchange difference on the net investment in these operations.

1. Basis of preparation continued

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 6), Intangible assets – goodwill (note 14), Intangible assets – other (note 16), Impairment assessment of goodwill (note 15) and Refund liabilities arising from retrospective volume rebates (note 3).

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are described under the relevant notes.

The Group based its assumptions and estimates on parameters available when these financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur. The Directors have considered a range of potential scenarios arising from the COVID-19 pandemic, how these have impacted the significant judgements, estimates and assumptions in these financial statements are included under the relevant notes.

New standards and interpretations

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

IFRS 16 Leases

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

IFRS 16 has resulted in almost all leases being recognised on the balance sheet as the distinction between operating leases and finance leases has been removed. Under the new standard, a right-of-use asset and a financial liability for the future lease payments are recognised.

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

The Group has adopted the following available practical expedients:

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

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

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

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

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

The Group's weighted average incremental borrowing rate applied was 2.10%.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2020

1. Basis of preparation continued

New standards and interpretations continued

IFRS 16 Leases continued

The effect of adopting IFRS 16 is as follows:

Impact on the consolidated statement of financial position as at 1 August 2019:

	31 July 2019 (audited) £000	IFRS 16 adjustments £000	1 August 2019 (revised) £000
Non-current assets			
Property, plant and equipment	23,758	(1,418)	22,340
Right-of-use assets	—	25,248	25,248
Deferred tax assets	—	360	360
Total assets	327,735	24,190	351,925
Liabilities			
Interest-bearing loans and borrowings (non-current)	(85,391)	(23,134)	(108,525)
Interest-bearing loans and borrowings (current)	—	(3,154)	(3,154)
Trade and other payables	(38,807)	1,782	(37,025)
Total liabilities	(151,626)	(24,506)	(176,132)
Equity			
Retained earnings	65,505	(316)	65,189
Total equity	176,109	(316)	175,793

Impact on the consolidated statement of profit or loss for the year ended 31 July 2020:

	31 July 2020 (audited) £000	IFRS 16 adjustments £000	31 July 2020 (revised) £000
Depreciation expense (included in cost of sales)	(1,484)	(1,918)	(3,402)
Depreciation expense (included in administrative expenses)	(1,776)	(1,211)	(2,987)
Operating profit	17,756	471	18,227
Net finance costs	(3,140)	(530)	(3,670)
Profit for the period	9,727	(62)	9,665

Impact on the consolidated statement of cash flows for the year ended 31 July 2020:

	31 July 2020 (audited) £000	IFRS 16 adjustments £000	31 July 2020 (revised) £000
Net cash flows from operating activities	37,995	3,408	41,403
Net cash flows from financing activities	(25,905)	(3,408)	(29,313)

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

	£000
Operating lease commitments at 31 July 2019	31,325
Discounted using the incremental borrowing rate	25,962
Add: finance lease liabilities recognised at 31 July 2019	612
Less: adjustments as a result of treatment of termination options	(185)
Less: short-term leases recognised on a straight line basis as an expense	(67)
Less: low-value leases recognised on a straight line basis as an expense	(34)
Lease liability recognised at 1 August 2019	26,288
Analysis	
Current	3,154
Non-current	23,134
Lease liability recognised at 1 August 2019	26,288

1. Basis of preparation continued

Summary of new accounting policies

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

Right-of-use assets

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

Lease liabilities

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Interest-bearing loans and borrowings.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

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 items that do not reflect the day to day trading operations of the business and therefore their exclusion is relevant to an assessment of the day to day trading operations, as opposed to overall annual business performance. 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.

	2020 £000	2019 £000
Profit after tax	**9,665**	18,227
Add back:		
Exceptional operating costs (note 6)	**—**	1,801
Former CFO compensation	**386**	150
Net gain on financial instruments at fair value	**1,219**	(605)
Amortisation and impairment of intangible assets acquired through business combinations	**15,124**	15,439
Tax effect of the above	**(2,504)**	(3,354)
Adjusted profit after tax	**23,890**	31,658
Add back:		
Adjusted tax charge	**7,396**	8,267
Adjusted profit before tax	**31,286**	39,925
Add back:		
Interest payable on bank loans and amortisation of financing costs	**2,538**	2,143
Finance revenue	**(87)**	(16)
Adjusted operating profit	**33,737**	42,052
Add back:		
Depreciation of property, plant and equipment	**3,260**	3,272
Depreciation of right-of-use assets	**3,129**	—
Amortisation of development costs, software and patents	**1,279**	1,155
Adjusted EBITDA	**41,405**	46,479

For definitions of terms referred to above see note 36, Glossary of terms.

3. Revenue from contracts with customers

Accounting policy

Revenue from contracts with customers is recognised when the control of goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. The performance obligation is satisfied upon delivery of the equipment and payment is generally due within 30 to 90 days from delivery.

Sale of ventilation products

Revenue from the sale of ventilation products is recognised at the point in time when control of the asset is transferred to the buyer, usually on the delivery of the goods.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties and volume rebates). In determining the transaction price for the sale of ventilation products, the Group considers the effects of variable consideration (if any).

Volume rebates

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. To estimate the variable consideration for the expected future rebates, the Group applies the expected value method for contracts with more than one volume threshold. The Group then applies the requirements on constraining estimates of variable consideration and recognises a liability for the expected future rebates.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained, other than with respect to volume rebates, based on its historical experience, business forecasts and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short timeframe.

Warranty obligations

The Group typically provides warranties for general repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Refer to the accounting policy on warranty provisions in note 26, Provisions.

Installation services

The Group provides installation services that are bundled together with the sale of equipment to a customer.

Contracts for bundled sales of equipment and installation services are comprised of two performance obligations because the promises to transfer equipment and provide installation services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the equipment and the cost plus margin approach for installation services.

The Group recognises revenue from installation services at a point in time after the service has been performed; this is because installation of the ventilation equipment is generally over a small timeframe, usually around one to two days. Revenue from the sale of the ventilation equipment is recognised at a point in time, generally upon delivery of the equipment.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. A contract asset is recognised when the Group transfers goods or services to the customer before the customer pays consideration. There is no contract asset included within the statement of financial position as revenue is recognised at a point in time, after installation. Consideration is recognised immediately as a receivable and is unconditional (only the passage of time is required before payment of consideration is due). The Group's accounting policy on trade receivables is detailed in note 19.

Contract liabilities

There are no contract liabilities recognised in the comparative period or in the financial year ended 31 July 2020.

Critical accounting judgements and key sources of estimation uncertainty

Liabilities arising from retrospective volume rebates

The Group has a number of customer rebate agreements that are recognised as a reduction from sales (collectively referred to as rebates). Rebates are based on an agreed percentage of revenue, which increases with the level of revenue achieved. These agreements typically are not coterminous with the Group's year end and some of the amounts payable are subject to confirmation after the reporting date.

At the reporting date, the Directors make estimates of the amount of rebate that will become payable by the Group under these agreements, to estimate the variable consideration for the expected future rebates, the Group applies the expected value method for contracts with more than one volume threshold. 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. Consideration of the COVID-19 scenarios was included in making estimates for the liability arising from retrospective rebates.

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.

3. Revenue from contracts with customers continued

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

	2020 £000	2019 £000
Sale of goods	**214,000**	233,612
Installation services	**2,640**	2,086
Total revenue from contracts with customers	**216,640**	235,698

Market sectors	2020 £000	2019 £000
UK		
Residential RMI	**33,358**	39,356
New Build Residential	**21,947**	27,795
Commercial	**27,251**	34,856
Export	**8,600**	9,924
OEM (Torin-Sifan)	**20,332**	23,606
Total UK	**111,488**	135,537
Nordics	**41,579**	46,995
Central Europe	**33,120**	30,990
Total Continental Europe	**74,699**	77,985
Total Australasia	**30,453**	22,176
Total revenue from contracts with customers	**216,640**	235,698

Right of return assets and refund liabilities	2020 £000	2019 £000
Right of return assets	**274**	430
Refund liabilities		
Arising from retrospective volume rebates	**7,723**	6,482
Arising from rights of return	**913**	1,047
Refund liabilities	**8,636**	7,529

4. Segmental analysis

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

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

We previously reported under two operating segments:

- Ventilation Group; and
- OEM (Torin-Sifan).

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

- UK;
- Continental Europe; and
- Australasia.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2020

4. Segmental analysis continued

Accounting policy

The method of identifying reporting segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker, which is considered to be the Chief Executive Officer of the Group.

In identifying its operating segments, management follows the Group's market sectors. These are Ventilation UK including OEM (Torin-Sifan), Ventilation Europe, Ventilation Australasia. Operating segments that provide ventilation services have been aggregated as they have similar economic characteristics, assessed by reference to the gross margins of the segments. In addition, the segments are similar in relation to the nature of products, services and production processes, type of customer, method for distribution and regulatory environment.

The measure of revenue reported to the chief operating decision maker to assess performance is total revenue for each operating segment. The measure of profit reported to the chief operating decision maker to assess performance is adjusted operating profit (see note 36 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 2020	UK £000	Continental Europe £000	Australasia £000	Central/ eliminations £000	Consolidated £000
Revenue from contracts with customers					
External customers	111,488	74,699	30,453	—	216,640
Inter-segment	13,674	11,251	75	(25,000)	—
Total revenue from contracts with customers	125,162	85,950	30,528	(25,000)	216,640
Gross profit	45,559	40,334	13,575	(140)	99,328
Results					
Adjusted segment EBITDA	19,197	17,747	5,682	(1,221)	41,405
Depreciation and amortisation of development costs, software and patents	(3,560)	(2,404)	(1,059)	(645)	(7,668)
Adjusted operating profit/(loss)	15,637	15,343	4,623	(1,866)	33,737
Amortisation of intangible assets acquired through business combinations	(10,759)	(3,237)	(1,128)	—	(15,124)
Former CFO compensation	—	—	—	(386)	(386)
Operating profit/(loss)	4,878	12,106	3,495	(2,252)	18,227
Unallocated expenses					
Net finance cost	—	—	—	(3,670)	(3,670)
Profit/(loss) before tax	4,878	12,106	3,495	(5,922)	14,557

4. Segmental analysis continued

Year ended 31 July 2019	UK £000	Continental Europe £000	Australasia £000	Central/ eliminations £000	Consolidated £000
Revenue from contracts with customers					
External customers	135,537	77,985	22,176	—	235,698
Inter-segment	13,924	9,983	—	(23,907)	—
Total revenue from contracts with customers	149,461	87,968	22,176	(23,907)	235,698
Gross profit	58,529	40,592	11,958	—	111,079
Results					
Adjusted segment EBITDA	26,373	18,040	4,119	(2,053)	46,479
Depreciation and amortisation of development costs, software and patents	(2,245)	(1,386)	(199)	(597)	(4,427)
Adjusted operating profit/(loss)	24,128	16,654	3,920	(2,650)	42,052
Amortisation of intangible assets acquired through business combinations	(10,759)	(3,750)	(931)	—	(15,439)
Exceptional items	(1,171)	(546)	(84)	—	(1,801)
Former CFO compensation	—	—	—	(150)	(150)
Operating profit/(loss)	12,198	12,358	2,905	(2,800)	24,662
Unallocated expenses					
Net finance cost	—	—	—	(1,522)	(1,522)
Profit/(loss) before tax	12,198	12,358	2,905	(4,322)	23,140

Geographic information

Revenue from external customers by customer destination	**2020 £000**	2019 £000
United Kingdom	**92,796**	114,017
Europe (excluding United Kingdom and Sweden)	**69,537**	71,912
Sweden	**20,606**	22,929
Australasia	**30,524**	22,375
Rest of the world	**3,177**	4,465
Total revenue from contracts with customers	**216,640**	235,698

Non-current assets excluding deferred tax	**2020 £000**	2019 £000
United Kingdom	**164,182**	158,611
Europe (excluding United Kingdom and Nordics)	**14,119**	13,578
Nordics	**16,372**	26,028
Australasia	**45,506**	38,850
Total	**240,179**	237,067

Information about major customers

Annual revenue from no individual customer accounts for more than 10% of Group revenue in either the current or prior year.

5. Other operating income

Accounting policy

Other operating income relates to government grants which are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

	2020 £000	2019 £000
Local Government coronavirus job support receipts	**3,404**	—

£1,250,000 of the coronavirus job support receipts were paid to furloughed staff working in the Group's production facilities and therefore are included within cost of sales.

A further £109,000 of relief was received in Sweden in the form of reduced social security contributions. This does not meet the accounting definition of grant income and is therefore not included above, but instead is treated as a reduction in salary costs.

6. 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, significant 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 qualitatively material in its nature or incidence or quantitatively material 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. Given the unprecedented nature of COVID-19 and its wide ranging impacts across our business and results, we have not treated any relating items as exceptional in the year and all are contained within both our adjusted and our reported results.

Exceptional items	2020 £000	2019 £000
Acquisition-related costs, including inventory fair value adjustments	—	546
UK Ventilation re-organisation including factory relocation costs	—	1,255
Exceptional operating costs	—	1,801
Total tax relating to exceptional items for the year	—	(375)
Total	—	1,426

Acquisition-related costs, including inventory fair value adjustments

In the current year we incurred no professional fees in respect of acquisitions. Professional fees incurred in respect of acquisitions in the prior year totalled £230,000 and £316,000 contingent consideration for the acquisition of Oy Pamon Ab.

UK Ventilation re-organisation including factory relocation costs

In the current year we incurred no costs relating to the UK Ventilation re-organisation. We have previously reported the cost of a factory relocation project, which related to the rationalising of some of our manufacturing capacity in the UK and commenced in 2017, as exceptional. The affected UK manufacturing locations are Reading, Slough and Lasham. During FY2018 we extended the factory relocation project to be a wider re-organisation and management rationalisation of our UK Ventilation business with exceptional items recognised within FY2019.

A breakdown of the costs is as follows:

	2020 £000	2019 £000
Legal and professional fees	—	301
Project manager fees	—	45
Dual running costs	—	89
Start-up costs	—	820
Total	—	1,255

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.

6. Exceptional items continued

UK Ventilation re-organisation including factory relocation costs continued

Legal and professional fees include fees paid to consultants to minimise disruption during the transition period and fees payable for professional advice in relation to the wider re-organisation and management rationalisation.

Dual running costs include the duplicate costs as a result of operating three factories and a temporary warehousing facility whilst machinery, inventories and people were moving from the two existing facilities to the single new factory.

It was deemed that the items allowable for or chargeable to tax were approximately £nil (2019: £1,729,000), with a tax benefit of £nil (2019: £375,000).

7. 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.

	2020 £000	2019 £000
Finance revenue		
Net gain on financial instruments at fair value	**—**	605
Interest receivable	**87**	16
Total finance revenue	**87**	621
Finance costs		
Interest payable on bank loans	**(1,749)**	(1,875)
Amortisation of finance costs	**(230)**	(230)
IFRS 16 related interest	**(530)**	—
Other interest	**(29)**	(38)
Total interest expense	**(2,538)**	(2,143)
Net loss on financial instruments at fair value	**(1,219)**	—
Total finance costs	**(3,757)**	(2,143)
Net finance costs	**(3,670)**	(1,522)

The net loss or gain on financial instruments at each year-end date relates to the measurement of fair value of the financial derivatives and the Group recognises any finance losses or gains immediately within net finance costs. The fair value of the Group's financial derivatives can be found in note 20 and 24.

8. 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	**2020 £000**	2019 £000
Wages and salaries	**47,002**	52,191
Social security costs	**5,467**	5,820
Other pension costs	**2,235**	2,302
Share-based payment charge (see note 34)	**200**	895
	54,904	61,208

The staff costs disclosed above are net of support from the government's coronavirus job retention scheme of £3,404,000 (see note 5).

8. Staff costs continued

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 2019/20 but based on actual salary levels in 2020/21.

Average monthly number of employees in the year

	2020 Number	2019 Number
Production	**769**	793
Sales and administration	**795**	886
	1,564	1,679

Directors' remuneration

	2020 £000	2019 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' remuneration	**968**	1,561
Aggregate Directors' pension scheme contributions	**77**	91
In respect of the highest paid Director		
Aggregate Director's remuneration	**551**	939
Aggregate Director's pension scheme contributions	**55**	54

The number of Directors accruing benefits under Group money purchase pension arrangements was nil (2019: nil).

The Group also incurred fees and expenses of £324,000 (2019: £359,000) in respect of Peter Hill, Tony Reading, Paul Hollingworth, Claire Tiney, Amanda Mellor and Nigel Lingwood for their services as Non-Executive Directors. During the year Peter Hill resigned as a Non-Executive Director and Nigel Lingwood was appointed as a Non-Executive Director.

9. 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:

	2020 £000	2019 £000
Cost of sales		
Costs of inventories recognised as expenses	**114,400**	121,050
Depreciation of property, plant and equipment	**1,484**	1,475
Depreciation of right-of-use assets	**1,918**	—
Administrative and distribution expenses		
Research and development costs	**3,862**	3,904
Depreciation of property, plant and equipment	**1,776**	1,797
Depreciation of right-of-use assets	**1,211**	—
Amortisation and impairment of intangible assets	**16,403**	16,594
Net foreign exchange differences	**50**	(107)
Gain on disposal of property, plant and equipment	**(21)**	(76)

10. 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:

	2020 £000	2019 £000
Audit services		
Fees for the audit of the parent and Group financial statements	**211**	196
Fees for local statutory audits of subsidiaries	**385**	319
Non-audit services		
Fees payable for interim review	**35**	45
Total	**631**	560

11. 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 28.

(a) Income tax charges against profit for the year

	2020 £000	2019 £000
Current income tax		
Current UK income tax expense	**2,121**	3,286
Current foreign income tax expense	**5,143**	4,605
Tax credit relating to the prior year	**155**	(153)
Total current tax	**7,419**	7,738
Deferred tax		
Origination and reversal of temporary differences	**(3,353)**	(2,770)
Effect of changes in the tax rate	**909**	(115)
Tax charge relating to the prior year	**(83)**	60
Total deferred tax	**(2,527)**	(2,825)
Net tax charge reported in the consolidated statement of comprehensive income	**4,892**	4,913

(b) Income tax recognised in equity for the year

	2020 £000	2019 £000
Increase in deferred tax asset on share-based payments	**(248)**	(57)
Net tax credit reported in equity	**(248)**	(57)

(c) Reconciliation of total tax

	2020 £000	2019 £000
Profit before tax	**14,557**	23,140
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	**2,767**	4,396
Adjustment in respect of previous years	**72**	(93)
Expenses not deductible for tax purposes	**284**	309
Effect of changes in the tax rate (see explanation below)	**909**	(115)
Non-taxable income	**(28)**	(244)
Higher overseas tax rate	**997**	892
Patent box	**(111)**	(230)
Other	**2**	(2)
Net tax charge reported in the consolidated statement of comprehensive income	**4,892**	4,913

11. Income tax continued

(c) Reconciliation of total tax continued

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. The changes were not implemented by the Government, subsequently deferred taxes in respect of UK taxes at the balance sheet date have been remeasured using the 19% UK tax rate causing the rise in effect of changes in the tax rate.

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 32 for subsidiary locations).

12. 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 791,195 dilutive potential ordinary shares at 31 July 2020 (2019: 551,467).

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

Year ended 31 July	**2020 £000**	2019 £000
Profit attributable to ordinary equity holders	**9,665**	18,227

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**198,063,746**	198,386,893
Weighted average number of ordinary shares for diluted earnings per share	**198,736,665**	198,938,360
Earnings per share		
Basic	**4.9p**	9.2p
Diluted	**4.9p**	9.2p

Year ended 31 July	**2020 £000**	2019 £000
Adjusted profit attributable to ordinary equity holders	**23,886**	31,658

	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share	**198,063,746**	198,386,893
Weighted average number of ordinary shares for adjusted diluted earnings per share	**198,736,665**	198,938,360
Adjusted earnings per share		
Basic	**12.1p**	16.0p
Diluted	**12.0p**	15.9p

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 27 for details). The shares are excluded when calculating the reported and adjusted EPS.

Adjusted profit attributable to ordinary equity holders has been reconciled in note 2, Adjusted earnings.

See note 36, Glossary of terms, for an explanation of the adjusted basic and diluted earnings per share calculation.

13. 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.

13. Property, plant and equipment continued

Accounting policy continued

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.

The Group's impairment policy can be found in note 15.

2020	**Land and buildings £000**	**Plant and machinery £000**	**Fixtures, fittings, tools, equipment and vehicles £000**	**Total £000**
Cost				
At 1 August 2019	**13,791**	**11,613**	**11,834**	**37,238**
On acquisition	**—**	**—**	**38**	**38**
Transferred to right-of-use assets	**—**	**—**	**(2,036)**	**(2,036)**
Additions	**63**	**640**	**2,005**	**2,708**
Disposals	**—**	**(154)**	**(810)**	**(964)**
Net foreign currency exchange differences	**(2)**	**11**	**(93)**	**(84)**
At 31 July 2020	**13,852**	**12,110**	**10,938**	**36,900**
Depreciation				
At 1 August 2019	**3,698**	**4,378**	**5,404**	**13,480**
Transferred to right-of-use assets	**—**	**—**	**(617)**	**(617)**
Charge for the year	**510**	**938**	**1,812**	**3,260**
Disposals	**—**	**(119)**	**(642)**	**(761)**
Net foreign currency exchange differences	**11**	**24**	**(11)**	**24**
At 31 July 2020	**4,219**	**5,221**	**5,946**	**15,386**
Net book value				
At 31 July 2020	**9,633**	**6,889**	**4,992**	**21,514**

2019	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost				
At 1 August 2018	13,640	9,990	9,803	33,433
On acquisition	—	122	421	543
Additions	198	1,481	2,501	4,180
Disposals	—	(144)	(894)	(1,038)
Transfer to intangible assets	—	—	(517)	(517)
Net foreign currency exchange differences	(47)	164	520	637
At 31 July 2019	13,791	11,613	11,834	37,238
Depreciation				
At 1 August 2018	3,213	3,478	4,131	10,822
Charge for the year	480	968	1,824	3,272
Disposals	—	(141)	(755)	(896)
Transfer to intangible assets	—	—	(214)	(214)
Net foreign currency exchange differences	5	73	418	496
At 31 July 2019	3,698	4,378	5,404	13,480
Net book value				
At 31 July 2019	10,093	7,235	6,430	23,758

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2020

14. 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.

See note 15 for the Group's impairment assessment.

Goodwill	£000
Cost and net book value	
At 1 August 2018	112,682
On acquisition of Ventair Pty Limited	4,230
Net foreign currency exchange differences	1,271
At 31 July 2019	118,183
On acquisition of Nordic Line AsP	104
Net foreign currency exchange differences	(1,509)
At 31 July 2020	**116,778**

15. Impairment assessment of goodwill

Accounting policy

Intangible assets, including goodwill, that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, where the recoverable amount is the higher of the asset's fair value less costs of disposal and value in use.

Goodwill acquired through business combinations has been allocated, for impairment testing purposes, to a group of cash generating units (CGUs). These grouped CGUs are: UK Ventilation, Central Europe, Nordics, Australasia and OEM. This is also the level at which management is monitoring the value of goodwill for internal management purposes.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of goodwill

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The test aims to ensure that goodwill is not carried at a value greater than the recoverable amount, which is considered to be the higher of fair value less costs of disposal and value in use.

The cash flows are derived from the business plan for the following three years. The recoverable amount is very sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The identification of the Group's cash generating units (CGUs) used for impairment testing involves a degree of judgement. Management has reviewed the Group's assets and cash inflows and identified the lowest aggregation of assets that generate largely independent cash inflows. The COVID-19 pandemic has increased the level of estimation uncertainty as the impact on countries and markets continues to be uncertain, however, the Group has modelled a range of scenarios to consider the impact on the carrying value of its assets as described in the going concern statement in the risk management and principal risks section.

31 July 2020	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	**55,899**	**5,101**	**16,816**	**12,163**	**26,799**
CGU value in use headroom[1]	**66,947**	**18,692**	**68,362**	**47,689**	**14,959**

15. Impairment assessment of goodwill continued

As at 31 July 2019 calculated headroom was:

31 July 2019	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	55,899	5,101	16,586	12,273	28,324
CGU value in use headroom[1]	126,585	20,937	70,070	31,000	13,199

Note

1. Headroom is calculated by comparing the value in use (VIU) of a group of CGUs to the carrying amount of its asset, which includes the net book value of fixed assets (tangible and intangible), goodwill and operating working capital (current assets and liabilities).

Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 12.1% to 14.0% over that period. In all CGUs it was concluded that the carrying amount was in excess of the value in use and all CGUs had positive headroom.

Key assumptions in the value in use calculation

The calculation of value in use for all CGUs is most sensitive to the following assumptions:

- specific growth rates have been used for each of the CGUs for the five-year forecast period based on historical growth rates and market expectations;
- long-term growth rates of 2% (2019: 2%) for all CGUs have been applied to the period beyond which budgets and forecasts do not exist, based on historical macroeconomic performance and projections for the geographies in which the CGUs operate; and
- discount rates reflect the current market assessment of the risks specific to each operation. The pre-tax discount rates used for each CGU are: UK Ventilation: 12.6% (2019: 12.1%); OEM (Torin-Sifan): 13.7% (2019: 13.2%); Nordics: 12.9% (2019: 12.5%); Central Europe: 14.4% (2019: 14.0%); and Australasia: 14.6% (2019: 13.5%).

The value in use headroom for each CGU has been set out above. We have tested the sensitivity of our headroom calculations in relation to the above key assumptions and in all cases an adverse movement of more than 10% would be required to cause the carrying value of the CGUs to materially exceed their recoverable value.

16. 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.

16. Intangible assets – other continued

Critical accounting judgements and key sources of estimation uncertainty

Impairment of other intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its other intangible assets 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.

The assumptions and sensitivities in respect of the Group's other intangible assets are included in note 15.

2020	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2019	4,811	8,857	132,450	46,381	3,545	1,163	197,207
Additions	1,251	500	—	—	9	—	1,760
On acquisition	—	—	521	—	—	—	521
Disposals	(56)	(1)	—	—	(1)	—	(58)
Net foreign currency exchange differences	17	(18)	(595)	(94)	(11)	—	(701)
At 31 July 2020	6,023	9,338	132,376	46,287	3,542	1,163	198,729
Amortisation							
At 1 August 2019	1,021	3,880	82,344	12,682	991	1,163	102,081
Charge for the year	485	827	12,304	2,435	352	—	16,403
Disposals	(22)	(1)	—	—	—	—	(23)
Net foreign currency exchange differences	10	(14)	356	89	14	—	455
At 31 July 2020	1,494	4,692	95,004	15,206	1,357	1,163	118,916
Net book value							
At 31 July 2020	4,529	4,646	37,372	31,081	2,185	—	79,813

Included in software costs are assets under construction of £19,000 (2019: £105,000), which are not amortised. Included in development costs are assets under construction of £1,559,000 (2019: £1,235,000), which are not amortised.

16. Intangible assets – other continued

2019	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2018	3,472	7,729	128,932	44,238	3,520	1,118	189,009
Additions	1,189	630	—	—	17	—	1,836
On acquisitions	—	80	2,872	2,032	—	—	4,984
Disposals	—	—	—	—	—	—	—
Transfer from tangible assets	180	337	—	—	—	—	517
Net foreign currency exchange differences	(30)	81	646	111	8	45	861
At 31 July 2019	4,811	8,857	132,450	46,381	3,545	1,163	197,207
Amortisation							
At 1 August 2018	630	2,820	69,286	10,615	627	907	84,885
Charge for the year	381	772	12,789	2,048	356	248	16,594
Disposals	—	—	—	—	—	—	—
Transfer from tangible assets	9	205	—	—	—	—	214
Net foreign currency exchange differences	1	83	269	19	8	8	388
At 31 July 2019	1,021	3,880	82,344	12,682	991	1,163	102,081
Net book value							
At 31 July 2019	3,790	4,977	50,106	33,699	2,554	—	95,126

The remaining amortisation periods for acquired intangible assets at 31 July 2020 are as follows:

	Customer base	Trademark	Patent/ technology
Volution Holdings Limited and its subsidiaries	2 years	17 years	—
Fresh AB and its subsidiaries	—	12 years	—
PAX AB and PAX Norge AS	1 year	13 years	—
inVENTer GmbH	3 years	14 years	14 years
Ventilair Group International BVBA and its subsidiaries	3 years	5 years	—
Energy Technique Limited and its subsidiaries	4 years	16 years	—
NVA Services Limited and its subsidiaries	6 years	11 years	—
Breathing Buildings Limited	6 years	11 years	1 year
VoltAir System AB	12 years	12 years	2 years
Simx Limited	13 years	23 years	—
Oy Pamon Ab	8 years	18 years	8 years
Air Connection ApS	8 years	—	—
Nordic Line ApS	1 year	—	—
Ventair Pty Limited	9 years	19 years	—

17. Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value on the date of acquisition. There have been no non-controlling interests in the business combinations to date. Acquisition costs incurred are expensed and included in exceptional items.

When the Group acquires a business it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

17. Business combinations continued

Accounting policy continued

Contingent consideration resulting from business combinations is accounted for at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date, with changes in fair value recognised in profit or loss. The determination of fair value is based on discounted cash flows. The key assumptions used in determining the discounted cash flows take into consideration the probability of meeting each performance target and a discount factor.

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) that are expected to benefit from the combination, irrespective of whether assets or liabilities of the acquisition are assigned to those units.

Acquisitions in the year ended 31 July 2020

Nordic line ApS

On 1 April 2020, Volution Group plc, through one of its wholly owned subsidiaries, Fresh AB, acquired the trade and assets of Nordic Line ApS. The transaction was funded from the Group's cash reserves.

Total consideration for the transaction was cash consideration of €614,000 (£538,000).

Transaction costs associated with the acquisition in the year ended 31 July 2020 were £20,000 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	521	—	521
Property, plant and equipment	38	—	38
Trade and other payables	(21)	—	(21)
Deferred tax liabilities	—	(104)	(104)
Total identifiable net assets	538	(104)	434
Goodwill on acquisition			104
			538
Discharged by:			
Total consideration			538

Goodwill of £104,000 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.

Acquisitions in the year ended 31 July 2019

Ventair Pty Limited

On 1 March 2019, Volution Group plc, through one of its wholly owned subsidiaries, Woomera Pty Limited, acquired the entire issued share capital of Ventair Pty Limited, a company based in Australia. The acquisition was on a debt-free basis, funded from the Group's existing cash and banking facilities. The acquisition of Ventair is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies, across the residential ventilation market and, where appropriate, in the commercial ventilation market. The integration of Ventair into the Volution Group will provide an opportunity for further growth in the Australasian region and the combination of its product portfolio with that of Simx (New Zealand) will enable us to enhance our offer in both the Australian and New Zealand markets.

Total consideration for the transaction was AUD17,895,000 (£9,713,000), comprised of cash consideration of AUD16,138,000 (£8,761,000) and contingent consideration with a fair value of AUD1,757,000 (£952,000). The contingent consideration is based on the level of EBITDA achieved during the twelve months to 31 July 2020. However, due to unprecedented circumstances, the earn-out period has been extended and is based on the level of EBITDA achieved 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 AUD7,700,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the 2020 budget. The contingent consideration has not been discounted as the impact is considered to be immaterial.

Transaction costs associated with the acquisition on the year ended 31 July 2019 were £173,000 and have been expensed.

17. Business combinations continued

Acquisitions in the year ended 31 July 2019 continued

Ventair Pty Limited continued

The provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	161	4,823	4,984
Deferred tax asset	—	218	218
Property, plant and equipment	543	—	543
Inventory	3,077	(250)	2,827
Trade and other receivables	2,649	—	2,649
Trade and other payables	(2,355)	(324)	(2,679)
Bank debt	(2,542)	—	(2,542)
Deferred tax liabilities	—	(1,447)	(1,447)
Cash and cash equivalents	930	—	930
Total identifiable net assets	2,463	3,020	5,483
Goodwill on acquisition			4,230
			9,713
Discharged by:			
Consideration satisfied in cash			8,761
Contingent consideration			952
Total consideration			9,713

Goodwill of £4,230,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £2,770,000. The amounts for trade and other receivables not expected to be collected are £121,000.

Ventair Pty Limited generated revenue of £4,043,000 and generated a profit after tax of £170,000 in the period from acquisition to 31 July 2019 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2018, the Group's revenue would have been £243,483,000 and the profit before tax from continuing operations would have been £23,891,000.

Cash outflows arising from business combinations are as follows:

	2020 £000	2019 £000
Nordic Line ApS		
Cash consideration	**538**	—
Less: cash acquired with the business	**—**	—
Ventair Pty Limited		
Cash consideration	**—**	8,761
Less: cash acquired with the business	**—**	(930)
Oy Pamon Ab		
Cash consideration	**318**	586
Less: cash acquired with the business	**—**	—
Total	**856**	8,417

18. Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials is purchase cost on a first in, first out basis. The cost of work in progress and finished goods includes: cost of direct materials and labour and an appropriate portion of fixed and variable overhead expenses based on normal operating capacity, but excludes borrowing costs.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs to sell.

	2020 £000	2019 £000
Raw materials and consumables	**12,010**	13,524
Work in progress	**1,647**	1,784
Finished goods and goods for resale	**18,252**	20,277
	31,909	35,585

During 2020, £715,000 (2019: £638,000) was recognised as cost of sales for inventories written off in the year.

Inventories are stated net of an allowance for excess, obsolete or slow-moving items which totalled £5,038,000 (2019: £4,200,000). This provision was split amongst the three categories: £1,981,000 (2019: £1,650,000) for raw materials and consumables; £271,000 (2019: £178,000) for work in progress; and £2,725,000 (2019: £2,372,000) for finished goods and goods for resale.

19. 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 expected credit losses. Provisions are made where there is evidence of a risk of non-payment taking into account ageing, previous experience and general economic conditions.

Allowance for expected credit losses

Allowance for expected credit losses are measured at an amount equal to lifetime expected credit losses (ECL). For trade receivables the Group applies a simplified approach in calculating ECLs. Trade receivables have been grouped based on historical credit risk characteristics and the number of days from date of invoice. The expected loss rates are calculated using the provision matrix approach.

Trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. We note that COVID-19 has had an impact on the allowance for expected credit losses.

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.

	2020 £000	2019 £000
Trade receivables	**33,099**	38,955
Allowance for expected credit loss	**(574)**	(606)
	32,435	38,349
Other debtors	**769**	1,275
Prepayments	**2,409**	2,575
Total	**35,613**	42,199

19. Trade and other receivables continued

Movement in the allowance for expected credit losses is set out below:

	2020 £000	2019 £000
At the start of the year	**(606)**	(544)
Charge for the year	**(141)**	(355)
Amounts utilised	**169**	296
Foreign currency adjustment	**4**	(3)
At the end of the year	**(574)**	(606)

Gross trade receivables are denominated in the following currencies:

	2020 £000	2019 £000
Sterling	**17,629**	23,332
US Dollar	**526**	351
Euro	**4,138**	5,864
Swedish Krona	**3,124**	2,693
New Zealand Dollar	**3,213**	3,152
Australian Dollar	**2,745**	2,162
Other	**1,634**	1,401
Total	**33,009**	38,955

Net trade receivables are aged as follows:

	2020 £000	2019 £000
Neither past due nor impaired	**27,146**	32,231
Past due but not impaired		
Overdue 0–30 days	**3,477**	4,643
Overdue 31–60 days	**462**	921
Overdue 61–90 days	**453**	251
Overdue more than 90 days	**897**	303
Total	**32,435**	38,349

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.

20. Other financial assets

	2020 Current £000	2019 Current £000
Financial assets		
Foreign exchange forward contracts	—	907
Total	—	907

The foreign exchange forward contracts are carried at their fair value with the gain or loss being recognised in the Group's consolidated statement of comprehensive income. Refer to note 30 for the fair value hierarchy the Group uses to determine the fair value of financial instruments.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2020

21. Cash and cash equivalents

Accounting policy

Cash and short-term deposits comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks. Cash and cash equivalents as shown in the statement of cash flows is equal to that in the statement of financial position as follows:

	2020 £000	2019 £000
Cash and short-term deposits	**18,493**	11,547

Cash and cash equivalents are denominated in the following currencies:

	2020 £000	2019 £000
Sterling	**6,963**	4,371
Euro	**5,689**	3,633
US Dollar	**507**	253
Swedish Krona	**1,751**	604
New Zealand Dollar	**1,892**	1,367
Australian Dollar	**934**	667
Other	**757**	652
Total	**18,493**	11,547

22. Trade and other payables

	2020 £000	2019 £000
Trade payables	**14,057**	15,165
Social security and staff welfare costs	**1,669**	1,544
Accrued expenses	**15,548**	22,098
Total	**31,274**	38,807

23. Leases

Group as a lessee

Accounting policy

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 6 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

23. Leases continued

Group as a lessee continued

Set out below are the carrying amounts of right-of-use assets recognised and movements during the year:

Right-of-use assets 2020	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost				
IFRS 16 leases at transition	23,408	193	229	23,830
Transferred from property, plant and equipment	—	—	2,036	2,036
Additions	144	10	330	484
Disposals	—	—	(81)	(81)
Net foreign currency exchange differences	(483)	(2)	(1)	(486)
At 31 July 2020	23,069	201	2,513	25,783
Depreciation				
Charge for the period	2,740	69	320	3,129
Transferred from property, plant and equipment	—	—	617	617
Disposals	—	—	(49)	(49)
Net foreign currency exchange differences	19	1	(8)	12
At 31 July 2020	2,759	70	880	3,709
Net book value				
At 31 July 2020	20,310	131	1,633	22,074

Set out below are the carrying amounts of lease liabilities (included under interest bearing-loans and borrowings) and the movements during the year:

Lease liabilities 2020	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
At 1 August 2019	25,228	208	852	26,288
Additions to lease liabilities	144	10	330	484
Early termination	—	—	(81)	(81)
Interest expense	500	14	16	530
Lease payments	(3,181)	(84)	(195)	(3,460)
Foreign exchange movements	(578)	(4)	(6)	(588)
At 31 July 2020	22,113	144	916	23,173
Analysis				
Current	2,511	67	416	2,994
Non-current	19,602	77	500	20,179
At 31 July 2020	22,113	144	916	23,173

The following are amounts recognised in the statement of comprehensive income:

	Total £000
Depreciation expense of right-of-use assets (cost of sales)	1,918
Depreciation expense of right-of-use assets (administrative expenses)	1,211
Interest expense	530
Expenses relating to leases of low-value assets	45
Expenses relating to short-term leases	74

24. Other financial liabilities

2020	Oy Pamon Ab £000	Air Connection ApS £000	Ventair Pty Limited £000	Total £000
Contingent consideration				
At 1 August 2019	**318**	**512**	**989**	**1,819**
Consideration paid during the year	**(318)**	**—**	**—**	**(318)**
Further consideration recognised	**—**	**—**	**—**	**—**
Foreign exchange	**—**	**(4)**	**(29)**	**(33)**
At 31 July 2020	**—**	**508**	**960**	**1,468**
Analysis				
Current	**—**	**—**	**—**	**—**
Non-current	**—**	**508**	**960**	**1,468**
Total	**—**	**508**	**960**	**1,468**

2019	Oy Pamon Ab £000	Air Connection ApS £000	Ventair Pty Limited £000	Total £000
Contingent consideration				
At 1 August 2018	580	564	—	1,144
Consideration paid during the year	(586)	—	—	(586)
Further consideration recognised	318	—	—	318
Consideration recognised on acquisition	—	—	989	989
Foreign exchange	6	(52)	—	(46)
At 31 July 2019	318	512	989	1,819
Analysis				
Current	318	—	—	318
Non-current	—	512	989	1,501
Total	318	512	989	1,819

Fair value changes of the contingent consideration are recognised either when future estimates of performance are changed or when consideration is paid. The increase in contingent consideration in the prior year of £318,000, was paid during the year.

The contingent consideration payable in relation to Air Connection ApS is based on its expected EBITDA performance achieved during the twelve months ending 31 July 2021.

The contingent consideration payable in relation to Ventair Pty Limited is based on its expected EBITDA performance achieved during the twelve months ending on 31 July 2021.

	2020 £000	2019 £000
Financial liabilities		
Foreign exchange forward contracts	**574**	—
Total	**574**	—

25. 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.

	2020		2019	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2022)	**—**	**69,563**	—	86,146
Cost of arranging bank loan	**—**	**(531)**	—	(755)
	—	**69,032**	—	85,391
IFRS 16 lease liabilities (see note 23)	**2,994**	**20,179**	—	—
Total	**2,994**	**89,211**	—	85,391

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

Bank loans at 31 July 2020 comprised a revolving credit facility from Danske Bank A/S, HSBC and the Royal Bank of Scotland with HSBC acting as agent and are governed by a facilities agreement. The outstanding loans are set out in the table below. No security was provided under the facility.

Revolving credit facility – at 31 July 2020

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	6,000	15 December 2022	One payment	Libor + margin%
Euro	40,285	15 December 2022	One payment	Euribor + margin%
Swedish Krona	23,278	15 December 2022	One payment	Stibor + margin%
Total	**69,563**			

Revolving credit facility – at 31 July 2019

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	21,500	15 December 2022	One payment	Libor + margin%
Euro	40,640	15 December 2022	One payment	Euribor + margin%
Swedish Krona	24,006	15 December 2022	One payment	Stibor + margin%
Total	86,146			

As at 31 July 2018 the margin was 1.40% due to the acquisition of Simx Limited which increased leverage to 1.7:1; this rate continued throughout the year ended 31 July 2019 and H1 2020. At 31 January 2020 like-for like leverage decreased to 1.3:1 which reduced the margin to 1.15%. At 31 July 2020 the leverage remained at 1.3:1 and therefore the margin of 1.15% will continue in the first half of the year ended 31 July 2021.

At 31 July 2020, the Group had £50,437,000 (2019: £33,854,000) of its multicurrency revolving credit facility unutilised.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2020

25. Interest-bearing loans and borrowings continued

Reconciliation of movement in financial liabilities

	2020 £000	2019 £000
At 1 August	**86,146**	95,410
Additional loans	**34,500**	17,500
Loans acquired on acquisition	**—**	2,542
Repayment of loans	**(51,285)**	(29,609)
Interest charge	**1,786**	1,913
Interest paid	**(1,786)**	(1,913)
IFRS 16 lease liabilities	**20,179**	—
Foreign exchange	**202**	303
At 31 July	**89,742**	86,146

Changes in liabilities arising from financing activities

	01 August 2019 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	Early termination £000	31 July 2020 £000
Non-current interest bearing loans and borrowings (excluding lease liabilities)	86,146	(16,785)	202	—	—	**69,563**
Lease liabilities	26,288	(2,930)	(588)	484	(81)	**23,173**
Total liabilities from financing activities	112,434	(19,715)	(386)	484	(81)	**92,736**

26. 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.

2020	**Product warranties £000**	**Property dilapidations £000**	**Total £000**
At 1 August 2019	**1,398**	**384**	**1,782**
Arising during the year	**973**	**69**	**1,042**
Utilised	**(722)**	**(8)**	**(730)**
Foreign currency adjustment	**(20)**	**—**	**(20)**
At 31 July 2020	**1,629**	**445**	**2,074**
Analysis			
Current	**1,629**	**173**	**1,802**
Non-current	**—**	**272**	**272**
Total	**1,629**	**445**	**2,074**

26. Provisions continued

2019	Product warranties £000	Property dilapidations £000	Total £000
At 1 August 2018	1,004	384	1,388
Arising during the year	1,304	—	1,304
Utilised	(922)	—	(922)
Foreign currency adjustment	12	—	12
At 31 July 2019	1,398	384	1,782
Analysis			
Current	1,398	—	1,398
Non-current	—	384	384
Total	1,398	384	1,782

Product warranties

A provision is recognised for warranty costs expected to be incurred in the following twelve months on products sold during the year and in prior years. Product warranties are typically one to two years; however, based on management's knowledge of the products, claims in relation to warranties after more than twelve months are rare and highly immaterial.

Property dilapidations

A provision has been recognised for dilapidations relating to obligations under leases for leasehold buildings and will be payable at the end of the lease term.

27. 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 2019 and 31 July 2020	**200,000,000**	**2,000**	**11,527**

At 31 July 2020, a total of 1,873,039 (2019: 1,750,256) ordinary shares in the Company were held by the Volution EBT, all of which were unallocated and available for transfer to participants of the Long Term Incentive Plan, Deferred Share Bonus Plan and Sharesave Plan on exercise. During the year 400,000 ordinary shares in the Company were purchased by the trustees (2019: 650,000), and 275,655 (2019: 19,981) were released by the trustees at £490,666 (2019: £36,000). The market value of the shares at 31 July 2020 was £3,334,009 (2019: £3,202,989).

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

28. 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 2020, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2019: £5,195,000) relating to management expenses, capital losses of £3,975,000 (2019: £3,975,000) arising in UK subsidiaries and gross tax losses of £645,000 (2019: £407,000) arising in overseas entities as there is insufficient evidence that the losses will be utilised. These losses are available to be carried indefinitely.

At 31 July 2020, the Group had no deferred tax liability (2019: £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:

2020	1 August 2019 £000	Opening IFRS 16 adjustments £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2020 £000
Temporary differences							
Depreciation in advance of capital allowances	(1,043)	360	(347)	—	2	—	(1,028)
Fair value movements of derivative financial instruments	(115)	—	106	—	—	—	(9)
Customer base, trademark and patent	(16,669)	—	2,120	—	244	(104)	(14,409)
Losses	285	—	33	—	—	—	318
Untaxed reserves	768	—	757	—	(45)	—	1,480
Other temporary differences	755	—	(142)	7	—	—	620
Deferred tax liability	(16,019)	360	2,527	7	201	(104)	(13,028)

28. Deferred tax continued

2019	1 August 2018 £000	(Charged)/ credited to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2019 £000
Temporary differences						
Depreciation in advance of capital allowances	(798)	(245)	—	—	—	(1,043)
Fair value movements of derivative financial instruments	(3)	(112)	—	—	—	(115)
Customer base, trademark and patents	(18,089)	3,094	—	(227)	(1,447)	(16,669)
Losses	285	—	—	—	—	285
Untaxed reserves	507	(13)	—	56	218	768
Other temporary differences	598	101	57	(1)	—	755
Deferred tax liability	(17,500)	2,825	57	(172)	(1,229)	(16,019)

29. 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.

	2020 £000	2019 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2020: Nil pence per share (2019: 1.60 pence)	**—**	3,172
Proposed dividends on ordinary shares		
Final dividend for 2020: Nil pence per share (2019: 3.30 pence)	**—**	6,541

As a result of the COVID-19 crisis, the interim dividend of 1.71 pence per share was cancelled. The interim dividend payment of £nil 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 2020.

30. Risk management

Accounting policy

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk. Instruments used are principally foreign exchange forward contracts. Further details of derivative financial instruments are included in note 20 and 24.

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.

30. 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 9% (2019: less than 8%) of total material and component purchases. This has increased due to the diversification of the Group to more overseas regions. Each quarter the Group enters into forward exchange contracts for the purchase of the budgeted monthly net expenditure in US Dollars for the following rolling 12–15 months. Hedge accounting is not applied for these derivatives.

The Group's criteria for entering into a forward foreign currency contract would require that the instrument must:

- be related to anticipated foreign currency commitment;
- involve the same currency as the foreign currency commitment; and
- reduce the risk of foreign currency exchange movements on the Group's operations.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risks, such as equity price risk and commodity risk.

The Group's exposure is primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into derivative financial instruments to manage its exposure to these risks when appropriate.

At 31 July 2020, the Group had commitments under forward foreign exchange contracts with varying settlement dates to 4 June 2021 (2019: 2 July 2020). See note 24 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 2020		
Sterling	**+25**	**(15)**
Swedish Krona	**+25**	**(58)**
Euro	**+25**	**(101)**
31 July 2019		
Sterling	+25	(54)
Swedish Krona	+25	(60)
Euro	+25	(102)

30. Risk management continued

Interest rate risk continued

The assigned movement in basis points for interest rate sensitivity analysis is based upon the currently observable market environment.

The Group cash balances are held in bank current accounts and earn immaterial levels of interest. Management has concluded that any changes in the Libor and SEK Libor rates will have an immaterial impact on interest income earned on the Group cash balances. No interest rate sensitivity has been included in relation to the Group's cash balances.

Foreign currency risk

The Group's exposure to foreign exchange risk primarily arises when revenue and expenses are denominated in a different currency from the Group's presentational currency and translated into GBP for consolidation into the Group's results. Foreign exchange risk also arises when the individual entities enter into transactions that are not denominated in their functional currency.

The following tables illustrate the impact of several changes to the spot GBP/USD, GBP/EUR, GBP/SEK, GBP/DKK, GBP/NZD and GBP/AUD exchange rates of +5% weakening of GBP. The tables below reflect the impact on profit before tax and equity if those changes were to occur. Only the impact of changes in the SEK, USD, Euro, DKK, NZD and Australian Dollar denominated balances has been considered as these are the most significant non-GBP denominations used by the Group.

	Change in GBP vs USD/ SEK/EUR/NZD/ AUD rate	Effect on profit before tax	
		2020 £000	2019 £000
Swedish Krona	5%	**22**	405
US Dollar	5%	**(70)**	(87)
Euro	5%	**883**	722
Danish Krone	5%	**7**	—
New Zealand Dollar	5%	**202**	198
Australian Dollar	5%	**36**	12

	Change in GBP vs SEK/EUR/ DKK/NZD/ AUD rate	Effect on equity	
		2020 £000	2019 £000
Swedish Krona	5%	**(87)**	(96)
Euro	5%	**76**	249
Danish Krone	5%	**51**	51
New Zealand Dollar	5%	**(65)**	60
Australian Dollar	5%	**4**	(6)

Liquidity risk

Liquidity risk for the Group arises from the management of working capital commitments and meeting its financial obligations as they fall due. The Group's policy is to regularly review cash flow forecasts/projections as well as information regarding cash balances to ensure that it has significant cash to allow it to meet its liabilities when they become due. The Group reviews its long-term funding requirements in parallel with its long-term strategy, with an objective of aligning both in a timely manner. At the reporting date, forecasts indicate that the Group is expected to have sufficient liquidity to meet its financial obligations for at least the next three years.

The tables below summarise the maturity profile of the Group's significant undiscounted financial liabilities at 31 July 2020 and 2019.

At 31 July 2020	**Less than one year £000**	**Between one and five years £000**	**More than five years £000**	**Total £000**
Financial liabilities				
Interest-bearing loans and borrowings (excluding interest and lease liabilities)	**—**	**69,563**	**—**	**69,563**
Lease liabilities	**2,994**	**8,060**	**12,119**	**23,179**
Forward foreign currency exchange outflow	**20,085**	**—**	**—**	**20,085**
Forward foreign currency exchange inflow	**(20,068)**	**—**	**—**	**(20,068)**
Contingent consideration – Air Connection ApS	**—**	**508**	**—**	**508**
Contingent consideration – Ventair Pty Limited	**—**	**960**	**—**	**960**
Trade payables and other accrued expenses	**29,605**	**—**	**—**	**29,605**
	32,616	**79,091**	**12,119**	**123,826**

30. Risk management continued

Liquidity risk continued

At 31 July 2019	Less than one year £000	Between one and five years £000	More than five years £000	Total £000
Financial liabilities				
Interest-bearing loans and borrowings (excluding interest)	—	86,146	—	86,146
Forward foreign currency exchange outflow	15,337	—	—	15,337
Forward foreign currency exchange inflow	(16,245)	—	—	(16,245)
Contingent consideration – Oy Pamon Ab	318	—	—	318
Contingent consideration – Air Connection ApS	—	512	—	512
Contingent consideration – Ventair Pty Limited	—	989	—	989
Trade payables and other accrued expenses	37,263	—	—	37,263
	36,673	87,647	—	124,320

The multicurrency revolving credit facility which was signed on 15 December 2017 was for a term of four years; the option to extend the termination of the facility by a period of twelve months was taken on 15 December 2018. The facility is fully flexible, with the amount borrowed being reset within one to three months. No interest has been included in the above table. For further details see note 25.

Fair values of financial assets and financial liabilities

There are no material differences between the book values and fair values for any of the Group's financial instruments carried at amortised cost. Derivative financial instruments have all been valued using other techniques, for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The Group is mainly exposed to credit risk from its operating activities (primarily for trade receivables – credit sales) and from cash and cash equivalents and deposits with banks and financial institutions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by credit insurance obtained from reputable banks and other financial institutions.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating, and coverage by credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 20. The Group does not hold collateral as security. The credit insurance is considered an integral part of trade receivables and considered in the calculation of impairment.

Set out below is the information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix:

	Trade receivables					
31 July 2020	**Current £000**	**<30 days £000**	**30–60 days £000**	**61–90 days £000**	**>91 days £000**	**Total £000**
Expected credit loss rate	**0.1%**	**0.1%**	**0.6%**	**0.9%**	**38.0%**	
Estimated total gross carrying amount at default	**26,686**	**3,961**	**465**	**457**	**1,440**	**33,009**
Expected credit loss	**18**	**2**	**2**	**4**	**547**	**574**

	Trade receivables					
31 July 2019	Current £000	<30 days £000	30–60 days £000	61–90 days £000	>91 days £000	Total £000
Expected credit loss rate	0.1%	0.4%	3.0%	21.8%	69.0%	
Estimated total gross carrying amount at default	32,341	4,660	950	321	683	38,955
Expected credit loss	18	18	28	70	472	606

30. Risk management continued

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. The Group deposits cash with reputable financial institutions, from which management believes the possibilities of loss to be remote. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 July 2020 and 2019 is the carrying amount. The Group's maximum exposure to derivative financial instruments is noted in either note 24 or in the liquidity table on the previous page.

Capital risk management

The primary objective of the Group's capital management policy is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs. The Group defines its capital as its share capital (excluding treasury shares), share premium account, foreign currency translation reserves and retained earnings. In addition, the Directors consider the management of debt to be an important element in controlling the capital structure of the Group. The Group may carry significant levels of long-term structural and subordinated debt to fund investments and acquisitions and has arranged debt facilities to allow for fluctuations in working capital requirements. There have been no changes to the capital management policy in the current period. Management manages capital on an ongoing basis to ensure that covenant requirements on third party debt are met.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments carried at fair value comprise the derivative financial instruments in note 20 and 24 and the contingent consideration in notes 17 and 24. For hierarchy purposes derivative financial instruments are deemed to be Level 2 as external valuers are involved in the valuation of these contracts. Their fair value is measured using valuation techniques including the DCF model. Inputs to this calculation include the expected cash flows in relation to these derivative contracts and relevant discount rates. Contingent consideration is deemed to be Level 3; see note 15 for details on the valuation techniques used to measure the fair value.

31. 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 2020 or 31 July 2019.

There were no material transactions or balances between the Company and its key management personnel or members of their close family other than the compensation shown below. 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 81 to 100).

Compensation of key management personnel

	2020 £000	2019 £000
Short-term employee benefits	**2,749**	2,816
Share-based payment change (see note 34)	**58**	834
Total	**2,807**	3,650

Key management personnel is defined as the CEO, the CFO and the eleven (2019: ten) individuals who report directly to the CEO.

Notes to the Consolidated Financial Statements continued

For the year ended 31 July 2020

32. Group structure details

At 31 July 2020, Volution Group plc held 100% of the voting shares of the following subsidiaries:

Group company	Principal activity	Country of incorporation
Windmill Topco Limited[1]	Intermediate holding company	England
Volution Holdings Limited[1]	Intermediate holding company	England
Energy Technique Limited[1]	Intermediate holding company	England
Indirect		
Windmill Midco Limited[1]	Intermediate holding company	England
Windmill Cleanco Limited[1]	Intermediate holding company	England
Windmill Bidco Limited[1]	Intermediate holding company	England
Manrose Manufacturing Limited[1]	Non-trading	England
Volution Ventilation Group Limited[1]	Intermediate holding company	England
Torin-Sifan Limited[1]	Original equipment manufacturer	England
Anda Products Limited[1]	Non-trading	England
Axia Fans Limited[1]	Non-trading	England
Roof Units Limited[1]	Non-trading	England
Torin Limited[1]	Non-trading	England
Vent-Axia Limited[1]	Non-trading	England
Vent-Axia Clean Air Systems Limited[1]	Non-trading	England
Vent-Axia Group Limited[1]	HR services to Group	England
ET Environmental Limited[1]	Non-trading	England
Diffusion Environmental Systems Limited[1]	Non-trading	England
NVA Services Limited[1]	Non-trading	England
SW National Ventilation Limited[1]	Non-trading	England
Airtech Humidity Controls Limited[1]	Non-trading	England
Sens-Air Limited[1]	Non-trading	England
Breathing Buildings Limited[1]	Non-trading	England
Volution Ventilation UK Limited[1]	Ventilation products	England
Volution Holdings Sweden AB[2]	Intermediate holding company	Sweden
Fresh AB[2]	Ventilation products	Sweden
Welair AB[3]	Ventilation products	Sweden
VoltAir System AB[4]	Ventilation products	Sweden
PAX AB[5]	Ventilation products	Sweden
Volution Norge AS (formerly Fresh Norge AS)[6]	Ventilation products	Norway
Fresh Shanghai Limited[7]	Ventilation products	China
inVENTer GmbH[8]	Ventilation products	Germany
Volution Management Holdings GmbH[8]	Intermediate holding company	Germany
Volution Deutschland Real Estate GmbH[8]	Property holding company	Germany
Brüggemann Energiekonzepte GmbH[9]	Ventilation products	Germany

32. Group structure details continued

Group company	Principal activity	Country of incorporation
Ventilair Group International BVBA[10]	Intermediate holding company	Belgium
Ventilair Group Belgium BVBA[10]	Ventilation products	Belgium
Ventilair Group Netherlands B.V.[11]	Ventilation products	Netherlands
Ventilair France SARL[12]	Ventilation products	France
Volution Ventilation New Zealand Limited (formerly known as Chinook Limited)[13]	Intermediate holding company	New Zealand
Simx Limited[13]	Ventilation products	New Zealand
Vent-Axia B.V. (formerly known as AirFan B.V.)	Ventilation products	Netherlands
Oy Pamon Ab[14]	Ventilation products	Finland
Air Connection ApS[15]	Ventilation products	Denmark
Volution Ventilation Australia Pty Limited (formerly known as Woomera Pty Limited)[16]	Intermediate holding company	Australia
Ventair Pty Limited[16]	Ventilation products	Australia

Registered offices

1. Fleming Way, Crawley, West Sussex RH10 9YX.
2. Gransholmsvägen 136, 35599 Gemla, Sweden.
3. Strandvägen 65, 87052 Nyland, Sweden.
4. Box 7033, 12107 Stockholm-Globen, Sweden.
5. Kattkärrsvägen 4, 64831 Hälleforsnäs, Sweden.
6. Professor Birkelands vei 24B, 1081 Oslo, Norway.
7. No. 272–3 Julu Road, Shanghai, China.
8. Ortsstraße 4a 07751 Löberschütz, Germany.
9. Uhlenhorst 149A, 21435 Stelle, Germany.
10. Pieter Verhaeghestraat 8, 8520 Kuurne, Belgium.
11. Kerver 16, 5521 DB Eersel, Netherlands.
12. Boulevard de la Liberté 130, FR-59000 Lille, France.
13. 1 Haliday Place, East Tamaki, Auckland, 2013, New Zealand.
14. Keskikankaantie 17, 15680 Hollola, Finland.
15. Rude Havvej 17B, DK-8300 Odder, Denmark.
16. 4 Capital Pl, Carrum Downs VIC 3201, Australia.

33. Commitments and contingencies

Commitments for the acquisition of property, plant and equipment as of 31 July 2020 are £682,000 (2019: £469,000).

34. Share-based payments

Accounting policy

Equity settled transactions

The Group enters into equity settled share-based payment transactions with its employees. In particular as part of the Volution Long Term Incentive Plan.

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the valuation model detailed below and incorporates an assessment of relevant performance conditions. The cost is recognised in employee benefits expense (Note 8), together with a corresponding increase in equity (share-based payment reserve), over the vesting period in which the service and performance conditions are fulfilled. The amount to be expensed over the vesting period is adjusted to reflect the number of awards for which conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the conditions at the vesting date.

At each balance sheet date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part oft he Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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 March 2018, October 2018 and October 2019; 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. Included within shares granted during the year were 68,181 shares awarded to Andy O'Brien on to compensate him for share awards forfeited on leaving his last employer.

	2020 Number	2019 Number
Outstanding at 1 August	**2,681,289**	2,010,811
Granted during the year	**1,032,626**	937,026
Dividend equivalent added on vesting	**16,114**	15,461
Exercised during the year	**(275,528)**	(21,099)
Lapsed during the year	**(439,349)**	(260,910)
Outstanding at 31 July	**3,015,152**	2,681,289

The weighted average exercise price for all options is £nil.

Of the total number of options outstanding at 31 July 2020 902,713 had vested and were exercisable.

The weighted average fair value of each option granted during the year was £1.90 (2019: £1.87).

The weighted average remaining contractual life for the share options outstanding as at 31 July 2020 was 9.0 years (2019: 9.6 years).

The following information is relevant in the determination of the fair value of options granted during the year under the LTIP:

	2020
Option pricing model used	**Monte Carlo**
Weighted average share price at grant date (£)	**1.90**
Exercise price (£)	**Nil**
Expected dividend yield (£)	**Nil**
Expected life (years)	**3**
Expected volatility	**29.9%**
Risk-free interest rate	**0.52%**

34. Share-based payments continued

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:

	2020 £000	2019 £000
Equity-settled schemes	**200**	895
	200	895

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous periods.

35. Events after the reporting period

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

36. Glossary of terms

Adjusted basic and diluted EPS: calculated by dividing the adjusted profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 791,195 dilutive potential ordinary shares at 31 July 2020 (2019: 551,467).

Adjusted EBITDA: adjusted operating profit before depreciation and amortisation.

Adjusted finance costs: finance costs before net gains or losses on financial instruments at fair value and the exceptional write off of unamortised loan issue costs upon refinancing.

Adjusted operating cash flow: adjusted EBITDA plus or minus movements in operating working capital, less net investments in property, plant and equipment and intangible assets.

Adjusted operating profit: operating profit before exceptional operating costs, release of contingent consideration and amortisation of assets acquired through business combinations.

Adjusted profit after tax: profit after tax before exceptional operating costs, release of contingent consideration, exceptional write off of unamortised loan issue costs upon refinancing, net gains or losses on financial instruments at fair value, amortisation of assets acquired through business combinations and the tax effect on these items.

Adjusted profit before tax: profit before tax before exceptional operating costs, release of contingent consideration, exceptional write off of unamortised loan issue costs upon refinancing, net gains or losses on financial instruments at fair value and amortisation of assets acquired through business combinations.

Adjusted tax charge: the reported tax charge less the tax effect on the adjusted items.

CAGR: compound annual growth rate.

Cash conversion: is calculated by dividing adjusted operating cash flow by adjusted EBITA.

Constant currency: to determine values expressed as being at constant currency we have converted the income statement of our foreign operating companies for the year ended 31 July 2020 at the average exchange rate for the year ended 31 July 2019. In addition, we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2020, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2019.

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 2020

	Notes	2020 £000	2019 £000
Non-current assets			
Property, plant and equipment	4	**140**	157
Investments	5	**199,322**	199,322
Deferred tax asset	6	**572**	598
		200,034	200,077
Current assets			
Other receivables and prepayments	7	**86,856**	94,165
Other current financial assets	8	**—**	907
Cash and short-term deposits		**164**	39
		87,020	95,111
Total assets		**287,054**	295,188
Current liabilities			
Trade and other payables	9	**(19,929)**	(19,943)
Other current financial liabilities	8	**(17)**	—
		(19,946)	(19,943)
Non-current liabilities			
Interest-bearing loans and borrowings	10	**(69,032)**	(85,391)
		(69,032)	(85,391)
Total liabilities		**(88,978)**	(105,334)
Net assets		**198,076**	189,854
Capital and reserves			
Share capital	11	**2,000**	2,000
Share premium		**11,527**	11,527
Treasury shares		**(2,401)**	(2,030)
Share-based payment reserve		**1,264**	1,599
Capital reserve		**(273)**	(273)
Retained earnings		**185,959**	177,031
Total equity		**198,076**	189,854

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 2020 was £15.3 million (2019: £19.2 million).

The financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 8 October 2020.

On behalf of the Board

Ronnie George
Chief Executive Officer

Andy O'Brien
Chief Financial Officer

Parent Company Statement of Changes in Equity

For the year ended 31 July 2020

	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 2018	2,000	11,527	(1,962)	1,690	(273)	167,001	179,983
Profit for the year	—	—	—	—	—	19,202	19,202
Total comprehensive income	—	—	—	—	—	19,202	19,202
Share-based payment	—	—	—	952	—	—	952
Purchase of own shares	—	—	(1,199)	—	—	—	(1,199)
Vesting of shares	—	—	1,131	(1,043)	—	(88)	—
Dividends paid	—	—	—	—	—	(9,084)	(9,084)
At 1 August 2019	2,000	11,527	(2,030)	1,599	(273)	177,031	189,854
Profit for the year	—	—	—	—	—	15,319	15,319
Total comprehensive income	—	—	—	—	—	15,319	15,319
Share-based payment	—	—	—	237	—	—	237
Purchase of own shares	—	—	(804)	—	—	—	(804)
Vesting of shares	—	—	433	(572)	—	139	—
Dividends paid	—	—	—	—	—	(6,530)	(6,530)
At 31 July 2020	**2,000**	**11,527**	**(2,401)**	**1,264**	**(273)**	**185,959**	**198,076**

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 34 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

£94,295,000 of the retained earnings balance at 31 July 2020 is available for distribution (2019: £82,335,000).

Parent Company Statement of Cash Flows

For the year ended 31 July 2020

	Note	2020 £000	2019 £000
Operating activities			
Profit for the year after tax		**15,319**	19,202
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax for the year		**(783)**	(745)
Exceptional costs		**—**	490
Cash flows relating to exceptional costs		**—**	(490)
Finance revenue		**(105)**	(753)
Finance costs		**2,730**	2,243
Share-based payment expense		**200**	895
Effect of exchange rates on foreign denominated loans		**202**	303
Depreciation of property, plant and equipment	4	**26**	26
Working capital adjustments:			
Decrease/(increase) in other receivables and prepayments		**8,359**	(73)
(Decrease)/increase in trade and other payables		**(14)**	247
Net cash flow generated from operating activities		**25,934**	21,345
Investing activities			
Purchase of property, plant and equipment	4	**(9)**	(9)
Interest received		**105**	143
Net cash flow generated from investing activities		**96**	134
Financing activities			
Interest paid		**(1,786)**	(2,013)
Repayment of interest-bearing loans and borrowings		**(51,285)**	(27,067)
Proceeds from new borrowings		**34,500**	17,500
Issue costs of new borrowings		**—**	(180)
Dividend paid to equity holders		**(6,530)**	(9,084)
Purchase of own shares		**(804)**	(1,199)
Net cash flow used in financing activities		**(25,905)**	(22,043)
Net increase/(decrease) in cash and cash equivalents		**125**	(564)
Cash and cash equivalents at the start of the year		**39**	603
Cash and cash equivalents at the end of the year		**164**	39

Notes to the Parent Company Financial Statements

For the year ended 31 July 2020

1. General information

These financial statements were approved and authorised for issue by the Board of Directors of Volution Group plc (the Company) on 8 October 2020.

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 30 of the Group financial statements.

New standards and interpretations

The following standards and interpretations are new or amended and have been effective for the first time in 2020.

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 has been adopted by the Company on 1 August 2019.

The Company does not have any leases; therefore, IFRS 16 has no impact.

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 5.

The recoverability is estimated based on the expected performance and value of the investments, factoring in potential expected future net cash flow to be generated from the investments. The Company based its estimation on information available when these financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected when they occur.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2020

3. Staff costs

Staff costs	2020 £000	2019 £000
Wages and salaries	**1,819**	2,957
Social security costs	**222**	209
Share-based payment charge	**200**	895
Other pension costs	**42**	29
	2,283	4,090

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 2019/20 but based on actual salary levels in 2020/21.

The staff costs disclosed above are net of support from the government's coronavirus job retention scheme of £11,000.

Average monthly number of employees in the year

	2020 Number	2019 Number
Administration	**14**	13

Directors' remuneration

	2020 £000	2019 £000
Amounts paid in respect of qualifying services		
Aggregate Directors' remuneration	**968**	1,561
Aggregate Directors' pension scheme contributions	**77**	91
In respect of the highest paid Director		
Aggregate Director's remuneration	**551**	939
Aggregate Director's pension scheme contributions	**55**	54

The number of Directors accruing benefits under Company money purchase pension arrangements was nil (2019: nil).

The Group also incurred fees and expenses of £324,000 (2019: £359,000) in respect of Peter Hill, Tony Reading, Paul Hollingworth, Claire Tiney, Amanda Mellor and Nigel Lingwood for their services as Non-Executive Directors. During the year Peter Hill resigned as a Non-Executive Director and Nigel Lingwood was appointed as a Non-Executive Director.

4. Property, plant and equipment

2020	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost		
At 1 August 2019	**207**	**207**
Additions	**9**	**9**
Disposals	**(1)**	**(1)**
At 31 July 2020	**215**	**215**
Depreciation		
At 1 August 2019	**50**	**50**
Charge for the year	**26**	**26**
Disposals	**(1)**	**(1)**
At 31 July 2020	**75**	**75**
Net book value		
At 31 July 2020	**140**	**140**

4. Property, plant and equipment continued

2019	Fixtures, fittings, tools, equipment and vehicles £000	Total £000
Cost		
At 1 August 2018	198	198
Additions	9	9
At 31 July 2019	207	207
Depreciation		
At 1 August 2018	24	24
Charge for the year	26	26
At 31 July 2019	50	50
Net book value		
At 31 July 2019	157	157

5. Investments

	£000
Cost	
At 31 July 2019 and 31 July 2020	**199,322**

For a list of the subsidiaries in which Volution Group plc held 100% of the voting shares as at 31 July 2020, see note 32 of the Group financial statements.

The Group has considered whether there is objective evidence that the investment in subsidiaries is impaired. A similar model and assumptions were used in this assessment to those used for the Group goodwill impairment testing (see note 15 of the Group financial statements for further details). No impairment has been identified.

6. Deferred tax balances

Deferred tax assets and liabilities arise from the following:

	1 August 2019 £000	Charged to income £000	Charged to equity £000	**31 July 2020 £000**
Deferred tax asset				
Temporary differences	598	(33)	7	**572**

7. Other receivables and prepayments

	2020 £000	2019 £000
Amounts owed by Group undertakings	**86,433**	93,775
Prepayments	**423**	390
	86,856	94,165

The Group has considered the recoverability of the amounts owed by Group undertakings. Consideration was given to the different scenarios for the recovery of the intercompany loan receivables, the possible credit losses that could arise and the probabilities for these scenarios. Based on this assessment, the amounts owed by Group undertakings are considered fully recoverable and therefore no provision for expected credit loss has been recognised.

8. Other financial assets and liabilities

	2020 Current £000	2019 Current £000
Financial assets		
Foreign exchange forward contracts	**—**	907
	—	907
Financial liabilities		
Foreign exchange forward contracts	**17**	—
	17	—

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2020

8. Other financial assets and liabilities continued

The foreign exchange forward contracts are carried at their fair value with the gain or loss being recognised in the Company's consolidated statement of comprehensive income. Refer to note 30 within the Group's financial statements for the fair value hierarchy the Group uses to determine the fair value of financial instruments.

9. Trade and other payables

	2020 £000	2019 £000
Trade payables	**313**	123
Accruals	**1,553**	1,834
Amounts owed to Group undertakings	**18,063**	17,986
	19,929	19,943

10. Interest-bearing loans and borrowings

	2020		2019	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2022)	**—**	**69,563**	—	86,146
Cost of arranging bank loan	**—**	**(531)**	—	(755)
	—	**69,032**	—	85,391

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

Bank loans at 31 July 2020 comprised a revolving credit facility from Danske Bank A/S, HSBC and the Royal Bank of Scotland with HSBC acting as agent and are governed by a facilities agreement. The outstanding loans are set out in the table below. No security was provided under the facility.

Revolving credit facility – at 31 July 2020

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	6,000	15 December 2022	One payment	Libor + margin%
Euro	40,285	15 December 2022	One payment	Euribor + margin%
Swedish Krona	23,278	15 December 2022	One payment	Stibor + margin%
Total	**69,563**			

Revolving credit facility – at 31 July 2019

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	21,500	15 December 2022	One payment	Libor + margin%
Euro	40,640	15 December 2022	One payment	Euribor + margin%
Swedish Krona	24,006	15 December 2022	One payment	Stibor + margin%
Total	86,146			

As at 31 July 2018 the margin was 1.40% due to the acquisition of Simx Limited which increased leverage to 1.7:1; this rate continued throughout the year ended 31 July 2019 and H1 2020. At 31 January 2020 like-for like leverage decreased to 1.3:1 which reduced the margin to 1.15%. At 31 July 2020 the leverage remained at 1.3:1 and therefore the margin of 1.15% will continue in the first half of the year ended 31 July 2021.

At 31 July 2020, the Group had £50,437,000 (2019: £33,854,000) of its multicurrency revolving credit facility unutilised.

10. Interest-bearing loans and borrowings continued

Reconciliation of movement in financial liabilities

Reconciliation of movement of financial liabilities	2020 £000	2019 £000
At 1 August	**86,146**	95,410
Additional loans	**34,500**	17,500
Repayment of loans	**(51,285)**	(27,067)
Interest charge	**1,786**	1,913
Interest paid	**(1,786)**	(1,913)
Foreign exchange	**202**	303
At 31 July	**69,563**	86,146

Changes in liabilities arising from financing activities

	01 August 2019 £000	Cash flows £000	Foreign exchange movement £000	New leases £000	31 July 2020 £000
Non-current interest bearing loans and borrowings	86,146	(16,785)	202	—	**69,563**

11. Share capital and share premium

The movement in called-up share capital and share premium accounts is set out below:

	Number of ordinary shares	Share capital £000	Share premium £000
At 31 July 2019 and 31 July 2020	**200,000,000**	**2,000**	**11,527**

12. Dividends paid and proposed

	2020 £000	2019 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2020: £nil per share (2019: 1.60 pence)	—	3,172
Proposed dividends on ordinary shares		
Final dividend for 2020: £nil per share (2019: 3.30 pence)	—	6,541

As a result of the Covid-19 crisis, the interim dividend of 1.71 pence per share was cancelled. The interim dividend payment of £nil 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 2020.

Notes to the Parent Company Financial Statements continued

For the year ended 31 July 2020

13. Related party transactions

The following table provides the total amount of transactions that have been entered into with subsidiary undertakings for the relevant financial period.

	2020		2019	
Related parties	**Amounts owed by related parties £000**	**Amounts owed to related parties £000**	Amounts owed by related parties £000	Amounts owed to related parties £000
Volution Ventilation Group Limited	**85,598**	**18,063**	93,030	17,986
Volution Holdings Limited	**835**	**—**	745	—
	86,433	**18,063**	93,775	17,986

Sales made to Volution Holdings Limited of £2,452,000 (2019: £2,367,000) relate to management fees. The sales are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

No sales were made to Volution Ventilation Group Limited, the outstanding balance is an inter-company loan which has been repaid in part during the year.

Compensation of key management personnel

The Executive and Non-Executive Directors are deemed to be key management personnel of Volution Group plc. It is the Board that has responsibility for planning, directing and controlling the activities of the Group. Please refer to note 3 for details of the Executive and Non-Executive Directors' remuneration.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the year, key management personnel did not owe the Company any amounts.

14. Share-based payments

For detailed disclosures of share-based payments granted to employees refer to note 34 of the Group financial statements.

Glossary of Technical Terms

Alternating current or AC	the flow of electric current which reverses direction periodically, typically at 50Hz in the UK and Europe. This is the standard type of electricity supply to domestic and commercial properties
AC blowers	a low-pressure fan with an AC motor
AC motor	an alternating current motor
AHU	air handling unit: a ventilation device which usually integrates air, heating and filtration into one combined unit. May also include cooling and heat recovery
Decentralised heat recovery	a system of ventilation that collects heat from exhaust air that would otherwise be lost and reuses such heat by transferring it to the incoming fresh air. Decentralised heat recovery consists of multiple units supplying and extracting from around the home
EC/DC	electronically commutated direct current
Electronically commutated or EC	a type of motor which historically used a mechanical means of reversing the current flow but which now uses an electronic device to do the same, which is more reliable and more efficient
Fan coil	a device used to heat or cool a space which includes a water coil and fan for connection to the wider HVAC package within a building
HVAC	heating, ventilation and air conditioning
Hybrid ventilation	a method that combines both passive and mechanical means to form a mixed mode ventilation system
IAQ	indoor air quality
Lo-Carbon products	a trademark used to represent our low-energy range of products
MEV	Mechanical Extract Ventilation: a system of ventilation operated by a power-driven mechanism which extracts air from a room and discharges it only to the external air
Motorised impellers	a motor that is supplied complete with an impeller attached to it
MVHR	Mechanical Ventilation with Heat Recovery: a centralised system of ventilation that collects heat from exhaust air that would otherwise be lost and reuses such heat by transferring it to the incoming fresh air
NVHR	Natural Ventilation with Heat Recycling
OEM	original equipment manufacturer
PIV	Positive Input Ventilation: this is an energy efficient method of pushing out and replacing stale, unhealthy air by gently pressurising the home with fresh, filtered air to increase the overall circulation of air in the dwelling
RMI	repair, maintenance and improvement
Rotary heat exchanger	a type of heat exchanger consisting of a circular honeycomb matrix which rotates in the air stream of a heat recovery device
Plate heat exchanger	a type of heat exchanger consisting of a series of plates which transfer the heat from one airstream to another
Specifiers	persons who may specify certain characteristics of products

Shareholder Information

Shareholder services

For any enquiries concerning your shareholding please contact our registrar:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
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

Corporate brokers

Liberum Capital Limited

Legal adviser

Norton Rose Fulbright LLP

Financial PR adviser

Tulchan Communications LLP

Company Secretary and registered office

Michael Anscombe FCIS

Volution Group plc

Fleming Way
Crawley
West Sussex RH10 9YX
United Kingdom

Registered in England and Wales

Company number: 09041571

LSE ticker code: FAN

Legal Entity Identifier: 213800EPT84EQCDHO768

Tel: +44 (0) 1293 441 662
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.

FSC
www.fsc.org
RECYCLED
Paper made from recycled material
FSC® C001785

CARBON BALANCED PAPER
WORLD LAND TRUST™
www.carbonbalancedpaper.com
CBP004673

Volution Group plc's commitment to environmental stewardship is reflected in this Annual Report, which has been printed on Revive 100 Offset, which is 100% post-consumer recycled, FSC® certified and totally chlorine free (TCF) paper. Printed in the UK by Park Communications using vegetable-based inks, with 99% of dry waste being diverted from landfill. The printer is a CarbonNeutral® company. Both the mill and the printer are certified to ISO 14001 (Environmental Management System) and ISO 9001 (Quality Management System).

Produced by
designportfolio

Volution Group plc
Fleming Way
Crawley
West Sussex RH10 9YX
United Kingdom

www.volutiongroupplc.com